

Chou En-Lai and the euro

Life get's tedious, don't it? After the excitement of the conversion of the securities industry, and wondering what the next weird 'euro-manifestation' in France was going to be, we now have something of a euro hangover.

At a recent meeting of GroupeEuro in Brussels, just about everyone I spoke to was surprised at the suddenness of the decline in interest in the new currency, and the lack of real developments.

Perhaps we should not be too surprised at this, but maybe we should be worried. The new currency has not delivered any of the much-broadcast benefits – because most of them were misguided.

We should not have expected that simply introducing a new currency would have *caused* a drop in unemployment as long as the basic forces relating to the employability of staff remained unchanged. Also, as we have seen, there was no reason to believe that the cost of cross border business would decline, especially since the foreign currency risk element of French – German business in 1998 amounted to only 5% of the costs anyway. There is still no adequate method of making payments round Europe and this will remain the case for some time – the introduction of a currency did not address the lack of a basic low cost infrastructure.

Also, the euro has not had a good start from other points of view. Oskar Lafontaine's attempts to be a one man renegotiation of the stability pact worried many people, and no one is too sure about the credentials of the Green-Red pact in Germany, and whether there aren't a few less-flamboyant, but more effective Lafonatiners in the cabinet.

Finally, there has been the matter of the drop in value. The poor ECB has been between a rock and a hard place on this one. If they defend the value of the currency – by raising the interest rates – then they incur the wrath of politicians who will not themselves take the decisions necessary at home to reduce unemployment. And a 7% drop in the value of a currency over a three month period – with no real prospect of a reversal – is no basis for celebration of the success of a 'strong currency' policy.

So perhaps we should not expect that the euro would be the big event of 1999 in the way that it was in '98. But this should be a matter of more concern than it appears to be.

One does not get the impression – as one did from the banks in the period 1996-98 – that there is plenty of work going on in the background. Oh, very well, the bank themselves are ploughing along – including, or perhaps especially, the UK banks – to prepare for extensive retail use of the currency, but outside a few true multinationals, we don't seem to be seeing any real interest at all.

So the conclusions we can draw from the first couple of months of the euro are as follows:

- It has not brought about the social benefits which some of Europe's more stupid politicians said it would
- It has highlighted certain areas where preparation was inadequate or absent
- It has not gained a reputation as a 'big win' in the world's finance markets.

Well, so what? A bit of grist to the mill of the Eurosceptics perhaps, but economics being what it is, we are most likely to see a turnaround before 2002 so why get excited.

There is a very good reason for concern, and it exactly parallels the development – or rather non-development of Europe wide cash clearing.

Everyone (or at least those who were doing anything) was worrying about the transfer of cash between national central banks, and no-one was thinking about retail and commercial transfers between centres. There was a large measure of intellectual sloth when the details of cash movements within the quasi-national system of the euro were considered. And we are seeing that this has already caused problems.

And as usual it is the systems issues which underpin the matter. With good systems in place (as we saw in the City of London, or in the French banks' wholesale trading operations) the whole business becomes almost unnoticed. With no systems (as in retail cross-border payments) or poor systems (as in Frankfurt) the whole thing becomes expensive and hard to recover.

If something similar happens in 2002, there will be a very public mess. And Europe will suffer greatly. If the SMEs and the multinationals, the banks and the public sector do not continue to make preparations in the same way as the wholesale banks did from 1997 to 1999, then the enterprise will fail in a spectacular manner.

On the 4th of January 1999, certain of the sillier parts of the pro-Europe press were hailing the euro as a success. After three months their more reflective opponents at places like the Wall Street Journal are declaring it a failure.

The sensible business and public sector person will incline more towards Chou En-Lai's reflection when asked if the French revolution was a success. He replied that it was too soon to tell.

But too soon to tell or not, we fail to plan at our own risk.