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EMU: Views in the other EU Member States

This paper complements Research paper 98/35, *EMU: the approach to the Third Stage and the state of economic convergence.* It looks at recent developments and at political and public opinion on EMU in the other EU Member States.

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I Introduction

All the Member States, with the exception of Britain and later Denmark, agreed to Economic and Monetary Union (EMU) when they ratified the Treaty on European Union (TEU or Maastricht Treaty) in 1993. Austria, Finland and Sweden committed themselves to EMU when they ratified treaties of accession in 1994. The TEU set out in Title VI on *Economic and Monetary Policy* and in various Protocols to the Treaty the procedure, timetable and convergence criteria for EMU. The possibility of further negotiation, referendums or parliamentary votes was thereby ruled out. In spite of this, there have been calls in some Member States for a referendum on joining EMU, while in others there is to be a parliamentary process to approve the final decision.

The 1997 economic data that the EU Member States submitted to the Commission on 27 February 1998 form the basis for the decision as to which countries will join EMU on 1 January 1999. Of the 15 Member States, 14, including Britain, qualified to join. Of the 12 States wishing to join initially (all except Britain and Denmark, which have the option not to join, and Sweden, which does not want to join in the first round), eleven qualified. Greece did not meet the convergence criteria.

The economic data and their implications are considered in House of Commons Library Paper 98/35, *EMU: the approach to the Third Stage and the state of convergence*, 17 March 1998. The present paper looks briefly at some of the political developments in the Member States, and at recent political and public perceptions of EMU, concentrating on Germany, which has been at the forefront of moves towards European political and economic integration. The Annexes give details of Union-wide opinion polls by *Eurobarometer* in spring and autumn 1997, key dates in the EMU timetable, EMU Internet websites and forthcoming general elections and referendums on the Amsterdam Treaty.[1]

[1] For information on the Amsterdam Treaty, see Library Research Paper 97/112, *The European Communities (Amendment) Bill: Implementing the Amsterdam Treaty*, 5 November 1997.

II Germany

A. Government and Parliament

The political debate on European integration and EMU in Germany should be seen in the context of the general election to be held on 27 September 1998. Chancellor Kohl has continued to support EMU and Germany's entry into it as a guarantee of political and economic stability in Europe. He regards any delay in introducing EMU as politically damaging, not just for Germany but for the whole of Europe. In his new year address to the lower chamber, the Bundestag, the Chancellor reiterated his firm belief that "the best guarantee against war and irresponsible striving for power is European unification" and that the single currency would "strengthen the European and German economies to everyone's benefit".[2]

There is a very strong emotional attachment in Germany to the national currency. In a speech to the German trades union congress on 12 January 1998, the Chancellor tried to allay fears of losing a strong Deutschmark to a weak euro. He acknowledged the historic and emotional attachment of post-war Germans to the Deutschmark, which is perceived as the symbol of stability, security and the 'economic miracle':

> Any speculation over the participants in economic union is superfluous. There is a fixed timetable. … What is important is that the euro becomes a durable and stable currency. Only then will the euro have a positive effect on investment and the job market. Only then will the public accept it, especially in Germany. … For many Germans the D-Mark is not just a coin or note but a piece of their own history. The introduction of the D-Mark in June 1948 was … the first ray of hope amidst deep despair in a Germany in ruins at the end of the war.
>
> At that time we did not give the D-Mark a chance. History has contradicted the prophets of doom. This is above all the work of the founding generation that rebuilt our country after the Second World War. It is to their strength and determination that we owe the so-called economic miracle. And with their hard and tireless effort they succeeded in making the D-Mark the successful and solid currency that it is in spite of all the prophecies of doom. In the face of these historical links, I have great understanding for the feelings of many people who now ask: why should we give up this good D-Mark?
>
> For this reason the stability of the euro is of such importance to us Germans. For this reason we have urged our European partners to make the future European Central Bank as independent as the German Bundesbank and committed above all to the stability of the currency. For this reason we have insisted that the stability pact for a firm budget policy among the partner states, which was an initiative of the Federal Finance Minister Waigel,

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[2] *Bulletin*, Presse –und Informationsamt der Bundesregierung, 9/S.97, 3 February 1998 (unofficial translation).

> was taken up in the Amsterdam Treaty of June 1997. And for this reason we vehemently support maintaining the stability criteria of the Treaty of Maastricht. I am sure, and I want to make this absolutely clear, that Germany will fulfil the criteria.[3]

The conservative Christian Social Union (CSU) Prime Minister of Bavaria, Edmund Stoiber, an opponent of EMU but not a 'Eurosceptic', appears to have become reconciled to its introduction as long as all the Maastricht criteria are met without fudging.[4] Acknowledging that postponement of the project is only a theoretical option, Mr Stoiber is now keen to have some influence on the EMU process in Germany. Like the Chancellor, Mr Stoiber has emphasised the symbolic importance of the D-Mark:

> Since the Second World War we have had no emotional basis for our nationality. We were a country that had this guilt about the crimes Germany committed. But Germans are proud that out of the rubble a country was built that is democratic and respected - and that is connected with the D-Mark.[5]

He has added a more sinister element to the possible repercussions of a weak euro, warning of a possible upsurge in political extremism if it became clear that the euro was not working. If the new currency was not stable, "then someone from the right could actually begin to win votes. A Le Pen in France is bad enough but a Le Pen in Germany would naturally have a different impact".[6]

In September 1997 the German cabinet approved a bill to speed up the introduction of the euro in businesses after 1 January 1999. Under the terms of the bill companies would be able to denominate their capital and shares and draw up balance sheets in euros from 1999; new and existing government bonds and securities would be denominated in euros from 1 January 1999 and stock exchanges would be able to carry out most of their activities on a euro basis. However, in November 1997, the *Bundesrat* (composed of the leaders of the 16 federal states) proposed several amendments to the bill and decided to reconsider it only after the government's decision in spring 1998 on joining the single currency.

While Stoiber has voiced his concern about the risks of monetary instability that a weak euro would bring, the Finance Minister, Theo Waigel, (CSU) has been trying to encourage a more positive public attitude towards the euro. The Foreign Minister, Klaus Kinkel, (Free Democratic Party, or FDP, the third party in the governing coalition) has expressed the fear

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[3] *Bulletin*, ibid.
[4] Italy and France have been accused of fudging the criteria; the former by levying a one-off "Euro-tax" and the latter by including a one-off transfer of France Telecom's pension fund to public-sector accounts.
[5] *Financial Times*, 26 February 1998.
[6] *Ibid*.

that a delay could bring about a sudden appreciation of the Deutschmark that would damage German exports, stifle growth and endanger jobs[7].

The pressure on the government to insist on economic stability before committing Germany to EMU will increase in the run-up to the general election in September. The introduction of the single currency is supported generally by the main political parties in the German parliament, although some commentators have suggested that this is an acceptance of its inevitability rather than real enthusiasm for the project. Oskar Lafontaine, the leader of the opposition Social Democratic Party (SPD), has supported the government's stand on EMU, but he has warned that more stability is needed in European financial markets if "the Asian crisis" is to be avoided in Europe. In his opinion EMU should be "underpinned by policies geared towards economic growth as well as monetary stability" in order to be accepted by Europe's citizens[8]. Some opposition to the euro has emerged from opposite sides of the political divide. The former Social Democrat Mayor of Hamburg Henning Voscherau has called for a referendum on EMU while the CDU Prime Minister of Saxony, Kurt Biedenkoph, has called for an orderly extension of the timetable until 2002.

On 1 March the SPD state premier Gerhard Schröder won state elections in Lower Saxony with around 48 per cent of the vote[9] and was nominated by Mr Lafontaine as the party candidate for the general election. Comparing himself with the British Prime Minister, Schröder aims to unite the right and left of the party by taking it from the left-leaning position of Lafontaine to the middle ground. His platform emphasised a "combined modernisation of the economy, society and state with social responsibility".[10] His decisive victory poses a new challenge to the Chancellor, who might have hoped for an 'easier' opponent in Lafontaine, whom he defeated in 1990. Ideologically, Schröder and Kohl are not dissimilar, although Schröder does not share Mr Kohl's enthusiasm for the EU or the single currency, and a future SPD government would probably be more cautious about and critical of many EU projects.

Schröder's views on Europe have been ambivalent. In 1997 he was sceptical of EMU and favoured a postponement. He still has doubts about the single currency but is now more concerned with making sure that the euro is as strong as the D-Mark and that EMU is accompanied by EU action on unemployment. The SPD is reluctant to make EMU an election issue, although it is difficult to see how this can be avoided, while Chancellor Kohl continues to promote the euro. According to political observers, his strategy is to take the calculated risk that by so doing he will gain the confidence of anti-EMU voters who might fear the mismanagement of the inevitable by the inexperienced (and possibly fractious) SPD government.

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[7] *Financial Times*, 10 February 1998.
[8] *Ibid*.
[9] Compared with 44.3 per cent in 1994.
[10] *Financial Times*, 2 March 1998.

Chancellor Kohl has designated Wolfgang Schäuble his successor should he decide not to stand and in a recent opinion poll, 39 per cent said they would vote for Schäuble against 31 per cent for Kohl as the CDU/CSU candidate.[11] In the same poll Schröder was supported by 46 per cent against 25 per cent who said they would vote for Kohl in the general election.[12] The support of the main employers' organisations for the Chancellor's economic reform programme has given more hope to CDU election prospects. The reforms included some unpopular tax proposals and cuts in pensions and sick-pay. The German Industry Association, Employers Federation, Chambers of Industry and Trade and the Association of German Craft Industries issued a joint declaration in early March in support of the government's programme and called for the revival of tax proposals blocked by the *Bundesrat* in 1997. Mr Schröder, who presented himself as pro-business before the state election, has since said that he might reverse some of the Kohl policies. Business and industry have warned against this, fearing that it would "deepen structural problems, hinder investment and destroy jobs".[13] The SPD has put job creation at the top of its agenda and would not wish to jeopardise its election chances by antagonising the leaders of business and industry.

Parliamentary approval of EMU by both parliamentary chambers before entering the third stage was a condition secured at the time of ratification of the TEU. The federal government will forward to the *Bundestag* and *Bundesrat* the reports on EMU from the *Bundesbank*, the EU Commission and Economic and Finance Council (Ecofin), as well as its own opinion. As a result of this, on 2 April there will be a government statement and debate in the *Bundestag*. The *Bundestag* vote on EMU will be on 23 April and the *Bundesrat* vote on 24 April.[14]

B. The constitutional challenge

On 2 January 1998 opponents of the single currency began a campaign to prevent the introduction of the euro. In the newspaper *Die Woche*, three well-known economists and a lawyer[15] warned that the single currency would collapse amid "hatred and envy" among the peoples of Europe. They filed their complaint to the Federal Constitutional Court on 12 January 1998.

Following a challenge to the Maastricht Treaty in 1993 the Constitutional Court had ruled in favour of the Treaty but only on certain conditions.[16] One of these was that there would not be an automatic move by Germany to monetary union just because it had ratified the Treaty;

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[11] Survey of 1000 voters by the polling organisation Forsa.

[12] *Financial Times*, 5 March 1998.

[13] *Financial Times*, 10 March 1998.

[14] "Die Entscheidung über die Teilnahme an der dritten Stufe der Europäischen Wirtschafts- und Währungsunion", *Der Aktuelle Begriff*, Nr. 4/98, 26 February 1998.

[15] Professors Karl Albrecht Schachtschneider (lawyer), Wilhelm Hankel, Joachim Starbatty and Wilhelm Nölling (economists).

[16] Constitutional Court ruling of 12 October 1993, Karlsruhe.

the federal government and parliament would have to approve the move.[17] Other reservations concerned the need to accompany further European integration with a corresponding extension of democratic legitimacy in the EU. In the view of the four anti-euro campaigners, these conditions have not been met.

Their case rests on the following premises:

- in a politically disunited Europe, there is no need for currency union; EMU would not only be superfluous but also dangerous;
- the debt criterion has not been met by Germany and other member states, and the new currency would therefore not be stable;
- even though the other criteria -inflation and long-term interest rates- have been met, they are unsustainable in Germany because of high unemployment;
- introducing the euro under these circumstances would constitute an attack on the property rights and stability guaranteed by the German constitution.

The four are relying on Judge Paul Kirchhof, one of the Court judges who, as rapporteur on European affairs, will be largely responsible for the decision whether or not to allow an interim injunction against the launch of the euro. Kirchhof is a well-known constitutional judge and 'Eurosceptic' who has already expressed his fears that democratic accountability could be sacrificed as a result of moves towards European integration. In the 1993 ruling on the TEU Kirchhof succeeded in swaying the other judges towards a conditional rather than an outright acceptance of the Treaty.

The four are campaigning not for a rejection of the euro but a delay until such time as the Maastricht criteria are firmly met and are capable of being sustained. The German constitutional challenge was also raised in a European Parliament debate on EMU on 13 January 1998 (see below). German Members of the European Parliament (MEPs) were optimistic that the German challenge would not obstruct progress towards the single currency. The CSU MEP, Ingo Friedrich, assured the EP that "the euro will arrive as a stable currency on 1 January 1999. All data inside and outside Europe indicate that we are entering a period of above-average stability and there is nothing to object to in that".[18] Mr Friedrich appealed to the German Constitutional Court not to delay its judgement on the euro because Germany and Europe needed clarity in this matter. He urged the Court not to paralyse the EMU process for all parties by delaying consideration of the substance of the complaint until after the parliamentary process had finished.

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[17] Article d(5) of Karlsruhe ruling.
[18] EP Minutes (rainbow edition), 13 January 1998.

The Court has announced that it aims to decide by the end of April whether or not to hear the complaint. If it decides on admissibility, this could result in an injunction on any further moves by Germany towards EMU. This could present a serious obstacle to the summit of European leaders presided over by the British presidency in Brussels on 2 May which will fix the exchange rates that EMU members will convert their currencies into euros. The Court has asked the German government, parliament, *Bundesbank* and the federal states to submit their responses to the complaint.[19] If the Court were to prohibit the German government from proceeding towards EMU but the parliament and *Bundesbank* were in favour of joining, Bonn could find itself in a difficult constitutional position, further complicated by a lack of support for EMU from the general public (see below).

C. Other Views on EMU

1. Bundesbank

The German federal bank, the *Bundesbank*, officially supports EMU, although some of its members have been concerned that potential members such as Italy might not be ready to join. On 6 February Professor Reimut Jochimsen, a senior member of the bank's 17-member decision-making council, launched a book critical of preparations for EMU. Jochimsen stated that economic convergence across Europe was not sufficiently established to guarantee the success of EMU and argued that several Member States, including Germany, had used 'creative accounting' to massage public sector debt figures in order to meet the convergence criteria. He also believed that Chancellor Kohl had not fulfilled his aim of forging political union in Europe to help support economic union.[20]

The Chancellor has asked the *Bundesbank* to prepare a report on the progress of member states towards attaining the convergence criteria for a special cabinet meeting on 27 March 1998, at which Hans Tietmeyer, the *Bundesbank* President, will also be present. Economists have speculated that the report will probably be "circumspect in assessing countries' progress towards meeting the budget, debt and other criteria. It will probably not make specific recommendations but indicate the Bank's main concerns". [21] The report, which will be passed to parliament with the government's own opinion and the European Monetary Institute (EMI) and Commission studies, "could assume more importance in the German debate over EMU than those of the EMI or the Commission". Mr Tietmeyer has not revealed details of the report, except to say that the analysis will be as made clear as possible.[22] According to the German press he has said that a "one-off fulfilment of the convergence criteria last year is not enough to assure the success of the euro".[23]

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[19] *Financial Times*, 10 March 1998.
[20] *Daily Telegraph*, 9 February 1998.
[21] *Financial Times*, 14 February 1998.
[22] *Frankfurter Allgemeine Zeitung*, 16 March 1998.
[23] *Ibid*.

2. Academic Opinion

On 9 February an open letter signed by 155 German–speaking professors of economics called for an "orderly postponement" of EMU. It stated:

> There is no alternative to European integration. The single currency will be part of it – at least for the core of Europe. However, the euro is coming too early.
>
> The consolidation of public budgets has made progress. Nevertheless, it has not advanced enough, especially in large countries such as Italy, France and Germany. The process of consolidation started too late and half-heartedly. In spite of an unusually low level of interest rates, hence reduced costs of debt service, and in spite of numerous examples of creative accounting, the core countries have not succeeded in reducing deficits markedly and sustainably below the 3 per cent reference value.
>
> Moreover, the average debt ratio of the member states has not come down since 1991 but has risen by 15 percentage points. As a result, it now exceeds the 60 per cent reference value of the Maastricht Treaty by a large margin. This is contrary to the spirit of the treaty.
>
> The treaty rightly requires persistence of convergence. To ensure this the so-called "stability pact" has been invented. However, the pact cannot guarantee budgetary discipline. The threat of sanctions is credible, if at all, only if the deficit reference value is violated by one country or very few countries. Given that sanctions are not automatic, it is unlikely that a qualified majority will enforce the pact when a larger number of countries simultaneously violates the limit. The pact cannot ensure the stability of the euro.
>
> Since 1991 the structural problems of Europe have worsened. Unemployment has continued to rise. Notably, Germany and France – the driving forces of European integration – are not well prepared to cope with the more rapid structural change and the stiffer competition in a monetary union. The euro does not solve the unemployment problem of Europe. Given that exchange rates are no longer available for adjustment, labour markets need to become much more flexible – in Germany as well as elsewhere. An unambiguous change in the trend is missing in this respect. If such a shift in the trend is not achieved before the start of monetary union, we will have to expect useless experiments of demand stimulation and, above all, political pressure on the European Central Bank.
>
> The current state of economic affairs is most unsuitable for starting monetary union. An orderly postponement for a couple of years – supplemented by conditions on further progress with respect to budgetary consolidation – has to be seriously considered as a political option. Postponement must not be seen as a political catastrophe. No party can infer from it that the process of integration has come to an end. The persistent success of the euro is more important than its starting date.
>
> An orderly postponement would not be a reason for any country to reduce its efforts at consolidating public budgets. Reducing effort would be a signal that the country either

> does not make budgetary discipline an objective or its own or that it is unable to take the necessary action. It would be a fundamental error to start monetary union with such a country.
>
> Should the attempt of reaching unanimous agreement on an orderly postponement fail, it will be of utmost importance to apply the convergence criteria without any indulgence. Then it must not be declared a taboo that the monetary union starts with a smaller group of countries.
>
> On the contrary, with regard to sustainability, the convergence criteria need to be applied as rigorously as possible – as strictly as the treaty permits. Governments which do not take the examination of convergence seriously undermine the confidence in the actual independence of the European Central bank and in the stability of the euro. The start of monetary union would suffer if the euro is expected to be weak – inside and outside the monetary union.[24]

3. Business

German companies are becoming more favourable towards the euro. A survey of 25,000 companies published by the DIHT[25] on 23 March showed 84 per cent expecting EMU to take place in 1999. Although only 43 per cent were actively preparing for the change, this was an increase of 22 per cent from a year ago. Support and preparations for EMU were greater in the west of the country than in the east, at 47 per cent and 20 per cent respectively

D. Publicity Campaigns and Public Opinion

German banks have invested some £80 million in advertising the euro and the government has launched a wide-ranging publicity campaign. The campaign includes posters, public discussions, telephone hotlines, full-page newspaper advertisements, the trial use of the euro alongside the Deutschmark in some department stores and fast-food chains for a week in 1997, a citizen's phone-in with Theo Waigel run by the tabloid *Bild* newspaper and a children's picture book called *The Euro-kids* which teaches school children about the value of the future currency through a European tour using the euro.[26]

Public opinion on the single currency has generally become less favourable since the timetable was set out in the TEU in 1993. In a survey by *Eurobarometer* carried out in March-April 1997 only 32 per cent were in favour of giving up the Deutschmark for the euro,

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[24] *Frankfurter Allgemeine Zeitung* and *Financial Times*, 9 February 1998. A letter by pro-EMU economists in 1997 attracted 58 signatures.

[25] Deutsche Industrie– und Handelstag, German Chambers of Industry and Trade. Report published in the *Frankfurter Allgemeine Zeitung*, 23 March 1998.

[26] *Euro-kids*, by Rolf Schönlau, summarised in the *Times*, 18 February 1998: in the story the euro is not accepted in Britain alone.

while 54 per cent were against.[27] In a *Eurobarometer* poll carried out in October-November 1997, 40 per cent were in favour and 45 per cent against.[28] In a survey in January 1998 by the research organisation Emnid for a special edition of the weekly magazine *Der Spiegel*[29] only 7 per cent expected any advantage from the single currency; 40 per cent believed they would be personally disadvantaged by it and over a third thought that nothing would change. East Germans were more sceptical than those living in the west. In the five former east German Länder 44 per cent expected to be worse off against 40 per cent in the old Federal Republic (an overall average of 41 per cent). Women were the most sceptical: only 3 per cent of women against 11 per cent of men thought they would gain from EMU. Among political party supporters, only FDP supporters, with 24 per cent, showed a relatively substantial faith in the euro. CDU/CSU supporters were more sceptical with only 6 per cent support, closely followed by 8 per cent of SPD supporters. 42 per cent of SPD supporters expected more disadvantages than advantages from the euro, compared with 28 per cent of CDU/CSU supporters, while 51 per cent of the latter were of the opinion that nothing at all would change.

A report in the *Global Economic Forum* considered another recent poll on EMU in the *Handelsblatt* newspaper:

> The poll shows that a majority of 58% of Germans opposes the launch of the euro in May. So, what do the Germans really think about EMU? The main messages from the poll are as follows. First, while 58% oppose the single currency, scepticism peaked back in 1994. Second, EMU will not affect the general elections very much. Third, 57% of Germans would like Italy to participate in EMU. Fourth, private investors don't plan to rush into equities and property in response to EMU.
>
> Among the 58% opposing the launch of single monetary policy in May, 30% oppose the euro altogether, while 27% would like to see a postponement.
>
> …
>
> Interestingly, while only 20% of Germans believe that they will benefit from EMU still 30% favour EMU. Hence, there are at least 10% of true enthusiasts out there in Germany, who favour EMU although they do not expect to gain anything from it. The majority of Germans, however, fears to be worse-off under the euro because of higher unemployment (40%), lower growth (34%) and higher inflation. Only one in four Germans expect the euro to be as stable as the Deutschmark.
>
> The May Decision on EMU Won't Affect the Election Very Much
>
> The EMU-decision in May is not likely to have a great impact on the general elections held in September, we think. Chancellor Kohl might err in thinking that EMU will

[27] *Standard Eurobarometer 47*, November 1997. The sample for *Eurobarometer* surveys is 1000 per member state except for Luxembourg (500), the UK (1000 in GB and 300 in Northern Ireland) and Germany (1000 in east and 1000 in west Germany). Fieldwork for this survey was carried out in March-April 1997.

[28] *Standard Eurobarometer 48*, March 1998; fieldwork October-November 1997.

[29] *Der Spiegel special issue 2/98*, January 1998.

improve his prospects of being re-elected, which look very gloomy at this stage. In fact, EMU might not have a great impact on the general elections at all. The majority of people polled said that EMU has no bearing whatsoever to their vote in the elections. Only 8% indicated that they would vote for an anti-EMU party. Against the backdrop of the results parties explicitly campaigning against the euro got in the 1994 elections when EMU scepticism peaked, this polling result seems exaggerated though. Thus, in our view, a polarisation towards anti-EMU parties on the right or the left end of the political spectrum is not likely to materialise. [30]

[30] Elga Bartsch, "Germany: Taking the Pulse of the German EMU Sentiment", *Global Economic Forum*, 18 February 1998.

III France

A. Government and Parliament

In spite of cross-party unease about closer European integration, the Gaullist President, Jacques Chirac (Rassemblement pour la République, RPR), and the Socialist Prime Minister, Lionel Jospin, have tried to present a common front on EMU. Following the example of the German government and *Bundesbank*, they are expected to ask the Bank of France to prepare a report on France's readiness for EMU. The Finance Minister, Dominique Strauss-Kahn, supports the initiative, although the finance ministry has not yet made a formal decision. The Bank of France, which is in favour of the report, has supported a narrow core EMU membership and has expressed doubts about Italy's ability to sustain the Maastricht criteria. The government, however, has supported Italy's efforts to join in the first wave.

The French Communist Party National Secretary, Robert Hue, is holding President Chirac to his election promise in 1995 to hold a referendum on any new institutional changes in Europe but Mr Chirac has rejected the call for a referendum on the Amsterdam Treaty and on joining EMU. This has increased existing tensions among the Socialists and their governing coalition of Greens and Communists. The French Constitutional Court had already ruled that the Treaty of Amsterdam could only come into force after constitutional amendments have been made with the approval of the National Assembly and Senate. The Jospin government is not in favour of referendums on either the Treaty or EMU on the grounds that the French people have already voted on Europe in the referendum on the Maastricht Treaty.[31] In regional elections on 15 March the Socialists won around 36 per cent of the vote but the low turn-out (around 58 percent) was of concern to Mr Jospin. Socialist votes were lost to anti-EMU hard left and splinter green groups. The extreme right-wing, anti-EMU national front party also took over 15 per cent of the vote.

The European Commission and the EMI have warned the French government to tighten legislation safeguarding the independence of the Bank of France in order to comply with Treaty requirements. The government has pledged to do this but postponed debate in the National Assembly until after the regional elections.

[31] 20 September 1992.

B. Dispute over the head of the European Central Bank

The question of who should head the European Central Bank has led to a disagreement between the French and German governments. The French government has proposed Jean-Claude Trichet, Governor of the Bank of France, while the German government prefers Wim Duisenberg, the current Dutch president of the EMI. A compromise proposal was described in the Belgian daily *De Standaard* in January attributed to Jean-Claude Juncker, the Luxembourg Prime Minister: the first four years of the eight-year mandate would be held by Mr Duisenberg until around 2003, by which time he would be 68; then the post would be taken up by the vice-president, M. Trichet. The French Commissioner for economic and financial matters, Yves-Thibault de Silguy, is against splitting the mandate in two but has said that the future ECB president could break off his/her functions at any time "for valid reasons."[32]

C. Public Opinion

An analysis in *Le Monde* in February 1998 by Pierre Giacometti,[33] suggested that the French have sustained fifteen years of pessimism while public morale in the rest of Europe has been growing: "France is one of those rare countries in Europe where the vision of the twenty-first century provokes in its inhabitants as much or even more anguish and concern than hope and confidence".[34] While Spain and Italy are optimistic about a Europe "synonomous … with progress and the strengthening of national power", the majority of French people feel threatened by 'belonging' to Europe. *Eurobarometer* polls from the mid-1980s have indeed reflected French pessimism about European projects generally and the concept of Europe as a community of nations. French political leaders, notably President de Gaulle, have been famous for insisting on the maintenance of the nation state. The very narrow vote in favour of the TEU in the 1992 referendum revealed the uncertainty of the French people towards EU integration. The spring 1997 poll in the *Standard Eurobarometer 47*, on the other hand, revealed a more optimistic attitude towards EMU than might have been expected, with 56 per cent in favour of EMU and 36 per cent against. The autumn 1997 *Eurobarometer* poll was even more supportive, with 58 per cent in favour and 36 per cent against, indicating perhaps a glint of optimism in the gloom of Giacommetti’s portrait of French pessimism.

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[32] *Agence Europe*, No.7133, 8 January 1998.
[33] Director General of the *Ipsos Opinion*.
[34] *Le Monde*, 28 February 1998.

IV Italy

A. Government action and response from other governments

The Italian government's efforts to prove that its economy is sound enough to make it a candidate for the first wave to join EMU did not initially impress some other EU Member States, notably Germany and the Netherlands, which expressed doubts about Italy joining in the first round. While some economists have been concerned that the centre-left government of Romano Prodi is relying too much on one-off spending cuts,[35] the fall in inflation and interest rates has led the EU Commission and financial markets to give Italy the benefit of the doubt.

Germany's opposition to Italy joining was weakened by the fact that its own budget deficit looked as if it could turn out to be higher in 1997 than Italy's. German-Italian relations were under strain in early January following disagreement over Italy's handling of an influx of Kurdish refugees into Italy, many of whom then sought political asylum in Germany. Exception was also taken in Italy to an image of the country portrayed on the front cover of the German weekly *Der Spiegel* of a pistol lying on a bed of spaghetti. Chancellor Kohl's meeting with Prime Minister Prodi in Rome on 20 January was seen as a signal of a warming in German-Italian relations and further contacts between the two have confirmed this.

The Dutch government described as 'unfounded' rumours that it had threatened to withdraw from the EMU project if Italy were allowed to join in 1999. However, in January a Dutch MP accused the finance minister Gerrit Zalm of 'spaghetti-phobia' following the latter's insistence that the criteria be strictly adhered to and that "no country can be forced into a contract when other partners are not sticking to the contract".[36] Mr Zalm's party, the right-wing VVD in the 'rainbow coalition', has been opposed to a 'broad' EMU including Italy, Spain and Portugal (the so-called 'Club Med' group), favouring a narrower, inflation-proof Deutschmark bloc of northern states.

In spite of German and Dutch unease and the size of Italy's debt (which at 123 per cent in 1997 was over twice as high as the TEU target of 60 per cent of GDP), the Italian government's efforts to join EMU were endorsed by the European Commission in a report presented to EU finance ministers on 19 January. The Commission was 'broadly satisfied' with the emergency measures taken by the government to meet the convergence targets. At the Ecofin meeting the Italian Finance and Treasury Minister, Carlo Ciampi, pledged to submit a draft 1998 budget plan to the EU for scrutiny in mid-April. Italy qualified to join in

[35] There has been some criticism of the Euro-tax, a one-off surcharge on income tax.

[36] This remark was taken to be a veiled warning to Italy against assuming it could join EMU and was quoted in the *Sunday Telegraph*, 18 January 1998.

the first wave according to figures presented on 27 February, although some doubts have been expressed since then by the *Bundesbank* and other European central bank 'hardliners' as to whether or not Italy's performance will be sustainable.[37]

B. Parliamentary and economic opinion

There has been relatively little real political or public debate on EMU and popular enthusiasm for the euro has been largely unquestioned. Only one senior politician, the centre-right opposition foreign affairs spokesman, Antonio Martino (*Forza Italia*), has spoken out against joining, although the rest of his party are in favour. A report in the daily *La Repubblica* warned that "Only with the first real restructuring of the service sector and the first 'euro-sackings' would Italians understand that the season of light-hearted enthusiasm was over".[38]

Francesci Giavazzi, a former deputy director general of the Italian Treasury, thinks that Italy will benefit from joining EMU because of the discipline it will impose, but fears that sustaining the criteria might be more difficult than Italians realise.

> Italy has always benefited from having an external constraint. Once it was anti-Communism and Nato. Now it is the Franco-German goal of monetary union. But what Italians may not yet have realised is that the wrenching transformation needed to get the country into EMU will pale into insignificance compared with the transformation that will be required to keep it there.[39]

A report in the *Economist*, taking up the same point, was less generous about the Italian attachment to the EU and to EMU:

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[37] *Financial Times*, 9 March 1998.
[38] Quoted in *Financial Times*, 10 February 1998.
[39] *Financial Times*, 21 January 1998.

> The desire for an outside nanny to enforce good behaviour is deep-seated in the Italian psyche. As a founder member of the European club in 1957, …, Italy was neurotically anxious to join the European monetary system when it was set up in 1979. And when Britain and Italy were jointly ejected from the system's exchange rate mechanism in 1992, they reacted in quite opposite ways: the experience reinforced British doubts about joining EMU, but made the Italians pray still harder to be let into the inner sanctum. That they will find life much harder when they get there – and themselves even more in hock to bossy Euro-monitors – does not deem to put them off one wit.[40]

A report in the *Guardian* described the Italian 'need to be governed' and the dissatisfaction with rule by their own governments as "a remarkable indictment of Italian politicians in the 128 years since unification. It is also a testament to Italy's immaturity and lack of self-confidence".[41]

Some commentators have speculated that Italy's entry into EMU could accentuate the country's north-south divide, with the north becoming richer as the south becomes still poorer. Sicily and Sardinia are not likely to be able to compete in open competition with the rest of Europe. To counter this Mr Prodi has announced a development plan for southern Italy under which around 30 northern Italian companies would invest in the region with some state support. He is also under pressure from a coalition of left-wing forces to increase public spending to reduce unemployment in the south, and faces the threat of a general strike over his policy on the south. The government does not want to make any spending commitments that would cause concern among the other EU Member States ahead of entry into EMU.[42]

The Minister for Public Administration, Franco Bassanini, has been seeking to reform Italy's highly bureaucratic civil-service and reduce the over-regulation of businesses and private individuals in what he has described as a "complete revolution of the administration, its rules, its procedures, the status of public sector workers".[43] The minister aims to complete the reforms within the next two or three years in order to optimise Italy's competitiveness once EMU has been introduced.

C. Publicity Campaigns and Public Opinion

On 1 October 1997 a six-month experiment in using the euro was introduced in the towns of Fiesole and Pontassieve near Florence and was hailed as a success by monitors of the project at the European University in Florence. In another initiative a television phone-in show on EMU attracted some 1.5 million people who wanted to vote on the design for Italian euro coins.

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[40] *The Economist*, 23 January 1998.
[41] *Guardian*, 14 February 1998.
[42] *Financial Times*, 20 March 1998.
[43] *Financial Times*, 18 March 1998.

Standard Eurobarometer 47 recorded a vote of 74 per cent in favour and only 15 per cent against EMU. *Standard Eurobarometer 48* recorded an increase in support, with 78 per cent in favour of the euro and only 11 per cent against.

V Spain

A. Government and Parliament

The Spanish Prime Minister José María Aznar (Partido Popular, PP) is determined to take Spain into the single currency in 1999. His imposition of austerity measures in order to qualify has barely raised any comment from the opposition *Partido Socialista Obrero Español* (PSOE, the Socialist Workers Party). Only the Communists have not supported the project.

The former socialist Prime Minister, Felipe Gonzalez, had been a firm supporter of EMU and it was not clear when the conservatives came to power in March 1996 whether they would be as enthusiastic. In opposition, Mr Aznar was circumspect about the euro and even suggested that it might be better for Spain not to enter in the first wave. However, he has proved to be as keen on entry as his predecessor, and his government's harsh economic reforms have put Spain in a good position to qualify. Even the political ‘deals’ the PP had to make with the regional governments to gain their support for tough budget measures have not increased local spending or obstructed cuts at the national level.

Mr Aznar has tried over the last year or so to distance himself from the other southern European states in an attempt not to be linked to Member States over which there was a question mark on entry into EMU in the first round. He has tried to align himself instead with his fellow conservative Helmut Kohl. The problem of ‘perception’ was acknowledged by Darío Valcárcel in February 1997:

> The conventional wisdom in Northern Europe is that the Continent's southern tier leaders, Spain and Italy, are unfit to be included in the first round of European Monetary Union. This notion is based less on economic performance than on the North's long-harboured image of the South as having a history of political instability and a devotion to the frivolous pleasures of Mediterranean life.[44]

Mr Aznar is now half way through his first term. In the past he maintained that he would need two terms to see Spain through EMU successfully. During the first term he aimed to manage the introduction of the euro without provoking unrest, and except for the lorry drivers' strike in early 1997, there has been relatively little public or industrial protest as a

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[44] *Wall Street Journal*, 27 February 1997. Darío Valcárcel is the editor of the Madrid-based foreign affairs journal *Política Exterior*.

result of economic reforms. In a second term the Prime Minister might have to impose harsher economic measures in order to sustain the achievements of the first.

B. Public Opinion

Public opinion is generally supportive of the EU and EMU. A report in *El País* concluded:

> The Spanish do not expect any miracles from the euro, but they understand that participating in the single currency will strengthen their position in Europe and the world. … neither do they fear that the euro and fiscal discipline will produce any disasters. With highs and lows since the 1980s, the Spanish have seen that they can open up trade, liberalise capital movement and fight inflation, and as the country becomes richer, a state of well-being is created, poverty is reduced and the country is a cohesive entity. As a result of these hopes and experiences, Spain is approaching the euro with ease.[45]

The spring *Standard Eurobarometer* survey gave 58 per cent in favour and 23 per cent against the euro, while in the autumn poll 61 per cent were in favour and 23 per cent against.

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[45] *El País*, 1 July 1997, article by Carlos Alonso Zaldívar.

VI Austria

A. Government and Opposition

Austria's governing coalition of Social Democrats and the conservative People's Party, now eleven years in office, took the country into the EU in 1995. 1998 is another significant year, with a presidential election and the EU presidency from July to December. After intense debate in the government coalition as to whether or not Austria should abandon its neutrality to join NATO and the EU's defence arm the Western European Union, the Social Democrat Chancellor, Viktor Klima, has ruled out joining any military alliance. The country has been gearing up to join EMU, however, in spite of poor public opinion ratings for EU membership in general and EMU in particular (see below).

Jörg Haider, leader of the extreme-right Freedom Party which is opposed to EMU, has launched an information campaign on the euro. In 1997 he encouraged Austrians to sign the official interior ministry petition calling for a referendum on EMU and has accused the Austrian government of disguising the effects that EMU will have on taxation, which he claims will increase dramatically. Observers believe that he is trying to capitalise on fears about abandoning the strong Schilling to a 'weak' euro in the run-up to general elections in 1999.

B. Public Opinion

In the referendum on EU membership in 1994, some 66 per cent of the population were in favour of joining the EU. By 1996, in a *Eurobarometer* poll on EU membership, support had fallen to 27 per cent, with 27 per cent against and a substantial number of "don't knows".[46] The survey gave 34 per cent in favour of EMU in 1996, with 45 per cent against. According to a report in the *European* in 1997 opposition to the euro was decreasing,[47] and the spring 1997 *Eurobarometer* poll[48] gave 40 per cent support for the euro, with 47 per cent against. By the autumn poll, 44 per cent were in favour and 43 per cent against. The gap is closing, although commentators believe this may be due to acceptance of it as an 'unavoidable fact' rather than enthusiasm for the project.[49]

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[46] *Standard Eurobarometer 45*, 1996 (fieldwork April-May 1996).
[47] *European*, 23-29 October 1997.
[48] *Standard Eurobarometer 47*.
[49] *Financial Times*, 1 December 1997.

VII Belgium

In 1997 the Organisation for Economic Construction and Development (OECD) recommended various measures to improve the Belgian economy, including labour market reform and more competition in the distribution and electricity sectors.[50] Since the February endorsement by the European Commission of Belgium's fulfilment of the convergence criteria, some doubt has been expressed by European central bank leaders about the country's ability to sustain these or to reduce its debt of 122 per cent.

The Belgian government has been a firm supporter of EMU entry from the start and has encouraged early preparations for the transition. The Belgian banks, small compared with other European banks, are hoping for a head-start in preparing for the euro. Technical conversions are already well under way and it is expected that Belgium (along with Germany perhaps) will be able to offer euro-denominated services not only to corporate customers from 1 January 1999, but also to retail customers. They are hoping to pick up defectors from less well-prepared banks in neighbouring countries. The *Economist* commented:

> The Belgians are encouraging defection with direct-mail offensives in northern France. They are publicising their euro-capabilities, but making more of a quite different advantage: unlike French and Dutch banks, they do not have to declare information about their savings-account customers to the tax authorities – a fiscal anomaly that is likely to stay long after EMU.[51]

Although still in favour of EMU, there has been a slight decrease in public support for the euro, according to the *Eurobarometer* polls. In spring 1997, 58 per cent were in favour and 32 per cent against, while by the autumn, 57 per cent were for and 32 per cent were against.

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[50] *Financial Times*, 23 April 1997.
[51] *Economist*, 9 August 1997.

VIII Denmark

Denmark secured opt-outs from EMU and other Maastricht Treaty matters as a condition for ratification, following the rejection of the Treaty in the 1992 referendum. A second referendum in May 1993 approved the TEU but without Danish participation in EMU.

Denmark held general elections on 11 March 1998 which resulted in a narrow victory (by one seat) for the Social Democrat Prime Minister, Poul Nyrup Rasmussen. He has headed a minority coalition government since 1994 and had called an early election in order to avoid political uncertainty before the referendum to approve ratification of the Amsterdam Treaty on 28 May. Rasmussen is pro-integrationist, as is the Liberal party opposition leader, Uffe Ulleman-Jensen. Although Social Democrat supporters are split over EU membership, Rasmussen's election win might succeed in persuading more doubters on the left of the coalition to vote in favour of the Amsterdam Treaty. Mr Rasmussen thinks that this would be more likely with the SDP in government because it would be easier for the party to deal with its own sceptics on EU matters.[52] In theory the Treaty already has majority support in the new parliament, although not necessarily in the population. Public support for the Treaty was 46 per cent in favour to 27 against, according to a report in the *Financial Times*,[53] but a yes-vote in the referendum is not certain. Comments from Mr Elleman-Jensen on abandoning the Danish opt-outs in the future are likely to increase public scepticism. The Foreign Minister, Niels Helveg Petersen, has warned that any attempt to gain support for EMU would be rejected by voters.[54] *The European* commented:

> According to perceived wisdom, a positive outcome is more likely with a Social-Democrat-led government. As far as Ulleman-Jensen is concerned, the Euroepan Union is the best thing that ever happened to Europe, while Rasmussen likes to convey a more considered approach. The Danish electorate, at best cautious in their attitude to Brussels, would be more likely to trust a fellow-sceptic.[55]

Following a one-year study by the government's EMU committee, involving ministers, central bank economists, business and consumer groups, the Danish Ministry of Economic Affairs and the Danish Central Bank have drawn up a report on Denmark and EMU. It recommends that Denmark should shadow EMU by "tailor[ing] its policies closely to those of euro-zone countries".[56]

The *Eurobarometer 47* poll gave 34 per cent in favour of the euro and 60 per cent against. In the autumn poll 32 per cent were in favour and 62 per cent against.

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[52] *The Daily Telegraph*, 13 March 1998.
[53] 13 March 1998.
[54] *Financial Times*, 11 March 1998.
[55] 16 March 1998.
[56] *Financial Times*, 23 March 1998.

IX Finland

When Finland joined the EU in 1995 it anchored itself firmly in the west, while reassuring Russian sensitivities that it would not give up its neutrality for membership of NATO. At the time of the accession negotiations the Finnish government made it clear that it wanted to join EMU but that this would have to be subject to parliamentary approval.[57] The latter position is not acknowledged in the accession treaty or records of the negotiations. Even if parliamentary approval were necessary, it is unlikely to prove an obstacle to Finnish membership of EMU. The Social Democrats, the main party in the coalition government, are firm supporters, but the former Prime Minister and now leader of the opposition Centre Party, Esko Aho, who negotiated Finland's entry into the EU, has been wary of joining EMU from the start and last year called for a referendum on entry.

The Prime Minister, Paavo Lipponen, has been confident that Finland’s economy will be strong enough to qualify to join in the first wave and the figures released on 27 February confirmed this. The government believes that the discipline of EMU will help to re-establish economic stability after the recession in the early 1990s. For Lipponen the alternative to joining EMU would be politically and economically damaging, since Finland would still be subject to strict fiscal and monetary policies but would be vulnerable to interest rate fluctuations.[58] Only Finland’s high unemployment has cast a shadow over its economic recovery, for which economists suggest more flexibility in the labour market is needed. Sweden’s reluctance to join EMU has been of some concern to Finland. The government fears that Sweden may gain a currency advantage with a floating krona while the Finnish markka is fixed.

Public support for EMU was low in 1997. According to the spring 1997 *Eurobarometer* poll, 29 per cent were in favour and 62 per cent against while in the autumn poll 33 per cent were in favour and 62 per cent against.

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[57] Approval of the move might be subject to Articles 69 or 72 of the Finnish constitution.
[58] *Scotsman*, 21 January 1997.

X Greece

Greece will not join EMU in the first wave, although the Socialist Prime Minister, Costas Simitis, supports entry in 2001. Greece was admitted to the Exchange Rate Mechanism on 14 March, which has been seen as a clear political signal of the Greek government's intention to join EMU later. The government expects to meet the qualifying criteria by the end of 1999.[59]

It is becoming evident that entry is supported by more moderate socialists in the government, by conservatives and the business community. There is still opposition from more left-wing parliamentarians and the farming community. Mr Simitis is pressing ahead with economic reforms with a view to later entry and in early February the Greek parliament approved legislation to reduce deficits in the public sector. This will include reducing benefits and overtime, and the transfer of employees without approval from the unions.

Public support for EMU was high, according to the spring *Eurobarometer* survey, with 65 per cent in favour and 24 per cent against. By the autumn this had fallen to 59 per cent in favour and 27 per cent against.

[59] *Financial Times*, 16 March 1998.

XI Ireland

The Irish government has been confident that Ireland will join EMU in the first wave, and in December 1996 launched a national EMU awareness campaign aimed at business and the general public.[60]

Opposition Fine Gael members of the Dáil have been worried about the government's lack of commitment on the rate at which it thinks the punt should enter EMU, although the Finance Minister, Charlie McCreevy, has been reluctant to make a public statement until there was a clearer indication of the rates from Brussels. Fine Gael leader John Bruton has expressed fears about a range of domestic economic issues linked to the introduction of the euro, including interest rates and the housing market, the possibility of bank charges for euro exchanges and the logistics and cost, especially to small businesses, of changing to the euro. He called on the government to state the target exchange rate at which the punt would enter EMU rather than wait until the May summit, "giving speculators a field day".[61] Mr Bruton concluded:

> Economic and Monetary Union is in the final analysis a political project. It is happening because of political will. Its purpose is to bind Europe's countries so closely together that they will never again come into conflict with one another, as they did so disastrously twice this century. It is right that Ireland should participate in this vital project. As the euro's only English-speaking member, we will have tremendous job opportunities in financial services. We will attract new investments too.
>
> But we must recognise that political unity of purpose will be vital if the euro is to work. Countries will not be able to dine a la carte at the European table any more. Europe needs to develop political institutions that have sufficient democratic legitimacy to demand sacrifices of European peoples and to mobilise them for a common cause. The United States, the world's other great and successful currency union, has strong federal political institutions. Europe has yet to develop in that direction, but it will have to do so.[62]

According to a survey reported in the *Irish Times*, the majority of Irish firms wanted the punt to enter the single currency at its central ERM rate. Another survey quoted in the report maintained that: "Overall, companies are significantly more in favour of entering monetary union than of staying out because of the UK opt-out. And a huge 98 per cent now believe it

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[60] Internet address:www.emuaware.forfas.ie.
[61] *Irish Times*, 16 January 1998.
[62] *Ibid.*

will happen on time on January 1st 1999".[63] As for preparations for EMU, the report continued:

> In terms of corporate strategy, 87 per cent of firms now believe they have sufficient understanding of the process. This fell to 50 per cent of small firms.
>
> Over half of all companies have now appointed a euro person and 23 per cent said they had a strategy with a further 45 per cent considering one, compared with only 4 per cent in 1996.
>
> Nevertheless, 20 per cent of medium sized companies and 29 per cent of small companies had no plans under consideration.

At an Ecofin meeting on 14 March ministers decided to revalue the punt by 3 per cent to "iron out the remaining distortions in Europe's currency grid before the countries fix their bilateral conversion rates in May".[64] The central bank and political opinion were in favour of the move, although it met with criticism from the powerful farming lobby, which fears that the value of farm subsidies from Brussels will be reduced as a result.

Public support for the euro was 62 per cent, with 22 per cent against, according to *Standard Eurobarometer 47*. By the autumn poll support had increased to 67 per cent in favour and 18 per cent against.

[63] *Irish Times*, 24 February 1998.
[64] *Financial Times*, 14 March 1998.

XII Luxembourg

Luxembourg has been described as the most federal-minded of the EU Member States and it already has a monetary union with Belgium. The smallest of the Member States,[65] and a David to the EU Goliath, Luxembourg has made its mark on the EU in its presidencies, and has provided the present Commission President, Jacques Santer. Luxembourg had no problem in meeting the convergence criteria for EMU. The Prime Minister and Finance Minister, Jean-Claude Juncker (Christian Democrat), has been described as an "apostle of monetary union".[66] He is close to the German Chancellor and has in the past served as the "honest broker" in Franco-German disputes in the EU. Politically he champions the European social model of generous welfare benefits and a guaranteed minimum wage.

The *Standard Eurobarometer 47* poll gave 67 per cent in favour and 27 per cent against. In the autumn poll 62 per cent were in favour and 28 per cent against.

[65] Luxembourg has a population of around 400,000.
[66] *Times*, 28 June 1998.

XIII Netherlands

EMU has created tensions within the three-party governing coalition, although Prime Minister Wim Kok has played down the alleged threat by the finance minister Gerrit Zalm (VVD)[67] to resign if Italy joined the initial EMU group. He has also denied reports in the German press in January that the Netherlands government would refuse to join EMU if Italy were allowed to join. Some observers believe that Mr Zalm's threat:

> would have been deliberately timed to win support ahead of the May 6 general election in the Netherlands. … The Dutch Liberals see opposition to the threat of a soft euro as a means of winning votes from the Dutch Socialist Party of Mr Kok.[68]

The VVD has continued to be outspoken against joining EMU. In an interview with *The Daily Telegraph* the party leader, Frits Bolkestein, was sceptical about the euro's prospects "if the rules are bent to allow applicant countries to enter".[69] His main fear was a weak euro introduced as a result of political pressures, even among the large member states such as France and Germany. He favoured postponement of the project for two years "until the big economies were ready to take part".

The general election on 6 May is just four days after the crucial meeting to decide which countries qualify to take part in the third stage of EMU. In local elections on 5 March the junior party in the governing coalition, the reformist D66, lost a considerable number of votes. The other two coalition partners gained votes but projections suggest that they would not have enough votes for an overall majority in the May election. Tensions between Mr Kok and Mr Bolkestein have increased as the latter has indicated that the prime minister should continue in office even if the VVD emerges as the bigger party. Mr Kok is reluctant to do this because of the concessions the VVD might want in return. Other combinations of the governing alliance might include the Christian Democratic CDA, which had been part of a governing coalition with the PvDA until the last general elections in 1994. Led by Jaap de Hoop Scheffer, it is predicted to win at least 37 seats in the parliament's second chamber.

Public support for EMU was put at 52 per cent, with 42 per cent against, in the spring 1997 *Eurobarometer* poll. In the autumn poll 57 per cent were in favour and 37 per cent against.

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[67] The liberal People's Party for Freedom and Democracy, the second largest party in the governing coalition.
[68] *Daily Telegraph*, 14 January 1998.
[69] *Daily Telegraph*, 30 January 1998.

XIV Portugal

The minority socialist government of Antonio Guterres has been enthusiastic about joining EMU in the first wave. This has perhaps been more a political than an economic concern. The Prime Minister is concerned not to be marginalised in Europe : "If you want to really count in Europe, to influence decisions and policies, you have to be at the centre of the European process. You can't do that from outside the euro".[70] Mr Guterres added that the Maastricht criteria had enforced financial discipline on both his and the previous government. The Socialists have also benefited from an upturn in the economic cycle, with high GDP growth and falling inflation and public debt.[71]

Public opinion in Portugal is supportive of EMU, with 46 per cent in favour and 30 per cent against in the spring 1997 poll, falling slightly to 45 per cent in favour and 29 per cent against in the autumn *Eurobarometer* poll.

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[70] *Financial Times*, 25 February 1998.
[71] *Ibid*.

XV Sweden

The minority Social Democrat (SDP) government of Göran Persson is split on the issue of EMU. In June 1997 the government said that prospects for joining EMU were "very uncertain"[72], although the official government line has been somewhat ambivalent. The Finance Minister, Erik Asbrink, told the Swedish parliament, the *Riksdag*, in October 1997 that the euro would be 'softer' than the government had expected and ruled out joining in the first wave. Thus, although it has met the convergence targets, the Swedish government does not want to join in 1999 for political reasons. The government has not negotiated an EMU opt-out and so is legally bound under the TEU to join, but is reluctant to make any commitments before general elections in September 1998. During accession negotiations, it was recorded in the minutes that the Swedish decision to move to the third stage of EMU would be taken in the light of future events and in accordance with the Treaty.[73] The government also pledged to the *Riksdag* that it, the parliament, would take the final decision on the move to EMU.

The government's wait-and-see approach could be challenged by the Commission and has already been criticised in the EP. Portuguese MEPs Torres Marques and Porto wanted to know how unofficial opt-outs like the one Sweden appeared to have given itself could be avoided with the next EU enlargement. The Commission's view was that new entrants would have to accept all the *acquis*, including EMU, unless they negotiated an opt-out as part of their accession agreement.[74]

Mr Persson has committed the SDP to holding a referendum on EMU before joining, which would also conflict with the Treaty requirements to which Sweden signed up when it joined the EU in 1995. Sweden's entry into the EU coincided with a period of recession and rising unemployment for which Brussels was often blamed. Sweden, like Britain, is not in the Exchange Rate Mechanism, although this may be a hurdle that can be overcome.

The Centre Party, on whom the government relies for support in the *Riksdag*, rejected EMU in 1996 and has maintained its opposition. The opposition Moderate (conservative), Liberal and Christian Democratic parties are generally pro-EU. Sweden is due to hold general elections on 20 September 1998. The opposition Moderate Party leader and former Prime Minister, Carl Bildt, changed his policy on EMU last October by calling for a referendum on entry in 1999. Mr Bildt had favoured early entry into EMU and had argued that a referendum was unnecessary since Sweden had already agreed to it by joining the EU in 1995. The *Financial Times* speculated that "with anti-EU sentiment still strong among voters, Mr Bildt

[72] *Financial Times*, 4 June 1997.

[73] *Euro:quel calendrier?* Report 3419 of the French Assembleé Nationale, Délégation pour l'Union Européenne, rapporteur Robert Pandraud.

[74] *Agence Europe*, No.7153, 5 February 1998.

appears to have calculated that it makes more sense to prevent the election from turning into a referendum which could alienate Eurosceptics among the Moderate Party's supporters".[75]

In spite of its approach towards EMU, the government has initiated practical arrangements for the introduction of the euro. These include allowing Swedish companies to list their stocks in euros rather than in krona (they cannot list shares in both currencies and it is thought that most will therefore opt for the euro). The Federation of Swedish Industry is disappointed by the government's decision not to join from the outset, saying it will create uncertainty and damage the economy.[76] In talks with the European Commissioners for competition and social affairs on 23 January, the Swedish Employers' Confederation expressed their support for the euro and favoured a more positive approach towards EMU. Some companies intend to start using the euro in 1999 in any event and exporters may use the euro rather than the krona in invoices, transactions and balance sheet accounts. The chief economist at the leading Swedish bank Nordbanken, Nils Lundgren, has emphasised that the government's commitment to a timetable for joining EMU will be crucial in determining the timing and pace of the transition in order to avoid putting pressure on companies to use the euro.

Opinion polls on joining EMU have revealed considerable public unease. The spring 1997 *Eurobarometer* poll gave 33 per cent in favour with 53 per cent against. A poll in May 1997 showed only 26 per cent in favour of the euro.[77] The autumn *Eurobarometer* poll gave 34 per cent in favour and 56 per cent against.

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[75] *Financial Times*, 9 October 1997.
[76] *Financial Times*, 4 June 1998.
[77] *European*, 5 June 1997.

XVI EU Institutions: European Parliament

The EU institutions all have a role to play in preparations for EMU. Their responsibilities are set out in Title VI of the TEU on *Economic and Monetary Policy* and in Protocols to the Treaty. This section looks briefly at recent consideration of the single currency by the European Parliament (EP).

On 14 January the EP approved a report by the Luxembourg Socialist MEP Ben Fayot, chairman of the Committee on Rules of Procedure, which defined the arrangements for EP consultation during a special session on 2 May on Ecofin's recommendation for the list of countries eligible to participate in the third stage of EMU on 1 January 1999.[78]

The EP debated four reports on the EMU and the use of the euro in plenary on 13 January 1998. There was a general confidence in the impact EMU would have, although misgivings were expressed about a number of aspects. The Spanish socialist MEP, Fernando Pérez Royo, reporting on the euro and consumers, was concerned about the introduction of double-labelling of prices in national currencies and euros. The majority thought this should be voluntary and not compulsory. In reply the EMU Commissioner Yves-Thibault de Silguy supported the voluntary double-labelling of merchandise. The Royo Report also emphasised the symbolic and social functions of the euro, which would vary from one Member State to another, depending on the habits of Europeans regarding their use of money. An amendment to the Royo report was adopted which called on the Commission to prepare legislation on the issue of bank charges for euro conversions and to establish monitoring ‘observatories’ after the introduction of the euro to follow through the transition and use of the euro at national level. Commissioner de Silguy was prepared to examine this suggestion but felt that the powers of the proposed ‘observatories’ should come under the ‘national legal order’ of Member States.

The British Conservative MEP, John Stevens, rapporteur on EMU and electronic money, was disappointed that the Commission and the Member State governments were reluctant to integrate this dimension into action concerning the launch of the single currency on the grounds that the project was complicated enough already without worrying about the euro's role in the technological revolution. The French socialist MEP Jean-Pierre Cot was concerned about the problem of consumer protection against fraud. Mr De Silguy supported the main thrust of the Stevens report and pointed out that the Commission planned to prepare a draft directive on the issue of electronic money. In reply to Mr Cot, he said that the Commission was considering the problems of fraud and counterfeiting and control of electronic money.

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[78] Under Article 109j(2) of the TEU.

The Ruffolo Report on the external aspects of the euro insisted that in the third phase of EMU the euro exchange rate should not be over-valued against the US dollar and called on the Council and Commission to co-operate with the US monetary authorities in exchange rate co-ordination policies "in order to promote stability and discourage speculation".[79] De Silguy replied that the exchange rate could not be decreed and that the introduction of an exchange rate system based on fluctuating bands "seems more than premature".[80] He reminded the EP that current developments in Asia called for "special caution in such matters".[81]

The fourth Report by Ingo Friedrich looked at the impact of the euro on capital markets, concluding that the introduction of the euro was the ideal opportunity for strengthening the harmonisation of capital markets and calling on the Commission to examine US experience in this area, in particular, the US move from "rigorous regulation to liberalisation".[82] Mr de Silguy replied that regulations on the conversion of euros were primarily the responsibility of national authorities and the markets themselves, although the Commission had drawn up recommendations in response to a request by market operators. On the harmonisation of markets, the Amsterdam summit had already adopted regulations on the legal status of the euro and operators had already reached a 'large degree of consensus' on market practices based on recommendations from the Commission and the EMI.[83]

Mr de Silguy has spoken out firmly against calls for a postponement of the euro on a number of grounds. At a monetary level, it would cause market confusion and instability. At an economic level, it would be disastrous for the many administrations, banks and companies making large investments to prepare for the change. Politically it would result in a loss of credibility for Member State governments and for the EU institutions.[84]

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[79] EP Resolution on Commission working paper on the external aspects of EMU (SEC(97)803), EP Minutes, 13 January 1998.

[80] *Agence Europe*, No.7137, 14 January 1998.

[81] *Ibid*.

[82] *Agence Europe*, No.7138, 15 January 1998.

[83] *Agence Europe*, No.7137, 14 January 1998.

[84] De Silguy's press presentation following publication of Commission Communication on practical aspects of the introduction of the euro, *Agence Europe*, No.7159, 13 February 1998.

XVII Conclusion

It is not clear how EMU will work and until recently doubts were expressed in Member State governments as to whether any of them except Luxembourg would be able to meet the TEU criteria. The political will of most governments to go ahead according to the Treaty timetable has made postponement of the project highly unlikely, and the determination to proceed has become more viable as economic reform policies have begun to succeed. In mid-1997 it looked as though EMU would be attainable by only a small core of five States, with the majority joining later. The economic data presented in February indicated that many more will qualify to join initially, although some doubts have been expressed as to the medium-term sustainability of some achievements.

The spring 1997 *Eurobarometer* survey concluded that the cross country analysis of public opinion "indicates a drop in support in all countries except Sweden and Denmark, where there has been a slight increase in support, but in which countries there has never been a strong base level of support". The most dramatic falls in spring 1997 were in the Netherlands, Germany and Portugal. In Portugal the number of those expressing no opinion had increased, whereas in Germany and the Netherlands there was an increase in those who were against the single currency. The survey also revealed that just over half of those interviewed were afraid of abandoning of their national currency, an increase of 8 per cent since that question was asked by *Eurobarometer* in spring 1996. In the autumn 1997 *Eurobarometer* poll, support for the euro had increased generally. The average level of support in the fifteen Member States rose from 47 per cent to 51 per cent, with those against decreasing from 40 per cent to 37 per cent. The largest increase was in Germany (by 8 per cent), followed by Ireland and the Netherlands (by 5 per cent), and Italy, Austria, Finland and Sweden (by 4 per cent). The only significant falls since the spring were in Greece (by -6 per cent) and Luxembourg (by -5 per cent).

When EMU was still a concept, albeit with a history dating back to the 1970s, and the single currency belonged somewhere in the future, giving up national currencies did not seem to provoke a strong reaction in many Member States. The Intergovernmental Conference that began in June 1990 and culminated at Maastricht in February 1992 mobilised public as well as political debate on the single currency. EMU was written into the TEU and ratification of the Treaty meant acceptance of EMU without further debate for most Member States. As the count-down to the final stage approaches, governments are putting forward the case for EMU with popular education campaigns, by encouraging citizens to be involved in the design of the currency and by helping businesses and consumers to adapt. In some Member States the project and perhaps the public campaigns themselves are awakening deeply-held attachments to the powerful national symbol that currency represents. In his book on EMU and Britain, Christopher Johnson wrote:

> No government should passively follow public opinion or actively ignore it in determining policy. Leadership is needed, not to impose a new currency on a hostile population, but to persuade them that it will improve their lives.[85]

Opinion polls indicate support for EMU at over 50 per cent in just over half the Member States, but popular opinion officially has no role to play in the final move to EMU, except for in Britain and Denmark. Governments are therefore, as Johnson proposes, concentrating on persuading their electorates that the euro will improve their lives.

[85] *In with the Euro out with the Pound: the single currency for Britain*, Christopher Johnson, 1996, p.187.

ANNEX I

i. ***Standard Eurobarometer 47: One European currency: For or against? (by country and EU 15)*, November 1997**

	For	Against	Net Results
Italy	74%	15%	59
Luxembourg	67%	27%	40
Greece	65%	24%	41
Ireland	62%	22%	40
Spain	58%	23%	35
Belgium	58%	32%	26
France	56%	36%	20
Netherlands	52%	42%	10
EU15	47%	40%	7
Portugal	46%	30%	16
Austria	40%	47%	-7
Denmark	34%	60%	-26
Sweden	33%	53%	-20
Germany	32%	54%	-22
Finland	29%	62%	-33
UK	26%	61%	-35

ii. ***Standard Eurobarometer 48: The euro: For or against? (By country and EU 15)*, March 1998**

	For	Against	Net Results
Italy	78%	11%	67
Ireland	67%	18%	49
Luxembourg	62%	28%	34
Spain	61%	23%	38
Greece	59%	27%	32
France	58%	36%	22
Belgium	57%	32%	25
Netherlands	57%	37%	20
EU15	51%	37%	14
Portugal	45%	29%	16
Austria	44%	43%	1
Germany	40%	45%	-5
Sweden	34%	56%	-22
Finland	33%	62%	-29
Denmark	32%	62%	-30
UK	29%	59%	-30

ANNEX II

1998 EMU Timetable

19 January	Ecofin Council decides on provisions relating to ecu coins. Ecofin Council to see Italy's report on 1998 budget.
26 February	Round table discussion on practical aspects of move to euro involving banking, commercial and other representatives of euro users.
end Feb	Commission Communication based on results of round table discussion on 26 February.
28 February	Member States forward definitive figures to Commission on economic results for 1997 (basis for assessment of fulfilment of Maastricht criteria).
20-22 March	Ecofin meets in York.
25 March	European Monetary Institute report to guide Commission's approval of : up-dated results for 1997 and economic forecasts for 1998/99; state of convergence; recommendations to Member States with excessive deficits and the observation that certain countries no longer have excessive deficits; EMI to present its report on list of "ready" countries.
26 March	Extraordinary meeting of *Bundesbank* to consider its report.
2-3 April	*Bundestag* debate on EMU.
23-24 April	*Bundestag* and *Bundesrat* votes on EMU
April	Ecofin and EP will consult on list of "ready" countries.
1 May	Ecofin Council to draw up recommendations on list of "ready" countries.
2 May	EP to express formal opinion on the list.
3 May	Council, meeting at heads of state and government level, to decide on list of countries that will participate in EMU from 1 January 1999 and to appoint president, vice-president and board of the European Central Bank. Ecofin to set final and irrevocable bilateral conversion rates between participating currencies.

ANNEX III

EU and National EMU Internet Sites and Internet Links

European Union
http://europa.eu.int/euro/ this is the Commission's euro website which also has links to other euro sites belonging to national and EU institutions, the private sector, banking and business.

Germany
Federal Finance Ministry
http://www.bundesfinanzministerium.de/

Bundesbank
http://www.bundesbank.de/

France
Economics, Finance and Industry Ministry
http://www.finances.gouv.fr/euro/

Bank of France
http://www.banque-france.fr/us/actu/europe/4.htm

Italy
Treasury
http://www.tesoro.it/

Spain
Spanish Central Bank
http://www.bch.es/

Austria
Federal Government
http://www.euro.gv.at/

Finland
Finance Ministry
http://www.vn.fi/vm/suomi/emuproj/emuindex.htm

Netherlands
Euro National Forum
http://www.euro.nl

Luxembourg
Finance Ministry
http://www.etat.lu/FI/

Belgium
Government
http://euro.fgov.be/pa/fr_frame.htm

Portugal
Government
http://www.cijdelors.pt/
Finance Ministry
http://www.dgep.pt/pecon97.html

Ireland
Government
http://www.emuaware.forfas.ie

Greece
National Bank of Greece
http://www.ethniki.gr/publications/eco_fin_bulletin/

Denmark
Danske Bank
http://www.danskebank.dk/3913inet/ukoemu.htm

Sweden
Sveriges Riksbank
http://www.riksbank.se/eng/

UK
Treasury
http://www.hm-treasury.gov.uk/pub/html/docs/emu/main.html

ANNEX IV

Dates of general elections and referendums on the Amsterdam Treaty in 1998

Elections

Denmark	11 March 1998
France	April/May 1998
Germany	27 September 1998
Netherlands	6 May 1998
Sweden	20 September 1998

Referendums on the Amsterdam Treaty

Denmark	28 May 1998
Ireland	22 May 1998 (unconfirmed)