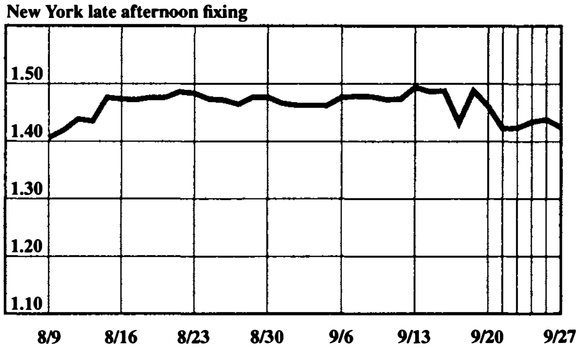
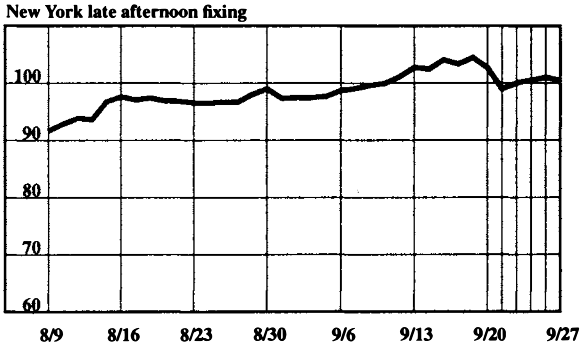
Currency Rates

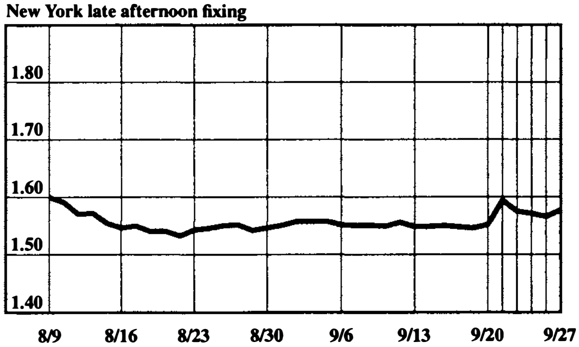
The dollar in deutschemarks
New York late afternoon fixing



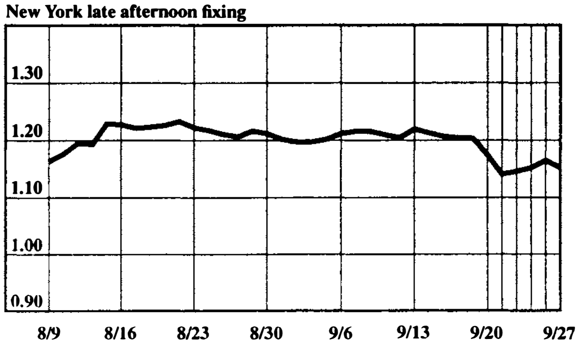
The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



Maastricht

Single currency dream becomes a nightmare

by William Engdahl

The Mallorca, Spain summit of the 15 European Union (EU) heads of State concluded on Sept. 23 with a declaration that their goal of creating a single monetary union and single currency of the member-states by the deadline of 1999 was intact. But behind the façade of unity, the four-year-old scheme to merge national currencies for economies as diverse as Germany and Italy, into one, began visibly to come unravelled.

For the first time since the signing of the Maastricht Treaty to create a European Monetary Union (EMU) in 1991, an EU head of state has declared that the deadline may have to be extended. Italy's Prime Minister Lamberto Dini told press after the talks, "We can't exclude the possibility of delaying the union by two or three years." According to EU bureaucrats in Brussels and others familiar with the situation, this would "open a Pandora's box" to amending the strict terms of the Maastricht Treaty, and end the prospect of a single Europe, along with a single currency, whatever its name.

It has been the German government, long thought the firmest advocate of Maastricht and a single currency, which has torpedoed the plan. On Sept. 26, Bundesbank President Hans Tietmeyer announced that the Bundesbank, known as a hard-liner on inflation and government deficit spending, would declare which EU governments it felt had met the criteria to form the new currency. In recent months, there has been enormous, if little-publicized anti-Maastricht sentiment among German businessmen and voters. The head of the Bavarian Christian Social Union, part of the Bonn coalition of Chancellor Helmut Kohl, has threatened to split from the coalition and form a new "Deutschemark Party" if the government does not back down from the Maastricht terms, which, it is felt, would destroy the mark and wipe out German savings.

The recent statements by Tietmeyer and other German officials have produced anger, not least in France, where Prime Minister Alain Juppé told press, "If you do not want to have monetary union, all you would have to do is harden the tone." That is precisely what the Kohl government is doing.

The timetable to realize a single currency was agreed to in a treaty outlined at the meeting of EU heads of State on Dec. 10, 1991 in Maastricht, Holland. At that time, the leaders agreed on a series of steps, so-called "convergence criteria," to be met in the run-up to 1997, when the so-called "third phase" of the EMU would be created, with a single central bank and a single currency. If by 1997 convergence had not been reached, the final, "irrevocable" date set by the treaty to introduce the single currency and central bank would be 1999.

The driving force pushing the single-currency Monetary Union was a desire by many European leaders to replace the U.S. dollar as the leading reserve currency. Today, worldwide central bank reserves are still held 61% in dollars. Only by pooling all European member currencies and reserves, including gold, would an alternative to the dollar be possible. The terms of Maastricht, however, were largely the creation of former French President François Mitterrand, and his ally in Brussels, EU Commission President Jacques Delors. The French sought to use Maastricht as a "straitjacket" to bind newly unified Germany into a European structure, and to prevent further domination of Germany over Europe, especially eastern Europe. The problem came with what criteria would be necessary to form one currency out of the many.

Two of the four convergence criteria are the focus of the present controversy, as member States begin to realize the political impossibility of reaching the targets. First, to qualify to join the new currency group, a State must have cut its public deficit (national, local, and public pension fund) to no more than 3% of Gross Domestic Product annually. Second, it must reduce the total public debt to no more than 60% of GDP. Other requirements include convergence of interest rates and inflation. The problem, according to Patrick Child, spokesman of the EU Commission in Brussels responsible for EMU affairs, is that "as of today only two of the 15 states qualify—Luxembourg and Germany." And Germany qualifies only due to a political exemption given to it because of the high debt costs for its unification.

Instead of converging since the treaty was signed, the EU economies have diverged. The fiscal position of the combined EU countries went from 5% deficit in 1992, to just under 6% by 1994, the highest since the European Community was created in 1958. Gross public debt rose to 69% of GDP by the end of last year, up from 61% only two years before. But many members grossly exceed these convergence limits. Italy today has gross debt of 125% of GDP; Belgium, 134%; Greece, 115%.

The French factor

"The recent election of [President Jacques] Chirac in France has changed the entire prospect for the EMU," Dr. Bruno Bandulet, a German economist and Maastricht critic, told *EIR*. "Under President Mitterrand, it was clear that France was committed to Maastricht. But step by step, Chirac has signalled he is focussed on internal French problems, less on any 'Grand Europe' scheme. High unemployment remains his most pressing problem, and so long as the Bank of France keeps its interest rate high to maintain the parity of the franc with the German mark—a part of the Maastricht process—France's economy will continue to deteriorate."

To create a single currency, experts agree, the participation of France along with Germany, the two strongest industrial economies in the EU, is essential. Without France, Maastricht becomes a farce.

France today has 11.4% unemployment, and trade union protests have become common. The government must cut FF 130 billion from the budget, 2% of GDP, FF 32 billion in 1996 alone, from the present FF 322 billion ($63 billion) level, to be on Maastricht target by 1997.

But to do this, with the economy still weak, the government must increase taxes and slash spending. France already has one of the highest per capita tax burdens in Europe. And more aggressive privatization of the country's State-sector industries will only guarantee increases in unemployment, as firms "downsize" to be attractive for sale. On top of this, with an aging population, France's State pension system is currently running a FF 60 billion deficit, which must be halved to meet the overall target.

When the author questioned Bank of France Gov. Jean-Claude Trichet recently, on France's problems meeting Maastricht goals, he replied, "We *must* meet the criteria of convergence, in the interests of all. They have to be fully met for the Monetary Union to take place."

But Trichet declined to say how. The recent decision to make the Bank of France independent from the Finance Ministry as part of the Maastricht preparation, has created an added

political storm inside France. Many say the central bank is more concerned with tracking the mark to prepare for Maastricht entry, than with future growth of the French economy. Many blame the high interest rates of the Bank of France, designed to keep the franc stable, for the alarming weakness of the French economy in the past several years. That economic weakness, in turn, increases the public deficit.

If France continues to press for convergence, it risks "civil war," one French banker said, because unemployment would be forced even higher with government budget cuts and privatizations, in order to meet the 1997 deadline. Public employee unions have already planned strikes for late October to protest planned government wage austerity, designed to cut the deficit.

S.J. Lewis, a City of London economist familiar with the French situation, stated, "The government's budget projections rest on wildly optimistic forecasts about French economic growth. The opposite, I feel, is more likely. The French situation puts the entire Maastricht scheme into grave doubt at this point." Lewis's doubts on French eligibility were echoed recently by a member of the Bundesbank board, Reimut Jochimsen, and reportedly also by German Finance Minister Theo Waigel.

Debate intensifies

Realization that not even France may be able to meet the targets, is creating a new anti-Maastricht backlash across Europe. In Sweden, which joined the EU only this year, voters recently firmly rejected the pro-Maastricht political parties in elections for European Parliament, and Sweden is now asking to be left out of the new currency bloc indefinitely. Already, Britain and Denmark have such an "opt-out" right granted to them, a concession to try to keep the overall Maastricht goal intact.

Italy, which just signalled that it wanted to rejoin the EMU, was singled out in unprecedented remarks by Waigel on Sept. 19. Waigel told a Parliament committee that when the first countries form the EMU and single currency, "Italy will not be among them, and they know it." The reaction of financial markets to Waigel's remarks was to dump liras and buy marks, throwing the entire Maastricht debate wide open. Public statements of harmony issued in Mallorca are not being taken seriously by financial traders.

To further guarantee adherence to the Maastricht goals, Waigel has also demanded a separate treaty be signed, which would bind members of the EMU to hold to the 3% deficit and 60% debt levels, after entering the EMU. The Germans worry that many of its neighbors plan to "cheat" once they are in the EMU, and to again increase budget deficits, and wants binding sanctions for such cheating. Tietmeyer has come out supporting Waigel's call for strict adherence criteria.

The Germans are concerned that they would have to pay for the excesses of high-deficit countries such as Italy, or even France, if the new single currency is to be stable. The president of Germany's Savings Banks Association, Horst Koehler, underscored the problem when he stated recently, "The ambitious goal of a European Economic and Monetary Union can only be reached if the single European currency is also a stable currency. For this reason there must be no foul compromises made. Convergence criteria cannot be reached by citing a 'tendency' to converge. The criteria must be stringent and permanent. If the currency is not begun with confidence in its continuing stability, this could lead to enormous internal frictions with negative consequences for economic activity, as well as the European integration process." Until recently, Koehler was the leading civil servant in the Finance Ministry dealing with such issues as the EMU.

"The need for a strong alternative to the dollar is what has been driving the push to EMU and a single European currency," said one French banker. "But the problem is that the central banks' accounting approach to achieve it makes no allowance for effects on the real economy. The force behind the EMU today are the large European banks and insurance companies, who want a bigger playing field, but industry is more and more skeptical."

Today, the dream of many European States, of creating a single currency to rival the dollar, is turning into a nightmare. Heads of state of the EU member countries must meet before the end of 1996, to decide the final timetable to implement the EMU and single currency. Short of an economic miracle, the effort looks precarious.

Correction:

There were two typographical errors in Figure 4 of "The End of an Era: It's Time for LaRouche's Remedies," by Chris White, in the Sept. 15 issue of *EIR,* page 7. Below is the corrected chart.

FIGURE 4

Input-output matrix for 1967

(percentage of total)

End-use	Inputs: Final	Inputs: Intermediate	Inputs: Raw material	Inputs: Infrastructure	Total
Producers' goods	2%	12%	3%	8%	25%
Producers' overhead	4%	4%	1%	6%	14%
Household goods	6%	7%	2%	8%	23%
Household overhead	10%	11%	3%	14%	38%
Total	23%	33%	8%	36%	100%