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Euro Spectator: Implementing the Euro

1999

**Introductory Report
Summary of the National Reports**

A project directed by:
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Introductory Report

JEAN-VICTOR LOUIS, STEFANIA BARONCELLI

Summary of the National Reports

*AUSTRIA, BELGIUM,
FRANCE, GERMANY,
GREECE, ITALY,
PORTUGAL, SPAIN,
SWEDEN, UNITED KINGDOM*

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“Euro Spectator: Implementing the Euro”

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SCREENING COMMITTEE

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The working papers *Euro Spectator. Implementing the euro* have been realised thanks also to the contribution of the Banque Nationale de Belgique, the Deutsche Forschungsgemeinschaft and the European Central Bank

I - Introduction¹

This working paper is the result of the coordinated effort of a group of researchers and experts in European integration and monetary and financial affairs, who were chosen in a way as to represent the entire spectrum of the countries members of the European Monetary Union (EMU). Most of them have an academic background and work as researchers and professors in centers of research and universities. These are the University of Vienna, the *Université libre de Bruxelles*, the *Université de Paris X Nanterre*, the *Observatoire français des conjonctures économiques* and the *Institut d'Etudes Politiques*, the Robert Schuman chair in political science at the University of Cologne, the Greek EKEME (*Greek Center of European Studies and Research*), the LUISS, at Rome and the IAI (*Istituto di Affari Internazionali*), the IEEI (*Instituto de Estudios Estrategicos e Internacionais*) of Lisbonne, the *Universidad Complutense de Madrid* and *Universidad de Granada*, the Federal Trust of London and the Stockholm School of Economics. However, the attachment to a research institution was not considered as an essential criterion for being part of the network. As a matter of fact, also representatives of national central banks are part of the team, such as the National Bank of Belgium and, hopefully, in the next future, also the Central Bank of Luxembourg.

Most of these centres are members of the Trans European Policy Studies Association (TEPSA), a network linking institutes of research located in the 15 countries of the European Union, with other associated institutions, such as the College of Europe and the European University Institute, and other centers in Eastern Europe. The main feature of these institutions is that their researchers are experts who deal with European and International subjects, using essentially an interdisciplinary approach.

¹ This report has been written by Jean-Victor Louis and Stefania Baroncelli.

The authors of the reports (so called “rapporteurs”) have been co-ordinated by a Screening Committee located at the European University Institute of Florence and composed of the Professors, Michael Artis, Ramon Marimon, Yves Meny, Natalino Ronzitti, Wolfgang Wessels and Jacques Ziller. Responsible for the Project are Jean-Victor Louis, Director of the project, and Stefania Baroncelli, Research Assistant (up to the end of December 1999, Julio Baquero Cruz). The project is carried out within the European University Institute, at Florence, and especially its Law Department and the Robert Schuman Center.

The network reflects the approach used for the study, which is inter-disciplinary and trans-european in nature, with a special focus on political, legal and economic aspects. The euro has now been born and has become the single currency of the eleven countries members of the European Monetary Union. It is the main purpose of the study to look at the way financial institutions, public administrations and the public at large adjust themselves to the new situation and how they perceive this change, up to the introduction of monetary signs denominated in euro. Not to speak about the status of “out countries”, such as UK, Sweden, Greece and Denmark, where the perception of EMU remains crucial for understanding future developments.

The number of publications on this field is enormous; however, in most cases either they give only a mere “piece of information” or they limit themselves to a special part of the problem and are too specific to be useful to policy-makers of national or international instances who are interested in having a more global answer to the functioning and evolution of the EMU. This is the reason why we decided to build a stable team of experts and to create a flexible and long-term (4-year) project of research aimed at registering the evolution of the EMU in the Member States using various instruments, such as opinion polls, interviews to members of relevant financial and representative institutions and social actors, political and party programs, media analysis, pieces of legislation and regulations, economic indicators and forecasts. And we called it, not

surprisingly, “Euro Spectator”. Also, we decided not to limit ourselves to the study of “in” countries but to adopt a wider vision enshrining all the member States of the European Union.

This choice was made because we intended to give to our study also a practical approach so as to serve as a good point of reference for all those institutional actors responsible for monetary and financial policy, mostly at international and European level, interested in having a deeper view of the introduction of the euro in the countries of the Union. In summary, we decided not to limit our research to a mere piece of information, but to consider it as an instrument so as to vehiculate the core of an important message to policy-makers.

The reports witness an interesting reality: the panorama in the EU countries, though different in nature, is characterised by similar problems, such as the lack of information vis-à-vis citizens, difficulty in having expert knowledge from official sources, lack of “non superficial” information, non comparable opinion polls. Other questions, on the other hand, remain linked to a specific State or area, such as differences in drafting national regulation notwithstanding the wording of Community legislation, problems regarding the federal or unitary form of State, the division in “in” and “out” countries.

The reports of the Euro Spectator are ten in number and describe the correspondent situation in Austria, Belgium, France, Germany, Greece, Italy, Portugal, Spain, Sweden and UK. The situation in Denmark, Finland, Ireland, The Netherlands and Luxembourg are not analysed here; this is not a conceptual choice, but a mere logistic and temporary one. In the next future, we envisage to expand our analysis to these countries as well.

As already mentioned, the reports are divided into three sections, each dealing with political, legal and economic questions. While the part on the political aspects is aimed at having a clear view of the state of public opinion, and includes the evaluation of recent opinion polls, the positions of governmental and parliamentary positions, the policy statements of political parties and social

partners with a special focus on the measures introduced by the European Central Bank, the part on the legal framework is more limited in scope, dealing with the national legislation related to the euro and EMU. This second part is more defined because the main legislative structure has already been established at Community level; however, this does not mean that it is uncontroversial *per se*, as some rapporteurs have raised some interesting questionable points. The last part is devoted to the economic situation, in particular to trends towards spill over vis-à-vis taxation, social policy, coordination of macroeconomic policy and monetary policy (policy mix) and external projections of the euro.

II. Some lessons from the first set of Euro Spectator reports

The rapporteurs were invited to comment on the state of the opinion in their respective Country towards the euro. In order to measure it, they had at their disposal the opinion polls conducted on a Community basis, like the Eurobarometer and, in some but not in all Countries, national polls organised from time to time by some specialised agencies for the account of media or political organisations. Such polls are reliable if the questions asked are sufficiently precise and analysis on a long period are possible if there is some stability in the kind of questions asked. In some Countries, the questionnaires are more sophisticated than in others and permit for a detailed approach of the way of thinking of the various sectors of the population (like in France) considering the sex, the age, the level of income, the education, the kind of profession, etc... In other Countries, there are no relevant polls of the opinion, except for the Eurobarometer and the special edition of Euroinion on “European Public Opinion on the Single Currency” published in January 1999. These situation limits the possibility of scientific comparisons between the different States. Anyway, it has been underlined at the Brussels seminar, that

one needs an overview on the last ten years in order to be able to understand the changes in political opinion.

Nevertheless, one can draw from the reports the following basic trends.

First, the opinion on the euro is generally on line with the attitude on the European Union as such. The degree of awareness of the importance of the reality of European integration and of the meaning of the creation of the monetary union vary from one Member State to another. For example, Spain appears as the Country where there are the biggest rates of “No answer”. If some enthusiasm has been observed more or less everywhere at the time of the changeover in the Participating countries, it has neither been very big nor very sustained. As one can read in the Spanish report, “el euro no se celebra ni se critica” (“One does neither celebrate, nor criticise the euro”). The more dramatic change in the public opinion on the euro has been observed in Germany where from December 1998 to January 1999, the majority against the euro has been changed into a majority in favour. If the public opinion on the euro cannot be separated from their general perception of the EU, it is also volatile and could be reversible with the conjuncture.

Second, some disappointment is noticeable in the evolution of the rather good disposition of the public concerning the euro. Although the reports give no definitive explanation on a move that is not very important in quantitative terms, one can suggest the following explanations. The discussions on the relations between the ECB and Governments, animated by Oskar Lafontaine plea for a lowering of interest rate, the general political situation (Kosowo), the absence of Europe on the international political scene, the weakness of the euro on the Exchange markets, and especially its rate versus the US Dollar, the fears concerning the Year 2000 bug, have more impressed the opinion than the success of the euro in the obligations market, and the positive evolution of the economic cycle in Europe. For many, the absence of monetary signs in euro has negatively work on the reception and perception of the radical monetary change

which has occurred the 1st of January 1999. Three years of transition before the concretisation of the new currency in coins and notes was too big a period. One has probably overestimated the importance of scriptural and virtual money in the minds of the citizen.

Third, the discussion on the euro and the EMU, in general, is more lively in the Out Countries than in the Participating ones. It is the case in all the Outs, no matter their specific status towards the euro, but with some specificity. In the UK, the debate has been more on the economic pros and cons of the participation. The truly political debate is bypassed by this restrictive vision of the consequences of the changeover. The “sovereignty debate is transformed in an economic one”. In Greece, although “an acrimonious public debate” has been noticed on the interest rate decisions, and on the consequences of the Stability Pact, Year 2000 was expected to be more “discussion intensive”. In Sweden, the debate seems, like in the UK, to remain purely economic and limited to experts. The proximity of the referendum in Denmark should increase the interest of the opinion for the euro. By contrast, political parties in the Ins seem to have a very limited interest in the euro, and that is the case in every participating Country. The euro could nevertheless be an argument in elections campaigns, when the Governing party can attribute itself the merit of having led its Country towards the euro. It has been the case in Spain for the Popular Party and the euro has been central in the electoral campaign of the Pasok in what was at the time a not yet participating Country like Greece.

It is to be expected that the active interest rate policy of the ECB will animate the still rather sleeping concern of the Trade Unions and Left parties against high interest rates and the fight against the inflation as the quasi unique motor of the action of the ECB.

As far as the reactions of the credit institutions is concerned, one could notice some criticism against the lowering of interest rates in April 1999, and observe that the decision in the other direction in November 1999 was largely expected

by the Market, demonstrating perhaps an improvement in the quality of the communication policy of the ECB. No doubt that the acceleration of the volatility of interest rate will provoke diverse kinds of reaction, depending on the State concerned. It will be important to follow these reactions in the next report and that could only be done through a collaboration of economists and political scientists.

The legal parts of the reports describe the legislative measures that have been taken in order to comply with the requirements of the Treaty and of the euro legislation.

Article 109 (ex article 108) and Article 121.1 (ex article 109J.1) provide for the necessity for the Member States to adapt their legislation on their Central Bank to the requirement of independence, to make this legislation and other legal texts compatible with the integration of their NCB in the ESCB, and more generally to the participation to the third stage of the EMU. These obligations relate to the so-called “legal convergence”, necessary alongside the respect of economic criteria for the participation of a country to the Monetary union.

To make their Central bank independent represented for the Member States, except for Germany, a kind of cultural revolution. For the beginning of the second stage, they had already to exclude the monetary financing of the Public sector by the Central bank, and some of the Countries concerned have anticipated at this occasion on the realisation of the independence (Belgium, France and Spain, essentially) but in 1998, a step further was to be accomplished in order to make clear in the legal texts that, from the beginning of the third stage, the so-called “monetary sovereignty” was no more in the hands neither of the State nor of its Central bank.

The only Country that did not comply with the requirement of “legal convergence” was Sweden and this infringement to the obligations of the Treaty was with the absence of any exchange rate objective, the reason for the negative conclusion of the reports of the Commission and the EMI, in March 1998,

concerning this Country, that decided, on its own, to avoid to create the conditions of its participation to the third stage of EMU. As observed in the report for Sweden, the attitude of this Country and the absence of legal reaction of the Community at this respect are a very bad example for the present applicant Countries to which it is asked, under the so-called “Copenhagen criteria”, to adhere in full to the *acquis communautaire*. No opt out will be conceded. But is it well necessary if it is up to a Country to organise its inability to participate?

The adaptation to the euro includes less political symbolism. It is an important but limited and technical operation. On the principles, things are clearly laid down by the euro regulations, that are directly applicable. The regime for the transition, dominated by the substitution of the euro for the national currencies, remaining only non-decimal denominations of the euro, the principles of “No prohibition and no compulsion” in the use of the euro, the limited exceptions providing some role for the euro as banking money, before the issuance of monetary signs denominated in euro, did not need for national complements. It was also the case for the famous provision on the continuity of contracts that caused so much trouble in some quarters and do not seem to create problems in the practice. More technical questions required national implementation measures, like the faculty of redenomination of debts, the provisions on rounding, and the use of reference rates (like the PIBOR, LIBOR, MIBOR, etc) after the disappearance of the national currencies. Public administrations had also some freedom in the adoption of measures in order to allow the use of the euro in fiscal declarations and in other kind of relations with the citizens. This all range of measures have been mentioned in the reports concerning the participating countries.

What just been recalled explain why the legal part of the present reports appear as one shot operations. Some general lessons can be drawn from this

operation without precedent concerning the adaptation of the statutes of national central banks for their integration in the ESCB.

The operation consisting in the transformation of the statutes of a national institution (and what is more “national” than a national central bank?) under a Community obligation and with the close intervention of a Community agency (the EMI) is indeed an intrusion by Community law and institutions in the field of the so-called “institutional autonomy” of the Member States, i.e. the right to design under their responsibility the institutional set up for the implementation of Community law. It reveals the special nature of the ESCB, that includes in a same context, a Community agency and national institutions: the ECB and NCBs. Never before the “communitisation” of national authorities has been pushed so far and the famous “*dédoublement fonctionnel*”, where national institutions are at the same time national organs and agents of Community law, so clearly organised. It has been for the EMI to provide the criteria for the independence of NCBs and their integration into the System and it is the EMI which has supervised the way the draft legislation has been conceived in order to comply with the Community requirements. The EMI has not only an official duty to supervise this process but also a precise consultative function on these drafts and, in parallel with the Commission, a reporting obligation on the achievement of legal convergence.

That does mean that the statutes of the NCBs have been harmonised to the point of reaching a complete homogeneity. The Community had no such power. Directives for that result have not been foreseen. The NCBs have to comply with the requirements of the Treaty in the field of application of the ESCB. Theoretically, a dual structure could have been imagined : one for the participation to the ESCB missions and another for the execution of the tasks remaining under national law. Such a system would have been too heavy, but some organs of the NCBs could be exclusively charged with non ESCB functions. On the other hand, the structure of the Central Bank is dictated by

traditions and the national context. Some provide for consultative organs where social partners can dialogue with the decision-making organs of the Bank (like in Belgium, for ex.). Specific missions can include the existence of a particular kind of control by the State. No authorisation is required for a NCB to engage, at the request of the Government, in such or such activity, outside the System. If there is an interference with the implementation of the missions pertaining to the ESCB, the Governing Council may intervene under Article 14.4 of the ESCB Statute.

In general, national laws have been made compatible with the Community requirements and where a provision seems to be inappropriate, it appears to be without any real meaning. It is the case of the articles providing that the monetary policy has to support the general economic policy of the Government (Banque de France and Bundesbank), in the framework of the respect for price stability. As there is no national monetary policy anymore, such provisions, only included for political reasons are meaningless.

The transformation of NCBs as agents of the System has provoked a reflection on the internal structure of these institutions. The German report describes the present debate in this Country, concerning a possible “centralisation” of the Bundesbank. The role of the Landeszentralbanken could be substantially modified and that would imply a transformation of the respective role of the two main organs of the Bank. In other Countries as well, but in a less dramatic way, some reforms have been introduced or contemplated as far as the network of branches is concerned. These networks have already become obsolete through the evolution of the payment systems caused by the development of the instruments of payment. The “Europeanisation” has accelerated an irremediable adaptation to new circumstances.

NCBs, having lost their power on monetary policy, are sometimes eager to preserve their functions in other fields, when a tentative is made either at European or at national level, to change the institutional set up. It has been the

case for the management of public debt that wished to transfer to a European private agency. A similar reaction could well be observed if similar attempts would be made in order to centralise some tasks in the field of banking supervision.

The Spanish rapporteur mentioned that the legislation on the euro has systematically repeated the provisions of the euro regulations for the sake of legal certainty. It has also, and that is more objectionable, added to some provisions, like the one on continuity of contracts, by expressly excluding any kind of access to a Court in that matter.

With the adoption of the legal measures analysed by the rapporteurs, the essential part of the adaptation of the “public” legal framework to the third stage of EMU has been completed. Nevertheless, other measures will have to be adopted in order to realise a perfect unification of the financial markets. The Commission has presented a “Financial Market Action Plan” that has been endorsed by the Cologne European Council in June 1999. This agenda of harmonisation of private law (on cross border use of collateral, or the infrastructure of securities settlement systems, for ex.) is of such a specialised nature that it is not possible to include it in the national reports as they are presently conceived and one could think in organising a separate exercise (like a seminar) on that topic.

The economic part of the reports bear on possible spill over of the monetary union on other policies, making of it the “central engine” for integration, as the German report puts it. Up to now, such effect has not been noticeable. Every report mentions a possible effect on tax harmonisation but, the failure of the Helsinki European Council on that matter is there to demonstrate that the obstacles are still considerable.

The French report, observing the “euphoria” caused by the positive turn over of the conjuncture, concludes that the debate on the necessity of an increased co-ordination of economic policies has lost momentum in a time when all

Governments are busy with the decision to be taken on the allocation of the produce of growth. This may be qualified as short sight views because the problems are there for the future. Remarkably enough, the debate on the so-called “economic Government” has ceased soon after the time of the start of the third stage of monetary union. The unexpected departure from their respective Government of first, Oskar Lafontaine and, some months after, Dominique Strauss-Kahn has played a part in this lack of interest for a more active exercise of responsibility by the political authorities in the co-ordination of economic policies. The role of the Group Euro 11, an informal organ without any decision-making power, has been accepted by everybody and the Intergovernmental conference 2000 is not concerned with the question of strengthening the economic pillar of the EMU. It is evident that one should not expect a kind of automatic development of the Community policies arising from the mere existence of a monetary union.

Economists are concerned by the transparency and predictability of monetary policy. That is also reflected in the reports, especially the UK and French ones.

In a intent to rationalise the concepts, Tommaso Padoa-Schioppa, a Member of the Executive Board of the ECB, has proposed to distinguish more carefully between notions that “interrelate and even overlap” but that cannot be used interchangeably (see “An institutional glossary of the Eurosystem”, report at a Conference on “The Constitution of the Eurosystem: the Views of the EP and the ECB”, 8 March 2000): independence, accountability, transparency and predictability.

In particular, according to this author, accountability is intended to express a political duty, based of a need for democratic control over the exercise of power, implying the necessity to “justify and explain actions and decisions” (p. 5 and 7). Transparency is viewed as the communication of policy decisions *in real time*, or even the making of its intentions known beforehand (p.7). Transparency could be conceived as an economic requirement. Predictability implies the

precise estimation of future decisions to be taken in the future (p.10). Padoa-Schioppa argues that, including for the most transparent Central Bank, such predictability is not only impossible but also undesirable.

In the British and French debate, these concepts are clearly mixed up but the clarification intended by Padoa-Schioppa, explains why requests for more transparency are present in the economic literature, as often as in political discussions (like the ones in the European Parliament). The request to have the minutes of the ECB Governing Council published focuses the attention, the comparison being made with the publicity given to the minutes of the Monetary Policy Committee of the Bank of England and of the Open Market Policy Committee in the U.S. (but nobody seems to notice that the minutes of the Governing Board of the Federal Reserve are not published). The French report makes a supplementary argument in favour of the publication of the minutes. Without such a publication, one does not know what is the way used for reaching a consensus on the decisions concerning monetary policy, in a Eurosystem where there is some diversity in the conjunctural evolutions. A decision taken at a simple majority, as it is the rule under Article 10.2 of the ESCB Statute, could be inappropriate for the bigger Countries and, hence, contrary to the interests of the Eurosystem. This reasoning is based on the fact that Germany represents for it alone, 33 % of the GIP of the whole and, that with France, one reaches 55 %, and with Italy, 72 %. Without indications on the way decisions on interest rates are actually taken, one has no idea, so goes the argument, of the kind of coalition-building that is at the basis of a concrete decision. This interrogation is clearly inspired by the idea that Governors in the Governing Council are “representing”, or at least, “defending the interests” of their Central bank. The jurist knows that it is not the correct view. Under the Treaty and the Statute, Governors participate to the meetings as independent experts working together in the interest of the Eurosystem as a whole. Nevertheless, the view is often expressed, as noticed in the French report, that Monetary union works on the

basis of shared sovereignty (as opposed to transfer of sovereignty), that another view is understandable and the sociologic weight of the status of the Governor at the head of his NCB could lead to the inclination of defending national interests. On the other hand, the members of the Governing Council are becoming more and more aware that their (joint) responsibility has grown in importance and that they have to take into account the situation of the Eurosystem as a whole. Research Departments of the NCBs have been developed. Their field of investigation has indeed dramatically increased as they have to be able to check the documents prepared by the ECB before the meetings and inform their governor on the situation of the System as a whole. Hence, the importance of a counterbalancing high level of expertise on the part of the ECB.

III. Perspective for future reports

The first and foremost imperative for the Project is to extend to the 15 present members of the EU, an ambition that is not impossible to fulfil.

Some orientations could be laid down for the reports expected for the beginning of next year.

First of all, it will be necessary to refine the study of public opinion and to follow the evolution of the public debate on the ECB and its policy. No doubt that the increased activism of the Bank and the resulting volatility of the interest rate will food this debate. The accession of Greece to the third stage of EMU and the referendum in Denmark will certainly retain the attention.

The attitude of credit institutions should also be more closely looked at, with the assistance of their professional associations and a careful reading of specialised press. That could only be achieved through a collaboration of economists, familiar with financial markets and political scientists, specialists of the study of interest groups.

Possible national initiatives in the European framework should also be studied, concerning the institutional set-up of Monetary union.

In the legal part of the reports, the Greek situation will necessarily call for a special attention. The adaptation of NCBs structure should be analysed and the possible national debate on that matter should be followed. The same could be true for the evolution of minds and regulations concerning the prudential control of credit institutions.

A subject that has been mentioned only in the Austrian report concerns the internal application of the Stability Pact, especially in federal or quasi-federal States, where decentralised entities benefit of fiscal autonomy under the Constitution.

The completion of a European financial market and its regulation and control could be treated in a separate seminar.

As far as economic studies are concerned, one can especially mention the role of the euro in Candidate countries, in connection with the studies realised in the framework of the “Enlargement Watch”, by the TEPSA network.

An additional element has been mentioned: a European report on the relations of the ECB with Community institutions and bodies would be helpful. This should include an analysis of the participation of the ECB to the Macroeconomic dialogue and its contacts with social partners.

This could pave the way for a seminar in March 2001, the year before the issuance of monetary signs in euro.

As they are now, we are convinced that this first set of reports, an experimental endeavour in many respects, will be appreciated, for the richness of their information and analysis, by all those interested in the building and implementation of the EMU. We would indeed be happy to receive comments, observations and information in order to improve our “product”.

AUSTRIAN REPORT
SUMMARY

Herta Baumann*
Helmut Lang**

1. Political Aspects

by Helmut Lang

Until the summer of 1997 a significant majority of Austrians did not support the single currency. That changed dramatically in the second half of 1997 with the result that public opinion surveys from December 1997 onwards have shown a stable net majority of Austrians supporting the euro. What had happened in the second half of 1997? The Freedom Party (Freiheitliche Partei Österreichs - FPÖ) had organised a popular initiative in favour of a referendum on the euro, arguing for a postponement of the third stage of EMU. At about the same time, the federal government had started its information campaign in favour of the euro. As a result, the euro and monetary union were debated intensely for the first time in public. During this debate many Austrians probably realised for the first time that Austria would change the schilling for the euro and obviously accepted the arguments in favour of a single currency.

The most recent figures of a survey conducted on behalf of the euro information centre of Austria's federal government in October 1999 showed that 63% of Austrians had been in favour of the single currency and 36% against it.

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Austria's political parties and the social partners support the euro. Generally speaking, political players on the left side of the political spectrum (Social Democratic Party, Green Party, Chamber of Labour and the Federation of Austrian Trade Unions) emphasise the importance of economic growth and employment as equally important to the primary objective of the European System of Central Banks, that is price stability. They tend to criticise the Stability and Growth Pact because it leaves too little room for manoeuvre in the case of an economic downturn. The ECB should be more open to dialogue and the monetary union should be complemented with a political and social union. That means deregulation on the national level needs compensation on the European level.

The political organisations on the right side of the political spectrum (Austrian People's Party, Chamber of Commerce, Association of Austrian Industrialists) are - again broadly speaking - satisfied with the monetary union as it is. They stress the advantages of the single currency, such as the removal of currency fluctuations and transaction costs. They also value the external pressure to reduce the budget deficit and organise the public sector more efficiently.

A special case is the Freedom Party which until recently perceived the euro highly critical. On entering the government, however, in February 2000, the Freedom Party clearly committed itself to the monetary union in the working programme of the government. However, several representatives of the Party, including Party leader Jörg Haider, continue to send mixed signals.

In the public debate the euro did not play any significant role in 1999. The euro was neither a topic in the election campaign before the elections to the European Parliament in June nor before the general elections in Austria in October. The decision of the ECB to reduce the interest rates in April 1999 was welcomed as a positive signal. The raising of the interest rates in November was criticised by many, especially the employee's associations.

2. Legal Framework

by Herta Baumann

The legislative adaptations in Austria are based on two principles: Firstly, each federal ministry is responsible for the adjustment of the legislative provisions within its sphere of competence; and secondly, each legislative provision should be changed individually and not through a general amendment. Substantive changes were accomplished in the following fields:

1. Public Finance: Because of the federal structure of Austria it was necessary to find an agreement on the co-ordination of the budgetary and financial positions between the territorial authorities to ensure that national procedures in the field of public finances meet the obligations deriving from the Community legislation. Firstly, a consultation mechanism was adopted. Its purpose is to improve the financial co-ordination between central, regional and local authorities. Secondly, the Austrian Stability Pact was adopted, which deals with budgetary aspects in order to comply with the European Stability and Growth Pact. It sets out a complex system of allocation rules of the deficit ratio between the different regional and local authorities. However, these two agreements cannot solve two problems, which arise out of the elaborated fiscal equalisation between central and regional governments: Firstly, they do not provide for a procedure in case of divergence with the figures of the Austrian Stability Programme. Secondly, the interwoven character of the public finances leaves no room for corrective budgetary action on the regional and local level.

2. Private law: The changes concern the law of accountancy, procedural law and the law of the land register and company law: Since 1 January 1999 firms can make out their balance sheet alternatively, either in schillings or in euros. Further new provisions deal with the booking of the changeover costs. Actions and entries are now also valid if made in the euro unit. It is now possible to found new corporations in euro and to convert the joint capital of existing

corporations into euros; furthermore non-par-value shares were introduced which make the conversion to the euro easier. It was not necessary to take legislative measures to enforce the principle of nominal value, since the principle of the continuity of contracts in case of an alteration of the legal tender is deeply incorporated in Austrian private law.

3. The new statute of the Austrian Central Bank: The Central Bank Act 1998 transferred the decision making power from the General Council to the Board of Executive Directors. The former main decision-making body, the General Council which represents the shareholders of the Central Bank including the Austrian social partners, has now only advisory capacities similar to the functions of the supervisory board of a joint stock company. The appointment-procedure, the minimum term of office and the ground of dismissal of the members of the Board of Executive Directors were brought in accordance with Community legislation and the state commissioner, who previously exercised control to ensure the compliance with the Central Bank Act, has now only advisory capacity.

Three aspects of the legislation relating to the euro are noteworthy:

1. The current amendments cover the necessary adjustments at the start of the transitional period. Further amendments will be necessary at the start of the circulation of euro banknotes and coins. These adjustments especially concern the replacement of references in legal provisions to the schilling by references to the euro.

2. Many legislative changes that were made with the adoption of the euro do not refer to the euro, but to other realms of Community or national legislation. As a result, the adoption of the euro led to legal clarity and legal certainty in a great extent.

3. Many of the new provisions, especially in the Central Bank Act, are very similar to the provisions in the Treaty or in the ESCB Statute, sometimes even literally.

3. Trends Towards Spill Over

by Helmut Lang

A consensus exists among Austria's political players that tax harmonisation or co-ordination is necessary in the euro-zone to avoid a competitive race towards lower taxes. This concerns several direct taxes, especially taxes on capital gains and corporate taxes. In order to achieve that goal Austria argues for qualified majority voting in the Council in the field of taxation.

In the field of social and labour market policy a closer co-ordination of the social policies of individual member states and the establishment of binding minimum standards will be necessary. This shall avoid a competitive race towards lower social standards.

Another priority is seen in European-wide efforts to reduce the tax-burden on labour.

The political left favours the creation of EU policies in the fields in which nation states lose their influence. The monetary and economic union needs as a counterpart a political and social union. The political organisations belonging to the political right, however, welcome the reduction of state interference in the markets and do not argue in favour of a compensation for the loss of competencies of the nation state on the European level.

BELGIAN REPORT SUMMARY

Paul Magnette*

In Belgium, European integration has always been the object of a large consensus among political leaders and organised interests. Well before the adoption of the Maastricht treaty, the conviction that Belgium was a too small and too open economic space to manage a truly independent monetary policy was widespread. Belgian leaders were convinced, during the negotiations of the Maastricht treaty, that the EMU would help the country, which had entered the Mark zone some years earlier, retrieve some part of its monetary sovereignty. Some conservative and even socialist politicians were also convinced that this would help realise structural reforms which would otherwise be opposed strong internal reluctance.

The only segments of the Belgian political class who opposed these projects during the ratification of the Maastricht treaty were the extreme-right wing parties, supporting a nationalist view of the State's independence and usually opposed to any form of further integration; and the Greens who, though they agreed with the objectives of the EMU, contested the austerity inherent in the process of convergence.

These initial positions have not been fundamentally altered since then. The government has continued to present the Euro as an advantage for national economic interests and as a starting-point for further European integration. A political division remains visible between those who think that the Euro requires further budgetary discipline and structural reforms of the labour market and those who are trying to use it as a means for growth and employment policies.

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The opposition remains limited to the left wing and right-wing parties who initially criticised the project. The new government, a coalition directed by the Flemish liberal Guy Verhofstad and composed of liberal, socialist and Green parties, installed after the general elections of June 1999, has not altered the traditional Belgian position so far.

Belgian trade unions usually share left-wing parties' opinions on the EMU. Following the arguments made by the CSE during its Congress in Helsinki in June 1999, they criticise the ECB for following the objective of price stability at the expense of the other missions defined by the treaty (art. 105 CE: *contribute, without prejudice of this objective, to support the general economic policies in the Community...*).

Organised interests play an important role in the Belgium political system. Their comments on the Euro have, however, been very rare, and limited to some expected practical problems of the transition towards the Euro in January 2002.

The *Fédération des entreprises de Belgique* (The Employers' Federation, FEB) is usually in favour of the Euro, on the ground of classic economic reasoning (stability, lower transaction costs...). Belgian industries actually worry about the practical effects the Euro might have in everyday management rather than about macro-economic questions.

As in most other European countries, economic and financial newspapers play an important role in the public's perception of economic events. The opinions published by these organs should thus not be ignored. The ECB's decision to reduce the main interest rate on April 8th 1999, has generally been welcomed by economists in Belgium. Two arguments were made. First, this proved that the ECB was not following a unilateral line and that it was able to pursue the general objectives of the Community's economic policy. Second, this decision was seen as an answer to political discourses from France and Germany, which would enhance the ECB's independence because tensions with political leaders would decline. The ECB's decision to enhance its rates on November 4 1999 has

similarly been welcomed by most commentators. Though some economists were surprised by the level of the enhancement, they understood it as a sign of stability, as this gave the ECB the possibility not to change its rates for a longer period. Some also underlined that this decision demonstrated that the ECB could follow the general interest and not be strictly influenced by some member states, as most German economists were not favourable to this decision which was on the other hand welcomed by Ireland, Portugal, Spain...

The last Eurobarometer polls confirm that the Belgian population largely supports the Euro. 76% of persons asked in March-April 1999 answered that they were “for” the Euro, 2% more than in the former inquiry. Belgium thereby has the third highest score in the EU, after Luxembourg and Italy. This is a particularly high score if one underlines two parallel trends. First, the general support for the Euro in the EU has been declining since the end of 1998, after a two-year period of constant growth (47% “for” in March 1997; 64% in September 1998; 61% in March 1999). Belgium is here an exception to this evolution. Second, Belgium, which had been among the stronger supporters of European integration generally speaking until 1994, has become since then a relatively weak supporter. Only 47% of persons asked in March 1999 think that “generally speaking (...) Belgian membership of the European Union is a good thing”. Compared with the scores of Ireland (78%), Luxembourg (77%), the Netherlands (73%), this is a relatively weak score, Belgium being at the ninth rank, *ex æquo* with France.

The Belgian situation is close to the EU average in the case of the support to the ECB: 44% tend to trust it. It is much less than its two Benelux partners: the Netherlands (68%) and Luxembourg (61%). Within the members of the euro-zone, Belgium reaches a medium rank. The high level of “no answer” (29%) may be understood as a sign of the relatively low notoriety of the ECB (the level of “no answer” for the committee of the Regions reaches 46%). The existence of the ECB and its independence of Member States are usually not debated in

Belgium. 72% of persons asked support this, Belgium being at the third rank here (after its two Benelux partners again and ex æquo with Italy).

Persons asked in Belgium usually think that they have received information about the single currency (91%), though a much smaller proportion feel informed (63%). When asked about their feelings about the Euro, most persons mention their interest (76%) and a large majority of them say they feel “European” (61%). More sentimental feeling do not seem to be part of the question: a quite small proportion feel “enthusiastic” (41%) and very small proportions express fears to be “powerless” (37%) or sadness (15%).

Most worries about the Euro remain limited to very practical aspects of the question: people are, in a much larger proportion than in other member states, worrying about the consequences the Euro might have on prices (67%, as compared to 35% in the Euro-11), on the use of coins and notes and on the value of their money (67% ; respectively 35 and 42 % in Euro 11).

The perception of the Euro in Belgium, and of the ECB's policies, are thus largely favourable so far. Political discussions remain limited to the spill over it might have, without contestation of its existence, while ordinary citizens generally worry about the pragmatic problems the transition to the Euro might have.

FRENCH REPORT SUMMARY

Louis Chauvel^{*}
Régis Chemain^{}**
Jacques Le Cacheux^{*}**

1. Political Aspects

by Louis Chauvel

In France, after several years (1991-1998) of Euro-pessimism, a new era seems to be coming with the present period of economic expansion.

During the period 1991-1998, the economical recession and the extension of unemployment have impaired the French Euro-optimism of the 80'. The European construction, which had been presented as an economical stabilising project, ultimately appeared to be the cause of economical slow-down. The typical criticism of the strong or extreme right and left political wings at the beginning of the 90': "European integration process = loss of the social democracy construction and of national independence", became pervasive. The opinion trend of the beginning 90' was clearly unpropitious to the EMU project. Nevertheless, the European construction has conserved its strongest supports: the parties of the centrist right and left political wings, the governmental establishment and the social elite. These groups have found the force to cover the voices of Euro-pessimists who could never express a credible alternative but a simple non-constructive opposition.

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That pessimistic expansion stopped in 1997-1998, with a new period of relative economical affluence and with the recovery of the public opinion's confidence. Now, the process of integration in the EMU system seems to be largely accepted and no alternative exists. Even if many aspects of the project remain unclear and uncertain in people's mind, the opinion is less alarmed than some months ago. The French citizen, who stated a lack of information on the EMU, has been progressively better informed on the actual process.

Evidently, for the average citizen, the technical macroeconomic aspects of the monetary policy are absolutely out of reach, and the impact of EMU seems to be far away from everyday life: the expected positive impacts of EMU are the improvement of international intra-european exchanges but little or no positive impact concerning wages and living standards is anticipated. Thus, the situation is closer to the submission to a prosaic and uncertain future than to the enthusiastic agreement to a new fascinating world.

2. Legal Framework

by Régis Chemain

From 1993 to 2000 France made great legal progress in order to prepare the introduction of the euro. Development was realised in two directions: at the institutional level, the Banque de France became independent from the government before being integrated in the ESCB, on the other hand, the use of the euro has been facilitated or authorised for substituting the Franc.

Therefore, after being "in the hand of the government" the Banque de France acceded to independence after a constitutional reform, which made it possible. Thus, a first modification of its statutes by the Law of the 4/6/1993 gave a legal independence to the monetary policy council of the bank and its members and assigned to the bank the task of maintaining price stability. Future will tell how the bank will succeed in affirming its autonomy while the management of the central bank still remains in the hands of a General Council in which the

government had a veto power. With the approval of the EMI, a second modification of the statute of Bank de France was adopted by the law of 12/5/98. Its purpose was to enforce the independence of the bank and to allow its integration within the ESCB. With that in mind, General Council competencies are limited to the management questions which are not relevant for ESCB missions. It is thought to be sufficient in order to guarantee monetary policy council autonomy. Autonomy enforced by the integration in the ESCB itself: the new statutes confirm that the Banque de France is part of the ESCB, that it participates to the accomplishment of the objectives and missions of ESCB... A problem still remains: will the institute be able to succeed in affirming its autonomy while it could be said that it suffers of a lack of democratic legitimacy?

A Law of 1/7/98 was adopted in order to facilitate the use of the euro. It includes specific provisions aimed at producing this effect. For example, book-keeping can now be in euro, rules concerning the conversion of bonds in euro are established, the continuity of contracts from francs into euro is confirmed (but this confirmation wasn't necessary), information related to the use of euro by public administration are given, and so on. The development in the use of the euro in France is less a legal problem than a political, and a sociological one.

3. From sacrifice to euphoria

by Jacques Le Cacheux

The so-called convergence process that has been implemented in Europe following the Maastricht treaty and leading to monetary union may be characterized as a long period of suffering: in order to meet the criteria for participation in the single currency, member countries had to go through a long and painful adjustment process, aiming at reducing inflation, budget deficits and public debts, while keeping exchange rates reasonably fixed within the

European exchange rate mechanism. The outcome has been a decade of high interest rates and restrictive fiscal and tax policies, resulting in exceptionally low growth and high and rising unemployment. Even though the left-wing government coming to power in June 1997 did campaign against the rigor of the stability pact, France was among the very few countries meeting all Maastricht criteria in May 1998 when membership for the monetary union was decided.

Partly because of a softening of monetary policy stance in most European countries, the introduction of the euro has coincided with an improvement in economic activity in most member states, so that criticism surrounding macroeconomic policies in the EU have become less vocal. Yet, many of the weaknesses identified in the European institutional setting have not been remedied.

ECB monetary policy and diversity in national business cycle conditions

In the first three months following the introduction of the euro, the French — and German — government constantly pleaded in favor of a softening of monetary policy, in a context when Germany and Italy were experiencing a quasi stagnation, while French growth was losing momentum. Interest rates were lowered only in April, after Oskar Lafontaine's resignation, and some smaller countries' governments complained that their economies were already overheating.

Since the beginning of the Summer 1999, the situation has changed drastically: growth has accelerated everywhere, and, mostly due to oil price hikes, inflation in many member states of the euro zone has come dangerously close to the 2% upper limit set by the European Central Bank (ECB) — indeed exceeding 2% in March 2000 in a number of countries; and the external exchange rate of the euro — especially vis-à-vis the US dollar — has weakened considerably (by over 20% since January 1999). Although activity was still weak in large countries —

Germany and Italy —, the ECB raised interest rates three times between November 1999 and March 2000, arousing suspicion that small economies were weighing as much as larger ones in the decision process, which may systematically lead to monetary policies ill-suited to the average economic conditions in the euro zone.

National fiscal policy and taxation

The difficulties surrounding fiscal policy coordination and the constraints exerted by the stability pact had been much debated before the launching of monetary union. In particular, the French government had insisted on the creation of an “economic government” for the euro zone, the “Euro 11”. However, thanks to buoyant economic activity, national budgets have turned out easier to balance: deficits have been reduced and national governments are now facing larger than expected receipts and have been announcing large tax cuts, without much coordination though.

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GERMAN REPORT SUMMARY

Ingo Linsenmann *
Thorsten Müller*
Wolfgang Wessels **

1. Public Opinion

In Germany, the start of the third phase of the European Economic and Monetary Union and the introduction of the new currency euro has been regarded as a successful event and, at the same time, the public debate on the principle decision to 'sacrifice' the German Mark came to an abrupt end. Taking the rather hesitant position of many Germans as a starting point, the political debate in Germany during the first year of the euro has been surprisingly 'matter of fact'. Long-term studies confirm a gradual increase of support for the single currency until the beginning of 1999, when the third stage of EMU began. During the last five years, the percentage of opponents was cut by half, whereas the percentage of supporters doubled with a notable 30 percent undecided or without an opinion. But if compared with figures from other member states, the public support for the euro in Germany was weakest at the end of 1998.

While national opinion polls in Germany confirm the basic trends of support in other member states with regard to the differences in age groups, educational background and level of income, a Germany-specific finding is, however, that there are significantly different results in West-Germany and the Eastern part of the country. The East has continuously been much more sceptical than the West, both with regard to the EU and the euro in general and with regard to the personal advantages expected from the introduction of the single currency.

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Finally, the overall support for the euro differs substantially if one compares the population as a whole and the political, administrative and economic elites in Germany. More than 90 percent of the German elite is strongly or semi-strongly supportive of the euro, whereas only 8 percent of the elite are explicitly against the introduction.

Public opinion towards the euro has been generally more favourable in 1999 than before, however has been placed again under strain by the development of the exchange rate against the US-Dollar. In addition, other reasons for the decrease should be taken into account, such as the negative overall political climate in Germany with a general decrease of support for the new coalition government, the doubts about the political positions of the new government regarding the Maastricht provisions, the Stability Pact and the independence of the ECB as well as the subsequent resignation of Lafontaine. Furthermore, the political debate in Germany on European affairs was exclusively marked by the question of the German contribution to the Union's budget, the negotiations leading to the Agenda 2000, and by the ongoing Kosovo conflict.

Institutional Aspects and Procedures

Monetary decisions of the ECB were received differently by various actors, in particular with regard to the effects on growth and employment. Actors in favour of an active (state) labour market policy were more positive towards interest rates cuts than to rate hikes, whereas the financial markets in general welcomed the November decision of the ECB and were speculating about more hikes in the year 2000.

The first monetary decision of the ECB with regard to the main interest rates taken on 8 April 1999 was first and foremost regarded as a "courageous historical step". The weakness of the economies in the core countries of the euro-zone, i.e. France, Germany and Italy, were not seen as resulting primarily from the level of interest rates fixed by the ECB, but from outstanding structural

reforms in the areas of economic, fiscal and social policy. Not even the very favourable exchange rate against the US-Dollar, particularly important for the export oriented German economy, was able to conceal the consequences of these political shortcomings. It was also noted that it was politically and not economically necessary for the ECB to leave the rates unchanged until the end of March.

In November 1999, the increase of interest rates by the ECB was expected, however the German press speculated on the scope of the decision and the explanation of the decision to be given by ECB-President Duisenberg. The financial markets had already anticipated the increase by increasing the capital market interest rates themselves. Most economists and the large employer organisations welcomed the decision, analysts and stock market traders in Frankfurt also stayed calm, i.e. an expert opinion poll carried out in November 1999 concluded that “apparently the rate move has strengthened the confidence in the European monetary policy”. On the other hand, Trade Unions and commentators in various newspapers were very sceptical towards the move of the ECB. A modification of the interest rates was seen as “both dangerous for the business cycle and unnecessary for stability. (...) Neither the growth of the M3 nor the development of the price index indicate any need for action”.

The exchange rate against the US-Dollar has been a constant topic in the public debate. Contrary to public opinion, most analysts and politicians constantly reiterated the advantages of the current exchange rate while referring to an expected upward trend in coming months.

The ‘Council of economic advisers’ (Sachverständigenrat – five wise persons) of the government, when presenting its annual opinion on the economic outlook of the country, referred to the current introductory phase of the euro and the need to gain the notion of a “hard currency”. The development of the exchange rate should not be dramatised but at the same time not be played down. But, again, the reasons for the weak position of the euro on the international financial

markets are to be found on the national rather than on the European level. There are actual causes for the weakness of the euro vis-à-vis other currencies, but these existed before the birth of the euro.

The question of the independence of the ECB has been regarded as at risk during the first months of 1999 due to the demands by Lafontaine. His resignation has ended this debate and the ECB's independence has been seen as restored. The issue of publishing detailed minutes of the ECB-Council, probably including a summary of the decision-making process within the ECB-Council, as well as its voting records, has been discussed at great length in the German media and within the financial circuit. Generally, most commentators have rejected the view of some critics that publicising minutes would add to the transparency of the policy-making of the ECB. On the other hand, an opinion poll shows a 53% majority of professional German ECB-watchers saying that the transparency of monetary policy decision-making is not sufficient. Fifty-five percent are suggesting that the ECB should be more explicit on the weighting of the various indicators resulting in the ECB's inflation perspective. Forty-four percent are demanding not only a better explanation, but in addition a concrete inflation prognosis.

2. Legal Framework

The administrative and legal work for the completion of the conversion from the DM to the euro has been continued throughout the year and is expected to be finalised in 2000. In order to prepare decisions and legal measures, a special Task Force on the EMU (AS WWU, panel on the legal and administrative implementation of EMU) of the Ministry of Finances and other ministries was established. In addition to this central task force, similar task forces were established on subordinate levels, in other ministries and on the level of the Länder.

At the end of 1997, the Bundesbank Act was adapted to the requirements of the third stage of the EMU. Apart from the amendments needed due to the integration of the Bundesbank in the ESCB, also the term in office of members of the Zentralbankrat had to be extended from two to five years, and, more importantly, the right of the Federal Government to defer decisions of the Zentralbankrat for up to two weeks had to be repealed. The monetary financing of the government had already been abolished in 1994.

Essentially, there have been three legislative acts on the introduction of the euro (Euro-Einführungsgesetze) in the past years. The first legal act concerns the abolition of the Discount and Lombard rate, the replacement of the FIBOR with the EURIBOR and the opening up of company law for the use of the euro, of accounting law and of debt enforcement proceedings, amendments of other legislation, e.g. the Currency Act and the Insurance Supervision Act. The second legal act deals with social security and tax administrations regulations as well as customs matters with the principle that the transition to the euro should be made possible as from January 1999 for the areas concerned. The third act mainly refers to the revised version of the Coinage Act (MünzG) and contains the modalities of the issuing of the euro coins and bank notes including commemorative coins. On 1 January 2002 the euro will be the only legal means of payment in the Federal Republic of Germany (legal Big Bang) while DM-cash can be used until 28 February.

Finally, due to the official seat of the European Central Bank in Frankfurt/Main, several other legal measures had to be taken in order to set the conditions for the work of a European institution in Germany. This included the ensuring of the inviolability of the ECB's premises, its official communication and correspondence, as well as the permission to have its own armed security service. Furthermore, the ECB is freed from direct taxation or import duties. Neither the German data protection law is applied to the ECB nor the legal requirements with regard to employment regulations. Finally, the members of

the ECB Executive Board benefit from the diplomatic status by being granted full privileges and exemptions.

Finally, a debate has been initiated as a consequence of the introduction of the euro. It concerns the division of tasks between the Bundesbank and the Land Central Banks as well as the decision-making procedures within the Bundesbank. The President of the Bundesbank is pushing for a drastic reform of the present model which would result in transforming the Land Central Banks into subordinate directorates of the Bundesbank. The Land Central Banks are offering a reduction of the number of Land Central Banks from nine to seven. Until now, the Finance Minister favours the ‘centralistic Bundesbank Board option’. The reform of the Bundesbank should come into effect as of 2003.

3. Trends Towards Spill-over

The Economic and Monetary Union could become an initiator of spill over processes in other policy fields. In the light of marked differences between the member states of the currency Union, the necessity for more harmonisation, co-operation or even integration in certain areas might be perceived. The German debate in 1999 has centred around three aspects: tax harmonisation, the proposal for macroeconomic co-ordination between the member states and finally the intensified co-ordination of exchange rate policy.

With regard to tax competition, it has been noted in a governmental analysis that the mobility of the factor of production capital has resulted in a “certain pressure on the convergence of tax systems”. Countries with a high tax burden including income, wage, trade and especially capital gains and energy taxes could be structurally put at a disadvantage in Euroland, if there are more favourable terms in another member state in the euro-zone. For some politicians and analysts, this perceived „race to the bottom“, i.e. the competition about the lowest tax rates in Europe, could lead to a loss of billions of euro for the local authorities and the state through loopholes in the international tax system. Governments will no

longer be able to act according to the priority of creating new employment. An “ex-ante” harmonisation by co-ordinating taxation policies would prevent this. For others, this fear is exaggerated and an “ex-post” harmonisation by an unimpeded competition is much more suitable. Less developed countries would be more flexible and could therefore catch up on other countries.

With regard to the co-ordination of the exchange rate policy, in which the ECOFIN-Council is considered to be playing a crucial role, a fierce and short discussion developed between Lafontaine and Duisenberg, the President of the European Central Bank. Lafontaine demanded – with the support of Strauss-Kahn - a direct support by the ECB for the national finance policies. Additionally, the co-operation with the United States should be improved in order to strengthen the exchange rate stability between the US-Dollar and the euro. The discussions initiated by the German and French governments highlight the potential for spill over effects in the policy areas mentioned above. Lafontaine demanded a balanced policy-mix of wage, monetary and fiscal policy, active employment policy and sustainable economic reforms, in order to make full use of the scope for growth while respecting stability.

These proposals were also controversially discussed in Germany. The macroeconomic dialogue (Cologne Process from June 1999) constitutes the „third pillar” of the European Employment Pact. This new element is intended to improve the conditions for a co-operative macro-economic policy mix geared to further growth and employment while maintaining price stability. In general, most commentators are cautious about the effectiveness of this macroeconomic dialogue. The expert opinion of the five wise persons was rather critical; although it will be useful for decision-makers to inform each other, a formal co-ordination between European monetary policy and national fiscal policy is considered “questionable”.

Another trend towards spill over seems to be established with regard to capital income taxation. The same can be said, with a similar argumentation, concerning policy on wages, another area for possible spill over tendencies.

GREEK REPORT SUMMARY

Nikos Frangakis*

A main characteristic of the debate on EMU in Greece is the fact that participation to the Union has appeared as a major politic goal; a goal distant, elusive and decisive for the integration of Greece in the international system.

The fear of lagging behind the Maastricht criteria, of being left out, have reduced critical approaches to the construction of EMU itself to academic or to expected political arguments. The transposition of the discussion on optimal currency areas is an example of the form, the stance of the Communist Party/KKE or of the splinter – Socialist/DIKKI of the latter. Interest groups have not been especially influential in that context, be they industrialists, trade unions or farmers' unions.

The gradual attainment of the nominal convergence goals ("the Maastricht criteria"), with an emphasis up to 1998 on budgetary self-restraint and deficit-fighting and from then onwards on reducing inflation to its final target has created growing self-confidence. This, in turn, has made for less and less social unrest addressed to EMU participation, notwithstanding an increasing rise in unemployment.

Having ended 1999 with a public finances deficit of 1,7% of GDP where in the mid-Nineties it was still in double-digit levels, having secured a CPI of 2,3%

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compared to 8% in the beginning of the period and having produced a downward slope in public debt (which still stands at 102.1% of GDP), Greece has achieved a notable break with a decades-long past of instability.

The consensual approach to stabilisation adopted by the post-1993 Governments has slowed down the pace of structural reforms e.g. the radical overhaul of Social Security, privatisation of a bloated public sector, markets liberalisation (first and foremost the labour market, but also opening up of closed trades, energy and telecom liberalisation).

Still, the growing feeling of success felt by the main factors of the economy as well as in public opinion at large and increasing pragmatism in the conduct of economic policy are helping for such reforms to be widely accepted as necessary, if not inevitable. It is a widespread view that structural reforms will be stepped up as part of the challenge to introduce the Euro, or as a consequence of the need to adapt to the expected Eurozone rigours. It is also noteworthy that both institutional reforms to introduce Central Bank independence and de facto independent conduct of monetary policy have been legitimised in Greek public opinion largely with reference to ECB standards of conduct.

Overall, EMU participation may prove for Greece the core element of a new sense of belonging.

It is true that public opinion towards the EU has been shifting in Greece towards less positive levels than those observed up to 1998; 22.8% of Greeks were wary of the EU in mid-1999 while 14.1% were indifferent (up 5% compared with 1998). A decrease in public interest in European affairs (-11.6% compared with 1998) is also to be noted. But a major part of such change in attitudes can be

attributed to the Kosovo crisis and the region-specific reactions in Greek public opinion to the perceived role of Europe in the Balkans.

But if one turns to the matter of EMU and the Euro, 55% of Greeks considered in 1999 success to join “the primary goal of the country”; although lower than the 64.5% of late 1998 such an approval rate for the Euro is far higher in Greece than in other pre-in countries. Indeed support for the Euro in Greece has been higher than the average of EU countries, notwithstanding the fact that EU-wide such support is considerably higher in Eurozone countries than in the “pre-ins”.

ITALIAN REPORT SUMMARY

Marina Mancini*
Elena Rigacci Hay*
Natalino Ronzitti**

1. Political Aspects

by Elena Rigacci Hay

Through the years Italians have been the most enthusiastic supporters among Europeans of the European Monetary Union (EMU) and of the introduction of the Euro. Various polls conducted in 1999 clearly confirmed that perception². At the same time, the polls have shown a lack of awareness by Italian citizens on basic facts related to the Euro. They did not have the precise concept of the EMU, its membership, as well as the value of the Euro and practical consequences of its actual introduction, its impact on price fluctuations, exchange operations, adjustment of savings. The Italian public believed that the introduction of the Euro would have positive long term effects on currency stability vis-a-vis US dollar, and would stimulate economic growth and improve the employment indexes.

Italy has been able to meet European targets for fiscal consolidation, while beginning the introduction of wide-range reforms, aimed at modernising the public sector and the tax system. The process is continuing successfully. The slight slow down of Italian economy during the spring of 1999 prompted the Italian government to immediately come with responsible report to the Commission of a new lower forecast of its deficit over GDP. This provoked some criticism from the opposition parties. However, the economic community

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² Promedes poll of April 1999 and Doxa poll of June 1999

and principal political institutions expressed their strong support to continued policy of reforming Italian political and economic system, which, in their view, would allow achieving even more ambitious fiscal targets³.

The Bank of Italy has expressed positive criticism of the European Central Bank (ECB)'s monetary policies, which had been coherent with its main task - maintaining price stability in the Euro-zone. However some Italian economists⁴ retain that the restrictive policies of the ECB tend to worsen domestic problems, unemployment in particular, and have negative effect on investments. In general though, the Italian institutions and experts strongly support the structural reforms of the national economy in order to fully benefit from positive effects of the ECB monetary policies⁵.

There is unanimity of Italian economists and institutions on the issue of accountability and independence of the ECB. They support the independence of the ECB from national governments in the implementation of monetary policy. However one of the possible risks for the ECB is becoming too technical and lacking of democratic accountability. One of the possible effective means to avoid this, would be continued and strengthened accountability of the ECB towards the European Parliament⁶.

The co-ordination between the ECB and National Central Banks cannot be based on the subsidiarity principle, in accordance with which only residual powers are left in the hands of the national banks, including prudential supervision, research and analyses activities and state treasury. Numerous committees have been brought into existence for each of the technical branches of the ECB in which Italian representatives can express their opinions. In view of the Italian Euro Committee⁷ the co-ordination between the Italian Central

³ Corriere della Sera, 2 September 1999

⁴ Savona, Paolo in Corriere della Sera, 17 July 1999 and Modigliani, Franco and La Malfa, Giorgio in Corriere della Sera, 21 June 1999.

⁵ Il Sole 24 Ore, 5 November 1999.

⁶ Interview to Senator Andrea Manzella, 30 September 1999.

⁷ Interview to State Councillor and Member of the Euro Committee Giuseppe Pasqua, 28 September 1999.

Bank and the ECB is also guaranteed through the participation of the governors of national banks in the ECB Council.

2. Legal Framework

by Marina Mancini

Italy took its first steps towards the EMU immediately after signing the Maastricht Treaty. Legislative Decree no. 385 of 1 September 1993 and Law no. 483 of 26 November 1993 contained some provisions aimed at making the Bank of Italy consistent with the model of an independent national central bank, as outlined by the EC Treaty.

But the first legislative act specifically concerning the transition from the Italian currency to the euro was Law no. 433 of 17 December 1997. With this law, Parliament delegated the Government to issue the legislative decrees needed to give full effect to the EC provisions on transition to the third stage of the Monetary Union and to assure the compatibility of national law, on the one hand, with the EC Treaty and ESCB Statute, on the other hand. Three legislative decrees were enacted in execution of the delegation.

The first of them, Legislative Decree no. 43 of 10 March 1998, regulated the transfer of certain powers from the Bank of Italy to the ECB, such as the power to fix the interest rate on interest-bearing current account deposits at the Bank of Italy and the power to make changes in the discount rate and the interest on advances. Moreover, it regulated the issuing of money by the Bank of Italy after Italy's adoption of the single currency: the Italian Central Bank may issue banknotes through the authority received from the ECB; similarly, it may mint coins with the approval of the ECB.

The EMI convergence report, issued in the same month in which the Italian Government enacted Legislative Decree n. 43, expressed a positive opinion on the state of adaptation of the Italian legislation, including the Statute of the Bank of Italy, to the EC Treaty and the ESCB Statute.

No remarkable repetition of the EC Treaty and EC regulations concerning the introduction of the euro is contained in the Italian legislative acts passed to render the Italian legal system consistent with the single currency.

Possible conflicts between Italian law and EC law with respect to the introduction of the euro are pointed out by the Italian scholars. They are related to the principle of the continuity of contracts, established by Article 3 of Regulation no. 1103 of 17 June 1997, on the one hand, and certain well-established principles governing contracts, enshrined in the Italian civil code, on the other hand. But, till now, no case concerning these conflicts have come before the Italian Courts.

No case concerning the application of the EC regulations regarding the introduction of the euro or the application of the legislative acts passed to render the Italian legal system consistent with the single currency have come before the Italian judges.

3. Trends Towards Spill Over

by Elena Rigacci Hay

Fiscal harmonisation is considered by Italian institutions and most economists the only way to iron out possible distortions of the single market that could trigger harmful competition among the member states. Reform of the fiscal system and further reduction of fiscal pressure is envisaged as particularly necessary for Italy where it accounts for 52% of gross income, the highest in Europe⁸. Therefore, Italy is willing to implement a tax harmonisation with other European countries. However, due to the high Italian public debt, this process may follow a slower pace of implementation than in other European countries⁹.

Following Italy's success in joining the EMU in January 1999, Italian social policies have been strengthened, especially in tackling the most pressing

⁸ Ansa, 8 April 1999.

problems of unemployment, pensions and education. It is generally accepted that the introduction of the Euro is not expected to positively effect employment in the short term. Massimo D'Alema, the former Italian Prime Minister, maintains that there is no direct relationship between participation in EMU and reduction of unemployment rate¹⁰. However, it may accelerate the path of structural reforms creating a greater flexibility on the job market and stimulating investments into infrastructure. This could also have a revitalising effect in increase of productivity, acceleration of technological development and investment into human capital.

In relation to the Italian Pension System, notwithstanding some disagreements among the trade unions, it is generally believed, that gradual reforms should be implemented. The Pension System Fund should be strengthened in view of future problems to sustain it by active labour¹¹. Italy needs also improvement of its education system, making it competitive with the highest European standards, adapting it to the real needs of the labour market as well as strengthening the teaching of languages, computer and technical skills¹².

Some Italian economists feel that the common European monetary policy is deeply affecting the pace towards a common European macroeconomic policy and creates the need for strict economic co-ordination among European countries. They therefore, suggest that the ECB should enlarge its prerogatives and take all decisions related to economic policies, from labour to fiscal and budgetary matters¹³. The Euro 11 is widely accepted as the place where common economic policy should be created and implemented.

It is generally viewed that the ECB, responsible for monetary policies, should maintain full autonomy in conducting exchange policies. In accordance with this

⁹ Italian President - former Treasury Minister Carlo Azeglio Ciampi and Italy's General Accountant Andrea Monorchio interviews, in Ansa, 11 February 1999.

¹⁰ Ansa, 19 February 1999.

¹¹ Il Sole 24 Ore, 10 September 1999.

¹² Minister of Community Affairs Enrico Letta interview, Ansa, 16 April 1999.

¹³ Modigliani, Franco and La Malfa Giorgio, "ECB paralysed by its power", Corriere della Sera, 21 June 1999.

approach, governments could only suggest possible exchange policies, but the ECB will take them into consideration only if they do not contradict its main objective, price stability¹⁴. Up to now Italian economic institutions positively assessed the degree of co-ordination between national governments and the ECB. Some economists retain that the EMU will remove the risk of exchange rate fluctuation and will protect prices from inflation, promoting the Euro as a means of payment and investment abroad. The Euro will also influence markets and currency interest rates and it may become a powerful tool in influencing world economic and financial policies¹⁵. The latest fall of the Euro, in December 1999, did not create concern among Italian financial institutions, but further underlined the need to strengthen structural reforms of the national economic system¹⁶.

¹⁴ Papadia, Francesco and Santini, Carlo "European Central Bank", Bologna: il Mulino, 1998.

¹⁵ Lorenzo Bini Smaghi, responsible for Analyses and Planning Division of the European Monetary Institution.

¹⁶ Il Sole 24 Ore, 28 November 1999.

PORTUGUESE REPORT SUMMARY

Miguel Poiares Maduro*
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1. Political Aspects

Public opinion

Portugal's participation in the single currency was regarded as an important national achievement, as most Portuguese were sceptical on the capacity of Portugal to fulfil the convergence criteria.

The majority of the citizens (59%) support the single currency, but Portugal has one of the lowest support level percentages of the Euro 11 countries. This low support level percentages is explained by the large number of "no opinion" (18%), which is one of the highest of the EU members. In Portugal people continue to be least likely to feel informed about the single currency and the most widespread worry is not having enough information about the Euro. Portugal is the only "Euro 11" country where less than 3 in 10 people feel well-informed (28%).

There is not, however, a reliable national poll, private or public, on public opinion on the single currency, apart from specific polls on economic sectors.

According to a Dun & Bradstreet (D&B) study, 58% of the Portuguese companies expect benefits from the Euro. The reduction of the exchange fluctuation risk between the Euro 11 is seen by Portuguese businessmen as the Euro principal advantage, and tourism and some export sectors are the most benefited, once the majority of their exports are destined to EU countries. The transitional period is nonetheless regarded with some apprehension.

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There is not a reliable national poll on the effects of the Stability Pact on Economic growth and unemployment. The issue has been discussed only in the press by some politicians and economists. Most Portuguese economists and politicians analyses converge on the need to review the stability pact. Pointing out the monetary policy's limits to accelerate economic activity and reduce unemployment, Portuguese remind that: 1) the labour market flexibility isn't yet fulfilled and the counter-cycle policy can't exclude some budgetary help, and 2) the accomplishment of public debt limits the indebtedness capacity and, in consequence, the investment capacity of member States.

As a consequence of the low level of knowledge and awareness of Portuguese citizens about the European Central Bank, the majority of Portuguese citizens do not have an opinion on transparency and independence of the Central Bank.

According to Europinion, in December 1998, almost half of the Portuguese ignored that with Euro there would be a European Central Bank. Not surprisingly, the percentage of no opinion (36%) is, once again, the highest of the EU members. A positive note, however is that an average of 86% Portuguese citizens (one of the highest in EU countries) feel that information campaigns should cover the role of the European Central Bank, showing a great concern towards the role of the EBC.

According to Eurobarometer 64% of Portuguese citizens consider that the single currency requires an independent European Central Bank, while 11% are against. 68% of the Portuguese supports that the European Central Bank has to be accountable for its decisions to the European Parliament, while 6% are against. The percentage of Portuguese with no opinion in this question is, once again, significantly high, 26%.

Portuguese reactions to the policy measures taken by the ECB are quite favourable. Even if Euro devaluation toward US dollar is referred as unexpected in almost every press article, politicians and economists consider it more an American success than a European failure. Emphasising America's

extraordinary good economic conjuncture, Portuguese remind European particular political context in 1999: the Kosovo war, the resignation of the Commission, the difficulties to approve the European budget and Agenda 2000, all of which have weakened the confidence in the Euro. Specialists also refer to European's particular situation, being a closed, self-sustainable economy, as a factor to diminish the impact of Euro devaluation towards the dollar.

Considering it is wrong to defend target zones between the Euro and the dollar, and that the ECB should not assign a foreign-exchange objective for Euro, ECB's monetary policy decisions, lowering the interest rates were well accepted by the Portuguese experts. Price stability was achieved in 1999 and, therefore, the overall opinion considers that the Maastricht treaty objectives have so far been accomplished.

Economists and politics referred however that Euro hadn't had any particular positive effects. European economic growth was extremely low (around 2%) and unemployment reduction hasn't been worth noting. In this regard, the results of the single currency project have so far not totally matched the original expectations of the Portuguese public opinion, mainly in terms of its impact on economic growth and structural reforms.

Institutional Positions

After 1 January 1999, institutional positions haven't changed much. The debate remains seized on real convergence *versus* nominal convergence, but oppositions to Euro have decreased. There was also a generalised euphoria on the fact that Portugal had the capacity to fulfil the convergence criteria, belonging to the Euro zone since its inception.

The Government repeatedly supported that the "option to Euro wasn't a monetary option, but an option on development and competitiveness". Once the Euro has already been achieved, the Portuguese Governmental programme of 1999 refers as a major concern the need to promote national convergence

towards average of EU economic development. Benefiting from the Portuguese Presidency of 2000, the Portuguese government has attempted a new European long-term project, relating initiatives on macro-economic policy, structural reforms and employment policies. Improving Europe's competitiveness while promoting social cohesion is the objective which fits the controlling goal of Portuguese European policy: that nominal convergence must be complemented with real convergence.

Despite the government-generalised optimism, most institutions remained silent about Euro. It is rather difficult to find an institutional position about Euro, favourable or not, after 1 January 1999, as it seems most institutions pragmatically consider that "if Portugal has joined the EMU, we have to live with Euro and, so, there is no point in discussing the matter".

Institutional positions regarding the Stability Pact on economic growth and unemployment and transparency and independence of the ECB are, therefore, non-existent or quite vague, with the exception of the parliamentary position.

Portuguese Parliament, and specially its Euro Sub-committee, support a larger control of the ECB, and have even approved a resolution on more control of the ECB by the Parliament. Following a proposal of the Portuguese MP Francisco Torres and the English MEP Donnelly, COSAC has also approved the realisation of mixed meetings between the European Parliament and the National Parliaments, which have already taken place twice and will continue to occur.

2. Legal Framework

EMU required important changes in the Bank of Portugal statute. These changes have been progressively assured in successive revisions of the organic law on the national central Bank, and have, even, determined a revision of article 102 of the Portuguese constitution, relative to the Bank of Portugal, in order to make the central bank independent from government directives.

In 1996 price stability was established in the law as the primary objective of the Central Bank. At the same time, the overdraft facility and direct purchases of government were officially abolished.

The Law 5/98 introduced important changes in the Portuguese Central Bank statute. Aiming at a reinforcement of its autonomy, especially regarding the central government, this law characterised the Portuguese Central Bank as an independent monetary authority. Structural changes were also introduced in the legal personality of the national central bank. Initially a public owned company, the Portuguese Central Bank is now a special legal entity governed by public law and enjoying administrative and financial autonomy.

3. Trends Towards Spill-over

Portuguese public opinion unanimously defends the need of a tax reform. There is also a general perception among Portuguese that euro will have important effects on taxation but that is not necessarily related with the claims for tax harmonisation.

Businessmen and bankers have constantly pushed the Government for an important tax reform during 1999. But they couple that with a claim for tax harmonisation. Tax reform is seen as the solution to ensure Portuguese companies competitiveness and tax harmonisation is needed to avoid serious distortion of prices and savings taxation inequalities, which will be more evident with euro. Taxation is also seen as a solution to obviate the loss of some important adjustment mechanisms.

Portugal favours therefore the current projects for European tax harmonisation and has made it one of its presidency priorities, even if Portuguese are fully aware of the difficulties of tax co-ordination and harmonisation in the EU. Financial operations assessment and banking secrecy are particular sensitive issues, and unanimity, at national level or at a European level will be extremely difficult to obtain.

Social policy is the most polemical sector. Although there is a common feeling towards the need of spill overs in the area of social policy because of the Euro, Portuguese politicians, institutions, businessmen, trade unions, discuss and diverge on the consequences and solutions. Employment mobility and waging harmonisation are two particularly sensitive issues.

While trade unions defend euro's negative effects on employment, leading to Portugal's loss of competitiveness and consequently to unemployment, demanding therefore more employment protection; businessmen defend the need to reform the labour market and make it more flexible. Labour policy is considered an alternative solution to exchange policy rigidity, in case of asymmetric shocks.

But Portuguese also fear that with Euro, the labour market imposes a diminishing of labour rights and/or the transformation of Portugal in a peripheral country characterised by low cost labour. Waging harmonisation, however, is considered impossible for businessmen and the Portuguese government. The specificity of Portugal's economy and the low Portuguese productivity determines the impossibility to accept a EU imposition on minimum wages.

There is a general consensus with respect to Portugal's need of making "substantial progress" in sectors like justice and health, because of the Euro. Portugal must urgently find new methods to finance social security, education and health. The national health system and the absence of a well functioning house renting market are some areas unanimously considered as "affecting economic efficiency and rising inflationary pressures".

Portuguese are fully aware of Euro's implications on policy mix. Without an exchange policy and having to comply with the Stability Pact criteria, members of Euro 11 must co-ordinate their macroeconomic policies. In 1999, the Portuguese external deficit has significantly increased, a situation that could be easily dealt with by a macroeconomic policy reducing domestic consumption and stimulating exports, an exchange policy. The non-existence of the traditional

mechanisms of macroeconomic policy and the difficulties in setting up European policies of that type is a cause of concern, once Portugal has yet to experience the most important external shocks, and Portuguese economy behaviour is already showing signs of difficulties.

Portuguese's concerns also relate to the acceleration of financial mergers and economic concentration in Europe. This trend is seen as diminishing Portuguese control over the main sectors of the economy and emphasises Portuguese peripheral statute.

Although Portugal defends the emergence of a true European economic policy as it becomes clear from its efforts during the current Presidency and although the ECB has its competencies well defined, European political power is not yet well defined in the economic area and a development of the powers of co-ordination of the different national policies and of EU instruments to combat unemployment and promote competitiveness and real convergence is promoted by Portugal. It is also argued that external projection of the Euro demands a decision-making system that effectively works.

**SPANISH REPORT
SUMMARY**

Manuel López Escudero*
Juan Carlos Monedero Fernández-Gala**

As a result of Spanish participation in the third and final stage of European Monetary Union, the *Spanish Legal System* was modified especially in two matters: the status of Spanish Central Bank (Banco de España) and the legal framework of the currency unit.

Previously, the Spanish Central Bank was an institution submitted to the Government. Articles 108 and 109 of EC Treaty impose on the Member States the obligation to assure strong independence of national central banks. Consequently, Spanish legislators modified the statutes of Banco de España and two laws were adopted: Act 13/1994, which transferred monetary policy power to the Spanish Central Bank and guaranteed its autonomy, and Act 12/1998, which modified the status of Banco de España in order to assure its integration in the European System of Central Banks.

The institutional structure of Banco de España was modified to take into account the position of the Governor (member of the Governing Council of the European Central Bank) and to assure the independence of members of the Governing Council of the Banco de España. The term of office for these members was extended to six years.

The Spanish Central Bank's powers were also modified, because the European Central Bank assumes responsibility for elaborating the single monetary policy

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in the final stage of EMU. Since January 1999 the Banco de España has had two type of functions:

- Functions as a member of ESCB: execution in Spain of monetary policy measures adopted by the European Central Bank, promotion of cross-border payment and securities settlement transactions in the Euro area by the TARGET system, management of foreign exchange reserves according to instruction of the ECB, etc.
- Other functions with an internal dimension: holding and managing the Spanish foreign exchange reserves not transferred to ECB, supervisory authority to foster the stability of credit institution and the financial system, promote the stability of the national payment system, managing the Spanish Public Debt, etc.

In relation to the legal framework of the common currency unit, Spain adopted a general legislative act and others regulations in technical matters. Act on the introduction of the euro (Ley 46/1998), dated 17 December 1998, adapts the Spanish Legal System to the introduction of the Euro as the Common European Currency. Although the regulations relating to the Euro legal framework are directly applicable, this Act develops and completes community rules. Some Articles of Act 46/1998 are not in agreement with the ECJ case law concerning direct applicability of community regulations, but this Act has a high quality and makes easier the introduction of the Euro in Spanish Law.

The analysis of the impact of the euro in Spain requires situating the role played by Europe during the long franquist dictatorship and the subsequent transition to democracy. During that period Europe played a mythical role, as it was identified with the absent democracy, with modernisation and, definitively, with everything that rejected the dictatorship. At present, the absence of a deep debate among citizenship is traduced into a wide support to all that implies “Europe”, although this is accompanied by not a lesser ignorance of the meaning of the European institutions and their performance. In this sense, the attitude of

the public opinion with regard to the euro has been characterised by a lack of interest and the absence of relevant controversies over this matter. This has been happening even at moments when some of the decisions of the European Central Bank were not the most suitable for Spain which went through certain problems with the prices that worsened with the lower interest rates decided in Frankfurt. In short, in Spain the euro is neither criticised nor praised.

Regarding the different *economical, trade unionist and political forces*, there is no verified opposition to the common currency. The major impediments occurred in previous stages, specially concerning the adjusting plans that were initiated in order to achieve the convergence criteria. Once Spain entered the common currency, the support of practically the whole of the social forces has become a reality. The only relevant exception was Izquierda Unida, the third parliamentary political force during this first year of existence of the euro (2.700.000 votes), which showed its position pro a control of the ECB by the European Parliament, the completion of the Economic and Monetary Union with a Political Union, and its opposition to the Stability Agreement. After the elections in March 2000, this political force has lost half of its votes, which situates the positions critical to the present process of European construction in a marginal place.

From the point of view of private entrepreneurs, the unanimous opinion concerning the capacities of the euro is linked to a previous preparation during the years before the introduction of the common currency. Even though the euro increases the competition among the European companies these as well as banks believe that the increase in business turnover will compensate such larger competition. The main Spanish trade unions, which have already stated their “critical support” to the European Union Treaty, have held this position, showing likewise their agreement to the introduction of euro. In this regard they express their belief that the common currency will exercise a spill over effect on other fields, such as tax policies, social policies, social security, etc. However,

trade unions still alert on deferment of the social aspects that would not be guaranteed just by the existence of a common currency.

SWEDISH REPORT SUMMARY

Eric Clapham*

1. Political Aspects

Sweden applied for EU membership in 1990. Following a referendum on 13 November 1994 where 53% voted in favour of membership, Sweden joined the union 1 January 1995. The government appointed a commission 19 October 1995 to consider the consequences of Swedish participation in the third stage of EMU. The commission, led by Professor Lars Calmfors, consisted of seven economists and presented its conclusions in October 1996¹⁷.

The commission considered the impact of the Euro on the overall economy, conditions for stabilisation policy and political consequences. The conclusion reached was that EMU membership would promote economic efficiency and Swedish political influence in Europe, but would worsen the conditions for a successful stabilisation policy. Therefore the Swedish economy should not join the third stage in 1999, but wait until its economy had improved. Flexibility-enhancing reform, especially as regards the labour market, was deemed necessary.

In a bill¹⁸ accepted by parliament 4 December 1997, the government proposed that Sweden should not join the third stage in 1999, but remain prepared to do so at a later date. The main argument for this policy was the lack of public support for the Euro, as documented by public polls and other indicators.

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¹⁷ State public investigations SOU 1996:158

General Public

A poll made by Statistics Sweden in November 1997 showed that 23% of Swedes would vote in favour of EMU in a referendum. Since then the trend has been towards increasing support for the Euro, with supporters outnumbering sceptics for the first time after the successful introduction of the Euro on 1 January 1999. Thereafter support decreased somewhat again, possibly due to negative publicity surrounding the weakness of the Euro against the dollar. Endorsement of the EMU by several members of Government boosted public support towards the end of 1999, but it has recently declined again.

In a referendum on Swedish EMU membership, would you vote yes or no?
Surveys are based on 1000 interviews. All figures are percentages.

	Oct. 98	Jan. 99	May 99	Jun. 99	Oct. 99	Dec. 99	Jan. 00	Feb. 00	Mar. 00
Yes	39	45	38	36	43	44	40	39	38
No	44	38	44	46	40	41	41	42	44
Do not know	17	17	17	18	17	15	19	19	18

Källa: Sifo Research & Consulting 2000

In a referendum on Swedish EMU membership, would you vote yes or no?
The survey is based on 1000 interviews during 29 Nov – 2 Dec 1999. All figures are percentages.

	Gender		Employment				Dwelling	
	Women	Men	Private	Public	Blue collar	White collar	Urban ^{a)}	Rural
Yes	32	56	48	37	31	57	57	33
No	49	33	40	47	53	31	29	52
Do not know	20	10	13	17	17	12	14	15

^{a)} Three largest cities

Source: Sifo Research & Consulting 1999

Institutional positions

Employers' organisations have long favoured Swedish EMU membership, and this reflects the opinion of the vast majority of business owners. Sweden's three leading trade union umbrella organisations have now taken a stance in favour of

¹⁸ Government Bill 1997/98:25.

Swedish EMU membership. The blue-collar worker's umbrella organisation LO, did so only in April 2000.

Among the seven political parties represented in parliament, the Greens and the Left Party are against Swedish EMU membership (representing almost 20% of the electorate). The Centre Party and the Christian Democrats are undetermined (representing over 15% of the electorate), though both lean towards support for the EMU and the latter more strongly so. The People's Party and the Moderate Party are in favour (over 30% together).

Interest was long focused on the ruling Social Democratic Party (with some 35% support), which was undetermined but could find a parliamentary majority for either stance. Stefan Hejelid (political scientist at Växjö University) has studied the Social Democratic decision-making process and concludes that Prime Minister Göran Persson "is genuinely sceptic to the EMU. But he understands when it is no longer possible to remain outside. Also he is somewhat attracted by the influence in Europe that Swedish EMU membership may entail."¹⁹. Mr Persson delayed a decision on the EMU, in the hope that public opinion would eventually become more favourable. Finally, the party's executive board unanimously declared its support for Swedish EMU membership on 14 January 2000, saying that it would "counter market forces". The Party's congress during 10-12 March 2000 proceeded to accept by a two thirds majority a statement in favour of Swedish membership and that the issue should be settled through a public referendum. Party leadership would have preferred not being obliged to hold a referendum, but was forced to accept this by grassroots opinion and EMU sceptics. A date for the referendum, which under the constitution can only be advisory, has yet to be settled. It is unlikely that it will be later than the autumn following the general election in 2002.

Although the majority of the Social Democratic Party now accepts the Euro, a vigorous minority remains opposed. During the congress the more animated

¹⁹ Svenska Dagbladet 14/1 2000.

speeches were made by Euro sceptics, and after the congress public support for EMU actually declined. One of the strongholds of EMU resistance is the women's movement, which favours a definite "no" to Swedish membership. Minister of equality Margareta Winberg wrote a debate with the title "With EMU back to 1920"²⁰. The message is that adopting the Euro would undermine the position of women to such an extent that they would be worse off than in 1920, when women had not yet acquired the right to vote. Further, several leaders in the youth organisation SSU published a debate article with the title "EMU is a risky rightwing project". The article stated that "throughout the late 20th century we young social democrats have seen the party retreat ... EMU is yet another step backwards, away from the goals of democratic socialism."²¹ This reflects the opinion that Sweden's comprehensive welfare state may be threatened by European integration.

Interest rate cut on 8 April 1999

For the most part, Swedish financial markets received the lowering of the repo rate by half a per cent 8 April 1999 positively. The chief economist of the largest bank Handelsbanken, Jan Häggström, said that "Europe needs more than lower interest rates, but this is a major step in the right direction."²² Villy Bergström, a member of the Governing Board of the central bank, said that the cut was helpful as "some of Europe's growth problem is due to low demand"²³. Critique was more against the way in which the interest rate was announced. The concept of trying to surprise financial markets was seen by some analysts as an outdated policy. According to this view the ECB should promote openness and transparency through continuous dialogue with financial markets.

²⁰ Aftonbladet, 27/12 1999.

²¹ Dagens Nyheter, 17/1 2000.

²² Svenska Dagbladet, 9/4 1999.

2. Legal Framework

As a part of the second stage of EMU, the independence of the Swedish central bank (*Riksbanken*) was strengthened. The central bank is regulated by Chapter 9 of the constitution and also by a special *Riksbank* law²⁴. Changes in the constitution are regulated in Chapter 8 of the Swedish constitution. The basic requirement is that a bill proposing constitutional change must pass twice in parliament by simple majority, with a general election in between (note that the pending constitutional change is not an issue in the election). Since the present constitution came into effect in 1974 it has been amended after every general election.

The bill²⁵ proposing change of the constitution was accepted by parliament the first time 4 March 1998 and the second time 25 November 1998, the latter time together with changes in the *Riksbank* law. The changes came into effect 1 January 1999. The opinion of the Swedish government is that it is necessary to adjust Swedish legislation only when it directly contradicts EU legislation, as the latter automatically takes precedent over national legislation. Nevertheless it is considered appropriate that the constitution reflects how the country is in fact governed. Two difficulties remain: Chapter 9 paragraph 12 which gives the Swedish central bank authority over monetary policy and paragraph 13 which gives the central bank the sole authority to issue notes and coins. The government has said this must be changed before joining the third stage of EMU, but that it is sufficient that the constitutional change is pending, i.e. not been accepted by parliament a second time²⁶.

Among the four EU countries outside the Euro zone, Sweden is a unique case: It lacks the formal opt-out enjoyed by the UK and Denmark, and unlike Greece managed to fulfil the economic convergence criteria. Ulf Bernitz (Professor of

²³ Svenska Dagbladet, 10/4 1999.

²⁴ *Regeringsformen* and *Riksbankslagen*, Law 1988:1385.

²⁵ Government Bill 1997/98:40.

²⁶ Government Bill 1997/98:40, page 86.

European Integration Law at Stockholm University) pointed out in 1995 that Sweden was formally bound to join the EMU. This appears to be the generally accepted view today in Sweden. Hence Sweden has granted itself an opt-out – arguably a bad example for present applicant countries which have not been given opt-outs.

Nevertheless, in the government bill that laid out the policy of not joining the third stage in 1999, an attempt to provide a legal base for Sweden's decision is presented²⁷. Sweden made a statement when EU membership negotiations opened on February 1, 1993. That statement was: "A final Swedish position relating to the transition from the second stage to the third stage will be taken in the light of further developments and in accordance with the provisions in the Treaty". The bill continues: "It was judged to be more appropriate to make a unilateral declaration than to try to get the same formal opt-out that Denmark and the United Kingdom have."

The government's position has also been that public opinion is more important than legal formalities. During April 2000 both Romano Prodi and Anna Diamantopoulou have made statements in Swedish media to the effect that regardless of the legal situation, the opinion of the people must be the decisive factor. It is also important that prior to the 1994 EU membership referendum the Government repeatedly stated that EMU participation would be decided at a later stage, after consulting the people. The legalistic argument, although technically probably correct, is therefore politically dead.

Further, on 1 March 2000 a new law on keeping accounts in Euro entered into force²⁸. According to this law joint stock and insurance companies may choose to keep accounts in Euro, and must then also register their share capital in Euro. The same possibility is open to Swedish subsidiaries of foreign joint stock companies. The decision to switch to accounting in Euro must be made by the

²⁷ Government Bill 1997/98:25, page 4. Full text available at <http://finans.regeringen.se/euro/language/engelska/bills/bill.htm>.

²⁸ Government Bill 1999/2000:23.

shareholders' meeting, and can be valid from 1 January 2001 at the earliest. Taxes will still be paid in Swedish kronor, and be based on the annual average exchange rate between the Swedish currency and the Euro.

***UK REPORT
SUMMARY***

Robert Kissack*

Each country of the European Union has particular cultural and historical aspects that set it apart from the others - it is the diversity upon which the EU thrives. Britain, in the context of the Euro-Spectator report, however, is in some respects *uniquely* different. It is by far the biggest 'out' member of the union, its GDP approximately three times Denmark, Sweden and Greece together. Alongside Denmark it has a negotiated opt-out from stage three monetary union in the *Maastricht Treaty and the European Communities Amendment Act of 1993*, however a referendum on membership still lies out of sight on the British political horizon, postponed into the next parliamentary term or beyond. Nevertheless, the euro is one of the core issues in the British political debate, as is EU membership in general. While only the strongest of euro-sceptics will openly discuss leaving the EU, the question of how Britain can fully participate in the EU while it remaining outside the euro persists.

The political landscape is being changed by the euro debate. Conservatives (on the right) and New Labour (previously on the left) have swapped their traditional 'internationalist' and 'nationalist' political totems. Winston Churchill was one of the founding fathers of the Council of Europe and Edward Heath negotiated British membership into the EEC, yet the leader of the Conservative Party today, William Hague, is campaigning to 'Save the Pound' and has reunited the remains of his party in the aftermath of the landslide victory

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of Tony Blair's New Labour in 1997 around a euro-sceptic position. Along the way he has lost a number of influential Tories from the previous government, such as Kenneth Clarke and Michael Heseltine who have joined the cross-party pro-euro campaign group *Britain in Europe*. Labour are pro-EU, and lukewarm-euro. Prime Minister Blair is aware that public opinion is against the euro, (roughly 30% of people questioned in opinion polls over the last year would agree to join the euro if a referendum were to be held), and that improving the image of the EU would be the fastest way of changing the negative view of the euro. His principle aim remains being elected for a second term, and thus wishes to prevent the euro debate becoming a millstone around his party that could sink their chances of re-election.

Due to these political dynamics, the euro question is being twisted in the public arena. It is the Conservatives' olive branch - a peace-offering to dissidents, while being New Labour's hot-potato - an issue they are afraid to grasp firmly. Consequently, protagonists of the debate are grouping around two distinguishable positions, which are presented in the report as 'national-sovereign' verses 'economic determinist'. Euro-sceptics rally assertively around a nationalist sentiments, patriotically calling for the defence of British identity against the gradual tide of EU regulation and the erosion of sovereignty. The pro-euro camp, spearheaded by *Britain in Europe*, have argued persistently that the debate over joining the euro is convincingly won through a lesson in market economics. The Labour government take this attitude too, hoping to defuse their opponents claims of their 'un-patriotic' behaviour through the counter-claim that they are guided by rationality and reason instead of emotional rhetoric.

1. Political Aspects

Much of the political analysis of the report substantiates the position outlined above. Specific issues raised include the nature of press reporting on the EU

within Britain, where the angle taken is usually critical or neutral, but rarely positive. It is suggested that the euro debate is an example of the growing tendency in mature democracies to move towards single-issue lobbying, after the decline of grand political ideologies. This interpretation is in part founded on the June 1999 EP elections, where the Conservatives won the most seats, campaigning on an 'anti-Europe' line (38%), while turn-out was a pitiful 25%.

The report does comment extensively on an article entitled *Alice in Euroland* by Professor Buiter of Cambridge University. Professor Buiter sat on the Monetary Policy Committee of the Bank of England and compares their practise of publishing the minutes of their meetings with that of the European Central Bank, where no such practise occurs. He questions the link between transparency and democracy and asks whether transparency will strengthen or weaken a political union comprising of a single economic area. He concludes that in times of prosperity secrecy will be tolerated, but in times of economic hardship he believes transparency will prove to be a more malleable and ultimately durable procedure. Whether one agrees with Professor Buiter or not, his inclusion in the report was designed to illustrate how sensible, informed and above all, balanced judgements on the euro question are to be found on the periphery of public debate.

2. Legal Aspects

The legal aspects of the report form a smaller section than in other reports due to the limited nature of the legislation passed in Britain to date concerning the euro. The report details the procedure through which Britain will apply to join the euro after it has held a successful referendum, and the procedure by which ECOFIN, the Commission and ultimately the Council of Ministers will accept or decline Britain's application.

3. Economic Aspects

In contrast to the previous section, Britain's absence from the euro currency provides a lot of material of the economic analysis. As was symptomatic in the political debate, many of the key economic issues discussed have radically different interpretations by pro- and anti- euro commentators. One of the few areas in which there is agreement is the cyclic divergence between the British and other EU economies. This can be traced back to the time of sterling's exit from the Exchange Rate Mechanism and the 30% devaluation of sterling against the Deutschmark. Since 1992, the UK economy has recovered well, driven initially by export lead growth attributable to the weak pound. Today the euro and the pound are under the control of their respective independent central banks who are both under obligation to set interest rates in accordance to maintaining inflation rates between 2-3%. Yet the British economy has the lowest unemployment rate in 20 years and is still forecast to grow by 2.75% this year, (figures taken from Chancellor Gordon Brown's budget speech, 22 March 2000). Hence the interest rate in the UK has remained about 3% higher than the rate set by the ECB. Interest rate convergence is a key indicator in determining economic convergence and remains a long way off.

Further issues considered in the report include the ideal exchange rate for sterling's entry into the euro-zone, and the likelihood of entry taking place at the level desired by most British industries. Labour market flexibility and Foreign Direct Investment are also key issues which some think set the British economy apart from that of the euro-11. The impact of the euro on the financial markets in the City of London is also discussed.

The report ends by asking why Britain sees itself outside the euro zone, and looks briefly at the influence the United States of America has over it, the portrayal of fraternal ties between the two countries and the credibility of such

sentiments. It ends by suggesting that Britain will only embrace the euro when it has learnt to embrace Europe; to see its place among the European Union as the rightful one and not as a wooden spoon for being cast out of the international limelight it once enjoyed.