Foreword

The 8th Euro-FIET Conference took place in March 1998 in Cardiff, under the theme *Visions for a New Europe.* The Conference was the most representative in the 26 year history of Euro-FIET and assembled 600 participants from 132 unions in 35 countries.

One of the four themes of the Conference was ***Economic and Monetary Union: The Impact on Employment and Collective Bargaining.*** This publication contains the background report and strategy adopted by the Conference on this issue.

At the time of the Conference, the European Commission had confirmed that eleven nations satisfied the convergence criteria.

EMU will transform the economies of Europe and it is our fear that the axe will fall hardest on jobs and social and welfare expenditure of governments.

Our concerns are particularly acute in the finance sector, where job losses are expected as employment is hit by the "double whammy" of the costs of implementing a common currency and the loss of profitable lines of foreign exchange business.

The Euro-FIET Central Banks Taskforce has forwarded its proposals to the EMI, the forerunner of the European Central Bank, for the establishment of a consultation and information forum. Central banks have been subject to "downsizing"; the ECB will have a major impact on all central banks. We will not cease in our efforts to establish a social dialogue and we consider the obstinacy of the EMI in refusing such a forum as a provocation.

The strategy adopted by the Conference stresses the need for Euro-FIET and its affiliates to develop a framework for the co-ordination of European collective bargaining.

I hope that the report is widely debated among affiliates.

Philip J. Jennings
Euro-FIET Regional Secretary

Economic and Monetary Union:
The Impact on Employment and Collective Bargaining

Euro-FIET's Strategy

1. For Economic and Monetary Union to be meaningful to the people of Europe, it must lead to social progress and prosperity. Its aims must include:
   - the creation of full, quality employment and opportunity for all;
   - sustainable economic growth;
   - greater equality;
   - meaningful social partnership and comprehensive social protection.

2. Euro-FIET's strategy on EMU is part of the global and regional struggle by trade unions for economic and social justice in an interdependent world. The FIET World Action Programme articulates the demands of affiliates and serves as a basis for this campaign.

3. The ETUC and Euro-FIET have given conditional support to the creation of EMU. Central to this support is the linkage between economic and monetary policy and the need to have a co-ordinated European response to reduce unemployment. The focus of economic policy, and of EMU in particular, must shift from just achieving financial stability, to the promotion of economic recovery and employment creation. Euro-FIET believes it is possible to pursue the creation of the single currency and at the same time reduce unemployment and secure social and economic stability. Solemn statements are not sufficient. Euro-FIET calls for the halving of rates of unemployment by the year 2000. This should be the number one priority for economic and social policy at the European level.

4. The initiatives by Member States to meet the convergence criteria contained in the Maastricht Treaty, with no account being taken of the prevailing economic climate, have aggravated the economic crisis and led to even higher levels of unemployment. The EMU convergence criteria must be interpreted in the spirit intended in the Treaty and not in an overly rigid and mechanical way. Europe is now faced with its gravest job crisis since the war. Fears that the agreement on the stability pact, backed by fines, will mean the continuation of the deflationary bias of monetary policy, even after EMU has been achieved, must be countered by the introduction of an economic co-ordination pact which will ensure that convergence

criteria for jobs, growth and cohesion are also set and monitored. There must be an obligation that the employment consequences are considered in decision making for EMU by the European Central Bank. Euro-FIET supports the establishment of an economic co-ordination pact to promote employment, growth and fiscal policy development, which would also serve the purpose of acting as a policy counter-weight to the ECB.

5. The success of monetary union is dependent on the development of economic union and social cohesion. The single market is an important part, but only a part of economic union. It is vital that a European Employment Strategy is developed and implemented in a co-ordinated way. The European Union has a basis for this strategy in the form of elements of the White Paper on Growth, Competitiveness and Employment. The EU has the political mandate for an employment strategy in the form of the Conclusions of the Essen European Council and the decisions of the Amsterdam Intergovernmental Conference, particularly the new employment chapter in the Treaty. What is required is for these policies to be translated into action. Proposals for pan European infrastructure programmes must be immediately implemented to create jobs and improve levels of knowledge, education and skills, and systems of life long vocational training in order to raise Europe's productivity. Additional resources must be made available by national governments to achieve this.

6. Renewed efforts must be made by the Council of Ministers, the Commission, governments and the social partners to further develop the social dialogue in particular in order to fight unemployment. The Confidence Pact proposed by the President of the Commission in 1996 was a positive step which unfortunately did not come to practical fruition. It is important that the Amsterdam Intergovernmental Conference decisions on employment and social issues are followed up. Further consideration should be given as to how social dialogue at all levels across the European Union can have an impact on reducing unemployment. With the likely new pressures in labour markets it is vital that Europe promotes proper labour standards and that basic rights of workers are protected. The Council must put new emphasis on the need for employment creation and basic labour standards on the basis of the social protocol to the Maastricht Treaty.

7. A key component of a successful European employment strategy must be a reduction and a reorganisation of working time. The introduction of a 35-hour week or less without loss of salary, longer annual holidays and other forms of reducing annual or lifetime working hours are a vital ingredient.

8. A reorganisation of work and working time without loss of salary implemented by the social partners through collective bargaining must determine the most appropriate manner to safeguard existing employment, create new jobs and improve living and working conditions in and outside the workplace, including a reconciliation of family and professional responsibility and a general improvement in the quality of life.

9. The role and priorities of the future European Central Bank should include not only price and currency stability but also economic growth and employment targets as part of its mandate. The economic and monetary policy of the ECB should not be implemented in a mechanical and rigid manner with reference solely to the convergence criteria. ECB policy must be flexible to enable it to respond to economic shocks and protect and enhance employment. The ECB should support the basic economic policies defined in the Union Treaty. The ECB must also be made accountable to both national governments and the European Parliament for its actions and policies.

The Impact of EMU on Euro-FIET Sectors

10. Employers at the European and at the national level must begin immediate dialogue on the impact of EMU on all relevant sectors. This should include dialogue on training, costs, staffing and the impact on business, as well as the employment impact in the context of wider industry change.

11. Each Euro-FIET trade section should establish an action plan to address the consequences of the introduction of the Euro on their sector. At a joint meeting in June 1997, Euro-FIET's Bank and Insurance sections adopted a ten-point plan in which Euro-FIET affiliates demand greater consultation with European and national institutions on employment issues relating to the Euro, guarantees of job protection and retraining for workers whose job function may be lost as a result of its introduction (see annex).

12. Euro-FIET believes that more work needs to be done to analyse the workload that will be placed on finance and commerce employees when a single currency is introduced. Analysis should also be made of the employers' ability to meet this work load in terms of current staff numbers.

13. Guarantees should be required from employers that staff are provided with the necessary training, numbers and technical resources to ensure the smoothest introduction of a single currency as is possible.

14. In the context of the single currency and industry restructuring, analysis regarding mergers and take-overs in the finance sector needs to be urgently undertaken. This should include a review of current European and national regulations regarding mergers and take-overs to ensure that social, employment, customer and community consequences must be taken into account.

15. A social dimension to EMU must be recognised. European Central bankers and European government officials must recognise the legitimate rights of unions to information, consultation and negotiation on changes that are occurring within the central bank system.

16. Euro-FIET believes that as part of the introduction of a single currency and the third stage of EMU a social dialogue between European central bankers and their employees must be established. Such a dialogue should be recognised within the terms and spirit of the social protocol of the Maastricht Treaty, and the European Directive on the establishment of information and consultation bodies in European multinationals.

17. The creation of a single currency will have important implications not just for workers in the finance sector, but across all sectors of activity. The existence of national currencies and the Euro circulating in parallel for a period of three years will have cost implications in terms of accounting and financial control for all businesses in the single currency area. Agreements should be negotiated by trade unions and employers to ensure that the additional costs that the single currency imposes on business do not lead to job losses or increases in prices. Euro-FIET insists that under no circumstances must the introduction of the Euro be used to reduce the pay of individual workers. Governments and employers must guarantee that the change-over concerning payment of wages from the national currencies to the Euro - especially during the period of double currencies - will not be used to the disadvantage of workers.

18. Euro-FIET believes further discussions between the Commission and the social partners need to occur to identify possible problems which could result from the conversion of employment contracts, and to recommend procedures for the most efficient way of making this conversion.

19. The impact and added costs of parallel currencies will be heavily felt in the retail sector. Particular attention must therefore be devoted to preparing for this impact, anticipating the effect on employment and negotiating agreements to maintain job security.

The Impact of a Single Currency on Collective Bargaining

20. The creation of a single currency will create increased tension within an economic area where all prices are denominated in a single unit of account, but taxes and social security contributions continue to be confined to national borders. There could be growing tension between different levels of collective bargaining, where structural change is already pushing bargaining down towards the enterprise level. Euro-FIET cannot accept that the single currency, backed by a monetary policy which is drawn up by the European Central Bank with a view to the overall situation in the single currency area, will mean that economic adjustment can take place only through labour market flexibility, and the lowering of employment and remuneration levels. Such a policy would put intolerable pressures on collective bargaining structures and would risk diminishing social protection and fair labour standards in Europe. Negative forms of flexibility and deregulation - such as reducing

employment protection rights and cutting levels of pay and conditions - have nothing to do with promoting more and better jobs, and everything to do with increasing insecurity and exploitation. There must be more opportunity for developing positive action through socially responsible fiscal policies.

21. A real Social Europe built on proper labour standards introduced via legislation and collective bargaining is essential.

22. The diversity in living and working conditions at present is a real problem. This was also the case in the past in each country where a system of social protection and collective bargaining was built from the starting-point of differing local conditions. This problem must not deter the trade union movement from its objective of social progress for all workers of Europe. The path towards a European system of collective working relations will certainly be long but that should be an additional reason to start on it without delay.

23. Trade unions must step up their efforts to ensure that better working standards are adopted throughout Europe and that workers' basic rights are protected. Here Euro-FIET has an important role to play, but it needs to be given the extra financial and human resources to allow it to do its job. Wage dumping and cut-throat competition for jobs must be prevented. We can only succeed in this if trade unions, with the support and help of Euro-FIET, take a conscious decision to act in solidarity with one another.

24. Further, the lack of harmonisation of tax policies at EU level combined with the freedom of capital movements is causing downward tax competition and fiscal dumping between Member States. Although national legislation must be respected, some common provisions governing tax on interest from capital and taxes on companies must be implemented. Exchange of information between countries concerning income from capital also needs to be ensured, in order to prevent tax fraud, speculation and laundering of money obtained through illegal activities.

25. In this context, it will be vital for Euro-FIET to work closely with affiliated unions in the European currency area and beyond to develop a co-operative union strategy. Globalisation of the world economy and the single currency require the development of more co-ordinated bargaining strategies between unions affiliated to FIET, Euro-FIET and the ETUC. In the medium and long term, regulations for workers' protection and their participation in decision-making in the context of social progress must exceed national boundaries. Euro-FIET should examine, particularly at the sector level, how a single currency might affect collective bargaining and how a co-ordination of bargaining strategies could be developed across the single currency area. In addition, Euro-FIET should examine ways to improve the collection and distribution of relevant comparative statistics and economic information in areas such as wage costs, productivity and inflation. A collective bargaining strategy for Europe will have to be established to ensure the creation of European social norms. There is a clear role for Euro-FIET's structures both at the

Executive Committee and Trade Section levels. Euro-FIET will develop a framework, specific goals, issues and procedures for co-ordination of the bargaining strategy of its affiliates.. At least three issues for co-ordination will be considered:

- wages;
- (average) working time (on a weekly and life-time basis):
- education and training.

In practice, co-ordination will be concentrated at trade section level and at the level of multinational companies, with the possibility of other issues being added to those mentioned above.

26. The single currency will also deepen the impact of structural change and raise the importance of competition policy within the single currency area. Euro-FIET and its affiliates must be more intimately involved in discussions on all aspects of economic policy, including industrial policy, tax harmonisation, structural change and competition policy at the national and European levels. These issues should become an essential part of the agenda for discussions within the sectoral social dialogue at European level.

Euro-FIET 10 point Euro plan

1. Employment

The Bank and Insurance trade sections demand that the social partners accept that as a consequence of the introduction of the Euro there should be no loss of employment.

2. Training and Retraining

Employers in the industry must put in place comprehensive training and retraining programmes to ensure:

- workers have the necessary skills and knowledge that will be needed once the Euro is introduced.

- any worker whose position is no longer needed as a result of the introduction of the Euro is guaranteed retraining into another job.

3. Social Dialogue

The Bank and Insurance trade sections demand that at both the national and European level employers must immediately enter into a social dialogue to discuss all issues relating to the introduction of the Euro, including employment and training.

4. Council of Ministers

Euro-FIET should approach the Council of Ministers demanding a dialogue on employment issues in light of the Council's employment policy. This demand should include that an employment impact study be immediately undertaken.

5. European Commission

A delegation from the two trade sections should meet with officials of the Commission, including Yves de Silguy, to discuss employment and training issues.

6. European Monetary Institute

Euro-FIET should intensify its campaign for the opening of a full social dialogue with the European Monetary Institute (and thereafter the European Central Bank).

7. European Parliament

Euro-FIET should work with various MEP's to raise questions in the European Parliament.

8. European Works Councils

Euro-FIET should develop resources and work with European Works Councils established in the industry to ensure that issues regarding the introduction of the Euro, including employers plans, are discussed as part of Council meetings.

9. Trade Section Cooperation

Representatives of the Bank, Insurance and Commerce trade sections should work together to ensure a co-ordinated approach and a sharing of information. Planning should also be undertaken to organise a workshop for the three trade sections.

10. Action by Affiliates

The affiliates of FIET should develop their own Euro plans of activity centred on information and dialogue with national Governments, national Central Banks, employers and consumer groups.

Information on these activities should be sent by affiliates to FIET so that a Euro-watch publication can be established to ensure the wider distribution of information.

Economic and Monetary Union
The Impact on Employment and Collective Bargaining

Background Report

Introduction

For many people the key to an integrated, peaceful and prosperous Europe is the final realisation of full economic and monetary union.

Clearly, the creation of (economic and) monetary union in Europe is not just a technical issue of how best to achieve price stability and reduce transaction costs. EMU is a political project designed to make closer economic and political integration irreversible.

This is due to be achieved by the end of 1999 with the completion of the third stage of monetary union. At that point the single European currency to be known as the Euro will come into being, as will the European Central Bank (ECB), and the European System of Central Banks (ESCB).

The Madrid Summit of December 1995 set out three phases:

Phase one

The heads of state and government will decide "as soon as possible" in 1998 which Member States fulfil the necessary conditions for adopting the Euro.

Phase two

EMU will be launched on January 1, 1999 with the irrevocable fixing of exchange rates between participating currencies and between these and the Euro.

From that date, monetary and foreign exchange rate policies will be conducted in Euro by the European Central Bank and the European System of Central Banks which includes the central banks of participating Member States. They will issue their new public debt in Euro.

Phase three

No later than January 1, 2002 banknotes and coins will start circulating alongside national notes and coins and will have completely replaced them within six months at the most.

By July 2002 at the latest, the changeover to the single currency will have been completed and the legal tender status of national banknotes and coins cancelled.

What will happen and when

By January 1, 1998	January 1, 1998 - January 1, 1999	January 1, 1999 - January 1, 2002 (at the latest)
• The EMI will have completed its specification of the regulations, organisation and logistics which will enable the ECB to perform its tasks (by December 31, 1996). • The Commission, the EMI and the Council will have prepared legislation to enter into force on January 1, 1999 establishing the Euro as a currency in its own right and launching the operations of ECB (by December 31, 1998). • The Commission and the EMI will examine Member States' legislation to make sure that it conforms with the EMU requirements set down in the Treaty.	• The European Council (heads of state and government) decides on participating Member States as soon as possible in 1998. • Heads of state and government of EMU Member States appoint the executive board of ECB and set the date for the introduction of Euro banknotes and coins. • The ECB and EMU Member States start production of Euro banknotes and coins. • Final preparations are made for the launch of the ECB/ESCB including the adoption of necessary secondary legislation and testing the monetary policy framework.	• On January 1, 1999 conversion rates are irrevocably fixed by EMU Member States and legislation establishing the legal status of the Euro comes into force. • From January 1,1999 the ESCB defines and executes monetary policy in Euro together with foreign exchange operations. EMU Member States will issue new public debt in Euro. • On January 1, 2002 the ESCB will put Euro banknotes into circulation and start withdrawing national banknotes while EMU Member States do the same for Euro and national coins.

Once created the new European Central Bank will be given independence, and responsibility for price stability through the control of monetary policy and currency management for those countries who opt into the Euro.

Six main reasons are advanced for EMU and the creation of the single currency.

(1) Through monetary union, and the convergence of fiscal and other national economic policies, it is hoped to facilitate free international investment capital movements with stable, realistically valued exchange rates free from foreign exchange risks. It is intended to reduce massive speculative flows of finance. Such stability is seen as essential to Europe's goal of creating an integrated internal market.

(2) Monetary union is seen as necessary in order to create a means by which a co-ordinated European monetary policy can be established by an independent European body with European objectives. This was considered vital to ensure that the economies of Europe were not left completely at the mercy of the monetary policies of the Bundesbank, which by the late 1980's was dominating European monetary policy and European financial markets.

(3) Monetary union would greatly reduce transaction costs across Europe further facilitating the growth of trade in Europe, and the free movement of goods, services, and people from one country to another.

(4) Through the creation of a strong single currency, Europe would have a more powerful weapon with which to compete against the US Dollar and the Japanese Yen in the international money markets.

(5) A single currency removes the temptation from governments to attempt to address national economic problems by using competitive currency devaluations.

(6) Finally, EMU should lead to higher levels of employment, economic growth and income.

Opponents to the introduction of EMU also have their arguments.

(1) EMU is questioned because it means a loss of national sovereignty. EMU considerably boosts the creation of a federal Europe where decision and policy making, particularly with regard to monetary and fiscal policy, are made at a European level and not at national or local level. The role and power of various European institutions including the European Central Bank, the ECOFIN Council and the Commission itself, will be greatly enhanced. This centralisation of power is questioned because it creates an unaccountable elite who are guided by narrow economic and monetary concerns and not their wider social impact.

(2) Similarly EMU is questioned because it is seen to reduce flexibility particularly with regard to a national government's ability to introduce competitive policies to attract international business, e.g. by introducing special corporate tax policies. Opponents of EMU fear that following the completion of the third stage attempts will be made to achieve further downward harmonisation across Europe, particularly with regard to tax policies and levels of social expenditure. While proponents of greater harmonisation see such policies as creating a "level playing field", opponents argue that it will substantially worsen Europe's current economic and employment woes.

(3) EMU is questioned on the basis that the policies of deregulation and retrenchment currently being adopted by European governments to meet the Maastricht convergence criteria are causing such harm that they outweigh any potential benefits accruing from EMU. Critics blame the policies adopted for the current levels of high unemployment across Europe, low levels of growth and investment and increased social unrest.

(4) EMU is questioned because of its impact on the operation of labour markets. This issue is examined in more detail later in this paper.

The European trade union movement has been a supporter of EMU. It sees EMU as a necessary step to limit financial speculation and market volatility and to ensure both economic and political stability and unity within Europe. The ETUC and Euro-FIET have, however been extremely critical of the vision of EMU as set out in the Maastrict Treaty which deals only with monetary union and the nominal convergence of inflation and deficits. The ETUC and Euro-FIET have demanded that that EMU must be an economic as well as monetary union with real convergence with respect to jobs, growth and cohesion. To achieve this, the trade unions have proposed that an employment chapter be included in the Treaty to strengthen the commitment to full employment. Strong protests have also been made at the policies of deregulation and retrenchment adopted by the various European governments as they try to meet EMU convergence criteria.

To date, the politicians and bankers who are deciding on how monetary union should occur have focused mainly on the business and financial implications. So far they have failed to adequately address issues relating to union and employment concerns. Up until the Amsterdam summit both the European Commission and the European Monetary Institute were reluctant to see labour market concerns as important or part of their responsibilities, despite the huge impact EMU will have on workers, labour markets, employment and collective bargaining. This paper looks at the main areas of concern in these issues.

The Operation of Labour Markets and Collective Bargaining

EMU will have a major impact on the operation of European labour markets.

Traditionally an economy can respond to demand or supply side economic shocks with adjustments in three areas:

(1) Monetary policy changes, which can include interest rate adjustments, exchange rate adjustments, altering the level of the money supply, etc.

(2) Fiscal policy changes, which include altering the level and/or composition of government expenditure and the level of taxation.

(3) Labour market adjustments, which include changes in the level/composition of employment, and changes in the level of nominal and/or real wages. The nature, scope and speed of adjustments in the labour market depend on the degree of flexibility in the market. This in turn depends on a variety of factors including, the level and type of government legislation, the relative power of the social partners, nature and scope of collective bargaining, the nature and level of social costs, and the mobility of labour.

In recent years most governments have focused on monetary policy as the principle method of economic adjustment to the detriment of investment policy The reasons for this relate to the dominance of neo-liberal economic ideology, the political difficulties of making changes in fiscal policy and in the labour market, and to the speed and effectiveness of adjustments themselves. Monetary policy is regarded as easier to implement, and is seen as having a faster impact on the economy.

The use of these three economic policies will change under a single currency.

Monetary policy will be controlled by the new European Central Bank which will be independent from national governments. The monetary policies adopted by the ECB will be on behalf of Europe as a whole. How sure will it be that they will adjust policies to address the economic difficulties in any one country or group of countries?

The use of fiscal policy will also be greatly restrained under EMU. European governments have accepted the idea of a stability pact which was originally proposed by Germany in 1996. The purpose of such a pact is to impose fiscal discipline on Member States and to try to force them to permanently maintain their economies within the bounds of the Maastricht convergence criteria well beyond the introduction of the single currency.

At the Dublin Summit in December 1996 the concept of a stability pact was agreed, albeit in a softer version than that originally requested by Germany. Although the pact still requires governments to keep their economies within the convergence criteria, the Dublin agreement allows countries exceptions to this rule if their economies shrink by specified amounts. Punishments for countries who fail to keep to the criteria were agreed, with possible fines of up to 0.5% of GDP. The fines, however, must be approved by the Council of Ministers, excluding the country under threat.

With fiscal and monetary policy options now either impossible or severely restrained, much greater emphasis will now fall on the labour market and its ability to adjust to economic shocks by moving labour from industry to industry and from region to region, and by adjusting the level of both real and nominal wages. If labour is not mobile, and wages are not flexible then the adjustment focus will fall on the level of employment (_ the level of unemployment).

A report by the highly influential American credit rating agency, Standard and Poors concluded:

> *"The surrender by governments of exchange rate management as a tool to deal with country-specific economic shocks leaves only fiscal policy, an inefficient tool ,for responding to recession. Moreover, a strictly enforced "stability pact" would remove much of the flexibility required to use this tool. In the absence of large fiscal transfers within the EMU, or much greater labour mobility, wide and enduring variations in national unemployment, figures seem a direct possibility. "*

Unemployment is currently the single biggest economic problem facing Europe. Current unemployment rates are high by international standards and show little prospect of sustained decreases.

Europe's unemployment performance is even worse when one takes into account that:

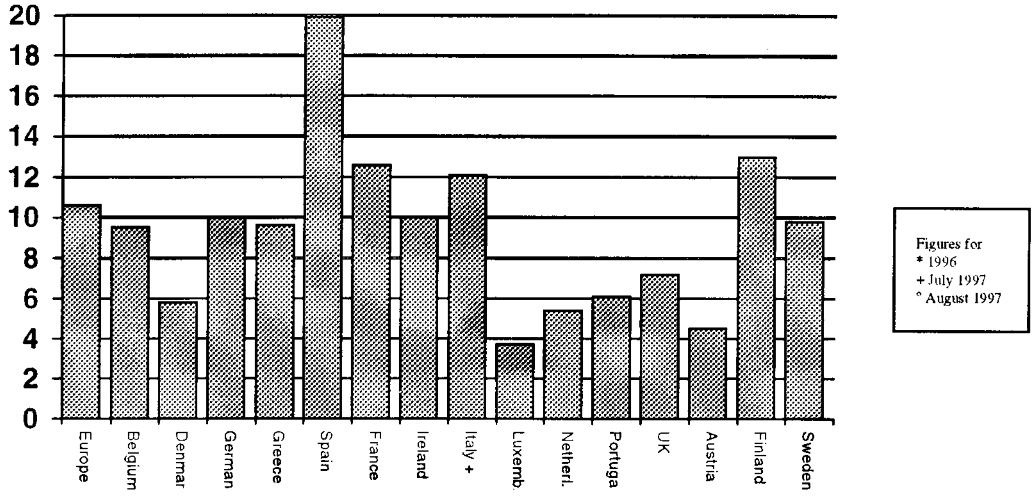
- labour force participation in Europe has fallen over the last twenty years, while in the United States and Japan it has increased;
- 20% of workers in Europe under the age of 25 are unemployed;
- the incidence of long term unemployment among young workers is increasing;
- the incidence of long term unemployment among all unemployed workers has increased over the last 4 years. 50% of all unemployed workers have been out of work for longer than 12 months. This compares to 18% in Japan and only 10% in the US.

In order to avoid unemployment levels becoming the principal adjustment factor, three different approaches have been put forward by different groups to address this problem.

(1) The establishment of a European federal budget to fund cross border transfer payments to countries in economic crisis.
(2) The establishment of European level collective bargaining between the social partners to create wage and social policy agreements.
(3) The deregulation of European labour markets.

Unemployment figures

September 1997 as % of workforce



Source: Eurostat

(1) European Transfer Payments

The possibility of a Europe-wide public finance system was first examined in the MacDougall report published by the European Commission in 1977. The report concluded that:

> *"Economic and monetary integration leads to the progressive loss by states of their ability to control trade, exchange rates and monetary and fiscal policy..." and it added "The difficulty for a country which joins others in a common market and common monetary system without a developed central system of public finance..., is that, like a region of federal state within a developed economy, it cannot use trade barriers or currency devaluation to help it adjust to, for instance, a fall in demand for its exports or a rise in the price of its imports, nor does the built-in stabilisation produced by its public finances system carry with it a built-in financing of import surpluses which stabilisation of income may cause. "*

Having identified this problem the report explored the possibilities of establishing a European Federal fund into which all Member States would contribute, and out of which countries in economic difficulty would be given transfer payments. These payments would be used by the receiving country to boost economic activity, and undertake new investment. This would avoid the need for the country to try and get itself out of economic difficulties by introducing competitive economic policies e.g. taxation, exchange rate, wage adjustment, designed to lure business away from another Member State.

The potential role of the public finance system in promoting economic and social cohesion was again raised more recently by MacDougall, who supported others in calling for a thorough examination of possible mechanisms for more substantial inter-regional redistribution. MacDougall went on to state he feared:

"an attempt to introduce monetary union without a much larger Community budget than at present would run the risk of setting back, rather than promoting, progress towards closer integration in Europe. "

Other support for a system of inter-regional transfers have also been voiced:

> *"But the most effective solution is clearly the regional stabilisation achieved through a federal budget. By avoiding indebtedness and in automatically transferring revenue from regions experiencing growth to those in recession, the federal budget acts as an insurance system against asymmetric shocks. "*
>
> Pierre-Alain Muet

Some inter-regional transfers do currently occur in the EU through existing structural programmes. These programmes, however, are not really aimed at dealing with adjustment problems. but are rather intended to improve the physical infrastructure in the currently poorer regions of the EU.

Strong opposition, however, exists to the idea of expanded inter-regional transfers to deal with adjustment problems created by monetary union.

Estimates of the amount of money that would need to be contained within the Federal budget vary but are extremely large. MacDougall in his original report estimated that such a budget would need contributions from Member States of up to 8% of GDP. Given that current EU contribution levels are approximately 1.3% of Member State GDP, this would necessitate a massive increase in EU contributions. Something that for political and economical reasons EU governments are highly unlikely to contemplate. Much less ambitious estimates of the role and cost of a European budget have also been made. In 1993 a European Commission report by Vanheukelen suggested a system by which Member States would either pay or receive subsidies based on whether their unemployment rate was above or below the EU average.

More critical, however, is political and economic opposition to the concept of transfers themselves. The governments, and indeed almost certainly the voters of those EU countries with stronger economies do not support proposals to redirect a significant proportion of national tax revenue to a federal fund which would then be spent in other countries as part of a centralised system of social and unemployment benefits, and adjustment payments.

"A common problem with this approach is that the bureaucratic choice of physical investment programme, frequently in the public sector-infrastructure projects, becomes decided more on political, rather than economic grounds. This is known in the USA by the graphic terra "pork barrel". Experience in other Federal countries, suc h as Australia, indicates quite clearly that such investments are frequently traded for political support; and indeed, the political horse trading in the course of 'the Madrid Summit suggests that Structural funds will be largely used as a carrot to persuade the smaller members of the EU,.... to go along with the decisions of the larger countries and renounce their ability to play a destructive role. "

Charles Goodhart

Additionally opponents of transfers claim that such systems actually prolong and worsen the economic difficulties of a country receiving transfer payments as the payments mean the country can often try to delay or avoid painful restructuring decisions which may be needed to address the basic causes of poor economic performance.

A further criticism of this approach is also on the basis of the difficulty of setting a common European level of social or unemployment benefit.

(2) European Bargaining

The second approach to adjustment problems and the role of the labour market and employment and wage levels is put by those who advocate the creation of centralised European collective bargaining to establish wage and social norms.

Supporters of this approach argue that under EMU the continuation of existing national collective bargaining systems, with the current trend towards decentralisation, will increase the likelihood of countries engaging in competitive bidding by eroding social and labour standards. This would not only create a recessionary spiral but also lead to greater inequality across Europe.

To avoid this possibility the call is made for the establishment of a real European Industrial Relations System consisting of European institutions negotiating new European collective agreements which would regulate minimum wage and social benefit levels. These agreements could be at either or both the macro European level or at the sectoral level. This strategy would build upon the very embryonic systems of European bargaining which have recently achieved the agreements on parental leave and atypical work.

However, the necessary institutions do not exist in Europe at present. There are a number of areas of concern:

(1) There is political opposition to the centralisation of decisions and to the introduction of an even greater degree of bureaucracy and rigidity into what is already regarded by employers as an over-regulated market.

(2) How can European bargaining achieve agreement on wage and benefit levels given the current level of diversity across Europe, in wage and income levels, social systems, and economic performance?

(3) The employers do not seem to have the political will to negotiate and unions themselves are concerned about the impact of European bargaining on their national bargaining arrangements.

(4) Additionally, it is opposed on the basis that the existence of European wage and social norms while preventing "competitive bidding" by a country in economic difficulty, still does not address the fundamental question of what does the country do in the absence of monetary or fiscal adjustments to elevate its problems?

When reviewing the prospects for a centralised wage policy in Europe as a result of EMU, German economist Claus Schnabel concluded:

> *"In. the last decade, most European countries have shown a tendency to decentralise collective bargaining in order to increase the flexibility of wages and of the labour market. In the view of this development, the occasionally proposed centralisation of collective bargaining at the European level in response to EMU would clearly be a step in the wrong direction. EU-wide agreements would be counterproductive because they could not take into account the different economic situations and developments of individual countries.*
>
> *In practise, however, neither the trade unions nor the employers' associations are really willing to hand over competencies to their European peak organisations. Both sides lack the organisational structures and the legal prerequisites for transnational bargaining and for the implementation of EU-wide wage contracts.*
>
> *In addition to fragmented organisational structures, the different ideologies and divergent national interests found on the unions' and employers' side as well as the economic considerations mentioned above suggest that collective bargaining at the European level is not likely to take place in the foreseeable future. A more sensible way to foster European integration might to intensify the EU Social Dialogue, in such a way improving co-operation and mutual understanding between the social partners. "*

Employer opposition to the progressive construction of a European system of collective bargaining, far from putting a brake on the trade union movement, is proof of the importance of the issue at stake. It should be recalled that European employers showed similar reticence during the discussions on European Works Councils. This reticence makes the task of the trade unions difficult but certainly no less necessary.

(3) The Deregulation of Labour Markets

Over the last year in particular many business leaders, politicians, and economic commentators throughout Europe have warned that the success of EMU depends on whether governments are prepared to deregulate the labour market to allow the needed degree of flexibility, particularly wage flexibility. The argument is made that under EMU, Europe must choose between even higher levels of unemployment than those which exist now, or allow for flexible wage levels which allow wage rates to fall in those regions, skill groups and industries which are in decline and where demand has decreased.

Europe's central bankers, the architects of EMU, have been at the forefront of these calls. In recent months the Bank of England's Eddie George, Hans Tietmeyer of the Bundesbank, Wim Duisemberg from the Netherlands, and EMI President Alexander Lamfalussey, have all called for labour market deregulation and greater flexibility to ensure the success of the monetary union. Writing in the Economist magazine last year, former Governor of the Bundesbank Helmut Schlesinger went even further when he said:

> *"That also applies to the removal of rigidities in the labour market and in wage policy. Germany in particular has every reason to study the more flexible arrangements implemented in Britain under Margaret Thatcher's government ".*
>
> Schlesinger, The Economist, September 1996.

The arguments used by the proponents of deregulation are both ideological and economic.

Clearly there is a growing group among Europe's business who wish to see the deregulation and "Americanisation" of European labour markets regardless of economic circumstance or fact. EMU is used as a convenient tool through which to make their ideological claims. The arguments of the ideologies can be faced and beaten for what they are.

Economically, however, the concern remains that EMU, as currently envisaged by its business and banking creators, must inevitably be accompanied by either, or both, massive social change through deregulated labour markets, or by even higher levels of unemployment than exist now.

The Impact on Employment and Collective Bargaining

EMU is often put forward as a panacea for Europe's unemployment woes: the argument is made that under monetary union competition, efficiency, profitability, economic growth and employment will all increase.

The argument, however, is more a statement of faith, than a proven economic fact.

Monetary union will add to improved economic performance, but on its own it will not guarantee employment and growth.

When reviewing this topic, various economists concluded:

> *"Europe's common currency is likely to give a small lift to European competitiveness in the short term, as well as consistent support in the future; the short term effect will come from the elimination of transaction costs within Europe, and will enhance the productivity of European industry. The longer term effects will derive from the stabilisation of foreign exchange markets and from the credibility of Europe's commitment to price stability. Both of these developments are likely to help Europe's terms of trade, though the benefits are hard to quantify and we accept that they are likely to be small. "*
>
> Gros and Jones

> *"As much as it has been argued for the creation of a single market and the various deregulations that it has implied ,for the liberalisation of capital movements, one should not expect that the EMU will be a key factor restoring by itself growth and employment in Europe. On the contrary, the so-called "efficiency gains" of the single market, of the high degree of financial integration and now of EMU will be effectively captured only if real growth will have resumed beforehand. "*
>
> Devillé

Serious doubts can, however, be cast as to whether such growth will return before or even after monetary union is completed.

As already noted, virtually all European governments (with perhaps the exception of Luxembourg) are struggling to meet the Maastricht convergence criteria. In their efforts to get there, governments are adopting deflationary and deregulatory policies aimed at reducing the level of aggregate demand to achieve inflation control, and reducing government expenditure to decrease the level of public borrowing. These policies have undoubtedly contributed to the low levels of economic growth and high levels of unemployment found throughout Europe.

As 1999 draws closer, the convergence policies of various governments are likely to intensify, with corresponding further negative impact on growth and employment.

This situation is unlikely to change once monetary union is in place. As already noted, under the agreed stability pact governments will be required to maintain their economy within the convergence criteria. This will considerably limit the possibility of adopting traditional Keynesian style fiscal policies to generate aggregate demand and increase employment.

In addition, the price stability policies adopted by the newly established European Central Bank could also negatively impact on employment. The argument here is that independent central banks who are given as their sole objective price stability and inflation control will, when faced with rising demand and increasing growth, be so worried about the possible inflation consequences that they will implement monetary policy in such a way so as to deflate the economy. In this way inflationary pressures will be contained but at the cost of any real growth and employment increase.

In recent times many independent central banks have been accused of misreading economic developments and over reacting to market changes by introducing unnecessarily severe anti inflationary policies. Monetary policy whilst highly effective, is nonetheless a very blunt policy instrument. Thus micro level fine tuning when undertaken by a central banker is often like using a sledgehammer to crack a nut.

These conclusions have already been recognised, particularly within the European Commission.

In response, former European Commissioner Jacques Delors drew up the White Paper on Growth, Competitiveness and Employment. This White Paper proposed the adoption of a major investment programme worth several hundred billion ECU. The programme included plans to:

- establish trans European networks in transport, energy and communications;
- promote new technologies.

It was hoped these plans would create growth and employment of up to 15 million new jobs in Europe by the year 2000.

Following the publication of the Delors Report, conclusions on employment were adopted by successive European Council meetings (Brussels 1993, Essen 1994, Madrid 1995, Dublin 1996).

Further, in October 1995, the European Commission presented its European Employment Strategy which attempted to again lay out a path for stability, growth, and employment based on capacity expanding and job creating investment, accompanied by structural measures required to improve knowledge and education, competitiveness and achieve a more efficient labour market.

Additionally, in mid 1996 Jacques Santer called for a Confidence Pact to overcome Europe's unemployment woes.

Employment issues are also the central focus of the ETUC's May 1995 publication "Jobs and solidarity at the heart of Europe" and the ETUC "Europe Must Work" campaign.

Europe's unemployment grew worse in 1996, leading the Commission in its review report on Employment in Europe to conclude:

> *"But, while we do have many of the building blocks in place for sustainable, employment-generating growth., the edifice is far from complete. The commitment is not yet total, nor co-ordinated enough to move seriously towards full employment. "*

The failure of these initiatives is perhaps not surprising given the failure of Finance Ministers to agree to the required funding.

The summit of heads of state and government which took place in June 1997 in Amsterdam made further progress on the path towards a single currency for the European Union. It may therefore be assumed that the planned timetable for the introduction of the Euro will be maintained. Although it is not yet absolutely certain which of the EU member states are actually going to be part of the first wave of countries to introduce the Euro, there are already some indications which lead us to believe that the Maastricht criteria will be interpreted more liberally than the German government had previously wanted.

As a result of the pressure from the European trade union movement, and in response to demands from newly elected centre left governments in France and the UK, the Amsterdam summit debated the inclusion in the Maastricht Treaty of an employment chapter to promote jobs and social cohesion.

After intense discussion in Amsterdam, the Council adopted a resolution on Growth and Employment as a supplement to the Stability and Growth Pact. The resolution calls for the creation of sound macro-economic and budget policies to go in tandem with helping to promote stability, strong and sustainable growth and employment.

A new title on Employment will be inserted in the Treaty, with the objective to promote "economic and social progress which is balanced and sustainable and a high level of employment". To achieve this, the Council can adopt incentive measures to encourage co-operation between member states and to support members' job policies "through initiatives aimed at developing exchanges of information and best practise, providing comparative analysis and advice". Budget limits were imposed on these measures.

The resolution also calls for:

- the reviving of the proposal for the creation of trans-European transport networks and for increased research and development programmes. However, no additional funding was approved for these projects.

- using the European Coal and Steel community reserves of ECU700 million for the plan to create a research fund for the coal and steel industries.

- improving the social dialogue with the social partners.

In Amsterdam the heads of state and government only partially took the demand on employment on board. Given the deregulated nature of labour markets economic and monetary union is bound to be accompanied by far-reaching social change and/or unemployment, and the number of jobless is likely to go much higher than today's levels.

Trade unions affiliated to Euro-FIET cannot be satisfied with the decisions taken in Amsterdam. Although we recognise that a European labour market and employment policy cannot be a substitute for action at the national level, the developments of the last few years have made it abundantly clear that if national governments and the Commission of the EU do not co-ordinate their policies labour market trends cannot be reversed.

Jobs and growth will occur when both the public and the private sector undertake complimentary productive employment generating investment.

Unfortunately such investment is not occurring at present in Europe.

As discussed earlier, convergence towards the EMU criteria has governments in Europe adopting contractionary economic policies which have reduced public spending and investment. Such reductions flow through both the public and private sector and deflate demand and employment. The agreement to establish a stability pact, and to make price stability the sole operating criteria of the European Central Bank is unlikely to see this situation change once monetary union is in place.

The private sector is also failing to undertake the needed employment generating investment. Research into employment growth and productivity has recently shown that while Europe's productivity growth has been consistently ahead of that in the US and in Japan, 33% of Europe's growth has been due to capital/labour substitution whereby business has replaced labour intensive production by capital intensive production. Indeed between 1991-1995 capital/labour substitution accounted for nearly 60% of Europe's productivity growth. Further, a significant amount of this substitution has occurred via the relocation of capital investment into production plants in lower wage economies, i.e. the outsourcing of production and investment. Investment and productivity have risen, but at the cost of local job losses and rising unemployment.

In contrast to this, in the US, capital/labour substitution has played a much smaller role of approximately only 15%. In other words, in the US there has been a significantly lower substitution of labour by capital accounting for the much better performance of the US in creating new jobs and maintaining lower levels of unemployment. However, we have to be suspicious of promoting the US model, where poverty and inequalities of income distribution are unprecedented.

The failure of both the public and the private sector in Europe to initiate employment generating attention has now led for much greater emphasis to be placed upon the non investment aspects of the Employment Strategy, i.e. wage moderation and labour market deregulation.

Workers are being asked to shoulder the burden of the failures of public and private investment. The reforms that are being called for have a familiar ring and include:

- greater wage differentiation between regions, skill levels and industries;
- lower non wage labour costs particularly at lower wage levels;
- the introduction of lower entry wages for youth, unskilled and long term unemployed workers;
- more flexible working time arrangements;
- greater use of part time and contract employment;
- removal of job security arrangements to make it easier to hire and fire workers.

While these proposals are often couched in softer terms and language, they nonetheless represent a desire to move European labour market policy closer to that found in the US.

In its 1997 Economic Report the European Commission wrote:

> *"For social and political reasons, an emulation of the US-approach is neither ,feasible nor desirable in the Community as it would mean a dramatic change in the European social model. "*

However the report went on to call for adoption of virtually all of the deregulatory labour market policies listed above. In short, the Commission in the space of a few paragraphs went from, on the one hand, criticising the US approach to, on the other, calling for the implementation of most of the key elements of US labour policy.

Such a leap of logic would seem to confirm the Economist magazine's recent assertion that, despite outward appearances to the contrary, the European Commission has been the champion of- Thatcherite deregulatory economic policy. (Economist, March 15, 1997).

Europe is facing its most serious employment crisis since the end of the Second World War. The Council of Ministers, the Commission, the governments of the member states and the social partners must therefore develop and act expeditiously to implement a common strategy for growth and job creation with a view to combating unemployment.

This can best be done by stepping up the social dialogue. The efforts of Commission President Santer to create a confidence pact between politicians, industry and trade unions have unfortunately have so far failed to attract much support due to the resistance of a certain number of governments. Such endeavours must not however be abandoned, especially as the election results in the United Kingdom and France have increased the likelihood that a more proactive labour market and employment policy will be adopted at the European level.

It is our duty to make sure that the creation of economic and monetary union is made compatible with social requirements, and to that end Euro-FIET must develop the appropriate activities. But Euro-FIET must be given the means to take on these duties.

The single currency will be supported by a monetary policy set by the European central bank which will consider the general situation in the area covered by the single currency. If in such circumstances economic adjustment occurs only through tax policy, employment levels and wage levels, then the collective bargaining process will come under new and perhaps even contradictory pressure with employers demanding more flexibility in working conditions and hence in labour markets.

As far as the trade unions are concerned, actions will have to take account of the fact that within the different sectors, and at different levels within those sectors, circumstances are likely to be somewhat different if not entirely new. Working conditions within enterprises have changed, but so has the basis for collective bargaining. The whole process has been rendered even more complicated by the fact that no agreement was reached on a harmonised tax and finance policy.

Economic and monetary union opens up the perspective of new opportunities in a global economy. We need to pool our forces if we are concerned that the development of an economic and political union in Europe is perceived by workers as an opportunity and not as a threat.

Seen through the eyes of salaried employees there is no realistic alternative.

The Impact of EMU on Euro-FIET Sectors

The Impact of the single currency on Commerce

Commercial enterprises will also incur very significant one-off and transaction costs in switching to the Euro. Changes will be required in most aspects of business, including: information technology, accounting and financial management, tax, legal and payment systems, marketing and product planning. The cost will vary from sector to sector, with retailers likely to be hit hardest because of the volume of cash transactions handled and the chosen method of introducing the Euro. Pricing, merchandising, cash handling and recording systems will all have to be adapted to cope with the duplication of Euro and national currencies between 1999 and 2002. Research by EuroCommerce has suggested that these costs could be approximately 2% of retail sector revenue, with smaller retailers being disproportionally burdened. These costs will either be absorbed, impacting on profitability and employment, or passed on, impacting inflation.

The impact of EMU on the European banking industry

EMU will have both positive and negative impact on the European banking industry.

The positive effects include:

- potential cost savings;
- potential benefits to the banking system of improved economic performance in Europe;
- growth in the demand for investment banking and capital market services.

The negative effects include:

- Substantial loss of income from currency trading, and cross border money transfers. The BCG estimates the loss in revenue in this area could be as high as US$ 5 billion per annum.
- Very high transition costs associated with the introduction of the Euro. These costs will include the necessary accounting, information management and IT changes, reconfiguration of ATM systems.
- Greater cross border competition which will place greater pressure on interest rate margins and commission income charges.

However, perhaps the biggest impact of EMU on the banking industry will come with the acceleration of the current trends of increasing competition and disintermediation that have reduced bank margins and increased cross border merger activity.

In most of Europe, deregulation, privatisation and the development of capital markets have generated fierce competition among banks in the past decade, driving down bank margins and often bank credit ratings. For the most part, the phenomenon of increased competition has been confined within each country, except for large corporate banking. At present European retail banking is largely domestic in nature, with a multitude of barriers limiting consumer usage of cross border banking services, for example, the costs of currency conversion, the lack of price transparency, expensive and slow cross border payment systems and the absence of international brand names. The single currency will change this by suddenly expanding market size. In this respect the single currency will have a much greater impact on domestic banking markets than the various European Directives to create the single market.

The single currency will give all banks within the EMU region immediate "local" market funds and thus reduce any local currency funding problems that hindered the cross border expansion of lending. Products such as consumer finance, credit cards and home mortgage loans should be easier for banks to export to other countries.

Credit markets should be expanded by encouraging small and medium sized business and corporates to by-pass their bank and directly enter the debt and capital markets.

Greater cross border competition for deposits should occur with more aggressive pricing strategies designed to lure funds from one bank to another.

In wholesale banking activity, regional bond and money markets and derivatives' trading based upon local debt instruments are likely to lose importance as business transfers to the major capital centres.

It is also predicted that the single market will accelerate the trend of consolidation that is already taking place in the financial services sector in Europe. Up to now, most mergers and co-operation agreements, particularly at the retail banking level, have taken place within countries.

EMU will open the way for greater cross-border mergers. More open competition based upon price will place a premium on cost control. Mergers will provide opportunities to gain economies of scale by allowing banks to sell products over a wider market area. In addition a trend in consolidation in the industrial sector could influence banks to merge in order to ensure they have the necessary capital strength and can provide the necessary banking services to keep their high profile corporate customers. While many questions concerning the compatibility of legal system and specific banking laws remain, these will only delay and not stop the trend of banking mergers under EMU.

> *"It is important to realise that whereas the costs of EMU will be more or less evenly spread over the European banking sector, the distribution of the benefits will be highly uneven. Most European countries being both over-banked and over branched, will experience a strong tendency of consolidation in the banking sector at the end of the day, the winners will be the efficiency and the strongest retail finding base."*
>
> Herman Wijffels, Chairman, Rabobank, Netherlands.

Thus in the opinion of Europe's bankers EMU is likely to see both a continuation and intensification of the current trend in banking of "ratio" management. This trend aims at achieving greater cost efficiency through reducing employment and cost levels (notably wage and non wage personnel costs), introducing new labour saving technology and services (e.g. call centres), and achieving greater economies of scale through mergers and/or alliances.

An additional impact on the banking sector is also predicted to be a decrease in current levels of state support for troubled banks. The creation of EMU will result in less government intervention in the finance sector, particularly with regard to financial assistance for troubled banks. The "no bailouts" clause in the Maastricht Treaty will under EMU mean that governments will have less ability and less incentive to support ailing banks in a huge single market that spans 15 countries.

Employment in banking

There have been very few attempts to quantify the impact of a single currency on employment levels in banking. Based on some initial estimates as to the long term impact, Euro-FIET banking affiliates in Europe are fearful of a net loss of over 200,000 jobs in the banking sector both as a result of the single currency and continued restructuring in the industry. One unofficial estimate by an independent analyst put the loss as possibly as high as 500,000 jobs.

On the other hand, we are not aware of any research that has been produced which predicts that a single currency will in the long terns create jobs in the finance sector.

Four areas can be identified where potential job losses will occur:

(1) Foreign exchange cashiers

(2) Banking staff employed in the administration and processing of foreign exchange transactions.

(3) Central Bank employees. (See below for further discussion of this issue).

(4) Clerical employees of major companies (particularly those with a large European export base) employed in processing foreign exchange documentation.

In most analysis of a single currency the impact of these employment losses on these groups of workers has not been discussed.

We cannot accept the response that the employment losses will be negated by new jobs created by a single currency and the improved economic performance of the single market. Sustained high unemployment throughout Europe shows this response to be simplistic and untrue.

The impact of a single currency on bank employees

Even with the best preparation and communications, the final introduction of a single currency will produce a high degree of confusion.

This will place a massive amount of work on bank employees. This work will include:

- The conversion of bank records, accounts, and documentation.
- The conversion of IT systems.
- The exchange of old currency into new currency.
- Dealing with a host of different inquiries, questions, demands and complaints from the public.

To a large extent front line bank counter staff will bear the brunt of the public's inevitable confusion and frustration.

To cope with this situation, banks will need to ensure that not only do the technical and computer facilities need to be ready, but also that they have adequate numbers of staff with the correct training and information.

The recent performance of banks throughout Europe suggests that this will not be the case. Banks do not have the staffing levels or the training commitment to meet this need.

In the last 5 years, staff numbers in banking have been significantly reduced to cut costs. This has adversely affected customer service levels and the ability of front line staff to deal properly with customer inquires and complaints. If bank staff are struggling to cope with existing work loads, we believe it will be almost impossible for them to cope with the very large amount of work generated by the introduction of a single currency.

In addition, most banks have significantly reduced training levels and budgets. We again question the commitment and ability of the banks to provide the training resources that will be needed.

Cost of the introduction of the single currency

A number of estimates of the cost of the introduction of the single currency have been made. The Banking Federation of the European Union estimates the cost to the banking system will be at a minimum between 8-10 billion ECU. Banks in the UK, France, Germany, and Spain have projected costs of between 2 - 3 % of overhead costs per year for the three year time frame. Euro-FIET is concerned about who will be required to bear this cost.

Many banks throughout Europe have demanded financial support to meet the transition costs both from the European Commission and from national governments. So far these demands have fallen on deaf ears and it is unlikely that we will see any assistance given.

If this cost is to be met by the banks themselves, we are concerned that the banks will attempt to recover this cost through a combination of:

- reductions in existing costs by cutting staff numbers and salary budgets,
- increasing customer charges and possibly interest rates.

Either way, the cost to the banks of implementing the single currency will fall unfairly on working people, who arguably receive the least benefit from a single currency and can least afford to pay the cost.

Furthermore, the introduction of a single currency will require the conversion of all monetary accounts specified in employment contracts to be converted into their single currency unit equivalent. This conversion (which will be applied to all employment contracts, and not only to those in the banking sector) will inevitably produce more difficulties than are apparent beforehand.

Impact on Central Bank employees

There are over 60,000 employees in Central Banks across Europe. Central bank employees are highly organised by trade unions. Euro-FIET has affiliates active in each of the 15 Central Banks in the European Union.

The introduction of a single currency and the accompanying third stage of EMU means the future of central bank employees is very uncertain. EMU raises many questions over the complex set of relationships between national central banks, national governments, the European central bank, the European Parliament, and trade unions representing central bank workers. The questions raised include:

- What functions and activities will be given to the European Central Bank and what will remain the prerogative of national central banks?

- How and where will the currency be produced, and what will happen to those central bank employees across Europe who are employed in this function?

- Will the single currency need to be repatriated from country to country? If yes, how will this be done and by whom? If no, what will happen to central batik employees employed in this function?

- How far will the principle of subsidiarity be respected?

- How will the issues of union recognition and representation be dealt with?

Employment in some European central banks has in recent years been cut both through policies of attrition and through redundancies.

These job cuts have often been justified as necessary because of the loss of work due to European integration.

The management of national central banks and of the European financial institutions are increasingly meeting to discuss issues and to plan European responses. The European Monetary Institute includes within its structure nine formal sub committees which bring together representatives from the national central banks to plan European banking developments.

Currently the employees of national central banks have very limited opportunity to come together, and have no recognised system of social dialogue at the European level.

The Impact of EMU on the Insurance Industry

Compared to the banking industry comparatively little discussion has occurred on the impact of EMU on insurance.

Most of the work which has been done focuses on the benefits to the insurance industry of stronger and more stable European economies which it is hoped EMU will create.

Some more specific impacts can however be identified.

Expansion of Private Insurance Market

EMU is expected to provide a boost to the private insurance industry as countries move away from public welfare schemes. The future of public health and pension systems has become a major issue for many European governments who face ageing populations and substantial increases in projected government expenditure. Governments have already made cuts to expenditure in these areas as part of budget reducing measures needed to met EMU's convergence criteria. This trend is expected to continue under a "stability pact" expenditure regime implemented once the Euro is in place.

A recent report of the IMF entitled "Are Europe's Social Security Finances Compatible with EMU?" concluded:

> *"Although most EU members are poised to meet the deficit ceiling, some members risk failing it because of endemic-explicit or implicit-social security imbalances. In the short run, deficits in the social security accounts may be accommodated with. expenditure cuts or tax increases elsewhere in the government. Over time, however, it will become increasingly difficult for most countries to continue to abide by the deficit ceiling, let alone the medium-term balance or surplus target envisaged tinder the Stability and Growth. Pact, without comprehensive social security reform."*

and again:

"With current policies, the dramatic rise in old-age dependency ratios will be reflected in widening deficits, because the marked rise in pension and health care expenditures will have to be financed from a shrinking payroll tax base of a reduced workforce. For at least five EU members (Belgium, France, Spain, Portugal, and Sweden), the present value of net unfunded pension liabilities surpasses the value of GDP, reflecting a considerable additional burden on future generations Again, in the absence of deep reform, the debt criterion will not be sustainable in the long term. "

Included among the reform governments have tried to implement have been:

- reducing pension benefit levels and payments
- increasing the normal retirement age
- removing early retirement schemes
- restricting access to disability pensions and sick pay
- adjusting benefit computation and indexation formulas
- means testing pension benefits
- introducing supplementary funded defined-contribution pension schemes

The trade union movement has actively opposed these reforms and has in many countries mounted successful campaigns to promote the importance of publicly funded health and pension systems.

Despite these trade union successes, the future of public schemes remains unclear, with a looming conflict between EMU imposed fiscal austerity and the burgeoning health and pension costs of an ageing population and decreasing workforce.

The private insurance industry itself has been a vocal supporter of the single currency and in particular strict observance of the convergence criteria and on-going fiscal discipline through a "stability pact". Such support has a clear self interest basis. The Comité Européen des Assurances, (CEA) believes:

"scrupulous compliance with the convergence criteria will mean participating countries limiting their public deficits and therefore - especially - restricting the ongoing growth in their public health and pension expenditure, the corollary will therefore have to be that these countries accept greater involvement by private insurers in social benefit schemes. "

Increased Capital and Investment Mobility

EMU should encourage greater cross Europe movement of investment funds.

Fund managers at present spread their risks between a variety of investments including cash, property and equities. A proportion of investments are in overseas markets.

At present the EU insurance industry represents approximately 2100 billion ECU of investments. This is distributed between securities (64%), mortgages (22%), land and buildings (8%), bank deposits (2%), and other investments (4%).

Under EMU we are likely to see changes to this position with an increase in the overall level of investment and in the mobility of investments domestically and internationally.

Faced with greater competition from domestic and other European insurers, and from the banking industry, insurance companies will need to maximise their investment returns in order to retain customers. This will mean companies adjusting their portfolios and being more prepared to move in and out of investments to maximise returns. Under EMU investors will be free of exchange rate charges, and exchange risks. This will also encourage capital mobility as fund managers look for higher performing investments and better returns.

The CEA believes:

> *"A single European currency would allow an optimum. allocation of financial resources, since capital movements would be motivated solely by participating countries' economic efficiency.*
>
> *This aspect is particularly important for European insurers now that they can invest their representatives' assets anywhere in the European Economic Area. "*

Additionally the overall level of private sector investment may increase if EMU provides a boost to private sector insurance as envisaged above, but also due to an increase in overseas investment (i.e. non European) in Europe due to the Euro's attractiveness as reserve currency to compete with the dollar, and due to increased investment opportunities as a result of increasing privatisations throughout Europe.

While this may produce better returns on investment funds, it will undoubtedly see a move towards the adoption of short term investment strategies and a corresponding increase in the volatility of capital and security markets.

These possible developments raise questions about the accountability and responsibility of fund mangers to undertake long term productive investment to ensure economic growth and employment. If this does not occur then we could face an increase in the current phenomenon of fund managers using workers' savings to make short term speculative investments (sometimes in a foreign country) which are in direct competition to, and undermine stable production and employment.

Costs of Implementing the Euro on the Insurance Industry

A number of different areas can be identified where the insurance industry will face costs as a result of the introduction of the Euro:

computer programmes and systems will have to be modified or adapted.

all numerical amounts in insurance contract terms will have to converted and redenominated.

- provision of public information.

the creation and maintenance of dual accounting systems needed for the three year transition period operating during Phase 2.

reorganisation of staff whose jobs will be affected by the creation of a single currency.

According to the CEA:

> *"Although it is probable that these changes will eventually bring about gains in productivity and competitiveness in undertakings which will make them, it is undeniable that they will represent, in the short term, a major outlay which - in certain cases - could penalise companies compared with. their competitors in the rest of the world. "*

Very few numerical estimates of this cost burden have been made. The Association of British Insurers quotes tentative estimates made in the UK "and abroad" of approximately 10% of one year's non personnel costs. In the UK, for example, this would suggest that the industry cost would be around £1 billion. The main elements of this cost are information technology changes, staff training, and reprinting of documentation.

As with the cost impact on banking, concern needs to be expressed as to who will be required to bear this cost. In the words of one French business leader when commenting on the cost burden of the Euro:

> *"there will be no free lunch for consumers"*

Development of a European Insurance Market

For similar reasons to those expressed in the banking industry, EMU should provide a boost to the creation of a genuine Europe-wide insurance market and to the long term development of European insurance products, particularly in the life industry. However significant barriers will still remain especially related to different taxation policies. If, however, some degree of tax harmonisation across Europe is achieved once the Euro is in place, then this will boost Europe-wide market development.

Competition between insurance companies is expected to increase, placing greater pressure on premium charges and cost margins.

Current industry trends with regard to mergers and the expansion of telesales and bancassurance are expected to intensify under EMU as companies seek new distribution channels and cost savings.

The overall impact on employment in the industry is difficult to assess and will critically depend on the relationship between public and private insurance. If, as expected, EMU leads to an expanded role for private insurance then the prospects for employment growth in the industry are good. However, we should still expect to see a continuation of internal employment restructuring within companies.