Speeches

The European Monetary Union: Implications of the Euro for American Business

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Good Morning. My name is Jack Guynn, and I am President and Chief Executive Officer of the Federal Reserve Bank of Atlanta. On behalf of Georgia Tech's Sam Nunn School of International Affairs and the Center for International Business Education and Research (CIBER), it is my pleasure to welcome you to this conference on the European Monetary Union and its Implications for American Business.

The Rambling Wreck have engineered a well-oiled and wide-ranging educational machine for today's euro discussion. Over the next eight hours, you'll hear the corporate perspective; the American perspective; the Italian, German and French perspectives; the British and EU Presidency perspective; and the perspectives of several legal, financial and operational experts. If you've got questions about the euro, you're sure to find some answers here today.

Still, it's entirely possible—I'd say it's highly likely—that you'll leave with a lot more questions than answers. And if that's the case, then you'll be much closer to understanding the implications of the euro than you were when you arrived.

Because the first thing to understand about the European Monetary Union is that it is one of the most ambitious economic and political experiments in history. It's not historically unprecedented: Switzerland, France, Belgium, Italy, Greece and Bulgaria formed a short-lived Latin Monetary Union in 1865, and the Scandinavian Monetary Union lasted just over half a century before collapsing in 1924. Nor would the economic unit represented by the euro be the largest in terms of gross domestic product. The eleven EMU countries produce 19.4 percent of the world's economic output, 2/10 of a percentage point below the United States. But the union of 11 separate nations, governments, cultures and economies is unprecedented in terms of ambition and implications.

Much has changed since those earlier, failed attempts at currency union. Customs unions, tax treaties, trade agreements and other multilateral arrangements have gradually dismantled financial, trade and other barriers over the last half-century. Notwithstanding Congress' failure to extend Fast Track to the Clinton Administration last year, countries continue to move toward economic integration at the regional and—to a lesser extent—global level. But monetary union is altogether different. And monetary union of the scale and scope encompassed by the EMU is unprecedented.

Nevertheless, in the context of (post-War) European history, the EMU is evolutionary. In fact, the roots of the EMU extend back to the much more modestly intentioned European Coal and Steel Community, established in 1951 by Belgium, France, Germany, Italy, the Netherlands and Luxembourg. The Coal and Steel Community became the European Economic Community with the 1957 signing of the Treaty of Rome by those same six countries. It would later evolve into the European Community in 1967 and the European Union in 1993, by which time it also included Denmark, Greece, Ireland, Portugal, Spain and the United Kingdom. Austria, Finland and Sweden joined in 1995, bringing total EU membership to 15 countries.

The Maastricht Treaty, which established the terms of monetary union, was adopted in December 1991. Denmark, Sweden and the United Kingdom have decided not to join the EMU in 1999, and Greece failed to qualify.

On January 1, 1999, the Euro 11—Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain—will turn over their monetary policies to the Frankfurt-based European Central Bank. National currencies will remain in circulation, but exchange rates will be determined by the ECB. The euro goes into circulation alongside them on January 1, 2002. After a six-month transition period, on July 1, 2002, the 11 national currencies will expire.

Apart from its ambitions, what's most unprecedented about the euro—and what ultimately makes its implications so difficult to predict—is the measure of sovereignty ceded by euro countries to the European Central Bank. Perhaps the most obvious example is national currency. "In Europe," Barron's observed recently, "money is both an art form and a means of national differentiation." That's true in the United States and many other countries too. It means that—to some extent—replacing a national currency with the euro means supplanting a national identity with a supranational, "European" identity.

For economic policymakers, EMU means surrendering some measure of fiscal sovereignty as well. The Maastricht treaty stipulates that EMU nations limit budget deficits to 3 percent of GDP and public debt to 60 percent of GDP. These are undoubtedly desirable and necessary public policy goals, and they are long overdue in several EMU countries. But the fact remains that they will significantly influence the public and fiscal policy choices of national governments.

The movement of monetary policymakers literally and figuratively "across the border" from fiscal policymakers also represents some loss of sovereignty. Philosophically, this is no bad thing: one of the most appealing aspects of the European Central Bank to me as a central banker is its independence from the political authorities who make tax and spending decisions. But monetary policymakers do consider fiscal policies in their deliberations, and, to the extent that, say, Spain no longer has a Spanish Central Bank focused solely on the economic well-being of Spaniards, EMU represents a loss of sovereignty here too.

These three obvious examples suggest that the euro may have stronger implications for the continent's politics than its economics. Indeed, many EU-watchers, Stateside and European, have argued that the primary goals of the Economic Monetary Union are implicitly—if not explicitly—political. But I'll leave that discussion to the experts.

Like so much of economics—like so much of finance, public policy and diplomacy—understanding the euro means asking the right questions. It also means understanding that an assessment of the facts, such as they are, may lead equally well-informed individuals to arrive at opposite conclusions about the future.

The speakers and panelists you'll hear today are among the world's most knowledgeable on the euro. But they are unlikely to agree about its implications. They may not even agree about the wisdom of creating a European Monetary Union in the first place. What is important for you and the institutions you represent is recognizing the issues to be addressed, the questions to be answered. Like the euro itself, that's a very ambitious undertaking.

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