A new European Currency for strengthening the European Union or for destroying it? When the public opinion is not informed

Paolo Tedeschi – University of Milan-Bicocca
(with the contribution of the CVCE – Luxembourg)

- The aim of this proposal (based on the analyses of the Werner's archives and, obviously, the journals of economics) is to show the case of misinformation concerning the creation and the function of the new Euro and the Economic and Monetary Union (EMU).
- They entered into force in 1999 but they were the result of a long process which began in the 1960s when some project of European monetary union were presented. So many people knew the problems that the EMU could create in some economic conditions. However the public opinion received no information about these problems. Besides the European institution followed policies which did not respect the principle of solidarity without explaining why.

- During The Hague Summit (December 1969) the Werner Committee was established: it had to prepare a project for the creation of the new European Currency.
- This last was in fact considered a fundamental and strong instruments for the “completion of the Common Market”.
- The Werner Committee presented in the Autumn 1970 the path (in three steps) for arriving in 1980 to the birth of the Euro.
- The report of the Werner Committee was approved but the fall of the gold exchange standard (August 1971) and the oil crisis (Autumn 1973) did not allow to really start the process of creation of the Euro.
- All EEC members had to adopt the new currency: no exceptions.
- The European Currency Unit (which was realized in 1979) was not a real currency used by the European citizens for their purchases: so in the 1980s the Delors’ commission started again the process for the creation of the Euro and the EMU.
- The European Central Bank (whose unique aim is simply the control of the level of prices in the EMU) entered into force too.

- When all this happened nobody explained to the European public opinion the main results of the analyses and debates of the 1960s and 1970s concerning the new European currency. So the European institutions "forgot" to illustrate these simply "rules":
- a) A monetary union can have a good result only if the real aim of the countries (which adopt the common currency) is the strengthening of the political union: on the contrary, if the political divisions remain, the use of a common currency in a negative trend can destroy the union.
- b) A monetary union will have a lot of problems face to great economic and financial crisis if there is not a strong central bank which had both a great power of intervention on the financial markets and a great power of control of the financial institutions existing in the countries adopting the common currency. The examples of the fall of the Latin Monetary Union and of the Scandinavian Monetary Union during the 19th century are very clear at this topic.

- c) A new common currency obliges all countries which adopt it to renounce of the national monetary policy and so they can use the national fiscal policy only: so if the GDP decreases (for example for endogenous causes) they have to reduce the public expenditure or to increase the taxes for respecting the monetary union' s rules (e.g. the criteria concerning the debt). This can create discussions between the members of the monetary union, in particular between the richest and poorest ones.
- d) It is not possible to have in the same common market some countries adopting the common currency and other countries which do not want to adopt it. These latter will have some benefits because they do not have to respect some rules and in particular they can devaluate their currency and temporarily increase their debts more than their competitors. Some exception are possible but they only concern countries just arriving in the common market: they can maintain their currency until they will be able to respect the criteria for "becoming member of the monetary union" (this time is obviously limited).

- People participating at the debates and discussions during the 1960s and 1970s were obviously sure that nobody would create a common currency (that is a monetary union) without considering these “rules” and without informing about them all European citizens...
- On the contrary some ratios expressed in percentage and thought as provisional because they could not remain the same for too many years in an world which quickly changed (compare India, China, Russian, Brazil in the early 1990s and ten years after) became the “Holy Bible”
- These ratios could be considered only if the GDP grew up, but they remained even if the GDP felt down. In this last case a country could not respect its rations even if they maintained or reduced its level of public expenditure.

- The monetary policy favouring the revaluation of the Euro clearly advantaged the strongest economies which in particular exported in the Eurozone and created some problems to countries exporting in the no Euro area.
- While the USA, UK and Japan debts grew for supporting the national income and favouring the export, in the Eurozone the weak countries were punished and helped only if they accepted economical strategies which increased their weakness or cut the quality of life (the EEC was born for increasing it...)
- In the new Millennium the EU was not based on their originary principles of solidarity (the EU poorest countries/regions had to be helped as it happened when USSR existed). If European institutions forgot this, then Euro can really destroy the EU.

- Besides European institutions did not explain that the choice of not to immedjately help the Greece provoked a final cost of ten times the price for an immediate help.
- Only the ECB with Draghi looked for a real alternative and created the tale of the too much lower inflation which is dangerous. This is obviously a false but it allowed to use the quantitative easing. The ECB in fact can control only the level of prices and so it declares that it is dangerous if they are low
- In any case the ral problem is the lack of information which crreated lack of confidence in the European institutions. In particular if they forgot what was affirmed in the early 1950s: “yes to Europe but not any cost”. No future for the EU if it is possible to demonstrate that it is better to stay out