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EUROPEAN ECONOMIC AND MONETARY UNION:
WHY SHOULD WE CARE?

BY

Lieutenant Colonel Roslyn M. Goff
United States Army

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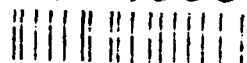
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The efforts in the European Community (EC) to bring about European Economic and Monetary Union (EMU) will have a profound impact on all countries who do business with the community. Therefore, an understanding of the three stages of EMU and EMU's relationship to the EC's initiative for a Single Market by the beginning of 1993 is essential. This paper will discuss the background of the EC, the facets of EMU and how EMU is linked to the larger effort for European union. The European Community's initiatives for economic harmonization are part of a larger vision of social and political union. It is uncertain how far and how fast European unity will proceed. Yet, by the year 2000 it is certain that the character of Europe will have changed. The significance of this change for the United States is substantial and must be reflected in U.S. policy toward Europe. It is possible that in the next century the world will know a new 'European' citizen living in a federation called the 'United States of Europe'.

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EUROPEAN ECONOMIC AND MONETARY UNION:

WHY SHOULD WE CARE?

AN INDIVIDUAL STUDY PROJECT

by

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Project Advisor

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EUROPEAN ECONOMIC AND MONETARY UNION:

WHY SHOULD WE CARE?

INTRODUCTION

The face of Europe is changing. The reunification of Germany and the dissolution of the Warsaw Pact came about at an astonishing pace. Much of this rapid change in Europe is happening within the European Community (EC). As the european powerbroker, events in the EC will have a significant impact on Western and Eastern Europe as well as the rest of the world.

The EC is striving for european unity and there is talk about a 'United States of Europe'. While this concept of federation may be in the far future, there is no doubt that the major European powers envision a different Europe. EC Commission President Jacques Delors has called for expanding the membership in the EC to thirty or more nations. He says, "The EC must turn itself into a 'political superpower' with a new treaty on political union".¹ German chancellor Helmut Kohl goes even further calling for "economic and political union in the form of a federal state by the year 2000".²

While there are sharp differences over the achievement of european unity, Britain, France, and Germany agree that the EC should speak with one voice. No where is this trend toward unity more actively sought than in the economic arena. Many believe that economic integration may help bring about social and political union as well.

The focus of this paper is on the efforts in the European Community to achieve economic integration. The EC's great hope for Europe's economic future is in its plan for Economic and Monetary Union (EMU)* as designed by President Delors. The discussion will center on how the EMU fits into the overall concept of European economic unity. A short background on the European Community and its long term goals sets the stage for the current situation. Additionally, a discussion of the 'EC -1992' initiative for a European Single Market is helpful in understanding the importance of EMU.

The three stages of EMU are discussed in relation to the positions the major EC members take on the issues involved. We will look at the impact EMU is likely to have on European political and social arrangements and the implications for the United States. The question of whether the EMU is the harbinger for a 21st century 'United States of Europe' is explored.

THE EUROPEAN COMMUNITY- BACKGROUND AND OBJECTIVES

The birth of the European Community took place in May of 1950. Its father was Jean Monnet, a far sighted Frenchman who proposed the creation of the European Coal and Steel Community (ECSC). His ideas were promulgated by French Foreign Minister Robert Schuman and collectively

*EMU is also referred to as European Monetary Union.

called The Schuman Plan. The Schuman Plan came about at a time when the North Atlantic Alliance was in a fledgling state. France was anxious not only about security, vis a vis the Soviet Union, but also about the 'German Question'. What would be West Germany's future relations with the alliance and its role in Western defense?

Monnet and his countrymen could envision Britain and others drawing closer to the United States to wage the cold war. They saw Germany developing rapidly and rearming. France, unable to prevent this, would be trapped between the mistrusted US, militant Germany, and the equally mistrusted USSR.

Monnet's proposal laid the basis for European economic and political unity that has evolved into the European Community. The plan placed the coal and steel industries of France, West Germany, and any other country who wished to join, under the control and direction of a single supranational authority. Thus, Monnet involved both France and Germany in the welfare of Western Europe and protected France against economic and political isolation. The creation of the European Coal and Steel Community was perhaps "...the most imaginative and far reaching act of French foreign policy in this century, if not in all its history..."³

However, the North Atlantic Treaty made it possible to plant the seeds of the EC. The treaty gave France the security it needed to even contemplate pooling resources with the Germans. In turn, France solved the German Question and developed the European element within the Atlantic Alliance.

The British refused to place their industry under a higher authority and did not join the ECSC. This self-exclusion has been called "...one of the

biggest misjudgments and mistakes in the history of British foreign policy." ⁴ For more than two decades the British excluded themselves from the European mainstream until they joined the European Community in 1973. ⁵

France was determined to build Europe in its image. She therefore negotiated the 1957 Treaty of Rome that created the European Common Market on top of the European Coal and Steel Community. The Treaty of Rome established the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM). This treaty expanded the aims of the ECSC to include:

- the dissolution of barriers dividing Europe
- the improvement and equalization of living and working standards
- the abolition of restrictions on international trade
- the removal of obstacles to concerted action among governments
- strengthening the cause of peace and liberty through closer relations between states. ⁶

This language indicates that the purpose of the treaty was not only economic, but social and political integration as well. The U.S. State department contends, "The primary aim of the treaty...was to remove the economic barriers that divided the member countries as the first step toward political unity." ⁷

At least the original six countries -- France, Germany, Italy, Belgium, Luxembourg, The Netherlands--felt that economic union was a prerequisite

for eventual political integration. After WWII, there was a strong desire by Europe to replace the system of rival nation states. However, it became clear that a direct attack on political issues was doomed to fail. Thus, energy was channeled into the economic arena.

The EEC slowly moved toward greater economic unity with some attempt at political unity. In 1961, France, through the Fouchet Committee, proposed a European union. Most nations quickly recognized this european confederation as an attempt by France to increase political power and promptly rejected it.

However, 1968 saw a common external tariff established and all intra EEC tariff restrictions removed. Then in 1969, the ECSC, EEC and EURATOM combined into one European Community (EC). The EC's structure consists of a council of ministers, a commission of country-appointed representatives, a parliament, and a court of justice.

In the early 1970's, the EC concluded trade agreements with EFTA to end trade barriers on all industrial products. This period also gave us the Werner Report which later became the basis for European monetary integration and the development of the European Currency Unit (ECU). However, nationalism and the fiercely guarded sovereignty of many countries accomplished little more toward european union until the early 1980's.

Today, we have Europe on the brink of economic, if not political unification, that calls for a single market, a central european bank and a single currency. Why, in one short decade, did the EC move from relative stagnation to the present day zeal for integration?

Economists Silva and Sjogren offer an interesting theory. They

maintain that Japanese businessman Soichiro Honda did more to unite Europe than any European politician. Honda started with a debt ridden company in 1956, but by 1980, he was ready to market his motorcycles in Europe.

"The shock to Europeans of a future world dominated by two foreign economic superpowers sowed the seed of a new loyalty. A pan-European economic loyalty that would ultimately accomplish what 2,000 years of history had failed to do." ⁸ Whether or not one wishes to credit this particular Japanese gentleman, by 1980 Europe was beginning to feel the pressure of competition from the U.S. and Japan.

The 1980 's brought many calls for reforms within the European Community. One such reform was the Draft Treaty on European Union. Though adopted by parliament but never officially voted on, it was the harbinger of the principal of 'subsidiarity'. ⁹ In this philosophy, those functions which cannot be performed more effectively by local or national authorities should be transferred to the Community. This increases power to the community relative to the states and addresses questions to a supranational authority considered more effective than a national government. Those who advocate more control of the EC by the sovereign states oppose this policy. It is the crux of most of the issues debated within the EC today.

Another effort toward european union was the 1985 White Paper prepared by the European Commission. This document, adopted by all member countries, outlined the calendar for the 1992 Single Europe Program. This program calls for a large, unrestricted single market for the free flow of goods and services among member nations.

The White Paper is the basis for what is now the European Community's '1992 Single Market' initiative. The White Paper establishes nearly 300 directives to eliminate fiscal and technical barriers to trade, services, banking, insurance, transportation, and securities transactions.

The Single European Act of 1987 (SEA) was a watershed event in the Single Europe Program outlined by the 1985 White Paper. While it stated the goal for a single market and monetary union, the most significant issue concerned majority voting. The Act removed the right of state veto and established majority voting within the Council. It also enhanced the power of the Commission and of the European Parliament by requiring nations to bring their laws into compliance with EC laws. This is particularly significant as it was a substantial abdication of national authority to the EC.

Under majority voting, the EC has become a supranational body as member states relinquish a great deal of their sovereignty by joining. The power of the EC to impose regulations and laws upon its members is a result of the general disenchantment with the ability of the state to resolve contemporary problems. The Vice President of the European Commission has said, "Europe, and the world at large, have suffered immeasurably, not least in this enlightened century, from exaggerated ideas of the role of the sovereign state. The futility of such ideas in modern times is evident in the increasing rejection of war as an instrument of policy, the growth of global interdependence and the ecological challenge."¹⁰

There are now 12 member nations of the European Community--Belgium, Germany, France, Italy, Luxembourg, The Netherlands, Denmark, Ireland,

The United Kingdom, Greece, Spain, and Portugal. One of the issues currently debated within the European Community is one of 'widening' versus 'thickening'. Some believe that EC institutions should be strengthened and that current programs should be completed (thickening) before the EC 'widens' its membership. Those who take the thickening stand note that EC goals may never be achieved if the institution agrees now to accept new members.¹¹

Poland, Hungary, and Czechoslovakia have become the EC's first associate members. This 'association' means that the EC foreign ministers agreed to gradually open the community to free trade from Eastern Europe over a 10 year period starting in 1993. Associate membership has brought eastern Europeans some relief from the EC's quantitative restrictions and tariffs on sensitive items such as meat, textiles, coal, and steel. Associate membership does not entail voting rights within the EC institutions. It is likely that Eastern Europe and other nations will continue to push for earlier membership as the EC becomes the economic and political power in the region. Recently the EC has agreed to consider membership for Austria and Sweden in 1992.

Another issue concerns Delors' European 1992 initiative. Will Europe achieve a Single Market by 1992? To understand the whole range of issues in Europe's quest for unity through economic and monetary union, a brief discussion of this 1992 Single Market Program is helpful.

THE 1992 SINGLE MARKET PROGRAM INITIATIVE

In the history of the European Community we see the political flavor of

economic efforts toward union. Some contend, "The 1992 Single Market Program is more a political event with economic consequences than an economic event with political consequences." ¹² The 1992 initiative and its crusader Jacques Delors have proposed some far reaching objectives for Europe by December 1992. ¹³

Discussed frequently throughout the history of the EC was the concept of the Single European Market (SEM). In fact, "...a consensus began to develop that a major cause of the lack of dynamism in Europe was once again the fragmentation of the European economy into national markets."¹⁴ Renewed efforts to create this market began with the 1985 White Paper proposals. The 1987 Single European Act committed leaders to adhere to a timetable in implementing these proposals.

This Single European Market would enable people to buy and sell, lend and borrow, produce and consume throughout the EC as they would within their own borders. The resulting production efficiencies, price dynamics, and unrestricted flow of good and services would give the consumer a 'better deal'.

The White Paper directives, many of which are implemented, and the Delors initiatives are far more extensive than the simple elimination of tariffs. Appendix A outlines the major elements of the 1992 Program. For example, this program indicates that the EC has taken on the consumer protection role normally performed by the nation states. It appears that the EC is as interested in a stable social framework as in an economic one.

The EC-92 plan is a mixture of economic, social, and political objectives. However, the priority of these objectives is unclear. Economic objectives may well be a tool for achieving the political aims.

Note too that the language of the 1987 Single European Act indicates objectives beyond mere economic ones. The common provisions of the Act states, "The European Communities shall have as their objective to contribute together to making concrete progress toward European unity."¹⁵

The act does not limit itself to economic means in achieving European unity. It devotes a section to social policy and talks of increasing social cohesion. Most significantly the Act goes as far as to encourage EC members to "...endeavor jointly to formulate and implement a European foreign policy".¹⁶

Europe '1992' and the SEA must be viewed not just in economic terms, but in social and political ones as well.

The single market programme and the SEA have not only given the EC an impulse toward monetary union, social solidarity, foreign policy and security cooperation, budgetary and institutional reform, but also an impulse toward the European Union, which many see as the prime political project for the present stage of the EC's development.¹⁷

There are many barriers that impede the progress of the envisioned single market. Michael Calingaert, a Senior Fellow with the State Department provides a means for comprehending the complexity of the 1992 Initiative. For ease of understanding, he divides the barriers into three categories.¹⁸

The first type of barrier is the historic and cultural differences between member countries. Language, traditions, and ways of thinking can be significant. If the European Community membership is to widen to 30

or more nations, these differences will become even more pronounced.

Secondly, there are the barriers that were of particular interest to the authors of the White Paper. These represent eight concerns that are of such a magnitude as to warrant a category of their own. They are:

- Border Controls
- Limitations on Freedom of Movement of People and their Right of Establishment
- Different Indirect Taxation Regimes
- Lack of a Common Legal Framework
- Controls on Movement of Capital
- Regulation of Services
- Divergent Regulations and Technical Standards
- Public Procurement Policies ¹⁹

The last category of barriers deals with economic factors that directly affect operating an internal market. These are; absence of a common currency, lack of coordination of macroeconomic policies, differences in direct taxation regimes, and differences in social, environmental and consumer policies.

Of the last mentioned impediments to free trade, the first two, common currency and macroeconomic policies are the concern of the balance of this paper. The currency issue and the monetary policy issue lead us now into a discussion of Economic and Monetary Union.

ECONOMIC AND MONETARY UNION (EMU): INTRODUCTION

Economic Union describes a situation in which all barriers to the movement of economic resources between participating regions or countries are removed. Monetary Union means that one currency prevails in that area and a single institution is responsible for controlling the money stock.

European economic and monetary union is actually a step toward the goal that the EC set for itself more than 30 years ago—a unified West European market without national barriers to the movement of goods, services, capital and people. To achieve this goal, one must eliminate the restrictions that hamper the free flow of trade and capital. All parties concerned must work off one set of rules for doing business in Europe. This economic union is achieved by the single market concept in the EC-92 plan.

What then is the connection between the single market and the monetary union discussed in the Single European Act's preamble?²⁰ First, it is essential to have monetary union to preserve the benefits of the single market. In simple terms, monetary union means that the member nation's have little or no fluctuation of exchange rates among themselves and that they make macroeconomic policy collectively. Great fluctuations in exchange rates fragment markets and cause uncertainty as to the access to those markets.

Therefore, a single market requiring monetary unity has several implications. A logical outgrowth of this is the establishment of a single European currency and a central bank to issue this currency. These are

the three major elements of EMU--exchange rates, single currency, and a central bank. We shall now look at each of these elements in detail.

The EMU is so important to the EC that in 1988, the European Council created a special committee to propose steps toward monetary union. The committee chairman, Jacques Delors has built the EMU program in three key steps or phases to achieve monetary union. The first phase, a nearly completed one, is the development of the European Monetary System (EMS). The second phase is the creation of an european central bank. This phase is not yet complete. The third phase is the institution of a single European Currency Unit (ECU). There is currently a "soft" ECU in use in Europe. A later discussion will clarify the difference between this 'soft' ECU and the proposed 'hard' ECU.

STAGE ONE: THE EUROPEAN MONETARY SYSTEM (EMS)

The European Monetary System (EMS) is "...the single most important product of the European Community to date."²¹ It is also the first in a series of steps to eliminate completely currency fluctuations and establish one unit of european currency.

EMS smooths out exchange rate fluctuations between currencies thus reducing the risks involved in trade. It works by fixing the values of the various member nation's currencies against each other within certain bands of fluctuation. Central banks then enforce these bands by buying and selling currencies. The idea is to eliminate uncertainty in the marketplace by promoting this zone of monetary stability.²² European Roundtable (ERT) companies, representing more than \$600 million in sales and 3

million employees in virtually all major industrial sectors, see currency fluctuations as a major cost to business.²³

The mechanism for enforcing these currency bands is the Exchange Rate Mechanism (ERM). Each currency in the ERM has a central rate against the ECU which can be considered a basket of all EC nation's currencies. Each ERM currency also has a bilateral parity rate against every other currency which makes up the upper and lower limits of the currency band with the ECU rate in the center.

Most EMS currencies are assigned a narrow 2.25 per cent band while the Pound Sterling and the Peseta are allowed a wider 6 per cent band. In other words, the Pound is allowed to be 6 per cent stronger or 6 per cent weaker than the central rate before this currency will be acted upon by the central banks. Those countries operating within the narrower bands are closer to the achievement of economic convergence. Of the current twelve EC member states, only Greece and Portugal have not joined ERM because of currency instabilities and the desire to control their own monetary policy.

The national central banks buy or sell currencies at the ERM rates to stabilize the money market. This procedure of consensus in setting monetary policy has actually developed an embryonic 'European Bank'. The objective of Phase Two in EMU development is to form a central European Community bank with the authority to harmonize monetary and banking functions.

As the EC works toward complete monetary union, the bands will get narrower and narrower until they cease to exist. This in effect creates one currency. At that time, Stage Three of EMU is established with a single European Currency Unit. Note that the current ECU is a 'soft'

currency that is primarily a bookkeeping measure that fixes the ERM exchange rate. The single currency that is envisioned to result from monetary convergence will be a 'hard' currency printed for all manner of trade.

In positive terms, EMS's macroeconomic policy has been an important instrument in the fight against inflation. Anti-inflationary policies have been a priority of Western European governments. The EMS stable system of exchange rates and the pegging of national currencies to the Deutschmark have reinforced this determination of national authorities to pursue anti-inflationary policies. ²⁴

However critical EMS is to eventual European Monetary Union, it is not without controversy.²⁵ In particular, Great Britain finds that EMS has severely restricted flexibility in developing internal monetary policies by forcing Sterling interest rates to stay within ERM bands. Other countries feel the same and also worry that the artificial rates do not allow the free market to determine the value of money. Then too, the influence of the Deutsches Bundesbank as the strongest representative of a state currency in the EMS is criticized. Historically, the EMS has been dominated by the Deutschmark. It is often felt that the German Bundesbank, rather than the agreement of all the central banks, controls the EMS.

The success of EMS is dependent on the willingness of EC members to relinquish monetary sovereignty and become fully complying ERM practitioners. The success of EMS is also dependent on how well it serves to stabilize trade. To date, EMS has fulfilled most expectations for market stability. Most member nations have decided the benefits gained outweigh the monetary independence lost in joining EMS.

Now the issue is how much further will EC nations choose to progress?

Will they indorse a Central European Bank? Will they accept a hard ECU instead of their own currencies? The following sections address these topics.

STAGE TWO: A CENTRAL EUROPEAN BANK

The Delors report on the three stages of EMU calls for a new monetary institution--a Central European Bank. This bank is to be established in Stage Two preceeding the locking together of EC currencies in Stage Three. The rational behind the central bank concept is that a single monetary policy cannot implement the decisions and actions of different national central banks. This institution, organized in federal form, is called the European System of Central Banks (ESCB). The ESCB, also known as the Eurofed or European Monetary Institute (EMI), has a major commitment to price stability.

This second stage to EMU can only begin when a new treaty comes into force. All parties must formally sign up to support this federal institution. During the December 1991 EC Maastricht Treaty Conference, member nations debated the powers and roles of the Eurofed. The controversy is over the manner in which the Delors Report envisioned the ESCB. Specifically it states:

While the ultimate responsibility for monetary policy decisions would remain within national authorities, a certain amount of exchange reserves would be pooled...regulatory functions would be exercised by the ESCB in the monetary and banking field in order to achieve a maximum harmonization of provisions...necessary for the future conduct of a common monetary policy. ²⁶

The problem with this description of the ESCB is the vagueness about the bank's role and functions. Some feel, "The Delors strategy provides for coexistence of central and decentralized decisionmaking, which is bound to create conflicts between institutions. Because there are no rules or institutions to resolve such conflicts, there will be more room for...political opportunism rather than economic rationale." 27

This was the crux of the disagreements before and during the Maastricht Conference. How to construct this central bank and what role it should play in European economic and monetary affairs was strongly debated. For example, France and Italy pushed for a fully-fledged central bank with greater authority in setting monetary policy. Meanwhile, Holland, Germany, and Great Britain opted for more of a coordinating role for the ESCB.

Once Europe's currencies are locked together and merged in Stage Three, there will no longer be a worry about one EC nation's exchange rate against another. However, the EC as a whole will continue to be interested in the exchange rate of the ECU against the dollar or yen. The question is who will be responsible for the exchange rate? Advocates of the independent European bank say it makes no sense to mandate that it pursue price stability and then not put it in charge of exchange-rate policy. Others would not give the central bank this authority, arguing that exchange rate policy is not monetary policy.

Regardless of the specific roles envisioned, most countries agree that if EMU is to happen, a central financial institution is necessary. The issue is how much autonomy that institution should have. Also in question is how fast should Stage Two be completed.

STAGE THREE: ECU-A PAN EUROPEAN CURRENCY

According to the Delors plan for Stage Three of EMU, the currencies of the EC member nations are irrevocably locked together with no bands of currency fluctuation. In essence the EC moves from a fixed but flexible parity grid to a single currency.

This would be a common, non-inflationary money that gives investors confidence in the denomination and the political security of their business risk.²⁸ The advantage of the 'hard' ECU is the reduction of exchange-rate uncertainty and conversion costs that reduce the usefulness of money and lower the efficiency of goods and asset markets. The EC report, *One Market, One Money* argues that "...a single currency will save up to \$25 billion annually in exchange transactions, and that economic growth will be boosted by 5 per cent as investors are no longer put off by the risk of exchange rate fluctuations."²⁹ However, it is this issue of a pan European currency and its ties to a central eurofed bank that have caused the most discussion on european monetary union.

Although the current 'soft' ECU has no home market, central bank, or government to look after it, it has been very successful. The ECU was sixth in the world bond markets as the most important currency of issue and third in the list of EC currencies.³⁰

As a basket of EC currencies, the ECU has been a good hedge against exchange rate fluctuations. The current ECU is 'soft' because it is a 'notional' currency, an accounting device.³¹ It has yet to develop significantly as a means of payment in commercial and retail transactions. It represents a 'basket' of EC currencies periodically adjusted to reflect

the relative strength of each member nation's economy. Why then is there a reluctance to progress to a 'hard' pan European currency?

Most EC members agree that a 'hard' ECU would fulfill the objectives of monetary integration and economic convergence. The disagreement was over the degree of 'hardness' the ECU should take. There was also debate whether to create a single, exclusive currency for the EC or to use existing national currencies as well. There is now agreement on a common currency and that this currency will never be devalued against any national community currency at an Exchange Rate Mechanism realignment.³² However, here is where agreement ends.

Great Britain differs with Spain and Germany on how they define the 'hard' ECU. Britain wants a hard common currency for intra-community trade. Its rate would be pegged to the strongest national currency in existence. It would in fact become a 'thirteenth' currency along with the other twelve nation's currency. On the other hand, Spain and Germany want to freeze the composition of a 'basket' ECU. While the guarantee against devaluation is common with the British Plan, the 'basket' mechanism differs. Here 'hardness' is the result of readjusting the amounts of the currencies in the basket when national currencies realign. This is an average ECU rate rather than the British strongest ECU rate.

The differences in the mechanics of a 'hard' ECU notwithstanding, there are deeper conflicts in developing a common currency. These revolve around the timetable for economic convergence into final economic and monetary union. A debate over a 'Two Speed' Europe has emerged.³³

The Germans and Dutch have been in favor of Europe moving at two different speeds into Stage Three. They propose that member nations with healthy economies strike out on their own in currency union. Other

national finance ministers want stricter economic convergence by all countries and a simultaneous entry by all into Stage Three. The fear is that the larger, more prosperous nations will leave nations like Spain, Italy, Portugal, and Greece behind. There is also a fear that commitment to total European Monetary Union will wane.

The disagreement over timetables is extensive. Great Britain worries that a deadline might be an excuse for some nations to ignore economic convergence criteria. Therefore, Britain would see the process lengthened rather than agree to any timetable. In fact Britain even wants an opt-out clause which would allow them not to join in a single currency if they so decide. France on the other hand is pushing for specific deadlines and would like a single currency by 1996. France wants an EMU treaty agreement before political events elsewhere cause the Germans and the British to lose interest in EC unity.

The issues described above were the focal points during the Maastricht Conference. The results of that conference have had an impact on the future of European Monetary Union.

EMU AND THE MAASTRICHT TREATY

On December 9th and 10th, the EC's heads of government met in Maastricht, The Netherlands to prepare the way for political, economic and monetary union. The result of the Maastricht Summit was to be two treaties. One that detailed social, defense, and foreign policy, and the

other that prescribed economic and monetary policy for all member nations. Our concern here is with the outcome of the economic discussions. While many months of negotiations preceded the two day summit, each country entered the conference with their own agenda.

The French Minister for European Affairs, Elizabeth Guigou enthusiastically described her country's view of what Maastricht meant to France. "The goal that we set was to provide European integration with essential monetary, political, and diplomatic agreements that will form a federal europe."³⁴

In contrast, London's Financial Times criticized what was essentially their government's foot-dragging approach to EMU at Maastricht. It was evident that Prime Minister Major and Finance Minister LaMont were determined to "...push the evil day well into the future and not to commit the UK to join even then."³⁵

Britain's wider set of distinctive interests such as nuclear arms and owning one of the world's three finance centers makes them more cautious in their approach to EMU commitment than most EC countries. Most of the others are happy to embrace 'Europeanism' no matter how foggy the notion. *The Economist* muses, "Perhaps the real oddity is not that Britain finds it hard to fit itself into a solely European framework, but that France has so far found this easy."³⁶ At any rate, Britain is very conscious of freedom and sovereignty issues and is reluctant to commit to social and economic policy that might curtail that aspect of British character. France obviously sees their road to glory more as leaders of this new Europeanism.

The country with the most at stake from the creation of a single

European currency is Germany and their strong D-Mark. Nonetheless, Germany's approach to Maastricht was one of "...a belief in a preordained historical process-one leading inexorably to a federal Europe looking remarkably like an enlarged Federal Republic of Germany."³⁷ In fact the Germans considered the Dutch draft treaty (the strawman for the start of the Conference) as too watered down, too loose in terms of economic and political integration and not having enough timetables for federalizing reforms. The French agreed with the Germans that the British received too many concessions.

With this line up of the 'big three', how did EMU fair at Maastricht and what is the significance of the resulting treaty?

THE RESULTS OF MAASTRICHT

Most agree that the Maastricht Summit accomplished much of significance. This was in spite of Great Britain's efforts to ensure that the treaty did not do too much, Germany's push that the EMU follow a German design, and France's zeal to get everyone committed to a foreign and defense policy. The work of the Dutch (as the current presidency country of the EC Council of Ministers) was significant in negotiating the treaty among all the competing interests. However, in signing the treaty the EC leaders made a "...superdeal that may eventually make the European Union a superpower".³⁸

The treaty lays down in embryonic form the main elements of; a future European government, a common foreign and defense policy, a

common citizenship and a stronger parliament. It creates a more efficient market through a single currency. "The Maastricht agreement must be considered, by any rational measure, one of the most important events in post-war European history. If this programme is adhered to, the European Community will be well on the way to becoming a sort of federation."³⁹

As a result of the Maastricht Summit, Europe has signed to embark upon monetary union by the end of the century. However, the 90-page EMU treaty is a complicated road map to a final single currency. There are many issues yet to be resolved.

First, it is not certain how long Stage Two of EMU will last. The central bank, now called the European Monetary Institute (EMI), will be established at the beginning of 1994. However, it is unclear what form this bank should take. It will, however, assume the short-term holdings of gold and foreign exchange reserves now pooled as part of the EMS. Depending on the member nation's own concept of the role for the EMI, the proportion of reserves lodged with EMI will vary from country to country. Thus, the EC has yet to determine the EMI institutional character.

Second, depending on how long Stage Two lasts, but in any case no later than January 1, 1999, EMU will start Stage Three with a single currency. This currency will be an 'ecu', but not the existing ECU composite basket of member nation's currencies. It will be a new currency representing irrevocable fixed values of the twelve EC currencies. There is no decision on what to call the ecu. Germany has agreed that the ecu will replace the D-Mark but will not have the EMI oversee its development.

Britain signed up to this treaty and the objective of a single currency. However, they insisted on a protocol which allows them to opt-out from a

single currency in Stage Three. The question is will Britain join the single currency when the time comes. There is fear that Britain's opt-out is a sign of a weakening for the monetary union. The EC Budget Commissioner thinks it is merely a matter of time before economics bring the British back into the fold. Britain cannot afford to be left out or they face great exchange rate costs.⁴⁰

The decision to enter Stage Three will be by qualified majority voting, rather than by unanimity. To enter, countries must meet tough standards of currency stability, budget control and low inflation. It remains to be seen who can live up to those standards. Even so, European business has overwhelmingly endorsed the outcome of the summit.⁴¹

Because of majority voting, the decision to enter Stage Three by the community cannot be blocked by any country which lags in meeting the convergence criteria. However, this may also lead to a 'two speed' Europe as the more economically viable nations move ahead of less stable nations.

The second part of the Maastricht accord is the treaty on political union. While the treaty does not refer to a 'federal' goal--a sticking point with the British--it does call for an 'ever closer union'. It mandates that the task is to establish a common market, an economic and monetary union, as well as economic, political and social cohesion. Although signed by all members, Britain had an eleventh hour protocol attached dealing with the social chapter of this treaty.

Britain's major social policy issue concerns treaty provisions on social and employment legislation. Britain is against majority voting in the areas of labor legislation, workers protection and compensation, and social security legislation. British Prime Minister John Major argued that

such social provisions would massively increase costs to industry and put the community at a trade disadvantage in competition with the U.S and Japan.

However, British fears run deeper than the stated economic concerns. A dozen years of Tory reform has turned back socialism and weakened the unions to the point where the Labor Party is moving to the center of the political spectrum. Meanwhile, on the continent the political left and powerful unions still exert significant influence. The British fear that their reforms will be swept away by an EC dominated by organized labor and the political left.

The British protocol permits all EC countries but Britain to establish common social legislation through normal community mechanisms. The other 11 EC members will form a social subcommunity of their own, but hope that Britain's exemption will be temporary.

THE SIGNIFICANCE OF EMU AND THE INTEGRATED MARKET FOR THE UNITED STATES

The Maastricht treaties are not binding until the member nations' national legislative authorities ratify the results. Nonetheless, the EC is well on the road to economic, and in many ways, political union. In spite of some issues left unresolved from the summit, European Monetary Union will bring increased economic and political strength to the EC. The decision to proceed with EMU will make the integrated market possible.

With the strengthening of the EC and its policies resulting from EMU come concerns for the United States. The EC and Western Europe are no longer an unequal and dependent trading partners of the US. Therefore, the US must shift its national focus to a relationship with the EC and Europe based on equality and interdependence.

The concern is what should be the relationship of the United States to the EC? Several issues will have a significant impact on the United States. Who will be the EC's favorite trade partner, the US or Japan? What are the implications for US exports to the EC and direct US investment there? How will this impact US industry? What are the political implications of a more economically vibrant Western Europe?

With its 320 million people, the EC has become as large an economic entity as the United States. In fact, the EC has a larger share of international import/export trade than the US. Then too, the EC massive entrance into the international farm export trade has taken shares of the market from the US. However, we must keep in mind that the EC and the US have the world's largest two-way trading relationship. Together they account for half the world's GNP and one third of global trade.⁴² This would indicate that each side has significant stakes in the other. The following tables give an idea of the proportions of Europe.

VALUE OF EXPORTS AND IMPORTS OF THE WORLD 1990

	<u>IMPORTS</u>	<u>EXPORTS</u>
TOTAL WORLD (IN BILLIONS)	3,325	3,455
COUNTRIES (IN MILLIONS)		
U.S.	496,153	408,658
JAPAN	211,578	311,320
EUROPEAN COMMUNITY	1,357,178	1,358,779

** DATA TAKEN FROM DIRECTION OF TRADE STATISTICS-YEARBOOK 1991 INTERNATIONAL MONETARY FUND, WASHINGTON, DC. p. 2.*

1990 GNP/GDP OF SELECT COUNTRIES

(IN BILLION DOLLARS)

EUROPEAN COMMUNITY (GDP) ¹	4,786
UNITED STATES (GNP)	5,465
JAPAN (GNP)	2,115

¹ Gross Domestic Product (GDP) is the value of all goods and services produced domestically. Gross National Product (GNP) is the value of all goods and services produced domestically, plus income earned abroad, minus income earned by foreigners from domestic production. European output is normally expressed as GDP, while US and Japan are expressed as GNP. The point here is that the EC's total output even without considering income earned abroad is very close to that of the US and much greater than that of Japan.

**SOURCE: THE WORLD FACT BOOK 1991, CENTRAL INTELLIGENCE AGENCY, WASHINGTON, DC.*

U.S. EUROPEAN TRADE 1990

(Millions of Dollars)

	<u>US EXPORTS</u>	<u>US IMPORTS</u>	<u>U.S. SURPLUS</u>
EUROPEAN COMMUNITY	98.026	91.857	+6.169
U.S. - EC TWO WAY TRADE	\$190B (+\$6B)		
U.S. - JAPAN TWO WAY TRADE	\$138B (-\$41B)		

* *SOURCE: SURVEY OF CURRENT BUSINESS, DEC 1991*

During Congressional hearings in the Spring of 1989, US businessmen and economists had mixed feelings about economic integration in the EC. However, all agreed that events in the EC would have a significant impact on the US.⁴³ Whether the gains would be positive or negative depends on how the EC finally implements its integration program.

On the positive side, integration is viewed as "...a great opportunity for innovative and aggressive American businesses, including financial institutions, to operate in a vastly improved, more efficient, and less regulated European environment."⁴⁴ On the negative side, most of the financiers and manufacturers are concerned with definitions of reciprocity, establishing European preferences, local content rules, and EC wide quotas. They wonder if the EC will discriminate against outsiders and if economic integration will result in increased barriers to the EC market. There is speculation as to the role the EC will take in the global economy.

Will 'Fortress Europe' emerge and be an impediment to the US or Japan? We have seen that American and Japanese trade dominance was a catalyst toward a united Europe. Would a defensive trade posture by the EC be directed toward the US as well as Japan? If the US capitalizes on its historical relations with the EC and Western Europe, it is hoped that free trade will flourish.

In fact, the US consumer connections and consortia combinations with Europe may result in more favorable trade policy toward the US and Japan.⁴⁵ The US and European consumers have more dollar-for-dollar goods and service trade with each other than Japan has with Europe. Also, the US has long encouraged US based multinational businesses in Europe.

Consortia combinations like Ford did much to form strong transatlantic bonds. The US should fix national economic and trade policies toward an alliance with the EC that aims at making Japan a more equal trading power.

Another issue is the US economic stake in the EC concerning exports and investments. Of the myriad economic activities, "...these two aspects of the US-EC economic relationship will be most vitally affected by developments in the Community's internal market."⁴⁶ The EC is an increasingly important market for not only US goods, but services as well. Additionally, US direct foreign investment in the EC accounts for about 40 percent of total US foreign investment. This is more than double the amount of investment in Canada and almost ten times the amount in Japan.⁴⁷

As the EC internal market develops through economic and monetary union, US exports should enjoy the same benefits from barrier

eliminations as that which accrues to EC domestic firms. The integrated market will be larger, more dynamic, and more competitive.

However, as the integrated EC market results in higher levels of economic activity, it is also expected to increase competition by domestic firms to satisfy consumer demand. Domestic firms that had heretofore only competed in their national market will now find incentives to compete with US multinationals. Additionally, the EC could reduce outside competition by imposing common external tariffs, EC wide import quotas, and anti-dumping policies.

A central issue concerns reciprocity. This is the principle where any opening of the EC market to foreign firms would have to be matched by reciprocity in their markets for EC based companies. This means that nonmember firms are not permitted to enjoy benefits unless EC firms are also able to enjoy similar benefits in the nonmembers country. For example, this could have a profound impact on US banking. US state regulations against interstate banking could be used to bar US owned banks from acquiring branches across national boundaries in the EC. Much will depend on how the EC interprets the concept of "...fair and comparable market access..." in determining reciprocal agreements with the US.⁴⁸

APPENDIX B is an extract from a National Association of Manufacturers (NAM) and a US government publication. It reviews the major issues that could either enhance or reduce the opportunities of US companies as investors in, or exporters to, the EC.⁴⁹ The appendix summarizes the complex set of issues facing American businessmen in 1992 and beyond.

The single currency will be significant for the US. Some economists speculate, "A single currency will be good for US business. Not only will

currency conversion costs be gone, but some exchange rate risk should be eliminated too. As a result, US firms will be able to make more reliable forecasts about future costs of doing business in the EC.⁵⁰

The US defense industry faces special problems. The uncertainties in Europe, the tumultuous change in the global security environment, and the pressure to reduce defense spending in all NATO countries has magnified these problems for the US industry.

While the market for defense products shrinks, the competition for world market shares increases. The EC and the integrated market will encourage European defense industries to reap the benefits of restructuring. There will be stronger, more competitive European firms with fewer export restrictions.

Additionally, Europe is "encouraged by outdated US policies and approaches to cooperative programs...this trend could result in a polarization of US and European acquisition communities. As a result, pan-European, vice transatlantic defense programs, will probably be favored by Europeans as they form their new defense acquisition community."⁵¹ We have already witnessed the failure of cooperative projects in the collapse of the NATO Frigate Replacement Program and the short-range air-to-air missile (ASRAAM) effort.

The US must accept the challenge of this competitive industrial defense environment and do all it can to protect its industrial base without encouraging disastrous reciprocal protectionism. Barriers to transatlantic cooperation must be discouraged. The US defense industry should develop strategic alliances with the European defense industry. At the same time there are several ways in which the Department of Defense

can help this effort. APPENDIX C is a summary of recommended DOD initiatives to reduce potential impacts on US defense acquisition community.

The United States must understand both the opportunities and risks associated with the economic and monetary union of the EC and the operations of the integrated market. The key issue is that the US must try to influence the EC to ensure that they do not adopt a protectionist policy. How then do we establish a closer relationship with Europe?

Micheal Calingaert's advice to US firms might also be used to formulate general US policy toward the EC.⁵² The US must gather information and review and develop strategies for dealing with the new EC. It is important to influence the decisionmaking process through participation in the various EC institutions. Calingaert insists that the EC and its commissions are becoming increasingly receptive to interested and informed parties.

US subsidiaries can gain direct access to Commission officials and members of European Parliament and make their views known through European trade and industry groups. However, this will require a thorough understanding of the EC organization, the internal market and all the facets of monetary union.

The United States needs to be actively concerned with developments in the EC and their efforts toward economic and political union.

To the extent that a stronger European economy will build European political self-confidence and thus encourage further assertion in world affairs, more confrontation in relations with the US is likely. There is now a need, more than ever before, for

the two sides to arrive at a new modus operandi to manage relations into the 1990's... Without better management of the world's largest two-way trade relationship, the Western world's economic and trading system and of the military deterrent that protects the bread and butter of over a half billion EC and American citizens, we can expect unchecked divisions to weaken Western civilization and the political and economic system that drives from it.⁵³

CONCLUSION: A UNITED STATES OF EUROPE?

The issue is not whether the EC will institute EMU. As the preceding discussion has shown, economic and monetary union is becoming a reality in Europe. While the timing of complete economic and monetary convergence is subject to change, the Europe of the year 2000 will certainly be one of greater European economic harmonization. The real issue is how far economic and monetary harmonization will go toward creating a political and social union in Europe. What will this mean for the rest of the world?

There are differences of opinion on how far European economic, social and political integration will proceed. After Maastricht, Chancellor Helmut Kohl said, "The course is now set for a new stage in the European process. The way to European union is now irreversible."⁵⁴ Does this mean a European federation or even a 'United States of Europe'?

Some observers have reservations about European union. Two major

factors serve to limit the ability of the European Community to complete its integration and effectively expand its program to a larger future Community. One, is that internal political pressures will restrict the Community's ability to develop and enforce effective Euro-regulations. Two, economic integration will create a split between the political and economic spheres of human endeavor.⁵⁵

As the community grows, the pressures between local interests and European interests will increase, particularly if it expands eastward where there is economic and political instability and inexperience. National politics, especially among newer member states, will thwart Euro-politics. The EC must wrestle political power away from member nations and invest it in EC institutions in order to relieve the pressure of local interests.

There is fear that expansion will so radically change the character of the Community that true integration will never come. Unless the EC moves cautiously and rationally toward expansion, their plans for integration could encounter significant social and political barriers.

Another fear is the creation of two classes of citizens, the 'commercial' Europeans and the 'national' Europeans. These two classes are necessary because the commercial European exist only economically and professionally, but not politically. The underlying thesis is that the two interests are diametrically opposed.

While there may emerge two classes of Europeans, commercial and national, it is possible that they will be complimentary rather than mutually exclusive. A new form of government in Europe may call for a different type of citizen depending on whether the issues involved are

economic or political. A coalition of old-style European unionists and pan-European commercial interests may unite to form a stronger composite citizen.

This split personality European may do as well as a citizen of the United States of America. However, the chances of peacefully synthesizing citizen concerns for the national as well as community interest will be reduced under rapid EC expansion. EC expansion must be deliberate and well planned. Those entering must first have the opportunity to develop some sense of 'Europeanism'.

Do these problems then support the prediction of the soothsayers who maintain, "To the question, is the European Community a step toward political union, a step toward a United States of Europe? The answer is a clear NO." ⁵⁶ The pessimists claim that most Europeans believe that EMU and all the economic trappings are only a way to make themselves richer. This is a common theme among those who envision only economic unity in Europe. However, it is a somewhat naive outlook.

Economic and financial journalist Daniel Burstein espouses a more realistic viewpoint. "The EC dialogue on political union will start out vague, but Europe will evolve steadily into a supranational, federal entity...it will be a complex structure not quite like anything ever seen before. It will be a 'United States of Europe'". ⁵⁷

The aim in Europe for the last forty years has been not only economic but social and political integration. However, many say that national self-interests in Europe are too strong to conceive of a 'United States of Europe' any time soon, if at all. The argument is that there are too many cultural and political barriers to overcome. The obstacles are significant.

Yet, the far future may not be so far away after all.

We must not paint a 'United States of Europe' in the image of the United States of America. The structure and the relative power of the member states (nations) may be very different than what is in the US. There may be room to accommodate everyone. In economic matters, the EC central government may be in the forefront with the member states retaining a larger role in political and social matters.

The fear that Great Britain's reluctance to join in this Europeanism will hinder progress may be too pessimistic. Chances are that Britain will be overwhelmed by the emergence of an even more powerful Germany. Britain's need to compete economically will bring them into the fold. However, it appears that Germany and France will continue to be the driving force toward a federalism and will be the nucleus of the new Europe.

There are still two major troubling questions as Europe and the EC move toward some form of economic and political union. First, will Europe decide the global monetary order? Second, will Europe become a zone of protectionism and barriers to outside trade?

The answer to first question is most likely. A common European currency is in the future and perhaps nearer than we think. The ecu could become the world's leading currency in terms of its role in trade and the volume of the financial market. It could have much greater weight relative to other major currencies. If this happens, the EC would rise in power in the international financial community. The US and even Japan may find themselves subordinated to the EC in global monetary decisions.

What about a 'fortress' Europe? Will the EC become a protectionist

community? The United States may be in a reasonable position here. If the United States does not isolate itself and works within the EC, the special relationship between Europe and the US should continue. Additionally, the EC is a greater exporter of goods and services than an importer and it would not be in its best interests to set up trade barriers to the outside world. However, the EC will grow more in economic importance to the US. Unless the US builds a strategic partnership with Europe, it will suffer economically on the world markets.

US dealings with Europe to provide continued security could have an impact on how the US fares with Europe economically. There is much debate over the future of NATO and the role of the U.S. in the collective defense and security of Europe. Talk has centered around revision of the NATO charter and US involvement in European security.

The United States must remain involved in European security for political, moral, and economic reasons. As previously stated, the US has a great stake in the future of Europe and must maintain economic and political access to Europe. However, convincing both communities that this is in everyone's interest may be difficult. There is the danger that a self-absorbed Europe and inward looking US could lead to a spate of isolationist and protectionist policies.

To retain popular support for US involvement in European security, we must show concrete proof of our cultural, ethnic and economic interests in Europe. We can do this through joint American-European ventures. One suggestion for linkage is to create a North Atlantic integrated trade area between North America and the European trade areas and the EC integrated markets. The interest in this trade area could then be linked to our

security interests in Europe.

Three conditions would speed the process toward a united Europe. One, the EC is completely successful in implementing all the provisions of the Maastricht Treaty. A common currency and a common foreign defense policy are significant measures of unification. Two, the EC restricts full membership to those nations that meet the economic, political and social convergence criteria. Any dilution of EC strength or resolve will hinder efforts toward unification. Thirdly, visionary leadership in the right place at the right time leads the EC on the path toward unity.

The success of European unification may depend on how many of these three factors come into play in the progress of Europe. The chances for all three instances to occur are uncertain. Yet, do not dismiss a 'United States of Europe' and a community of 'Europeans' out of hand. Afterall, stranger things have happened.

Major Elements of the 1992 Program

In standards, testing, certification Harmonization of standards for:

Toys
Automobiles, trucks, and motorcycles
and their emissions
Telecommunications
Construction products
Machine safety
Measuring instruments
Medical devices
Gas appliances
Cosmetics
Quick frozen foods
Flavorings
Food preservatives
Instant formula
Fruit juices
Food inspection
Definition of spirited beverages and
aromatized wines
Tower cranes (noise)
Household appliances (noise)
Tire pressure gauges
Detergents
Fertilizers
Lawn mowers (noise)
Medicinal products and medical
specialties
Radio interferences

New rules for harmonizing packing, labeling, and processing requirements

Ingredients and labels for food and
beverages
Nutritional labeling
Classification, packaging, labeling of
dangerous preparations

Harmonization of regulations for the health industry (including marketing)

Medical specialties
Pharmaceuticals
Veterinary medicinal products
High technology medicines
Implantable electromedical devices
Single-use devices (disposable)
In-vitro diagnostics

Changes in government procurement regulations

Coordination of procedures on the
award of public works and
supply contracts
Extension of EC law to
telecommunications, utilities,
transport
Services

Harmonization of regulation of services

Banking
Mutual funds
Broadcasting
Tourism
Road passenger transport
Railways
Information services
Life and non-life insurance
Securities
Maritime transport
Air transport
Electronic payment cards

Liberalization of capital movements

Long-term capital, stocks
Short-term capital

Consumer protection regulations

Misleading definitions of products
Indication of prices

Harmonization of laws regulating company behavior

Mergers and acquisitions
Trademarks
Copyrights
Cross-border mergers
Accounting operations across borders
Bankruptcy
Protection of computer programs
Transaction taxes
Company law

Harmonization of taxation

Value-added taxes
Excise taxes on alcohol, tobacco and
other

Harmonization of veterinary and phyto-sanitary controls

Harmonization of an extensive list
of rules covering items such as:
Antibiotic residues
Animals and meat
Plant health
Fish and fish products
Live poultry, poultry meat and
hatching eggs
Pesticide residues in fruit and
vegetables

Elimination and simplification of national transit documents and procedures for intra-EC trade

Introduction of the Single
Administrative Document (SAD)
Abolition of customs presentation
charges
Elimination of customs formalities and
the introduction of common border
posts

Harmonization of rules pertaining to the free movement of labor and the professions within the EC

Mutual recognition of higher
educational diplomas
Comparability of vocational training
qualifications
Training of engineers and doctors
Elimination of burdensome
requirements related to residence
permits

Source: *Business America*, August 1,
1988, p.2

APPENDIX B

MAJOR ISSUES FOR U.S. COMPANIES IN EC-92

EXTRACTED AND CONDENSED FROM: STEPHEN COONEY, EC-92 AND US INDUSTRY. NATIONAL ASSOCIATION OF MANUFACTURERS, FEBRUARY 1989

1. Technical and Environmental Standards. The harmonization of technical standards can have a major impact on current and future access of goods produced by U.S. companies for the EC market. The expedited adoption of common EC standards is seen by U.S. companies as a major benefit. However, there are serious concerns regarding timely and adequate access to standards information through the voluntary EC standards setting process. Also, U.S. companies have concerns regarding the implementation of EC certification and testing recognition procedures.

2. Public Procurement. The enhancement of existing EC rules on the opening of member government procurement and the extension of EC rules to the sectors presently excluded from GATT or EC discipline are designed to increase dramatically cross-border procurement within the EC. The new rules, at least in the previously excluded sectors, will not necessarily apply to non-EC source products. But the EC has indicated a willingness to consider open access on a reciprocal basis. There is concern with the new local content rules included in the proposals regarding procurement in the presently excluded sectors. However, business is encouraged by the principle of opening these markets within the EC and the commitment to negotiating opening of these sectors to other signatories of the GATT procurement code.

3. Reciprocity. The controversial EC policy of extending intra-EC market initiatives to non-EC producers, only insofar as EC trading partners provide equivalent access to their markets, has led to great public concern. Many believe this will lead to a "Fortress Europe" in world trade. Foreign access would only be granted on the basis of specifically negotiated bilateral reciprocal agreements. The October 1988 Commission statement on the definition of reciprocity has alleviated some US industry concerns regarding this subject. However, how this policy is applied in some important specific sectors such as capital movement and financial services is still of concern.

4. SECTORAL TRADE ISSUES. A major subject within the EC-92 program is the effect of internal market liberalization on EC trade and competitiveness in specific commercial sectors. The EC is moving toward a common commercial policy in such sectors, which means not only liberalization of the internal market, but a common external trade policy, including elimination of remaining national trade barriers against non-EC goods. The issue of reciprocity may affect the following trade sectors more than others; Automotive trade, telecommunications, and information technology and advanced electronics.

5. RULES OF ORIGIN AND LOCAL CONTENT. U.S. industry is strongly concerned with the development of EC rules that determine whether goods are of EC origin, not only for the application of specific trade benefits or penalties, but also on a more general basis regarding the treatment and access of foreign companies or producers in the EC market.

6. INTELLECTUAL PROPERTY. Enhancement and completion of a Europe-wide system of protection of trademarks, patents and copyrights is a process that pre-dates EC 92. However, it has been stimulated by plans to create a more integrated market. U.S. business is concerned with the cumbersome search procedures and the possibility that the refusal of one national registry to accept a proposed trademark application means a failure in all EC jurisdictions.

7. SOCIAL DIMENSION. The social dimension of EC-92 includes new initiatives in employment and social affairs. U.S. business supports establishing EC-wide safety standards, reducing regional disparities, improving worker training and enhancing labor mobility. Concerns are over other initiatives that would have the effect of establishing more rigid EC-wide industrial relations policies and practices. Of particular concern is the requirement to expand consultation and information requirements.

8. COMPETITION POLICY. The establishment of EC-level control over mergers and acquisitions, particularly large-scale multinational combinations, is seen by U.S. companies as potentially providing an expedited means of increasing EC-wide competition, while producing substantial gains for the EC through improved economies of scale. Concern is over whether there should be a single EC policy on hostile takeovers.

9. MONETARY POLICY. The commitment of the EC to closer monetary policy coordination will have a major impact on the way U.S. companies do business in Europe. The full liberalization of capital movements and monetary union is significant. The outcome of decisions concerning these two issues will have a major impact on U.S. international industrial competitiveness. The movement of the Deutschmark within the EMS will affect both dollar-rate production costs within the EC and the competitive prices of German and other EC manufactured goods on world markets. Of equal significance to U.S. companies, in combination with the complete liberalization of capital movements planned by 1992, will be the impact on production location decisions within the EC itself.

10. OTHER POTENTIAL ISSUES. The general U.S. business assumption is that the EC will eventually have to include a common export control policy. It is not clear how the U.S. government and the EC will resolve differences in export licensing practices and how such arrangements may affect U.S. companies. Another issue concerns defense procurement. Procurement for non-military purposes is covered by existing procurement directives. However, procurement of material for specifically military purposes is excluded from both the GATT code and existing directives. It is not yet clear what effect proposals on intra-EC defense procurement will have on the U.S. defense industry or existing procurement arrangements with NATO.

* A report by the US government has subsequently reaffirmed the concerns of US business as expressed in the NAM report. EC 1992: AN ASSESSMENT OF ECONOMIC POLICY ISSUES RAISED BY THE EUROPEAN COMMUNITY'S SINGLE MARKET PROGRAM, United States Government, Task Force on the EC Internal Market, May 1990, details those items found in the NAM report and adds the following:

1. NATIONAL TREATMENT: It is essential that US companies operating in the single market receive national treatment--ie., that they not be discriminated against because they are not of European parentage. The United States is strongly opposed to any attempt by the Community to adopt measures which would treat foreign-owned companies operating in the single market differently than EC firms.

2. QUANTITATIVE RESTRICTIONS: EC member states presently maintain nationally administered quantitative restrictions (QRs) on imports of a wide variety of products. With the creation of the single market, member states must phase out these restrictions. However, it is likely that the EC will transform some of these restrictions, most notably those on automobiles and footwear, into Community-wide measures for a transitional period. In other areas, such as television programming, the EC has introduced new quotas in creating the single market. The US opposes the use of quantitative restrictions (even transitional ones) because they distort trade flows and encourage inefficiency. In the specific case of automobiles and parts, the United States is concerned that its exports not be hindered or impaired by any EC-Japan arrangement or other shift in EC auto policy.

3. CIVIL AVIATION: The EC is integrating and liberalizing its internal air transport market--a development which the US generally supports. As part of that process, the Commission is gradually receiving the authority to deal with third countries on aviation matters. The question is whether the EC will seek greater liberalization of air travel across the Atlantic to match its internal policy or will try to use its collective negotiating strength to restrain US aviation opportunities. The United States maintains that existing route rights of US carriers must be respected under international law.

****** In April 1991, Stephen Cooney updated his first report with EC-92 New Issues and New Developments. While this later report discusses the same major issues for US-EC trade as the previous report, it is more comprehensive in its treatment of the European Community's efforts toward union. In his forward to the report, Mr. Cooney says, "The entire concept of the European Community has changed since our first report in 1989. In the near future, we are likely to be talking about a bigger European Community and one that deals with policy issues beyond economic affairs." It is encouraging that US business is beginning to realize the full import of what is happening in Europe.

APPENDIX C

RECOMMENDATIONS FOR DOD DEFENSE ACQUISITION POLICY

EXTRACTED AND CONDENSED FROM: COLE, HOCHBERG, AND THERRIEN,
EUROPE 1992: CATALYST FOR CHANGE IN DEFENSE ACQUISITION. DEFENSE
SYSTEMS MANAGEMENT COLLEGE 1990. pps. 87-89.

"The DOD can lessen the impact of these changes by supplementing its current armaments cooperation structure with appropriate high-level advocacy and oversight...the DOD should review its current organization and policies for international armaments cooperation...and send a strong and timely signal to Europe that it is serious about maintaining transatlantic relationships in armaments collaboration by implementing the following recommendations."

1. Update DOD armaments cooperations goals through a Secretary of Defense letter. The letter should include policies on non-NATO, Nunn initiative programs, and *NATO CAPS. Direction to establish a permanent Defense Cooperative Working Group and ad hoc defense Cooperative Action Group should also be included. It is imperative that goals be initiated from the highest level in DOD; otherwise, Europeans will not view any initiated changes as credible.

2. Reestablish the Defense Cooperation Working Group (DCWG) as the central DOD body for overseeing and planning armaments cooperation. The group should:

- Track ongoing cooperative programs
- Work with the Services to establish valid and important cooperative programs early in the acquisition process

* NATO Conventional Armaments Planning System

- Monitor industrial base impacts of armaments cooperation
 - Work toward resolving interdepartmental, interservice, and international problems on technology transfer, re-export sales, and export licensing.
 - Work closely with the Congress to obtain support for armaments cooperation
 - Oversee actions of the ad hoc DOD Cooperation Action Group
3. Establish optimal DOD organization and policies for defense cooperation and trade through an ad hoc DOD Cooperative Action Group tasked with updating DOD organization, management practices and policies.
 4. Increase DOD-wide education on international aspects of program management.
 5. Work through the NATO Conference of National Armaments Directors (CNAD) to ensure changes in the European acquisition community are not detrimental to transatlantic armaments cooperation and trade.

* During an April 13, 1991 phone conversation, Mr. David Tarbell, Director, International Economics and Energy, Office of the Under Secretary of Defense, discussed the above recommendations. He pointed out that there have been a general series of Secretary statements emphasizing the need and opportunities for international cooperation in defense procurement. Additionally, there have been recent efforts within CNAD to define a code of conduct for defense trade and there are a number of program specific ad hoc groups working these issues. However, DOD does not really have a mechanism for dealing with the EC as a whole. DOD's cooperative efforts are through NATO, bilateral contacts, and programmatic initiatives on specific systems.

ENDNOTES

¹ George Brock, "Delors Calls For a 30-Nation EC Superpower," London Times, October 14, 1991, p. 1.

² Ibid.

³ Don Cook, Forging the Alliance (New York, 1989), p. 236.

⁴ Ibid. p. 237.

⁵ However, in 1960 Britain, Austria, Denmark, Norway, Portugal, Sweden, and Switzerland formed the European Free Trade Association (EFTA) in response to the newly created European market.

⁶ Timothy M. Devinney and William C. Hightower, European Markets After 1992, (Massachusetts 1991), p. 23.

⁷ Background Notes: European Community, (United States Department of State, April 1990) p. 2.

⁸ Michael Silva and Bertil Sjogren, Europe 1992 & The New World Power Game, (New York 1990), p. 104.

⁹ Devinney and Hightower, p. 39.

¹⁰ Frans H.J.J. Andriessen, "The Integration of Europe: It's Now or Never," European Affairs Dec 1991, No. 6, p. 6-11.

¹¹ Lucy Walker, "EC Opens Trade Doors to the East," The European October 4-6 1991, p. 19.

¹² Devinney and Hightower, p. 80.

¹³ Why this particular date? It was chosen to coincide with the end of the next commission's term of office thus providing for program completion within the period of two commissions.

¹⁴ John Pinder, "The Single Market: A Step Towards European Union," in The European Community and the Challenge of the Future, ed. Juliet Lodge (New York 1989) p. 95.

¹⁵ LTC Willie E. Cole, LTC Richard C. Hochberg and CDR Alfred E. Therrien Europe 1992-Catalyst For Change in Defense Acquisition, (Wash, DC, 1990) p. A-2.

¹⁶ Ibid, p. A-3.

¹⁷ Pinder, p. 109.

¹⁸ Michael Calingaert, The 1992 Challenge From Europe: Development of the European Community's Internal Market (Wash, DC, 1988) p. 20.

¹⁹ Ibid. pps. 21-27.

²⁰ Actually EMU had been discussed in the EC long before the SEA. In December 1969 the heads of member states meeting at the Hague decided to adopt it as the long-term goal of the EC. Between then and 1987 a spate of directives, resolutions and Council decisions took place concerning the coordination of economic and financial policy. An early work of economists Michele Fratianni and Theo Peeters, One Money for Europe (1979), provides a comprehensive study of EMU's evolution and strategy for monetary union in Europe.

²¹ Matthew Crabbe, "Creating a Zone of Economic Stability," The European, September 20-22, 1991 p. 22.

²² Ibid.

²³ Howard LaFranchi, "Potholes Appear in Road to 1992", The Christian Science Monitor, Oct 12, 1991, p 3.

²⁴ Loukas Tsoukales, "The Political Economy of the European Monetary System", The Political Economy of European Integration, editors P. Guerrieri and P. Padoan. (Maryland: 1989), p. 67.

²⁵ For better insight into the wider economic and political significance of EMS, see Loukas Tsoukalis, "The Political Economy of the European Monetary System" pps. 58-85, and Marcello DeCedcco, "The European Monetary System and National Interest" pps. 85-100. Both articles appear in P. Guerrieri and P. Padoan, editors, The Political Economy of European Integration (Maryland: Barnes and Noble Books) 1989

²⁶ Michele Fratianni and Juergen von Hagen, "Public Choice Aspects of European Monetary Unification," Cato Journal, Fall 1990, Vol 10, No 2, p.391.

²⁷ Ibid. p. 394.

²⁸ Not all economists agree that a unique market needs a unique currency. Some feel that multiple currencies are compatible with a single market. This however, is not the point of contention within the EC. The debate there revolves around the type of single currency, whether it should stand alone or be parallel to other national currencies and the timing of introducing a single hard currency. For an economic discussion on the advantages/disadvantages of a single currency, see: Pascal Salin, "The Choice of Currency in a Single European Market", Cato Journal, pps. 363-386 and Roland Vaubel, "Currency Unification, Currency Competition, and The Private ECU: Second Thoughts", International and European Monetary Systems, ed. Emil-Maria Claassen, pps 171-188.

²⁹ Barry D. Ward, "The Emerging ECU", Europe, Dec 1990 No 302, p 11.

³⁰ Peter Middleton, "Only A Hard Ecu," European Affairs, August/September 1991, No 4, p. 12.

³¹ It is also soft because it is a weighted currency. The weights that the EC member currencies are given in the ECU currency basket depends on the member countries' shares in Community GNP and intra-EC trade and in the short-term monetary support mechanism. The Council of Ministers weigh these shares, but the currency weights must stay within the range

set by these three criteria. All the currency weights are to be reexamined every five years or if one changes by 25% or more. The weights are adjusted in such a way that the external value of the ECU does not change as a result.

³² Middleton, p. 12

³³ "The Unpopularity of Two-Speed Europe," The Economist,
September 14-20, 1991. p. 89

³⁴ "Maastricht, As Seen From Afar," The Economist, Nov 30, 1991
Vol 321, No 7735 p. 25.

³⁵ "LaMont Tours Horizon," Financial Times, Nov 1, 1991, p. 22

³⁶ "The Road to Maastricht," The Economist, November 23, 1991. p. 15.

³⁷ "The Federalist Fight Back," The Economist, Nov 30, 1991 p. 48.

³⁸ "The Deal is Done," The Economist, Dec 14, 1991, p. 51

³⁹ Ian Davidson, "Hollow Victory for Britain As It Launches Two-tier
Europe," Financial Times, Dec 12, 1991. p. 3.

⁴⁰ Chris Moncrieff and Geoff Meade, "Major Faces 'Stark Choice'",
Foreign Broadcast Information Service, 10 Dec 1001 FBIS-WEU 91-237,
Washington, DC p2.

⁴¹ "European Business Endorses Move on Monetary Union,"
Financial Times, December 12, 1991, p. 4. No 31, 632.

⁴² Roy H. Ginsberg, "US-EC Relations," The European Community
and the Challenge of the Future, ed. Juliet Lodge, 1989 p. 256

⁴³ Hearings before the Subcommittees on Europe and the Middle East,
and on International Economic Policy and Trade, Europe 1991: Economic
Integration Plan, Committee on Foreign Affairs, House of
Representatives, Feb 23, Mar 23, Apr 5, 13, May 10 and 11 1989, US
Government Printing Office, Washington, DC.

⁴⁴ Ibid., p. 147, Testimony of Robert D. Hamaats VC, Goldman Sachs International.

⁴⁵ Silva and Sjogren, p. 216-223.

⁴⁶ Calingaert, p. 77

⁴⁷ Stephen Cooney, EC-92 and US Industry, National Association of Manufacturers, Feb 1989. p. 9.

⁴⁸ Ibid., p. 24.

⁴⁹ Ibid., p. 3.

⁵⁰ Peter Rashish, "After Maastricht", Inside Europe, Newsletter Jan/Feb 1992. p. 1.

⁵¹ Cole, Hochberg and Therrien, p. 93.

⁵² Calingaert, p. 99-101.

⁵³ Ginsberg, p. 257.

⁵⁴ Federal Broadcast Information Service, "Kohl: Way to Union Irreversible", FBIS 11 Dec 1991 WEU-91-237, Hamburg DPA, p. 7.

⁵⁵ Devinney, p. 191.

⁵⁶ John Naisbitt and Patricia Aburdene, Megatrends 2000, (New York:1990) p. 55.

⁵⁷ Daniel Burstein, Euro-Quake, (New York: 1990) p. 323.

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