

**The Euro**  
**or a Sustainable Future for Britain?**

**A Green Critique of the Single Currency**

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## **A Green Critique of the Single Currency**

### **INTRODUCTION**

It seems that anyone opposed to the single currency has to get used to being caricatured as an antediluvian “little Englander”. After all, the argument goes, anyone who is on the same side of the debate as Rupert Murdoch must be reactionary, xenophobic, and “anti-European”. Well, no, actually. Whilst it is certainly true that opposition to the Euro brings with it some strange and often questionable bed-fellows, it is perfectly possible – and urgent – for progressive internationalists to oppose the single currency. That does not make us anti-European. Far from it. It is precisely because British Greens have a wider vision about the role of Europe that we are so critical of the narrowly defined economic objectives of the EU, of which European monetary union (EMU) is such a key part.

We believe that the EU must put social and environmental justice at the heart of its domestic and international policies. To do this it must promote strong, diverse, self-reliant regional economies. But one of the overriding aims of the single currency is to turn Europe into one giant economic superpower, able to compete more efficiently with the US and Japan. To this end it is increasing economic centralisation and international trade, and is accelerating the process of economic globalisation.

We therefore oppose EMU and the single currency, not for narrow nationalistic reasons, but because we believe that the economic logic of this dubious experiment is flawed and rides roughshod over our key social and environmental concerns.

The purpose of this report is to set out a Green critique of both the process and the goal of European monetary union, and to demonstrate how joining the Euro would prevent Britain from moving beyond conventional economics to the economics of sustainability. The first section introduces the economics of sustainability. The second section examines how the entire EMU project has been shaped to meet corporate needs, and how it will accelerate the process of economic globalisation – a process that is moving precisely in the opposite direction to the economics of sustainability. The third section explores the key features of EMU in more detail and shows how they act as obstacles to achieving the goal of sustainable development. The fourth and final section sets out a Green

alternative that puts sustainability at the heart of its economic system, and which is based on a locally sensitive, decentralised system of democratic control.

## **SECTION ONE: THE ECONOMICS OF SUSTAINABILITY**

The central aim of Green politics is to create a truly sustainable society; one that meets basic human needs in a way that will allow the natural systems of the planet to continue meeting those needs indefinitely. This requires a genuinely equitable distribution of resources, not only amongst the current human population, but also between our own and future generations. It also depends on a truly democratic system of governance where the needs of even the most marginalised are heard and recognised. Only when a full commitment to equity has been established will people be prepared to work together across cultural and political divides to overcome the many challenging obstacles to sustainability.

A commitment to sustainability translates into a clear set of socio-economic priorities and constraints that differ markedly from the consumption-and-growth-at-all-costs assumptions of conventional free-market economics. Decent housing and healthy food must be available to all. High standards of environmental protection should guarantee unpolluted air and water and the opportunity to enjoy access to an unspoilt natural environment. Everyone should be able to find a useful and fulfilling occupation without facing exploitation at work or having to sacrifice contact with family and friends. Redistributive measures should be employed to reduce divisive inequalities, provide a safety net against poverty and ensure a good standard of education and healthcare. Fiscal and regulatory frameworks should systematically favour environmentally benign forms of production and consumption.

From a Green perspective, Britain should only join the single currency if membership would make it easier for us to meet these priorities and constraints. The Green Party's view is that it would not and that Britain will be better able to establish a truly sustainable economy outside the Euro. This conclusion stems from three main features of EMU: the first is the size and diversity of Euroland; the second is the monetary policy of the European Central Bank (ECB); and the third is the undemocratic nature of the EMU project. We will examine these features in detail in later sections of this booklet, but in our view, they each reflect the fact the entire project has been moulded to fit the corporate agenda. It suits multinational corporations to have a uniform market with a single currency over as large an area as possible, regardless of the natural diversity of that area. They like nothing better than a rigid monetarist environment with maximum price stability, come what may,

enforced by a central bank that is beyond all democratic control. And if this requires a smokescreen of misplaced and almost unquestionable integrationist idealism to dupe the people into accepting it, so be it.

In EMU we are witnessing nothing other than the creation of the European branch of the globalised economy, yet the economics of globalisation are far removed from the economics of sustainability.

## **SECTION TWO: A GREEN CRITIQUE OF GLOBALISATION**

There is overwhelming evidence that economic globalisation is responsible both for growing social inequalities and for unprecedented environmental damage. For example, UNCTAD's 1997 *Trade and Development Report* concludes that globalisation in its current form is responsible for a dramatic increase in global inequality. In 1965, the average personal income in G7 countries was 20 times that in the seven poorest countries in the world. By 1995, the difference had become 39 times greater. Income inequalities and polarisation are also growing within countries, with the income of the top 20 per cent of the population in most nations having increased significantly and disproportionately since the early 1980s. At the same time, contrary to the claims of some that globalisation automatically leads to poverty reduction, the 1990s ended with 70 million more people in the developing world (excluding China) in poverty than at the start of the decade.<sup>1</sup>

Meanwhile, the failure of northern governments to regulate international financial markets more effectively has destroyed livelihoods on a massive scale. Over recent years, capital market liberalisation, assiduously promoted by northern governments and the IMF, has brought poverty and instability to a large group of developing countries, many of which had established a successful track-record in human development. The development of global capital markets has also increased opportunities for tax evasion, costing developing countries billions of dollars.

Free market policies are also having an adverse effect on the environment. The need to be ever more globally competitive leads to the unsustainable extraction of natural resources. India's export shrimp industry is a case in point. Not only has the development of this industry resulted in the displacement of millions of farmers and fishworkers, it has also led to the destruction of mangrove forests, the depletion of natural fisheries, and an increased salinity in the ground water, which destroys both agricultural land and drinking water. In spite of this, however, India is being persuaded to increase its emphasis on exports.

At the same time, globalisation brings environmental legislation under attack. For example, *Deregulation Now*, a publication by a group of German and British business people focusing on the food, chemicals and transport sectors, makes it clear that they will oppose any improvement in European environmental legislation beyond the lowest common denominator. They state, “any overlay of European standards, over and above existing international and national standards, should be resisted, otherwise the competitiveness of European industry will be damaged.”<sup>iii</sup> In the UK alone, over 600 regulations have been identified for deregulation since 1994. Of these, 129 concern the Department of Environment, and include measures covering health and safety, biotechnology, advertising in sensitive areas, hedgerow preservation, food standards, and energy efficiency<sup>iii</sup>.

In reality, of course, the obvious beneficiary of globalisation is the international corporate sector. The growth and power of transnational companies (TNCs) is both enormous and unprecedented. TNCs now account for about one third of world output, and two thirds of world trade. The 10 largest corporations together have a greater turnover than do the 100 smallest countries. Their strength and mobility have been facilitated both by technological advances and by the progressive withdrawal of investment controls by governments and by the World Trade Organisation (WTO). By exploiting differences in social and environmental standards between countries in order to maximise profits, TNCs are able to create global production systems over which Governments have ever less control. Democracy in Europe is also further undermined, as global corporate giants disproportionately increase the bargaining powers held by TNCs, and thereby strengthen corporate dominance in political decision-making.

At the same time, economic globalisation and deregulation have created a vicious cycle whereby workers, communities and governments are increasingly forced to compete with one another in a world-wide “race to the bottom” on wages, taxes, environmental protection, and any other factor that might influence investment decisions. International competitiveness is becoming the single most important indicator of a society’s health, inevitably leading to lower social and environmental standards. This, together with the increased exploitation of natural resources and the massive amounts of energy used to shift goods from one end of the world to the other, ensures that corporate-led globalisation is both socially and environmentally unsustainable.

### **EMU accelerates globalisation process**

Over the past 10 years, EU liberalisation, deregulation and privatisation policies have facilitated the waves of mergers and acquisitions, which have resulted in even greater corporate concentration.

EMU, by promoting greater international competitiveness, is likely to encourage this trend yet further. The 1997 record of US \$384 billion spent in European mergers – an increase of almost 50 per cent in one year – was exceeded by even higher levels and an unprecedented number of cross-border mergers in 1998. These mergers are instigated by Single Market competition, which grows increasingly more fierce as the remaining barriers to trade are dismantled one by one.<sup>iv</sup>

The banking and insurance sectors have been particularly hard hit, as companies search for larger markets, advantages of scale, cuts in costs and higher profit margins. The recent take-over of the Belgian bank BBL by the Dutch-based ING Group, and the merger of Zurich and BAT, two large insurance companies, are simply among the latest examples. The price for this is expected to be tens of thousands of jobs, together with the closure of up to half of the 166,000 bank branches in the EU. The financial services sector is not alone: some analysts suggest that the new wave of mergers and corporate downsizing in Europe as a result of the single currency could lead to one out of every twenty industrial workers becoming unemployed.<sup>v</sup> Moreover, the more geographically specialised Europe becomes, the greater the likelihood of asymmetric shocks and the less appropriate a common interest rate is likely to be.

At the same time, companies that previously organised their operations at individual country level are now increasingly operating on a European level. The single currency promotes this process by removing the final barriers in the Single Market, such as currency fluctuations. As a result, pan-European companies have huge advantages over smaller companies producing for local markets, since EMU eliminates expenses across Europe and leads to economies of scale. In 1995, for example, the US-based sportswear producer Reebok International had 14 distribution warehouses for its European market; three years later, only 10 were left. By 1 January 1999, when the Euro was introduced, a single distribution centre remained. This trend leads both to massive job cuts, and to a significant increase in the environmentally damaging long-distance transport of goods.<sup>vi</sup>

Monetary union is also likely to result in ever-fiercer cross-border competition. The Euro makes the instant comparison of prices and productivity within the whole of Euroland possible, increasing the trend of relocations to the most competitive areas, and exacerbating the competition between countries and regions to attract investments. As a Morgan Stanley economist has remarked, “If you remove currency as a safety valve, governments will be forced to focus on real changes to become more competitive: lower taxes, labour market flexibility, and a more favourable regulatory backdrop for business.”<sup>vii</sup> Under this scenario, the future for progressive policies like ecological tax reform, together with other measures to protect people and the environment, looks bleak indeed.

## **Whence globalisation?**

This process of economic globalisation has not happened by accident. It has been driven over the past three decades by the world's leading business elites, who share common aims, including economic integration, deregulation, and an economic philosophy based on free trade and international competitiveness. They have lobbied for free trade agreements including the GATT Uruguay Round (spearheaded by the International Chamber of Commerce), the North American Free Trade Agreement (NAFTA, promoted by the US Business Roundtable of TNCs together with Canada's equivalent Business Council on National Issues), and here in the EU, the European Single Market and Single Currency (led by the European Roundtable of Industrialists, ERT).

Indeed, the ERT has been one of the main political forces in the European Union for over a decade. Its unprecedented access to decision makers at both European and national levels has given it enormous influence over the EU's political agenda, and ensured that policies are increasingly introduced which favour the agenda of large corporations and promote economic globalisation.

Founded in 1983, it consists of around 45 highly influential heads of industry from European multinational companies, with a combined turnover approaching £400 billion. Its explicit aim is to change the way that Europe is managed; as former ERT Secretary-General Keith Richardson put it, "industry is entitled to a system that delivers results: an EU which functions like an integrated economic system with a single centre of overall decision making".<sup>viii</sup>

## **The ERT: an early advocate of the Single Currency**

The ERT, ever anxious to increase international competitiveness, was an early and vocal advocate of European Monetary Union. "Japan has one currency. The US has one currency. How can the Community live with twelve?" it asked in 1991.<sup>ix</sup> A few years earlier it had set up a separate body, the Paris-based Association for the Monetary Union of Europe (AMUE), to take forward its agenda on EMU. Its influence has been significant, as former Commission President Jacques Santer has gratefully acknowledged. Addressing an AMUE board of directors meeting in 1998, he said, "The members of the Association have been a major driving force behind the EMU project. Many of your companies have played a leadership role by clearly advocating the advantages of the single currency for the private sector and society as a whole".<sup>x</sup>

The AMUE claims to have organised over one thousand conferences and seminars to promote the single currency, involving officials from the Commission and from national states. It also has 3 seats on a 12 seat “independent” expert committee on the introduction of the Euro, set up, on AMUE advice, by the Commission. The committee’s work was instrumental in securing the European Council decision to launch a speedy introduction of EMU at the December 1995 EU Summit in Madrid. The AMUE is also often chosen by both the Commission and the European Parliament for public tenders requiring expertise in monetary matters – indeed, the Commission frequently consults the group on monetary questions, both formally and informally. “It’s a very confident way of working”, explains AMUE Secretary-General de Maigret. “They call us, we call them, they see us, we discuss matters. They are quite flexible.”<sup>xi</sup>

For the AMUE, EMU is a logical step towards the completion of the Single Market, which is still not as “efficient” as industry would like. According to de Maigret, EMU will bring “monetary stability and long-term certainty, which will increase productive investment, generate economies of scale and eliminate production costs, which in turn will increase competitiveness, sales, economic growth and employment”.<sup>xii</sup> Significantly, he says nothing about other euro-zone realities – in particular the widespread social and economic upheaval across Europe, which EMU has already caused.

AMUE, of course, is not alone. Alongside it, UNICE (the Union of Industrial and Employers’ Confederations of Europe) and AmCham (the EU Committee of the American Chamber of Commerce) share a similar approach. As AmCham’s Manager for European Affairs, John Russell explains: “We exchange a lot of information, have joint meetings and even publish joint papers”. These three corporate groups use what Russell calls the “choir approach”, echoing and reinforcing each other’s positions: “It is normally more effective not to say everything together, but to have different people telling the institutions more or less the same thing.”<sup>xiii</sup> Since the single currency was introduced, UNICE has been calling for structural reforms and flexible markets so that its “benefits” can be reaped most efficiently. The reforms are meant to achieve a permanent reduction in public spending, “particularly in the areas of public consumption, pension provision and health care, welfare benefits and state subsidies”.<sup>xiv</sup> UNICE’s views on the single currency are uncompromising: “Try to favour business, that’s the point. This is a clear follow-up of the EMU.”<sup>xv</sup>

Favouring business and favouring employment are not always the same thing, however – and while EMU is certainly about the former, its interest in the second is small.

### **In whose interest?**

With such parentage it comes as no surprise that one of the main economic arguments supporters of EMU advance is that the Euro would reduce costs and uncertainty for industry and would therefore boost international trade. Businesses in the EU have to allow for foreign exchange transactions and fluctuations in exchange rates. These currency exchange costs amount to only about 0.1% of GDP but they would be eliminated. Similarly, though of marginal benefit in the scale of things, individual ‘Eurocitizens’ would be relieved of the exchange commissions they pay when travelling between member states. Governments’ economic planning would be simplified by stable currency markets and an end to the threat of competitive devaluation by fellow member states. Greater price and wage transparency across borders would, they claim, also help to ensure the efficient allocation of goods, labour and resources and control inflation.

Economists are divided on whether or not these benefits would outweigh the economic costs of joining the single currency.<sup>xvi</sup> For the reasons outlined below, we believe that they would not, even in conventional economic terms. But further still, joining the Euro would prevent Britain from moving beyond conventional economics to the economics of sustainability.

## **SECTION THREE: EMU – TOO BIG, TOO RIGID, TOO LITTLE DEMOCRACY**

### **Will the Euro fit Euroland**

#### ***What is an optimal currency area?***

One of the requirements of Green economics is that economic policy decisions should be as sensitive as possible to local social, environmental and economic conditions. Since certain key instruments of economic control, such as interest rates, cannot be varied between different parts of a single currency area, it will be hard to gear economic policy to local conditions in a very diverse currency area. Decisions will necessarily be inappropriate for some of its regions.

For example, if a central bank were to set base interest rates at a relatively high level in order to dampen inflationary pressures in the prosperous regions of its currency area, this would worsen recession in the more deprived regions. Conversely, if the central bank were to lower interest rates

to meet the needs of these poorer regions, the economy in the prosperous regions might overheat. This would have undesirable local effects such as increased congestion, environmental pressures and rapidly rising house prices. It might also feed inflationary pressures throughout the currency area. This would, in turn, undermine the effectiveness of the original attempts to help the poorer regions. Clearly, the larger and more diverse a currency area is, the harder it will be for its central bank to set interest rates at a level to suit the entire area.

Indeed, a question that has been much debated since the Nobel Prize winner, Robert Mundell published his seminal work on the subject in 1961, is: what constitutes an 'optimal currency area'? Economists agree that a currency area is optimal when any economic shock impacts on it symmetrically, or at least not so asymmetrically that any part of the area requires additional demand management to help it absorb the shock.

This definition does not require the regions of an optimal currency area to be completely homogenous as there are, according to orthodox economic theory, a number of mechanisms that increase their cohesion and help them to react similarly to economic shocks.

Chief amongst such mechanisms are labour and capital mobility. In other words, according to the theory, unemployed workers in depressed regions are expected to relocate to any prosperous regions that are experiencing labour shortages, the Tebbit school of "on your bike" economics. Conversely investors will, theoretically, find greater returns in depressed regions where there is a pool of readily available and presumably cheap labour, and lesser returns in prosperous regions where the factors of production are more scarce and expensive. If the point is reached where enough new investment has occurred in the depressed areas to allow the remaining workers to stay put and get a new job locally then equilibrium will have been re-established within the currency area. Failing that the different regions should specialise, the poorer ones in labour intensive activities, the richer ones in capital intensive production, and trade with each other to even out the imbalances. If equilibrium is still not achieved then the government of the currency area can always bolster flagging regions with some regional aid and fiscal transfers from wealthier regions.

There are problems with the theory. For instance, left to their own devices, investors tend to favour centres of market buoyancy, rather than depressed areas. Similarly, the migration of workers away from a depressed area tends to accelerate the downward spiral of market contraction and recession, rather than opening new opportunities for the people who are left behind. Together, these factors

will exacerbate rather than reduce regional disparities, thus increasing the need for redistribution between regions before the currency area can be considered optimal.

### ***Is Euroland an optimal currency area?***

In the decades running up to EMU, the EU devoted much energy to increasing the mobility of capital and labour and removing barriers to trade within the single market. It has also established a programme of regional assistance aimed at reducing the economic disparities between different areas. A number of economic convergence criteria were set up that were to be fulfilled by member states adopting the Euro. All these measures were aimed at reducing the economic disparities between the different regions of the EU, but have they succeeded? Is Euroland an optimal currency area?

Notwithstanding the EU's strenuous efforts, the countries of the EU and Euroland are economically, culturally, environmentally and socially very diverse. For example, in 1997, GDP per head in the EU's richest cities was five times that in the poorest rural regions. Unemployment levels in the worst hit regions of Spain were 10 times higher than in the more prosperous areas of Austria and the Netherlands. The cultural and environmental capacity for further economic growth in traditional agrarian areas is very different from that in more industrialised regions.

Additionally, there are ties, such as language and family, which quite naturally make people reluctant to relocate between different regions of the EU. Even the EU's regional aid policies and fiscal transfers between regions that are deliberately intended to reduce regional disparities within the EU are far smaller in proportion to the extent of these EU-wide regional disparities than are the equivalent domestic measures within most member states. They are also far smaller than the counterpart measures in the US dollar currency area.

Professor Tony Thirwall has reviewed the evidence of regional disparities in the EU.<sup>xvii</sup> He finds little clear evidence of economic convergence over time. Per capital incomes in the poorer regions and countries have caught up with those of the richer areas at an average rate of 2% pa between 1950 and 2000, but that rate was faster in the 1950s, 1960s and 1970s than in the 1980s and 1990s. The productivity gap between rich and poor regions has converged at a slightly faster rate, but this has been at the expense of growing levels of unemployment in the poorer regions. Disparities in unemployment levels appear to be remarkably stubborn. From the early 1980s they have shown a

pro-cyclical pattern, increasing during recessions and narrowing during booms. However they also show a slight but noticeable underlying upward trend.

Overall, research shows that regional disparities in living standards and unemployment across Europe depend largely on the relative performance of individual countries. In other words the relative fate of regions is predominantly tied to the performance of their national economy rather than to EU-wide economic trends.

Thirwall concludes, “I know no one who believes the current eleven countries of Euroland constitute an optimum currency area”. We are not about to challenge that consensus.

### ***Regional disparities under the Euro***

If Euroland is not an optimal currency area, economic shocks will be felt asymmetrically by its constituent countries and regions. This was illustrated most graphically in 1992 by the impact of German reunification on the forerunner of the Euro, the exchange rate mechanism (ERM). The ERM tried to keep participating currencies within a narrow band of exchange rate fluctuations, as a first step towards merging them into a single currency. The British Government’s ultimately unsuccessful attempts to keep the pound’s value within the correct band after German reunification severely distorted domestic economic planning. The government lost £18bn of currency reserves, one million jobs were lost and 1.75 million homeowners were pushed into negative equity. Since Britain’s unceremonious ejection from the ERM, inflation has fallen and whilst unemployment on the continent has continued to rise, in Britain it has halved.

If the ERM limited the control governments had over interest rates, inflation targets and hence exchange rates, membership of the Euro strips them of it completely. Policy becomes “one size fits all” and is driven centrally by the ECB. Yet as the ERM fiasco demonstrated, economically divergent countries react differently to economic shocks, and revaluing their currencies against each other is a vitally important way of avoiding the balance of payments problems that this would otherwise generate. Under the Euro, countries lose the safety valve of currency revaluation and without other compensating mechanisms such as a strong EU regional policy or inter-regional fiscal transfers, economic shocks will increase regional disparities.

As we shall see, this is a dangerous conclusion, not only for the current policies, institutions and aspirations of the EU, but also for any prospect of building a more sustainable future in Europe.

## **EMU: Deflationary monetarism writ large**

Even if it were not the case that Euroland is too large and too diverse for a single currency to operate efficiently within its borders, we would still be concerned by the unnecessarily strict and narrow form of monetarism that is enforced by EMU. All the rules imposed on participating countries aim to control inflation tightly by restricting the supply of money. Little or no attention is paid to the wider economic consequences of this such as the effect on employment or the environment.

The preconditions for membership of the Euro were established in the Maastricht Treaty. To qualify member states had to meet four economic convergence criteria. These were:

- a rate of inflation no more than 1.5% above the average of the three member states with the most stable prices;
- a budget deficit not greater than 3% of GDP and public debt not more than 60% of GDP;
- long-term interest rates not more than 2% above the average of the three best performing member states in terms of price stability; and
- two year's participation in the ERM.

The years leading up to the introduction of the Euro on 1<sup>st</sup> January 1999 were characterised by governments' attempts to cut their budget deficits in order to qualify for membership. During these years unemployment in the EU began to approach 20 million. Nevertheless, when the time came, Italy and Belgium were permitted to join the Euro, despite the fact that their debts exceeded the limit of 60% of GDP.

The Maastricht Treaty was also responsible for guaranteeing the ECB complete independence from political intervention in performing its overriding task of keeping a tight limit on inflation.

The final piece in EMU's monetarist jigsaw is the Stability Pact, agreed at the Dublin Summit of 1996. This commits members of the Euro to set budget deficits no greater than 3% of GDP in any one year, with the medium term aim of balancing their budgets. A government that exceeds this limit will be subject to financial penalties if it does not take corrective action and is not specifically exempted by a two-thirds voting majority of the EMU members of ECOFIN. The penalties take the

form of a fine of 0.2% of GDP plus 0.1% of GDP for every 1% of GDP the budget deficit exceeds the 3% limit, up to a maximum of 0.5% of GDP.

The combined effect of these measures has significantly coloured the economic environment of Western Europe. The ECB's priority is to set interest rates at levels that ensure that inflation stays below its target of 2%. Public spending and government borrowing are limited in order to restrict the money supply. This is the case even the EU member states outside the Euro-zone who are nevertheless still required to comply with the rules of EMU.

A prominent critic of the strictures this places upon national governments was the former German finance minister Oskar Lafontaine. He was swiftly removed from post after arguing that the German government should adopt a more reflationary approach to address the growing problem of unemployment. In many ways, Lafontaine's departure marked a symbolic victory for the ECB over national governments. It also confirmed the new deflationary monetarist orthodoxy that surrounds the Euro.

### **Democracy under EMU**

With the introduction of the Euro, control of interest rates passed from the member states' central banks to the ECB. Inflation targets are pursued by the ECB and the exchange rate strategy for the single currency is determined by the EMU finance ministers of ECOFIN in consultation with the ECB. Domestic fiscal policy is constrained by the need to meet the conditions of the Stability Pact. In short, much of the economic sovereignty of member states of Euroland has been pooled and handed over to European institutions, primarily the ECB.

Of course, in a true democracy the various electorates of the EU would be free to pool their sovereignty as they wish and to hand it to the institutions of their choice. However, two major questions hang over the democratic credentials of the EMU project.

The first relates to the ECB itself. It is guaranteed far greater freedom from political intervention than any of the central banks of the Euro's member states enjoyed. This contrasts with the situation in Britain for example where even the newly 'independent' Bank of England works to government-determined inflation targets. Allowing for differences in the way the inflation index is calculated in Britain and Euroland, the Bank of England's inflation targets are currently as tight as the ECB's. However, they can be varied to suit wider economic conditions and the Bank of England could even

see its independence removed by a future government. Nothing short of a revision of the Treaty of Rome would be necessary to change the relationship between the ECB and political institutions of the EU.

The powerful and independent position enjoyed by the ECB does not rest on a democratic mandate. A committee of six runs the ECB, including the president and vice-president. They are unelected and unaccountable to the voters. In effect, it is these people who have their hands on the principal economic levers of Euroland. They position those levers to meet the tight monetarist criteria of the Maastricht Treaty almost without regard to the level of unemployment or of mortgage repayments in Euroland. This situation falls a long way short of our definition of true democracy.

EMU's second area of democratic deficit concerns the process that brought the Euro about. EMU has always been as much, if not more, of a political rather than an economic project. Rarely have the people of the EU member states had the opportunity to decide whether to accept EMU without the wider issues of political integration coming into play. For instance, the Maastricht Treaty was subject to referenda in a number of member states. It set the ground rules for EMU but it also dealt with several other important issues. It is therefore impossible to interpret the half-hearted backing that the treaty received in those referenda as a firm endorsement of EMU. Indeed, public opinion throughout the EU remains sceptical of the single currency and the EU cannot claim to have demonstrated that EMU has the democratic support of the people.

### **Sustainability and the single currency**

Earlier we defined the economics of sustainability as a system that: delivers decent housing and healthy food to all; maintains high standards of environmental protection; and provides a useful and fulfilling occupation for everyone without being exploited at work or sacrificing contact with family and friends. Fiscal and regulatory measures would reduce inequalities, eliminate poverty, ensure a good standard of education and healthcare, and promote environmentally benign forms of production and consumption. If such a system is to effectively meet the genuine needs of all members of society, it would need to be underpinned by a locally sensitive, decentralised system of democratic control. This is not a description of Britain's economy at present. Far less would it be if we joined the Euro.

### ***Big isn't best***

As we have seen, the Euro-zone is too large and too diverse to operate as an optimal currency zone. It will be impossible for the ECB to mould economic decisions to the local circumstances of the diverse range of areas that will be affected by them. Millions of people will be forced to live with the consequences of having the wrong interest rates, an inappropriate balance between inflation and unemployment and the wrong exchange rate.

Regional disparities will be exacerbated and economic centralisation increased by the application of 'one size fits all' policies. Regions will be forced to compete with each other across larger areas and so the basis of their competition will move increasingly away from local comparative advantages, more towards absolute advantage. In this brave new world many regions will find that they have no absolute advantages and therefore no basis on which to compete. They will in effect be consigned to dependence on regional aid handouts. They will become pockets of deprivation and unemployment. Their economic difficulties are likely to be matched by a sense of alienation and despair as more people are forced to live on benefits, opt out of the formal economy, or move away to find work.

The converse will also be true. Successful regions will tend to become more successful. The danger is that their economies will over-heat, with all the attendant social and environmental problems that brings: pressure on schools and hospitals, more pollution and congestion, spiralling house prices, pressure for more built development and new roads.

The north/south divide in the Pound's currency area already provides an illustration of this problem, and perhaps an argument for stronger regional policy or even regional currencies in Britain. But neither the 'north' nor the 'south' provides a good model of the economics of sustainability; still less would they under the Euro.

The large size of the Euro-zone is also widely expected to increase the mobility of investment decisions. This will lead to more mergers, acquisitions and restructuring. For this we can read the loss of more jobs and the closure of more smaller, locally-owned businesses, ones that are responsive to local needs and rooted in their community. As a result, economic power will be further concentrated in the hands of the multinationals that are already big enough to compete on a European scale. Their ability to force governments and the EU to lower corporate taxes and standards of social and environmental regulation, for fear of losing inward investment, will be increased.

## *Never mind the size, feel the policy*

Regardless of the size of a currency area, the government and central bank are still presented with a range of economic policy options. The EU has chosen to fetter its discretion in this area by enshrining in the Treaty a tighter version of monetarism than most member states have ever sustained.

Both during the pre-Euro convergence period and continuing under the Stability Pact, the monetarist zeal of EMU has forced governments to cut public spending and borrowing. The squeeze has been felt throughout the European public sector with cuts to health, education, housing and welfare budgets. This has been the case even in Britain, where despite opting out of the Euro, successive governments have taken pains to meet the Maastricht convergence criteria. Cuts to public services have been so severe that Social Services authorities, even in prosperous areas such as Oxfordshire for example, have struggled and often failed to meet their statutory responsibilities to some of the most vulnerable members of society.

One British social campaign group that has recognised the true costs of the pressures to reduce borrowing and budget deficits is the London Health Emergency group. It has launched a scathing attack on the Government's love affair with Private Finance Initiatives (PFIs). PFIs enable private sector companies to design, build and operate public sector facilities, like hospitals, for profit, allowing public expenditure to be limited today, but ensuring that far greater funds accrue to the private sector tomorrow. They conclude,

*“The only appeal (of the PFI) for the government is that the cost of the hospital does not appear as an immediate lump sum in the public expenditure figures. Capital advanced by the private sector as a PFI transaction is not counted as public sector “borrowing” requirement, although the hospitals will effectively be paying off a high-cost mortgage for decades to come. This enables the government to stick within the single currency straight jacket...The cheaper alternative, building hospitals with public money financed through government borrowing, is ruled out by the Maastricht criteria.”<sup>xviii</sup>*

This monetarist regime will continue under the single currency and any country that is interested in a sustainable future would be better advised to stay, or opt, out of it. Many environmental and social improvements will require substantial investment to fund the transition towards a more sustainable society. Examples include farmers' conversion costs in shifting from chemical to organic

agriculture; investing in decent public transport and energy conservation to reduce CO<sub>2</sub> emissions; and providing the benefits to enable new parents to spend more time with their children so that damaging and expensive social problems are avoided later on. A great deal of this transitional investment will have to come from the public purse, funded by taxation or through borrowing. EMU makes such investment is made far less likely.

Similarly, systematic ecological reform of the taxation system is required if the maximum use is to be made of fiscal measures to protect the environment. A start has been made at the EU level and in some member states, but progress is likely to be slower given the restricted fiscal discretion permitted to governments under EMU. The same is true for moves towards more progressive regimes of personal taxation, which are also an essential component of a sustainable society.

A final consequence of the ECB's monetary policy is the deflationary bias that is introduced by the 2% inflation target. Partly because of this unbalanced approach to inflation there are 20 million people without work in the EU, although this figure is currently reducing. There are also many job-rich and sustainable industries such as recycling, energy conservation, organic agriculture, forestry and public transport that could, with some public investment, provide useful work that needs to be done. As the EU expands to the east the case for this new type of Green Keynesianism will become ever stronger – even at the expense some inflationary pressure.

Bill Morris, leader of the Transport and General Workers Union, summed up these effects of EMU well when he wrote that, “[the single currency will] enthrone the dogma of laissez-faire economics ever more securely in Europe. If the experience of the last 15 to 20 years world-wide has proved anything, it is that the free market is not the road to full employment.”<sup>xix</sup>

### ***Power to the bankers!***

If the people of the Euro-zone had chosen to adopt the institutions and policies of EMU and if they had the ability to change them when they see their effect, there would be more hope for Europe's future. But the Maastricht Treaty was negotiated in utmost secrecy. It has become a parable of a political elite losing touch with the people. It also puts the ECB beyond any democratic control and contains no provision for a country to leave the single currency. This fundamental democratic deficit at the heart of EMU compounds the problems outlined above.

Indeed, EMU confronts the people of the EU with the powerlessness of their elected governments. Over time this can only stoke up resentment against the EU institutions and further undermine their democratic credibility. There is a danger that it will breed resentment between member states, as some are seen to prosper at the expense of others. This would unpick many of the hard won benefits that the EU has brought and generate a fertile climate for dangerous forces of European disintegration and nationalism.

After, and partly because of, the centuries of European conflict that culminated in the Second World War, very few people do not now profess the ideals of European internationalism and common progress. Supporters of a single currency claim that the Euro will further those ideals, but the very opposite is likely to be the case. The real internationalists are those of us who reject the flawed and dangerously narrow self-interest of EMU. Instead we look to a wider role for the European family of nations – one that furthers social and environmental justice and democracy throughout Europe, and beyond.

#### **SECTION FOUR: A GREEN ALTERNATIVE**

In order to create a Europe that has social and environmental justice at the heart of both its domestic and international policies, Greens believe that we need a different goal for the region's economic structure. At present all political parties except the Green Party subscribe to the idea that the purpose of a national economy is first and foremost to be internationally competitive within a global market. Achieving this goal is supposed to provide the levels of economic growth that will then make social and environmental improvements possible. They ignore the fact that this has never worked for the majority of poor people. Indeed, the insecurity inherent in today's globalised economy is adversely affecting even the more comfortable sections of society in industrialised countries. Increasing job insecurity, social problems, crime and, in some countries, the growth of racist right wing movements, is creating a growing realisation that globalisation is making these problems worse.

Greens believe that a more socially just and sustainable alternative would be a set of mutually reinforcing policies, which have, as their goal, stronger and more diverse local economies, with high environmental, social and democratic standards. These policies are not just for Europe, but for all regions of the world and, accordingly, these policies are referred to as aiming to “protect the local, globally”.<sup>xx</sup>

Michael Shuman of the Washington-based Institute for Policy Studies, in his groundbreaking book *Going Local*, describes the aim of the localisation process as one that:

*“...does not mean walling off the outside world. It means nurturing locally owned businesses which use local resources sustainably, employ local workers at decent wages, and serve primarily local consumers. It means becoming more self sufficient and less dependent on imports. Control moves from the boardrooms of distant corporations and back to the community where it belongs.”<sup>xxi</sup>*

The essence of this approach is to enable people, local governments and communities to reclaim control over their local economies; to make them as diverse as possible; and to rebuild stability into community life. This does not mean a return to overpowering state control; merely that governments provide the policy framework to allow the re-diversification of local economies. Over time, we would gradually move from a situation in which all economies are trying to compete with each other to one in which goods and services are provided locally wherever feasible and appropriate.

Key components of this policy approach include controls on multinational companies. These would include tighter social and environmental regulation, greater obligations to ensure transparency, new competition laws to limit the proportion of market share held by any one company, and domestic or regional “site here to sell here” policies for manufacturing and services as appropriate. Import and export controls would allow for the introduction of resource taxation and the protection of higher standards in key industries, as necessary. They would also encourage more local and regional production patterns.

Europe-wide re-regulation of finance capital is also needed. This includes controls on capital flows, taxes on short-term speculative transactions, tighter controls on “easy credit” which allows speculators to multiply their “bets” way beyond the cash required to cover them, as well as a co-ordinated Europe-wide attack on corporate tax evasion, including offshore banking centres.

At the local level this should be complemented by support for smaller, locally based banks, credit unions and local trading schemes. These help to retain wealth and exchange within a community, promote local employment and training opportunities, and build a stronger community structure.

International aid and trade policies must be geared to strengthening local economies globally. We believe that any serious attempt to tackle international poverty must, as its starting point, reject

globalisation and revive and update the concept of more self-reliance rather than ever more market reliance. In promoting local economies, these policies will create useful work for people, and strengthen local cultures, communities, and identity. They would allow a more co-operative relationship with other countries and regions, and give us our best hope of achieving genuinely sustainable global development.

Such radical proposals are crucial to reverse the present destructive trend of centralising power in Brussels. This undermines democracy and gives corporate interests an enormous advantage over the aims and aspirations of social and environmental movements.

Our agenda is ambitious and it will need to be implemented gradually. However, it is gaining support, often from unexpected quarters. George Soros himself has said: “The collapse of the global marketplace would be a traumatic event with unimaginable consequences. Yet I find it easier to imagine than the continuation of the present regime.”

## **CONCLUSION**

The debate about the single currency goes to the heart of the wider discussion about what kind of Europe Union we want. We can sign up to an EU of ever more open markets, dominated by corporate interests. Or we can work towards a more inspiring vision, where the EU takes the lead on key issues of peace and democracy; where it is in the vanguard of progressive policies to rebuild local communities and to further social justice and human rights; and where its environmental understanding and policy-making set an example for the world.

The debate about the Euro ought to be an opportunity to consider these ideas, to re-assess our vision of Europe, and to discuss how we will rise to the challenge of enlarging to the east and south. The present level of debate represents a tragedy of lost opportunity, for in the shallow exchanges between Europhobes and Europhiles, these critical issues relating to the future of the European Union are never addressed.

At the same time, monetary union is pushing the commitment to EU enlargement far lower down the political agenda, as governments grapple to make monetary union work and move towards development of political union. Indeed the advent of the single currency has made enlargement much harder, to the point that, for many analysts, the aims of further deepening the EU and of widening its membership are becoming mutually exclusive. Eastern European countries preparing

to join the EU are already coming under intense pressure to prepare for the Euro too, in spite of the fact that, for them, the business of convergence will be extremely difficult, since their economies are at a much earlier state of development. Moreover, many Greens seriously doubt whether the terms of enlargement currently on offer will genuinely benefit the peoples of Eastern Europe – indeed, the opposite is likely to be the case. Countries such as Poland and the Czech Republic need sustainable development and flexibility, not the deflation and inflexibility enshrined in the EMU rulebook by the Maastricht Treaty.

The price of ignoring these issues will be high. Growing social inequalities between and within countries are only likely to be exacerbated by the single currency, generating fertile conditions for the rise of an ugly nationalist Right, while an ill-thought out, inadequately resourced and wrongly focused enlargement process will add further political and economic pressures. The spread of what could be termed "free market fascism", promoted by an EU which continues to put a corporate-led deregulated, free-for-all neo-liberal agenda above social justice and sustainable development, spells further marginalisation and exclusion for growing numbers.

This comes at a time when the EU already faces a major crisis of confidence, as the woefully low turn-out in the 1999 European Elections has demonstrated. People will only engage with a European Union that is relevant to their everyday lives, and which they feel is democratic and accountable. Economic and Monetary Union is moving in precisely the opposite direction.

#### **BIOG NOTE**

Dr. Caroline Lucas is a Member of the European Parliament for the Green Party, and a member of the Advisory Council of New Europe.

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<sup>i</sup> *Global Economic Prospects*, World Bank 2000

<sup>ii</sup> *Deregulation Now*, Report by the Anglo-American Deregulation Group, March 1995, p.32

<sup>iii</sup> Ibid.

<sup>iv</sup> This section draws heavily on Balanya, Doherty, Hoedeman, Ma'anit, and Wesselius, *Europe Inc: Regional and Global Restructuring and the Rise of Corporate Power*, Pluto Press/Corporate Europe Observatory, 2000

<sup>v</sup> "The Euro - Special Report", *Business Week*, 27 April 1998

<sup>vi</sup> quoted in Balanya et al, op cit.

<sup>vii</sup> Ravi Bulchadani, quoted in "The Euro – Special Report", op cit.

<sup>viii</sup> Keith Richardson (former ERT Secretary-General), *Managing Europe: The Challenge to the Institutions*, February 1998

<sup>ix</sup> ERT, *Reshaping Europe*, Brussels 1991, p.2

<sup>x</sup> Speech by Jacques Santer to Board of Directors of AMUE, 26 February 1998

<sup>xi</sup> Phone interview with Bertrand de Maigret, 11 March 1997. Quoted in Balanya et al, p.52.

<sup>xii</sup> Ibid, p.53

<sup>xiii</sup> Interview between Corporate Europe Observatory and John Russell, 16 December 1998, quoted in Balanya op cit.

<sup>xiv</sup> UNICE, *Benchmarking Europe's Competitiveness: From Analysis to Action*, Brussels, December 1997.

<sup>xv</sup> Interview between Corporate Europe Observatory and Chrisophe de Callatay, Brussels, 18 November 1998, quoted in Balanya, op cit.

<sup>xvi</sup> See for example Huhne et al, *Head to Head on the Euro: Adair Turner vs. Martin Taylor*, New Europe Research Trust, 1999.

<sup>xvii</sup> Thirwall, T, *The Euro and Regional Divergence in Europe*, New Europe Research Trust, 2000

<sup>xviii</sup> Martin G and Lister J, *EMU and the NHS*, People's Europe Campaign and London Health Emergency, London 1998

<sup>xix</sup> Moss, Bernard H and Michie, Jonathan, eds, *The Single European Currency in National Perspective: A Community in Crisis?* Macmillan 2000.

<sup>xx</sup> Depending on the context, the "local" is predominantly defined as part of the nation state, but can be the nation state itself or even, occasionally, a regional grouping of nation states. See Colin Hines, *Localization: A Global Manifesto*, Earthscan 2000.

<sup>xxi</sup> Michael Shuman, *Going Local: creating self-reliant communities in a global age*, Free Press, New York, 1998