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Headline: THE EURO WILL TURN EUROPE INTO A SUPERPOWER

Byline: BY JEFFREY E. GARTEN

Here is a prediction: Europe's impending creation of a monetary union with a single currency, the euro, will be the most important change in the global economy well into the next century. It will have a more lasting impact than virtually any other economic event that can be imagined--such as the reemergence of Japan as a powerhouse or the extension of NAFTA throughout South America. And it could pose a serious challenge to America's economic supremacy.

A major step on the road to Europe's ascendance will be taken over the weekend of May 1-3, 1998, when the leaders of the European Union will formally select the founding members of the European Monetary Union. The euro will be introduced in January, and within three years it will completely replace German marks, French francs, Italian lira, and Spanish pesetas. Sure, there will be policy chaos and huge technical problems all along the way, but when the dust clears, the EMU area will be the world's second-largest economy, consisting of 288 million people and a gross domestic product of nearly 20% of the global's total.

A common currency will have the following repercussions:

-- Businesses and individual consumers will find it much easier to buy and sell products and services across European borders. Intra-European trade and commercial competition will soar, companies will be forced to shape up, and a wave of megamergers will create powerful pan-European companies.

-- A Europewide capital market will emerge for the first time, offering enormous cross-border opportunities for borrowing and investing. Meanwhile, EMU will act as a catalyst for more flexible labor markets and for more harmonized European policies for everything from taxes to banking regulation.

-- The European Central Bank--which, by law, will be highly independent--will follow in the conservative footsteps of Germany's Bundesbank and create conditions for low inflation and healthier economic growth throughout

the region.

-- The euro will become a powerful rival to the dollar for central banks' reserves and trade financing. Russia and all of Eastern Europe will be drawn into the new euro zone, bringing them under Western Europe's political sway. The European Union will gain substantial clout in the Group of Seven, the International Monetary Fund, and the World Trade Organization.

Skeptics--and they include several highly respected economists on both sides of the Atlantic--believe that Europe won't be able to hold together. Among their reasons: tight monetary policies might be demanded by Germany or Holland but be unacceptable in Spain or Italy, creating severe pressures for the latter to bolt from the Union. Pessimists say there is no precedent for a lasting economic union without a strong central government. They worry that an EMU collapse within a few years could set off a major global financial and trade crisis as everyone dumps euros for dollars, and as Europe moves back to its history of destructive national rivalries.

SHOCK TREATMENT. Don't worry--this calamity won't happen. The dark scenario ignores the half-century march in Europe toward unification. It also fails to acknowledge Europe's powerful self-interest in overcoming its current economic and social arthritis--a feat that can be accomplished only with the market-oriented shock treatment administered by the painful transition to a single currency. And it underestimates the pressures that underlie today's globalization, including the powerful forces for more trade and investment and the relentless growth of global companies pressing for a borderless marketplace. Indeed, the momentum is already making itself evident--in the quickening pace of deregulation, the growth of venture-capital funds and startups, and in Europe's sizzling stock markets.

Not only will EMU succeed but it will eventually pose a major challenge to Wall Street, Corporate America, and Washington. After all, when America's boom ends, we will still be the world's largest debtor, whereas the EMU region will be a net creditor. We will continue to run chronic trade deficits, while the European Union amasses large surpluses. We will not have reversed our super-low savings rates, while EMU members will have no such problem. American companies will also want to keep an eye on the emergence of European corporate goliaths and the long tradition of European governments helping their own businesses win big commercial projects in

emerging markets.

A lot of experts are pointing to the need for Europe to brace for the changes ahead. So should we.

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