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THE NECESSITY OF EMU FOR THE EUROPEAN INTERNAL MARKET

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EPIC
28 september 94
STRASBOURG

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The European integration process has a well known methodology which is that of more or less permanent evolution on a step-by-step basis, every further step taking into account the experiences and the difficulties of the previous ones. This methodology has proved rather successful until now. At every point there is a team of Governments, social and political interests, think-tank groups, lobbies, which want to go further and faster and others which want to slow down refrain or even turn back. The inevitable settlement comes somewhere half-way and the second half of the way which is not carried already shows some potential for the step to come.

On the economic front, which has been the driving force of the European Union for its three and a half initial decades, the period between the treaties of Rome and Maastricht, the departure point in 1958 was a situation in which each one of the six original Member States had a selfish national approach to economic recovery and development.

The initial aim was to create the so-called " Common-Market ", which included the elimination of tariffs and quantitative restrictions for internal trade, the creation of a common customs tariff and the progressive establishment of free access to each other's markets. May I recall that the interim period merely to prepare for this already took twelve years.

A new stage appeared in the middle eighties. The concept of " Common Market " was replaced by a more profound and far-reaching one, that of " internal or single market ". The idea, not taken for granted in the common market, was that borders between the Member States should disappear because they have indeed two functions and consequences:

-they create a fragmentation of the market, whereby the basis of improvement of economic activities takes place only at national level;

-and they induce economic costs which mean a waste of resources.

This conceptual evolution is a clear strengthening of the solidarity between the different national markets. Why does such an evolution appear in the middle of the eighties ?

Both Common Market and its predecessor, the Steel and Coal Treaty of 1952, had reached their main political purpose, namely to create longterm conditions for peace in Western Europe and oppose the dangers of Soviet imperialism through economic performance.

But the world scene moved ahead, which is the natural course of History, and in a framework of universal increase of exchanges of goods, services, capital and technology, two huge competitors were performing better than Europe: the USA and Japan, both having two powerful internal markets from which to create conditions for international economic performance.

European economic fragmentation was a growing handicap vis-à-vis the USA and Japan and it led to a two-fold strategy: incorporating new members in order to enlarge the economic basis and the political muscle and eliminating several internal barriers thereby enlarging the natural basis of European undertakings.

The concept of a " single market " may be seen as copying the operation of the North-American and Japanese single markets. It includes elimination of internal border controls and an enormous effort to harmonise regulations and eliminate disparities.

If the big challenge is now competition with the USA and Japan, one immediately observes that both our competitors have a single currency and, furthermore, have had so from the very beginning, making the single currency indeed an essential feature, a pre-requisite, for their single markets.

The European single market being a concept of eliminating waste of resources and enlarging the natural economic basis by the implementation of a space without internal barriers, both physical and immaterial, one may ask if different currencies inside a single market are not a real barrier.

They are indeed. From the point of view of economic theory, exchange has two kinds of costs:

- the risk of exchange in itself; exchange of course is not necessarily a positive cost and on average it balances out at zero; but in a system of flexible rates its risks have to be taken into account by companies when dealing with counterparts from a different currency market.
- the administrative and business costs of manipulating the exchange; the exchange activities of the banks in a single market may be compared to those of customs officials in the sense that they perform an economic activity, they represent a cost for the flow of trade but they do not increase real productivity for the whole of the single market.

The same applies to staff in the productive sector in charge of dealing with currency operations between companies inside the single market; they are equivalent to those who used to handle the preparation of documentation for submission at borders.

Of course, this seems quite clear from a theoretical point of view and this is why business circles are more favourable to a single currency than the average citizen. The average citizen has two kinds of difficulties with moving from a national concept of currency sovereign to a broader sharing-one between engaged and integrated partners; the first is an historic-psychological one, because for centuries sovereignty has been associated with issuing money and conducting currency policies on a strict basis of national self-interest; the second is that it is rather difficult to understand that exchange is a waste of resources if you are pursuing a strategy of overall economic integration.

This means that a huge effort of explaining the advantages of the single currency, as a natural end-of-the-road for economic integration, must be carried out at all levels of public opinion in the twelve Member States. It appears to me that this has not been done up to now. The explanations have to be as clear and objective as possible, because they must encounter dragoons of natural pride and sensibility which seem much bigger than the danger of a continuing decline in international competitiveness.

Politicians, both those in favour and against, have a tendency to explain these things in a way which favours emotional analysis instead of rational analysis. I have the feeling that the battle for economic and monetary Union has to be fought mostly in the heads of the citizens instead of their hearts.

Nevertheless these very particular sensitivities of the common citizens mean that EMU, although a rational and economic operation is first of all, in terms of achievement and success, a matter for politicians. This explains the difficulties to be overcome in the framework of EMU in the Maastricht Treaty and all the troubles and dangers facing the interim period of adjustment, which we call the second phase. The adjustment, of course, is more delicate in the area of the macro-economic performance of every Member State than in the strict monetary field and the reason is that macro-economic adjustment is more likely to affect policies with a lot of social and redistribution content.

I have dealt until now with the justification for the necessity of EMU. But another question - which is no less important than the first - is what kind of EMU, what pattern to choose for replacing national currencies and national policies by a single currency and a single policy.

We are again bound by the question of the international competitiveness of Europe. To pose a long-term real threat to the supremacy of the dollar and to make the new currency feasible and fully accepted, both internally and externally, imply some tough conditions, like for instance, maximum stability of its value and a monetary policy which combines such scope with low nominal and also real interest rates. The experience of developed countries shows that one of the pre-requisites for this is to assume a real independence of the ruling bodies of the central bank from the political powers. In the case of the European Union the very simple fact that Germany has successfully achieved independence of its central bank and

considers it to be a corner stone of its economic performance would make it politically impossible for the Germans to accept any kind of single currency which is potentially weaker than its Deutsche Mark.

This point of economic wisdom and political pragmatism makes it difficult for Members with no previous experience of independent central banks and consequently low inflation rates and heavy burdens on public deficits, leading to high interest rates and inability to have stable currency rates, to adjust to new rules and realities in monetary and macro-economic policies. The assumption that such adjustments have high costs, namely in the social area and in the area of growth rates, makes the case for the concept of European cohesion with important financial resources allocated to the weaker Members which accept to engage in such movement towards first class economic performance.

Some sceptics may consider this short intervention of mine as too much of a hymn to the European single currency, but I say to them that there is a heavy fight going on all over the planet for the leading roles in the economic and consequently political sphere and we Europeans are convinced of the needs to establish all the possible armoury for this fight of a peaceful and more technological nature. This has to include the creation of a strong and reliable Ecu. Well, if they even dislike the name, I may suggest them that we could easily name the new currency to become EUROPA.

Would the name of EUROPA for our future currency have a stronger appeal for the needs of Europe?

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EUROPEAN

PARLIAMENT

Committee on Economic and Monetary Affairs and Industrial Policy

3 November 1994

A4-0000/94



DRAFT REPORT

relating to a multi-annual programme (1994-96) of work for cooperatives, mutual societies, associations and foundations in the Community (COM(93)0650 final - C3/-0112/94)

Rapporteur: Mr Gasoliba I Böhm

PE 210.374
es - Or. en

DRAFT LEGISLATIVE RESOLUTION

Legislative resolution embodying Parliament's opinion on the proposal for a Council Decision relating to a multi-annual programme (1994-96) of work for cooperatives, mutual societies, associations and foundations in the Community (COM(93) 650 final - C3-0112/94),

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council, (COM(93) 650 final/94 - C3-0112/94)¹;
 - having been consulted by the Council pursuant to Article E235,
 - having regard to the report of the Committee on Economic and Monetary Affairs and Industrial Policy and the opinions of the Committee on Economic and Monetary Affairs and Industrial Policy as the Committee responsible and the on Committee on Social Affairs and Employment, the Committee on Budgets, the Committee on Development and Cooperation, the Committee on Culture, Youth, Education and the Media, the Committee on Research, Technological Development and Energy and the Committee on Environment, Public Health and Consumer Protection
1. Approves the Commission proposal, subject to Parliament's amendments;
 2. Calls on the Commission to alter its proposal accordingly;
 3. Calls on the Council to incorporate Parliament's amendments;
 4. Asks to be consulted again should the Council intend to make substantial modifications to the Commission proposal;
 5. Instructs its President to forward this opinion to the Council and Commission.

¹ OJ C ... p. ...

B.
EXPLANATORY STATEMENT

1. The proposal for a Council decision relating to a multi-annual programme (1994-1996) of work for cooperatives, mutual societies, associations and foundations in the Community, is designed to assist these cooperatives, mutuals and foundations in determining their response to economic development and the achievement of social progress. The principal objective is to allow them to benefit from the advantages of the Single Market and Economic and Monetary Union in complete equality with other economic agents. In other words: they should be given the same chance as other enterprises.
2. The proposed programme sets out to provide backing for cooperatives, mutual societies, associations and foundations in formulating a response to the challenge facing the European Union: economic development and social progress. The action plan has the following objectives:
 - I. To promote, coordinate and strengthen measures adopted for cooperatives, mutuals, associations and foundations by:
 - A. strengthening the horizontal approach, more specifically by:
 - conducting studies on the development of the sector in the Community;
 - creating a favourable environment and evaluating the impact of Community policies;
 - making arrangements for consultation;
 - B. providing for specific action with a view to:
 - encouraging opportunities for transnational cooperation and the quest for new fields of activity between groups of partners;
 - improving information;
 - disseminating social innovation;
 - strengthening the role of cooperatives, mutuals, associations and foundations as vehicles for Community policies;
 - II. strengthening activities in favour of cooperatives, mutuals, associations and foundations within other policies by:
 - developing Community statistics and compiling data on the basis of surveys conducted within the sector;
 - providing training back-up;
 - encouraging the development of R&D.
3. Cooperatives, mutuals, associations and foundations are not only to be found in all branches of the economy, but they are also extremely diverse in terms of size, field of activity and location. The significance of cooperatives, mutual associations and foundations, is not only a matter of economic importance but there is also the social and cultural dimension of these companies that influences the way changes affect European society. This type of enterprise is directly relevant for force development of employment and for combatting unemployment. These enterprises are obliged to assume or achieve a European dimension in order to survive and develop, whether by mergers, taking over sections of

markets, investment in new technologies or transnational operation and all options require equity or semi-equity funding. This requires them to change their legal status in order to get access to funding.

4. In general, the cooperative, mutual, foundation and association plays a key role in strengthening economic and social cohesion because it is often better able to exploit local resources and also to make an appropriate response to new requirements. Existing regulations already provide for different forms of support for cooperatives, mutuals, associations and foundations through the Structural Funds (ERDF, EAGGF, Guidance, ESP), integrated programmes (IMP, IDO, PEDIP) and specific schemes (RESIDER, RENAVAL).
In addition cooperatives, associations and mutuals as SME's will have a key role to play in enterprise policy and policy on development of cooperation with non-member countries. Stimulation of cooperation and partnerships, training and information will contribute to consolidating economic democracy in Eastern Europe and to developing the European Economic Area.
5. With regard to agriculture policy, cooperatives, mutuals and associations play a vital role in the development of the rural areas in the European Community. In the fisheries sector socio-economic support measures are required for reducing the over-capacity problem of the fishing fleet. In the field of social policy cooperative enterprises become increasingly important for the maintenance and creating jobs, Community education and training policy. Cooperatives, mutuals and association contribute to implementing programmes and initiatives such as Force, Euroform and Horizon. Cultural policy is to a very large extent run by associations and foundations concerning the rights of workers and cultural activities. They also play an important role in the preservation of European cultural exchanges and artistic and literary creativity including the audiovisual sector. Associations and foundations are also working in the health sector so that they are affected by European legislation on health, social protection, medication, health education and consumer protection.
6. The proposed programme is scheduled to run for three years. The available resources of this programme are estimated at ECU 5.6 million over three years. The horizontal approach and the implementation of specific measures will be based on a quest for innovative strategies, for partnership and networking arrangements and for transnational dynamics.
At the end of the period covered by this programme, the European Commission will be in a position to evaluate this Community policy on cooperatives, mutuals and associations, thus giving the Commission a further basis on which to map out the broad lines of its future policy. The European Parliament considers this policy as an internal market matter, and demands therefore that when the European Commission comes up with new proposals, the European Parliament will be involved via the appropriate legal basis.
7. The European Parliament welcomes the programme and considers it to be useful. Some remarks can be made though, in order to improve the proposed actions. The first remark deals with the (cross border) contacts between cooperatives. The European Parliament is of the opinion these contacts should be encouraged in order to allow cooperatives to compare their

situation and learn from each other and assist one another whenever necessary. A comparison, for instance, of the fiscal situation of cooperatives in the different member states seems useful. Secondly the European Parliament wants to suggest a specific action to improve the level of management for those cooperatives that lack information. This action could take the form of small conferences. The notion that the European Union is one market, also for cooperatives, should be increased. Seminars to increase the awareness of this notion of enterprises, and more specifically cooperatives, could be organised. At the same time attention could be paid to the possibilities for cooperatives to export outside the European Union. Finally it is, according to the European Parliament, necessary to develop an action in favour of cooperatives without linking them too closely with small and medium sized enterprises, as is for instance done in article 2, I/B first indent. An amendment in this sense has been tabled.

8. In general the European Parliament believes that an effective European Union policy for cooperatives, mutual societies, associations and foundations must differentiate more clearly between each of their specific functions. The horizontal approach in the proposed programme may be too "horizontal" and thus inappropriate for a working programme of this nature. The European Parliament invites the Council of Ministers and the European Commission to consider this point. In doing so the European organisations that represent the enterprises and groupings concerned should be consulted so that in the final programme of activities these representative organisations are fully involved.

In conclusion the European Parliament expresses support for the programme. The players in the sector concerned will be given easier access to Union resources with the proposed measures. The European Parliament also backs the idea for not creating a new European fund for cooperatives but to use existing funds instead. This approach is a very healthy one and could bridge the gap between existing resources and players that are not using these means.