

## Report from Bonn by Rainer Apel

### The euro will crash like Icarus

*Warnings against the new European single currency are continuing right up to its launch on Jan. 1, 1999.*

**T**he new single European Union (EU) currency, the euro, set to be launched on Jan. 1, 1999, will be introduced in two stages: initially for inter-bank and other electronic transactions; and, as of Jan. 1, 2002, for everyday private transactions, as coins and banknotes. A "new era" will begin, the governments and the majority of leading politicians in the 11 EU countries that will be the initial members of the full European Monetary Union (EMU), keep saying. They say that the single European monetary market will be safe from speculation among today's EU currencies and against outside speculators, and that it will eliminate tens of billions of transaction costs required for changing one European currency into another.

At first sight, the single European monetary market appears to be a bulwark, just by its size and its "war chest" of \$250-300 billion, against big speculators like George Soros. But by statute, the EMU is an integral part of the global monetarist system; it does not ban speculation, which means that whoever wants to work, as an inside proxy, with outside speculators, will be able to do so. The European Central Bank (ECB), in Frankfurt, will have no other tools at hand to deal with the global financial and economic crises, than the usual arsenal of instruments provided by monetarist theory: raising or lowering interest rates, devaluing or upvaluing currencies, reducing or expanding the money supply, and so on.

The EMU will be a big vessel on the global ocean of capital flows, but it will be less flexible than a smaller vessel of the type that sailed when

monetary policies were still a privilege of individual national governments. ECB Council decisions will be mandatory for all 11 member-countries of the EMU, no matter what their particular economic and financial situation. Lacking fine-tuned instruments, the ECB will make no distinction between collapsing industrial regions and tax-exempt entertainment parks.

Worse, the ECB will be the watchdog over the budgets of the 11 member governments, seeing to it that the tight EMU criteria for balanced budgeting are not missed. The national governments will not be permitted to create "imbalances" in the budget, to fund job-creation and other state programs. EMU governments will have to pay heavy penalties, in the range of several billion dollars, if they fail to meet the criteria.

The most vulnerable EMU flank, however, is the continuing effect of the global economic collapse on European exports and investments outside the EMU. Within the budget deficits permitted under the EMU criteria, governments have no breathing space to intervene to revitalize their economies. Governments will be forced to watch, as companies, banks, and other institutions default, as millions more workers lose their jobs. The governments will be as helpless against the global depression as any weak, unstable developing sector regime, and European and non-European investors alike may find the euro as weak as the Indonesian rupiah at the peak of the first round of the Asian crisis in early 1998. As there are no capital controls in the EMU, the outflow of capital can-

not be prevented.

Therefore, the European edition of the *Wall Street Journal* hit a raw nerve on Dec. 10, in an article headlined "Thinking the Unthinkable: Could EMU Fail?" The sub-head read: "Collapse Might Seem Like Armageddon, Analysts Say."

Two days later, during a panel on the EMU in Berlin, Wilhelm Hankel, a former member of the German central bank council, made headlines with the sarcastic proposal to "rename the euro 'Icarus,' because it will crash, like he did." This referred to the ancient Greek myth of Icarus, who tried to reach the sun with wings made of wax. As he got closer, the heat of the sun melted the wax, and he crashed into the sea.

Hankel is one of four plaintiffs who challenged the euro before the constitutional court of Germany in January 1998, on the grounds that the EMU is against the German Constitution, because it destroys sovereignty in budget and monetary affairs. The court dismissed the case in April, but skepticism against the EMU has not died down despite that legal defeat, and despite an election campaign that ignored the issue while the government propagandized massively for the EMU.

A speech by German metal workers chairman Klaus Zwickel, at the European Metal Workers Federation convention in Frankfurt on Dec. 9, reflects growing uneasiness among labor about the monetary union project. He threatened that labor will withdraw its support for the EMU, should the monetarist project fail to create jobs for the 8 million registered, and 9 million more unregistered, jobless in the EU. Also, the German labor union of the banking sector warned on Dec. 14 that the "synergistic" effects of bank mergers in the EMU will kill 100,000 jobs—24% of all jobs in that sector.