June 1999

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Recommended Citation

Burros, Bill (1999) "The Euro-Past, Present and Future," *Against the Grain*: Vol. 11: Iss. 3, Article 8.
DOI: <https://doi.org/10.7771/2380-176X.3901>

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The Euro: Past, Present, and Future

by **Bill Burros** (Academic Information Specialist, Office of Press and Public Affairs, European Commission Delegation, 2300 M St NW, Washington, DC 20037-1434) <bill.burros@delusw.cec.eu.int>

I'm very pleased to participate in this discussion on the euro, Europe's new single currency, and wish to thank **Beau Case, ALA's WESS, West European Studies Specialists Section, and Against the Grain** for this opportunity.¹ Through my work with academic programs, I have developed great appreciation for the crucial role of librarians and other information professionals in providing information about European integration to students and faculty. Your work will certainly not get any easier with the introduction of the euro! To get our discussion going, I'll provide a brief overview of several issues related to the euro. I'll also touch briefly on Internet information resources for the euro.

Benefits of the Euro

The benefits of adopting a new single currency include greater price transparency for consumers, elimination of currency transaction costs, price stability, increased investment confidence, further integration of the eurozone's financial sector, and greater competitiveness among firms throughout the eurozone. In many ways, the euro consolidates the advantages of the EU's Single Market. The International Monetary Fund has estimated that these and other benefits of the euro will increase eurozone economic growth by an average of about 1% over the next three years, and about 3% over the next ten years.

Preparation for the euro also proved a timely fitness course for Europe in advance of the financial turmoil afflicting Asia, Latin America, and Russia for the last year or so. Indeed, since Europe has so far weathered the global financial crisis quite well, some observers are looking at the fiscal and economic preparations for European Monetary Union (EMU) as a possible route map for other regions' eventual recovery from economic crisis, and a recipe for long term stability.

More than an Overnight Success Story

The launch of the euro is a truly historic event not only for the international monetary system, but also for European integration. In addition to its obvious economic impacts, this pooling of monetary sovereignty demonstrates great political commitment. It's also important to note that the euro didn't happen overnight. Though economic and monetary union is not explicitly mentioned in the Treaties of Rome, by the late 1960's closer monetary cooperation was the subject of much discussion within the **European Community**, and was given formal expression in the **Werner Report** of 1970.

The **Werner Report** included provisions for economic and monetary union, including ultimate adoption of a common currency. Before the provisions suggested by the Werner Report could take wing, however, a series of events in the 1970s, including the decision of the Nixon Administration to float the dollar, and the OPEC oil shocks, temporarily derailed movement toward monetary union. The pursuit of closer monetary cooperation resumed in 1979 with the formation of the **European Monetary System (EMS)**, which included a new Exchange Rate Mechanism of fluctuation "bands" promoting stability among the national currencies of the (then) European Community.

The success of the EMS led, in part, to closer European economic cooperation through the implementation of the **Single Market Program** in 1987. The political and economic momentum of the Single Market

helped pave the way to agreement on the Treaty on European Union, more commonly known as the **Maastricht Treaty**, in late 1991. Maastricht came into force in 1993, and contains a detailed outline for Economic and Monetary Union in three stages, with the third and

final stage beginning on January 1, 1999. Maastricht also provides for the establishment of a European System of Central Banks, to be spearheaded by a **European Central Bank**.

This brief overview gives the impression that the euro has had an unusually long gestation period, and also reflects what some scholars have called the historically "stop-and-start" nature of European integration. Before drawing too many conclusions, though, I would note that, like the euro, the US dollar was not adopted overnight. It was not until 1863, 76 years after the **US Constitution** that Congress passed the **National Bank Act** and placed a heavy tax on bank notes issued by state banks. This legislation effectively ended the era of "free banking," vested monetary control with the federal government, and paved the way for the United States' single currency.

Launching the Euro

Enough historical background—let's talk about the euro's successful birth. Maastricht establishes four criteria to be applied to Member States wishing to join **Economic and Monetary Union**: sound public finances, interest rate stability, exchange rate stability, and

price stability. These "convergence" criteria are intended to ensure that the economies of participating Member States are able to adopt a common monetary policy. Most of the participating governments faced extremely difficult budget choices and demonstrated great political commitment in their effort to meet the convergence criteria. The **Growth and Stability Pact**, agreed upon in 1997, provides further assurance that the eurozone Member States will continue to maintain fiscal discipline in managing their public finances.

Based on the Maastricht criteria, in May 1998 the **European Council** determined that 11 EU Member States wishing to participate in the final stage of Economic and Monetary Union were ready for the euro. They are Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, the Netherlands, Portugal, and Spain. The eurozone is roughly comparable in economic size to the US. The population of the 11 Member States participating in **Economic and Monetary Union** is about 290 million, and the eurozone will account for around 20% of world trade and world GDP.

The four EU member countries not immediately joining the eurozone are Denmark, Greece, Sweden, and the United Kingdom. They have the opportunity to join the new **Exchange Rate Mechanism**, or "ERM II", which is based on the Exchange Rate Mechanism of the old European Monetary System and designed to preserve a measure of exchange rate stability among all the members of the EU.

It is hard to imagine a more intimidating and complex logistical task than creating a new currency to be used by eleven countries. It is unprecedented. While the launch of the euro on January 1, 1999 was largely seamless, it belied the years of intense and thorough preparation behind it.

On New Year's Eve, December 31, 1998, the EU's **Economic and Financial Council** irrevocably fixed the conversion rates between the euro and the currencies of the Member States adopting the euro. These conversion rates establish total equivalence between euro units and national currency units. In a nutshell, this means that the German mark, French franc and other participating currencies are now non-decimal denominations of the euro. For example, one euro is worth 1.95583 German marks or 6.55957 French francs, just as one US dollar is worth 20 nickels or 10 dimes. The value of the euro was also established on world markets, initially at the rate of one euro to 1.17 US dollars.

During the changeover weekend, from Thursday, December 31, 1998, to Monday, January 4, 1999, when markets opened again, no major technical glitches were reported in

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the operation of the financial institutions of the "Eurosystem," or in the TARGET cross-border payments system. This required substantial preparation by financial institutions both in and out of the eurozone, including many in the United States. Eurozone financial markets also successfully implemented their planned "big bang" on January 4, quoting security values in both euros and national currency equivalents.

The European System of Central Banks

Monetary policy in the eurozone will be defined and implemented by the **European System of Central Banks (ESCB)**, led by the independent **European Central Bank (ECB)** in Frankfurt. The ECB also conducts foreign exchange operations, holds and manages the official foreign reserves of the participating Member States, and promotes the smooth operation of payment systems.

Mr. Wim Duisenberg, formerly the Head of the Netherlands Central Bank, was named the ECB's first President for a term of eight years. Mr. Duisenberg and five other members of the ECB Executive Board were appointed by agreement among EU Heads of State and Government. The President, together with the Executive Board, is responsible for the day-to-day running of the ECB, in consultation with the ECB's Governing Council. The Governing Council is made up of the ECB's Executive Board and the Governors of the 11 participating eurozone National Central Banks. All 15 National Central Banks participate in the ECB's consultative General Council.

The ESCB shares much in common with the **Federal Reserve System** in the United States. The ECB's six-member Executive Board is comparable to the Federal Reserve Board in Washington, and the National Central Banks are the approximate analog of the 12 District Federal Reserve Banks. Authority over monetary policy ultimately resides in the **ESCB Governing Council**, consisting of the Executive Board and the 11 presidents of the national central banks. Although there are a number of differences, the Governing Council approximates the **Federal Open Market Committee** in the United States. Perhaps most importantly, both the Fed and the ECB are independent by statute.

A final point of comparison is also instructive. Many analysts rightfully point out the ECB's need to establish credibility in its management of the euro. Wim Duisenberg has acknowledged this as a fundamental ECB objective. Interestingly, the Federal Reserve System of the US was established in 1913 but took some time and a substantial restructuring in the 1930's before solidifying its central role in the American economy. We might keep this example in mind as we gauge the performance and development of the ECB.

What Happens Next?

While the changeover to the euro as an elec-

tronic currency by banking and finance industry began on January 1, 1999, the general public in the eurozone will continue to use national currencies as legal tender until January 1, 2002. Private citizens can, however, have bank accounts denominated in euros, euro-denominated credit cards and travelers checks, and payments can be made in euros on existing credit cards.

The European Commission, Eurozone governments, and many private organizations have already begun to cooperate in assisting all actors in the economy, including retailers and consumers, to ensure an orderly changeover when the euro is introduced as legal tender. For example, shops, restaurants and other retail outlets are being encouraged to use dual displays, giving prices in euros and national currency units. This will be an easier adjustment for consumers in some countries than in others. In Germany, the euro is worth a little less than two marks, while in Italy it is worth a little more than 1,900 lire.

These and other preparations are crucial if the final changeover to the euro beginning January 1, 2002 is to be successful. An incredible 12 billion euro-denominated notes and 50 billion euro coins must be prepared for circulation, with all national currencies withdrawn no later than July 1, 2002. Again, the logistical implications are awesome, and are already being addressed. It is possible that the eurozone countries may decide that a shorter changeover period is desirable. Other practical suggestions include stocking all ATM and other mechanical change dispensers in euros only after January 1, 2002, and also giving change at cash registers in euros only, regardless of the currency used in payment.

The Euro as an International Currency

The euro's international impact will ultimately depend on the economic performance of the eurozone, which the European Commission believes will be quite positive and lead to greater opportunities for the EU's trading partners. This impact will be enhanced by the increased synchronization of national business cycles within the eurozone as the result of economic convergence. In terms of the euro's use as an international currency, the Commission has projected substantial use of the euro as a unit of account and as a medium of exchange, with a very gradual growth of the euro as a reserve currency. We believe that, with the dollar, the euro will be a force for stability in the international monetary system.

What will the euro mean for the United States? Although Dr. Wrase will also address that question, I nonetheless cite a recent statement by **President Clinton**:

"We welcome the launch of the euro, an historic step that 11 nations in Europe have taken toward a more complete Economic and Monetary Union (EMU). The United States has long been an advocate for European integration, and we admire the steady progress that Europe has demonstrated in taking the often difficult budget decisions that make this union possible. A strong and stable Europe, with open markets and robust growth, is good for America and for the world. A successful economic union that contributes to a dynamic Europe is clearly in our long-term interests."

Internet Resources

Finally, allow me to highlight several key Internet resources on the euro. These are selected from the extensive "Key Euro Web Sites" page compiled by **Ann Sweeney** and **Iris Anderson** and available on our Delegation's Web site at <http://www.eurunion.org/infores/euroweb.htm>.

The Euro

The official EU Website on the euro (<http://europa.eu.int/euro/>) includes documents, legislation, links to other Websites, and a search engine. It provides access to basic information and documentation on the euro.

European Central Bank

The Website of the institution responsible for supervision of the single currency (<http://www.ecb.int>) contains statistical documents and other studies and reports, as well as links to other Websites.

Directorate General II: Economic and Financial Affairs

The European Commission DG responsible for EMU issues (http://europa.eu.int/comm/dg02/index_en.htm) has placed the EU's Annual Economic Reports, Broad Economic Policy Guidelines and other documents on its Website. This site also offers the scholarly "Euro Papers" series on a wide range of EMU topics.

EmuNet

This UK site (<http://www.euro-emu.co.uk/>), sponsored in part by the European Commission, offers daily news updates that can also be sent to you by email, business and political information on all aspects of EMU, and links to official texts and documents.

Several sites indexed on **WESSWEB** (<http://www.lib.virginia.edu/wess/>), created by ALA's Western European Specialists Section, also offer links to these and many other euro resources.

Though not specifically devoted to the euro, several other documents on our Delegation's Web site may be of special interest to students and faculty:

The EU: A Guide For Americans

This publication produced by the Washington Delegation provides an accessible introduction to the EU's institutions, policies, and EU-US relations (<http://www.eurunion.org/infores/euguide/euguide.htm>).

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[<http://www.against-the-grain.com>](http://www.against-the-grain.com)

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Accessing European Union Information

Barbara Sloan, Head of Public Inquiries at the Washington Delegation, has recently updated this very helpful guide to all aspects of EU documentation (<http://www.eurunion.org/infores/resguide.htm>).

Free EU Publications Order Form

This online form (<http://www.eurunion.org/publicat/freepub.htm>) offers a continually updated selection of a range of EU publications. Single copies of these publications will be sent to addresses in the US. A much longer list of available publications, including several on the euro, may also be requested. For more information about the EU's euro resources, please contact Ann Sweeney <ann.sweeney@delusw.cec.eu.int>, European Commission Delegation Information Officer and Librarian.

¹The views expressed are personal and should not be taken as an official statement of the European Commission.

NB: Bill Burros' responsibilities include the development of academic programs, including the newly established "Network of European Union Centers" at

ten universities across the United States, as well as Internet resources. Before joining the Delegation, Bill served as Administrative Director of the European Community Studies Association. He has also

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