

A Stable Monetary Union

*Hope for a Europe
of Solidarity*

Statement by the Bishops of COMECE
Two years after the introduction of the Euro



Commission of the Bishops' Conferences of the European Community

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Introduction

1. As Bishops of the Commission of the Bishops' Conferences of the European Community (COMECE), we addressed the issue of European Monetary Union (EMU) extensively in 1998. At that time, we tried, in the course of a social congress, to understand the more profound significance of a common currency for the future co-existence of individuals and peoples within the European Union. The new euro coins and notes will be issued in one year's time. This will represent a dramatic change in the everyday lives of citizens in the euro-zone and, for this reason, we would like to address this particular issue once more. Given that the situation has changed since 1998 – the euro is already a political and economic reality in 11 EU countries – we would like to present political leaders as well as the European public with a number of ethical principles, which, in our view, should be central to any action taken regarding monetary union. We do not intend to go into the question of whether the citizens of EU countries that have not joined the euro-zone should vote for or against the single currency.

2. As Bishops, we are theologians and pastors, as well as, of course, being citizens of our own countries and of Europe. Irrespective of how we approach the subject of 'the Euro and monetary union', we always reach the same basic consideration: that where currencies are concerned, reliability and stability constitute essential conditions for

ensuring trust and confidence. Money can be defined in many different ways according to its function, its scarcity or the reasons for its creation. However, trust is more important and more necessary than anything else. Without trust, a currency cannot maintain a stable value. This applies particularly to the European currency, of which the creation and development is unprecedented in history.

3. The single currency and the new monetary system represent an ambitious goal of European co-operation. They also prepare the way for realising other political objectives. For us, European integration is first and foremost a political means of promoting peace : inner peace through new forms of political and economic dialogue and new ways of settling conflicts; external peace through example and co-operation. In the light of this core objective monetary union has created an indissoluble community of solidarity.

4. In our initial review of the past two years since the introduction of the euro, we should also like to ensure that what has probably been the most far-reaching project of European unity to date can be seen in a longer-term perspective. The launch of the monetary union occurred at a time of external and internal disquiet, i.e. the uncertainty of the effects of the Asian crisis in 1997, the war in Kosovo – whose victims we mourn and which necessitated considerable action on the part of Europe – as well as the internal political vacuum created by the resignation of the European Commission. In the meantime, a new Commission has begun its work and a debate has been launched on fundamental reform of the European Union. The immediate challenge of the accession of a whole series of European countries to the EU has been taken up.

5. The trouble-free introduction of the euro on 1 January 1999 is certainly a reason to be pleased. There were presumably many people who harboured doubts during the period prior to the irrevocable fixing of the exchange rates as to whether the criteria, procedures and technical preparations would be adequate for a successful and trouble-

free introduction of the euro. Recognition is due in this regard to those who achieved the economic conditions for entry, exerting the utmost effort in many cases. Recognition is also due to the countless people who made the technical preparations necessary for switching to the euro.

6. Before continuing, we would first like to lay out a number of “basic principles” for our reflections. We shall then address three particular areas with regard to the future development of monetary union.

The first is about once again underlining the importance of the euro for the people of Europe. The euro must be fully understood and accepted by those who will soon be using it on a daily basis.

Secondly, we shall look at the growing impetus that has emerged from the creation of this community of solidarity in the form of monetary union.

Thirdly, we shall turn our reflections towards the demands of the future. The unified monetary policy of the countries participating in monetary union will surely have an impact on the further path towards European unity.

Basic principles for reflection _____

7. Monetary union establishes an irreversible community of solidarity. National currencies have been absorbed into the euro. The abandonment of a national currency and the creation as well as the management of a European currency require that, in the future, we act with greater respect for commonly agreed objectives. Any failure to do so would be perceived rightly by one's partners as inconsistent with the principle of solidarity, and would justify reaction by the partner countries. From now on, therefore, a sense of a European community interest has become decisive for the structuring of monetary policy. A specially created institution, the European System of Central Banks, is

obliged by treaty to maintain price stability in the entire currency zone. However, acting in solidarity is not limited to monetary policy. Other bodies responsible for shaping economic policy, such as the governments and parliaments of the member states, the European institutions, the social partners, etc., should also act in a spirit of co-operation rather than confrontation.

8. Monetary union throws light on a number of differences between economic and social policy. It could appear tempting to compensate for the abolition of exchange rates and the inability to set interest rates at national level due to the introduction of the euro, at least in part, by pursuing measures in the field of social policy. However, this would represent a misjudgement of the predominantly structural (and not cyclical) function of social policy. The first difference therefore stems from the different tasks and responsibilities of monetary policy and social policy, whereas the second lies in the fact that steps taken in social policy may not be a hindrance to flexibility between the countries of the monetary union. If they were to do so, this would be tantamount to restricting employment opportunities. The execution of social policy must therefore be primarily a matter for the member states and it must retain the goal of continually creating job opportunities. This applies to the definition of minimum social standards and other measures resulting from EU rules and regulations. However, it also applies to a far greater extent to the way in which the social security system is structured. In a monetary union, this must develop at the level of the individual member states. A uniform European social security system imposed in a top-down manner would be a mistake. It would anticipate full political union, lead to a transfer union and risk over-burdening the working of the existing monetary union. The fact that the relationship also works in the opposite direction is shown by the growth and stability pact adopted to support the European currency. The ban on excessively high public debt also facilitates increased solidarity between generations by countering the temptation of encumbering future generations with the costs of necessary structural reforms.

9. Monetary union triggers pressures for integration in other areas of economic policy. Even more significant, however, is its impact on politics in the wider sense. The history of European unification suggests that a leap forward in the dynamic might be expected at this point. Two years after the introduction of the euro, the demands of the long term and the question of the finality of monetary union are being brought to the fore. The obvious difficulty of defining the finality of European integration should not be shied away from, for as the longer-term goals become apparent, they will provide a better sense of orientation for the short-term, pragmatic steps. In many policy areas, it is necessary to establish a new equilibrium between national sovereignty and the greater effectiveness of politics achieved by working together. The time for a fundamental re-orientation has arrived. In an enlarging Union, it is no doubt inevitable that the progress of all will be furthered by the advances made by a core group.

The euro must be fully accepted by the citizens —

10. The introduction of the euro is, to a great extent, still a theoretical process in the minds of many citizens in the euro-zone. This will only change once the euro coins and notes have been introduced in January 2002. The change that will then take place will have clearly discernible advantages for individuals – no more need to change money when travelling, making it easier to compare prices in other countries – but this does not exclude the possibility of certain forms of inconvenience. The nominal system of values will be different, without any change in purchasing power. The individual's feeling for prices based on experience could become confused. Converting the national currency, by then consigned to history, into the new European currency, which will be more or less complicated depending on the country, will take considerable mental effort and is something to which people will have to become accustomed. The conveniences and inconveniences will not affect everyone to the same degree. For those people who are very mobile and less hindered by linguistic barriers, the advantages will undoubtedly prevail immediately. For others, however, the adjustment period might initially be perceived as disadvantageous.

Part of their everyday security will be lost and the fear of making mistakes or being deceived could emerge.

11. More than ever, during such an exceptional period of change, people expect the purchasing power of the European currency to be reliably secure, and those responsible for managing and overseeing it to guarantee dependability and stability. The time that remains before the new currency is issued must therefore be used in particular to strengthen credibility. It is very welcome that the rate of inflation in the euro-zone remains at a low level, boosting the credibility of the new European Central Bank.

12. The understandable desire for clarity has meanwhile led the European public to watch the development of the euro exchange rate against the US dollar with special interest, although this says more about overall economic development than about the monetary policy pursued by the European Central Bank. Although recent developments in the exchange rate have given cause for concern, the euro exchange rate should not be overestimated as a measure of general economic development. This is so because external trade as a proportion of the total volume of the euro-zone economy has diminished considerably compared with what it previously represented for the economies of the individual states. Meanwhile, experience with the most recent international financial crises indicates a fundamental change in the situation. Whereas the currency turbulence that occurred between the US dollar, the German mark and the other European currencies in the early 1990s interfered with European economic growth by frequently disrupting the European Monetary System, this situation has changed with the euro. The mere prospect of a common currency helped to keep the financial crisis, which began in 1997 in the rapidly developing countries of South-east Asia and continued in Brazil and Russia, away from Europe. The rate of the dollar to the euro is thus an important but not a decisive criterion, as the value of the euro is influenced by a large number of different factors.

13. Finally, many people tend to judge the euro by looking at unemployment statistics, even though these are dependent on conditions far beyond the sphere of monetary policy. In the interests of clarity, it would certainly be helpful to demonstrate more clearly in public that the euro is, in itself, not a panacea in the fight against unemployment. The euro alone will not create jobs: its impact is more indirect. A fall in the number of unemployed is therefore less a criterion for the success of the euro and more a reflection of overall economic policy. Nonetheless, governments must not lose sight of the fact that the euro is a symbol of general economic strategy for a lot of people in Europe. The possibility of the euro's credibility being damaged by disappointing economic performance cannot be ruled out.

Impetus for a Europe based on solidarity _____

14. Solidarity can be described as compassion or as offering a helping hand. Although the two definitions are closely related, it can be helpful to distinguish between them in order to understand better the term "solidarity". In both versions, solidarity can be intended for differing objectives and enacted at varying levels. There is, for example, the solidarity of the family, as well as that between smaller and larger communities, within a state or across borders. We are also familiar with solidarity between generations. If solidarity is to be expressed in terms of offering a helping hand, particular attention must be paid from an ethical point of view to ensure that the actor uses the correct means. For example, a government can only help the unemployed to a limited extent if it relies on short-term, cyclical measures when rising unemployment is caused by structural factors.

15. The European Central Bank is being called upon from many sides to use its monetary policy for the purposes of reducing the high rate of unemployment. However, the contribution of monetary policy can only be to create the conditions for an overall economic environment that would be favourable to employment via a stable currency. Previous experience has shown that any short-term positive effect of an expansive monetary policy is quickly cancelled by the

ensuing rise in inflation, which has a more detrimental impact on those with monetary assets and favours those with property assets. In other words, avoiding inflation mainly benefits the economically weak, who are less able to protect themselves against monetary devaluation.

16. The introduction of the euro will certainly have repercussions on other areas of economic policy. Conversely, however, the euro is not a universal remedy for the near absence of any efforts in terms of structural policy. By increasing competitive pressure within the Union, the euro is speeding up the necessary reform of our national economies, concentrating more on their own individual strengths. This development is the source of enhanced productivity and growth, which is, in the end, a key to increased employment. Seen in these terms, the euro brings into the open the necessity of more extensive structural reforms. However, care must be taken to avoid competition leading to an alignment according to the lowest common denominator in the fields of social and fiscal policy. To avert this danger, two elements are important: extensive structural reforms aimed at solidarity in the sense of more just economic participation, as well as a redefinition on a state-for-state basis of the balance between social security and the flexibility of the labour market.

17. While acknowledging the necessity for economic restructuring, modernisation and technological innovation, it is particularly important to underline that politicians must not lose sight of the interests of the weaker members of our society. The objective of national as well as European policy should therefore be to strive for just participation in the economy, such as by making access to the goods and labour markets easier in order to help people to help themselves. Reforms are required in the area of vocational training. In the spirit of the Christian social ethic, there must also continue to be a place for solidarity with the weakest. This means that measures at the level of individual states designed to compensate the greatest social inequalities are absolutely crucial.

18. Solidarity in the form of compassion is indivisible. It applies to all people in every part of the world. In the case of solidarity in the form of a helping hand, it is necessary to identify whether and how people in other regions of the world can be helped. This also applies with regard to the monetary policy pursued in the euro-zone. Although it would have been desirable for the euro to produce a global effect of stabilisation in relation to the US dollar, especially for the poorest in countries that have had to struggle with a substantial decline in the value of their currencies over recent years, a strong currency in one region of the world cannot by itself provide protection to others so long as the economic requirements for a stable currency do not exist in these regions themselves.

19. The establishment of monetary stability is of great value to all the countries in the monetary union and cannot be achieved without a high degree of commitment. Therefore, other countries that want to share in this must also ensure such stability. It would be a fundamental error to allow monetary union to end up constructing new walls. The euro does not divide, but instead establishes a major pole of stability in Europe from which other countries can benefit. If the euro were regarded as creating a wall of division, then the alternative would be to return to competition between national currencies. This alternative would mean opting not to build growth and stability over a larger area. Within the broader international context, the single currency provides Europe with autonomy and security in matters of monetary policy, to the benefit of everyone. During the most recent international financial crises (1997), economic and monetary union has already proved that it can exercise a stabilising effect on the economies of the euro-zone countries, as well as an indirect effect on our neighbours in Central and Eastern Europe. Here monetary union has also provided protection against infection. In political terms, the monetary union is not seen as an exclusive club but rather as a community prepared for growing membership.

20. As far as budgetary policy is concerned, the Treaty of the European Community recognises that this belongs to the sovereign

domain of the Member States. This is in line with the general understanding of democracy, according to which citizens should exercise democratic control over taxation, and with the existing structure of the Union. A procedure of far-reaching co-ordination, which has the power to impose sanctions while still respecting national sovereignty, was only introduced in order to avoid excessive budgetary deficits on the part of the Member States which could jeopardise the stability of the euro. Countries which do not act in solidarity can in extreme cases also have penalties imposed on them. Although this differentiated procedure has yet to be tested in practice, it is a way of preventing any partner from building up excessive budgetary deficits. It is evident that the Union is not growing in terms of a state or super-state but, rather, as an organisation 'sui generis' with a new form of socio-ethical obligations.

Monetary Union and the Future _____

21. Monetary union is about creating the future. It will only develop fully when the further stages of integration that it makes necessary are implemented. Seen in this light, it is an act of hope, in the sense that 'an act of hope' means acting in the present, in the confidence that further steps will be taken in the future.

22. The purely economic foundation for monetary union, that is the preservation and completion of the common market, is not enough. In the final analysis, monetary integration of this type means, at the same time, ever-continuing political integration. Monetary union came into existence for political reasons at a time of fundamental change during the late 1980s. What started as a political project at that time cannot be de-politicised either now or in the future. The monetary union will only fulfil its long-term objective if the political dimension is recognised and its inherent strength developed. In any case, the European currency is neither neutral, nor does it represent simply a restricted monetary system with its own set of rules. It is clear that, in the long term, a "salto vitale" towards even closer political co-operation will become inevitable.

23. Seen in this light, monetary union leads to a reflection on further steps towards political integration, such as measures to introduce more even taxation of particular tax bases (sales, environment, capital income). Without these, the integration progress would lead to a step back for justice. Competition in the area of taxation must not be distorted by disloyal practices on the part of the Member States. The proclamation of a European Charter of Fundamental Rights, in which social elements also have a place, is an important event. Another aspect that should be mentioned is the progress in developing an effective common foreign and security policy that has been so urgently required since the war in Kosovo.

24. Monetary union shows clearly that it is often the working-out of common finalities – such as the contractual requirement of the objective of price stability – that first lend substance and sustainability to the institutional structure. Finality is certainly not everything ; it is however an essential precondition to achieving an aim. The same applies to the forthcoming accessions to the Union and the preparatory steps for this. Without agreement on the long-term objectives of a united Europe, the institutional provisions will lack a decisive sense of direction.

Conclusion: an overall perspective _____

25. Two years after the introduction of the euro, European Monetary Union has already achieved stability. It has become a factor for structuring the future in a way that will promote stability. It echoes the hope for a Europe based on the principle of solidarity. It opens up the way for new relationships – both internal and external – based on solidarity. Internally, following further consolidation, monetary union will be more and more determined not in terms of whether but of how the Union pursues deeper political integration. Externally, monetary union can help to protect and develop a European social model in times of rapid globalisation. People share the hope of a Europe of solidarity, and not merely a technically efficient, unified monetary system. They will then be prepared to see possible inconveniences during the change-over period to the euro in relative terms.

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