LONG LOST FRIEND OR FOE? THE UNITED STATES RELATIONSHIP WITH THE EURO

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January 1, 1999 marked the transition into the third stage of the European Union's plans for economic integration by way of the Economic and Monetary Union. On July 1, 2002, the French franc, Spanish peseta, and German mark became obsolete, as eleven participating countries from the European Union changed their currency to the euro. Now, in the face of a protracted domestic economic slowdown, increasing unemployment, and investor uncertainty in the stock markets, the recent increase in the euro's exchange value against the dollar raises questions in the United States about the euro's impact on the U.S. economy. Indeed, headlines such as those published in The *Wall Street Journal* that read, "Dollar falls against euro, stocks follow; U.S. currency weakness creates 4-day losing streak for shares; China trade adds to worries"[1] and, "As world economy revives, Europe struggles; the strong euro weighs on companies, offsetting good news from the U.S."[2] seem an ominous forecast.

Economists attempt to alleviate these concerns and debunk misconceptions about the euro as a competitive threat to the U.S. economy by arguing the matter from an economic perspective. However, it is important to approach the issue not only from an economic perspective, but an historical one as well. There exists a fundamental connection between the euro and the U.S. that dates back to the immediate post World War II era. The U.S., as part of its efforts in pursuing interests in European economic integration in post war Europe, helped to lay the foundations for the euro. Today the euro that was fifty years in the making is subject to harsh American scrutiny. However, contrary to misconceptions, the adoption of the euro has proven beneficial to the U.S.

When examining the role the U.S. had in European economic integration, one can approach the investigation much like that of a prosecutor building a case—establishing means, motive, and opportunity. In this instance however, they are addressed in the reversed order as opportunity, motive, and means. First, the U.S. had a major hand in shaping Western Europe following the Second World War. Years of war fought on its soil had left most of Europe in ruin, with its resources exhausted and countries buckling under the burden of crippled economies. As A.W. DePorte explains in *Europe Between the Super-Powers*, because of this feeble state,

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1 E.S. Browning, "Dollar Falls Against Euro, Stocks Follow; U.S. Currency Weakness Creates 4-Day Losing Streak for Shares; China Trade Adds to Worries," *The Wall Street Journal*, 19 November 2003, C.1. Retrieved from Proquest on 24 November 2003.

2 Christopher Rhoads, "As World Economy Revives, Europe Struggles; The Strong Euro Weighs On Companies, Offsetting Good News from the U.S," *The Wall Street Journal*, 11 November 2003, A.16. Retrieved from Proquest, on 19 November 2003.

the U.S. found it much easier to secure European support for its reconstruction plans.[3] Thus the opportunity presented itself for the U.S. to pursue its own interests in Europe.

The motivation for the U.S. efforts in encouraging and establishing European economic integration stemmed initially from the need to create stability in postwar Europe. After suffering significant losses from fighting two major world wars on the continent within a span of only 20 years, the U.S. was interested in preventing a third. There was a belief that strengthening European unity would help to prevent conflicts generated by nationalistic forces. A primary component of that unity was economic integration. Concerns about staving off communist expansion of the Soviet Union also followed the war. DePorte highlights that U.S. efforts, especially during the Truman administration, were fueled by the realization that an economically weak Europe would create chaotic conditions that would invite communist opportunists.[4]

Of course, there were also economic benefits of European economic integration that interested the United States. The U.S. economy had been heavily taxed by its participation in the war in Europe. Fred Block emphasizes in *The Origins of International Economic Disorder* that the costs of waging the war had been of one concern, but after the war the U.S. was faced with the problem of what to do with the surplus capacity of industry that had resulted from the war. Coming out of the Great Depression, America's primary concern was maintaining the strong economic growth and momentum it had coming out of the war.[5] A strengthened and united Europe would benefit U.S. trade, as John Lamberton Harper suggests in *American Visions of Europe*:

> Following Acheson's example, U.S. policy makers have with few exceptions been sincere supporters of European integration on the grounds that a united Europe would provide a growing market for U.S. goods and generate the resources and cohesiveness to allow Europe to share America's burdens both on the Continent and 'out of the area.'[6]

Although the euro would not come to realization until 1999, as far back as World War II and the post war era the U.S. saw European integration as the increased possibility of the much-desired European currency convertibility. Block defines convertibility as the "absence of exchange controls." Desires for currency convertibility served as precursors for the euro, which by its own virtue, eliminates such controls[7] altogether.

These political and economic concerns combined and developed into what DePorte refers to as "the American passion for European unity."[8] Coming out of

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3 A.W. DePorte, *Europe Between the Super-Powers: The Enduring Balance, 2nd ed.* (New Haven: Yale University Press, 1986), p. 196.
4 Ibid, pp. 133-135.
5 Fred Block, *The Origins of International Economic Disorder.* (London: University of California Press, 1977), 33.
6 John Lamberton Harper, *American Visions of Europe* (Cambridge University Press, 1996), p. 338.
7 Block, p. 255.
8 DePorte, p. 134.

the war, the growing hegemonic power of the U.S. and the weakened economic and political conditions in Europe allowed the U.S. to pursue its passion. What follows are just some of the means by which the U.S. would achieve its desires for European economic integration, and in doing so, lay the foundations for the euro.

U.S. efforts to secure economic stability in postwar Europe began even before the war ended. In July of 1944, delegates from forty-four countries met in Bretton Woods, New Hampshire to attend the United Nations Monetary and Financial Conference, later to become known as the Bretton Woods Conference. Out of the conference came the International Monetary Fund, the International Bank for Reconstruction and Development, and a plan for currency stabilization. Not only was the conference held on U.S. soil, but also as Block explains, the systems set in place were largely the design of the U.S. and Britain.[9] Block argues that:

> For both foreigners and Americans, the images of global reforms that sprang from the national economic planners served to legitimize the exercise of U.S. power on a global level. At home, many that had resisted the idea that the United States should extend its power internationally were convinced by images of an international New Deal. Abroad, the reality of U.S. foreign economic policy was effectively hidden by the skillful invocation of the rhetoric of the idealistic internationalists. The clearest example of this was the International Monetary Fund itself.[10]

Discussing the outcome of Bretton Woods, Block breaks down the design for the IMF by describing its different stipulations revolving around devices for transactions and the flow of capital, how the fund would work for countries with deficits, mechanisms for replenishing the fund, and currency exchange restrictions.[11]

The outcome of Bretton Woods was by no means a perfect solution to post war economic stability. There were many problems with the system, chief among them was that, as Block explains, "the fund would not have resources to loan to countries to speed their abandonment of exchange controls. And until other countries abandoned their controls, the dollar would be the only currency in the fund that could be used."[12] DePorte recognizes the double edge sword, that while the weakened European countries encouraged the support of the U.S. and permitted it great deal of latitude with postwar reconstruction, for the very reason that they were weak in the first place, the U.S. could not count on these European countries to be strong enough for the plans it wanted to implement.[13] Thus the U.S. initially did not get the currency convertibility in Europe that it much desired. Though what was established at Bretton Woods was not the unified currency of the euro, and while in the 1970's the Bretton Woods system would face collapse, as DePorte notes, it was an attempt "to prevent a recurrence of the disruptive monetary disorder of the thirties by establishing, for the first time, conscious international

9 Block, p. 51.
10 Block, p. 37.
11 Ibid, pp.51-52.
12 Ibid.
13 DePorte, p. 196.

control of the monetary system."[14] Though an early and important element, Bretton Woods was only one part of the U.S. efforts to establish the foundations for European economic unification and currency convertibility.

Responding to political and economic concerns during the post war era, the Truman administration made efforts on the integration front as well. Though, according to Robert H. Ferrell who writes in The *United States and the Integration of Europe*, Truman himself had significant doubts about the realization of European unity in anything but the long term. Truman made the chance comment during an interview in the spring of 1947 that he "favored a United States of Europe."[15] Whether or not he truly believed it would happen, in early 1947 the Truman administration picked up its efforts to stabilize Europe and promote unity. Much of this was prompted, as Ferrell explains, by Britain's backing away from support of Greece and Turkey in February of 1947, leaving the two countries weakened and the threat of the Cold War mounted. As a measure of response to this and growing economic concerns, the Truman Doctrine was delivered in March of 1947.[16] The U.S. now took on an even more active role in funding and supporting the stabilization of Europe.

In a speech made in March of 1952, Secretary of State of the New Federal Republic of Germany Walter Hallstein recognized aid from the Marshall plan as part of the first "impulse" for the U.S. to support unification after the war.[17] The Marshall plan, also known as the European Recovery Program, was another effort to address European currency and trade concerns in the postwar period. U.S. Secretary of State George C. Marshall announced the plan in his speech at Harvard on June 5, 1947. The initiative was realized in the Economic Cooperation Act of 1948, which later led to the creation of the Economic Cooperation Administration. According to Loukas Tsoukalis in *The New European Economy*, America's early contribution to integration efforts came through the funding on the part of the Marshall plan. Instead of European countries gaining recovery through the IMF as envisioned in Bretton Woods, a different approach was taken as the U.S. began to directly provide the funds to bail out Europe. In the plan, the U.S. provided aid to European countries hit hard by the war. However, the aid was contingent upon each country's commitment to "co-operation" and "progressive liberalization of intra-European trade and payments."[18] Again, success was limited as the countries of Europe did not move swiftly and U.S. objectives for integration took a back seat. Tsoukalis explains that:

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14 Ibid, p. 82.

15 Robert H. Ferrell, "The Truman Era and European Integration," *The United States and the Integration of Europe*, ed. by Francis H. Heller and John R. Gillingham (New York: St. Martin's Press, 1996), p. 28.

16 Ibid, p. 33.

17 Walter Hallstein, "The Schuman Plan and the Integration of Europe," *Vital Speeches of the Day* (15 May 1952). Retrieved 18 November 2003 from Academic Search Premier.

18 Loukas Tsoukalis, *The New European Economy: The Politics and Economics of Integration*, 2nd ed. (New York: Oxford University Press, 1993), p. 14.

> European governments continued with their extensive system of trade controls, and the slow process of liberalization, mainly through the OEEC and the EPU, was carried at the regional level, thus implying a discrimination against American exporters. Economic necessity and long-term political objectives were behind the pragmatism and the generosity of the new U.S. policy towards Europe.[19]

While the outcome of the Marshall plan was not entirely the result that the U.S. desired, as Louise van Tartwijk-Novey recognizes in *The United States and the European Community*, it was a small but important step that marked the beginning of the extensive and direct U.S. efforts to promote and develop European unification.[20]

President Truman's administration was not the only political office supporting unification in Europe. Indeed the Marshall Plan, via the Economic Cooperation Act of 1948, and several other legislative efforts to support European recovery and stabilization through unification had been approved through Congress. Congress also had its outspoken supporters of European unity. Among them, as Ferrell writes, were Senators J. William Fulbright, Elberet D. Thomas, and Representative T. Hale Boggs. All three made speeches and proposed legislation in favor of a "United States of Europe."[21]

Outside of the government, other elements in the United States pushed for European integration. Among them was journalist Walter Lipmann, who was at the time, according to Ferrell, "the country's leading political commentator."[22] Lipmann strongly and publicly favored integration, calling for in his own words, "a new European Settlement."[23] Mira Wilkins, for her contribution to *The United States and the Integration of Europe*, discusses how American oil companies and U.S. multinational corporations also had a part to play in unification efforts. Specifically she explains:

> U.S. multinationals' postwar investments in Europe, gradual at first and then mounting, took advantage of the increasing moves toward integration, but also contributed importantly to them. It was a chicken-and-egg phenomenon: U.S. companies wanted a united Europe; saw opportunities and came to Europe; and, in turn, added to the prosperity of the united Europe; which, in sequence, resulted in more U.S. companies' entries and more economic growth and more unity.[24]

Thus the sentiment and the efforts that laid the foundation for European economic integration, and subsequently the euro, were not limited to the work of presidential administrations or the U.S. government, and the desire for European unity clearly existed in the political and business interests of Americans.

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19 Ibid, p.15.

20 Louise B. Van Tartwijk-Novey, *The United States and the European Community* (Lanham, Maryland: Madison Books, 1992), 102.

21 Ferrell, pp. 33-36.

22 Ibid, p. 31.

23 Ibid.

24 Mira Wilkins, "U.S. Multinationals," *The United States and the Integration of Europe*, ed. by Francis H. Heller and John R. Gillingham (New York: St. Martin's Press, 1996), p. 358.

The United States was not alone in its work on European postwar recovery. The devastation had taken place in Europe, and European countries had their own visions for their future, though their visions ultimately still required the assistance of the U.S. Specifically, French General Commissioner for the Modernization Plan, Jean Monnet, and French Foreign Affairs Minister, Robert Schuman, devised a plan that, with proper U.S. support, would prove to be perhaps the most significant advancement towards European economic integration thus far. As Pascal Fontaine writes in *A New Idea for Europe: The Schuman Declaration – 1950-2000*, part of the U.S. effort to aid European recovery was to fund and rebuild a strong Germany. For the French, how best to deal with the possible resurgence of German strength and power fell onto the shoulders of Robert Schuman. The plan was built upon Jean Monnet's ideas, though he was not as prominent a public figure. Monnet's efforts in both the First and Second World War had made him, "one of the most influential Europeans in the western world."[25] On May 9, 1950, Robert Schuman proposed Monnet's plan, described by Jones in *The Politics and Economics of the European Union, 2nd edition* as an entirely different approach to European unification. While others had argued in favor of a transition to European federalism as a whole, the Schuman plan focused initially on economic integration one step at a time, beginning with merging different industries from different nations together.[26] Under the plan, the coal and steel industries of Europe, specifically those of Germany and France, would be integrated. As Hallstein explained in his speech, all barriers to trade and taxes would be removed, and the coal and steel industries would be unified under the same standards and regulation.[27]

It is important to recognize the ingeniousness of the directive targeting coal and steel. As William Hitchcock suggests in *France, the Western Alliance, and the Origins of the Schuman Plan: 1948-1950*, they were the vital components, the "sinews of war."[28] Steel was a primary material used in shipbuilding, armor, artillery, aircraft, and rail transportation, and as such, it was a basic material necessary to wage war. Coal was the primary source of energy used in the production of steel and generation of electricity. Combining them ultimately limited the ability for the two countries to make war on each other, as reflected in Schuman's proposal. Steel was also important economically, as it had faced declining production demands following the end of the war. Coal and steel, according to the integration plan, would be sold on the world market "as a whole without distinction or exception" and it would be governed by an overarching international body known as the High Authority.[29] In his speech, the New Federal Republic of Germany Secretary of State Walter Hallstein emphasized the significant

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25 Pascal Fontaine, *A New Idea for Europe: The Schuman Declaration – 1950-2000, 2nd ed.* (Belgium: European Commission, 2000), pp.10-11.

26 Robert A. Jones, *The Politics and Economics of the European Union, 2nd ed.* (Northampton, MA: Edward Elgar, 2001), p. 8.

27 Hallstein, pp. 460-1.

28 William I. Hitchcock, "France, the Western Alliance, and the origins of the Schuman Plan, 1948-1950", *Diplomatic History,* Fall 1997. Retrieved 18 November 2003 from Academic Search Premier.

29 Pascal Fontaine, *Europe – A Fresh Start.* (Brussels: Publications of the European Communities, 1990), pp. 44-45.

advancement of the Schuman Plan was in comparison to earlier attempts to foster European unity. Rather than simply agreeing to work cooperatively through formalized agreements on paper, this would be an actual arrangement that merged industries and moved beyond the bounds of any one nation. Hallstein recognized the precedent this set as it created, "a supranational structure on the pattern of Federal Union."[30] Ultimately Schuman's proposal was accepted and in April of 1951 the plan successively materialized under the European Coal and Steel Community. The first real step towards full economic integration was taken.

A.W. Lovett examines the significant role the U.S. played as negotiators of the Schuman plan in his work, *The United States and the Schuman Plan, A Study in French Diplomacy 1950-1952*. In his introduction, Lovett surmises that, "In terms of its origins the coal and steel community can be considered the product of a bargain struck between the Federal Republic and America, not France and West Germany."[31] According to Lovett, taking on the monumental task of designing and implementing what would be the means of modernizing French industry and preventing another threat from Germany, Monnet and Schuman received substantial American assistance. A great deal of financial and capital support from the U.S. came by means of the Marshall plan. The U.S. gave France the funding and materials needed to implement the modernization of industry necessary to implement the Schuman plan according to Monnet's designs. It also served another purpose, as the support from the Marshall plan required the strengthened commitment of France to work in cooperation with the rest of Europe, including Germany.[32]

In order to help Europe recover, and also maintain the American sphere of influence in Europe, the U.S. was committed to rebuilding Germany. Lovett explains that this motivated France to build up its own industry and cooperate with Germany, as Germany would not remain weakened, allowing France to seize its markets in its absence.[33] Threatened by the potential rebuilding of Germany under U.S. support, France came to the realization that it "could only influence German coal and steel through a partnership. France must play a trump card, a *European* card by offering to pool its coal and steel reserves with those of its neighbors."[34] Setting up the Schuman plan would be one challenge, and achieving German acceptance of the plan would be another.

Even though the plan received high praise when it was proposed in May of 1950, according to Lovett, difficult negotiations regarding the details of the plan's implementation soon followed. It became apparent that two major hurdles created an impasse between the French and German positions in these negotiations. First, though France and Germany had agreed to unify their coal and steel industries, they

30 Hallstein, pp. 460.
31 A.W. Lovett, "The United States and the Schuman Plan. A Study in French Diplomacy 1950-1952," *The Historical Journal*, Issue 39, Volume: 2 (1996), p. 425.
32 Ibid, pp. 427-8.
33 Lovett, p. 429.
34 Ibid, p. 430.

needed a mechanism to limit the potential for the individual sales agencies to monopolize the market. Specifically the French had concerns about Deutscher Kohlenverkaut (DKV), which had dominated the German industry. There was the danger that though each individual nation would pool its coal and steel resources and forfeit sovereign control of the industries, control could still be attained through any one agency that dominated the industry, and thus have power greater than that of the High Authority set in place to regulate the whole operation.[35] Second, just as in the U.S., the German steel industry through the turn of the century, had been prone to vertical integration with that of its coal mining industry. French steel had also become dependent on German coal, a problem exacerbated as Britain kept its coal at home for domestic use during and after the war.[36] The French would not accept integration under the Schuman plan unless there was a breakup of coal and steel cartels and the severing of the German coal and steel vertical integration. However the French found that they, "did not have complete freedom of manoeuvre, nor, as it turned out, the necessary force to extort from the Germans such a concession."[37] They looked to the Americans to solve this impasse. Help came, as Lovett explains, by way of diplomatic and negotiating efforts of W.M. Tomlinson, Robert R. Bowie, and John J. McCloy, who served as a voice for the Truman administration. America used its influence and position to insist on the breaking up of the cartels and restructuring of German steel and coal industries in a manner that would allow for both German *and* French final acceptance of the Schuman plan.[38]

The sentiment of the United States as playing a vital role in getting the Schuman Plan implemented is again echoed in Hallstein's speech. He speaks specifically of High Commissioner McCloy and Ambassador Bruce and their "devotion to this task."[39] In arguing that the United States continued to support the Schuman Plan that it had helped to come to fruition, Van Tartwijk-Novey points out that the U.S. was the first country to show diplomatic support for the European Coal and Steel Community (ECSC) once formed.[40] The impact of such support by the U.S. in the early stages of the Schuman plan, as well as the ECSC organization that developed as a result, was not to be confined only to the immediate postwar period.

For many reasons relative to the pursuit of American political and economic interests, and though not always overtly, the U.S. continually pursued, encouraged, and financially supported European economic integration, thus laying the foundations for the euro. As Truman had suspected, the road to economic integration and full European unity would take some time. The assistance the U.S. provided to Europe in the postwar era, while substantial, was not purely philanthropic. Naturally, as DePorte notes, it was tied to U.S. interests, and this

35 Ibid, pp. 435-6.
36 Ibid, p. 437.
37 Lovett, p. 440.
38 Ibid, pp. 441-453.
39 Hallstein, p. 460.
40 Van Tartwijk-Novey, p.102.

reality did not escape the Europeans.[41] Ultimately the movement towards economic integration took place *in Europe* and was shaped by European efforts and interests. This evolution did not take place under the absolute control of the United States. Nevertheless, over fifty years the fundamental components of European economic integration and political unity to which the U.S. contributed and fostered remained in tact. The European federal foundation evolved, changed, and eventually produced a unified currency.

As was predicted by Monnet and Schuman, European economic and political integration would be built upon steps taken from the initial formation of the European Coal and Steel Community in 1951. The subsequent history of European integration is long and complex. However it is important to trace some of the key highlights in order to recognize the link between what happened in the postwar era and the European Union as it is today. Listed on *Milestones on the Road to European Integration*, a publication of the European Union, the next major development after the ECSC came six years later, with the Treaty of Rome. Following in the footsteps of the ECSC, the European Economic Community (EEC) and European Atomic Energy Community (EURATOM) were formed.[42] The six countries included in these communities were Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany.[43] Jones explains that both organizations were further application of Monnet's principles in the Schuman plan. Jones acknowledges that the treaty was an effort to further develop European unity, though the formation was established with specific economic goals in mind. Among them, establishment of a common market, removal of trade barriers and tariffs internally, and a common customs standard for imports and exports from those outside the community.[44] Also stemming from the treaty, as Jones explains, regulatory bodies similar to those established in the ECSC were created. These bodies included a Commission, Council of Ministers, Assembly, and a Court of Justice.

These three major communities were merged together on April 16, 1965, to form the European Community (EC). Jones notes that as a result, this "created a single Council and Commission for all three Communities."[45] Economic advancement in line with the treaty's original goals continued to develop, including the achievement of a customs union in 1968.[46] However a major obstacle to economic integration occurred with the collapse of the Bretton Woods system in the 1970s. Though currency convertibility had been achieved in 1958, when the European countries involved generally recovered after the postwar period and their currencies had stabilized, as DePorte explains, the U.S. was faced a significant balance of payment

41 DePorte, p. 201.
42 "Milestones on the Road to European Integration." Retrieved from the Internet, http://www.eurunion.org/infores/euguide/milestones.htm, on 17 November 2003.
43 David M. Wood and Birol A. Yesilada, *The Emerging European Union, 2nd ed.* (New York: Longman Publishers, 2002), p. 1.
44 Jones, pp. 14-15.
45 Jones, p. 15.
46 "The EU and the 50 US States" Retrieved from the Internet, http://www.eurunion.org/partner/usstates/usstates.htm, on 17 November 2003.

deficit during the Vietnam War and found no other solution than to come off the gold standard and float its currency.[47] As Jones states:

> The Treaty of Rome did not refer to the goal of a single currency, or indeed to a system for co-ordinating monetary policy. But from the late 1960s, the need to secure greater monetary stability became increasingly apparent, following recurring crises in the international monetary system. The 'Bretton Woods' system of fixed exchange rates finally collapsed in 1971.[48]

With a significant crisis at hand, the European Community attempted to recover. In *The United States of Europe*, Ernest Wistrich describes the efforts made by the EC to address the crisis. Wistrich writes that, "economic convergence cannot, however, be achieved with floating exchange rates."[49] After its initial efforts failed in 1972, the EC achieved results in 1979 with the establishment of the European Monetary System. An exchange rate mechanism was devised under the new system, wherein the EMS utilized a common currency unit (ECU) to which all members' currencies would be adjusted within plus or minus 2.25 per cent.[50] While this temporarily solved the crisis of the Bretton Woods collapse, the EMS was not a perfect system, and the EC would continue to work toward the unification goals with which it was established.

Seven years later, in 1985, efforts to develop a single market in Europe were well underway. As Wistrich explains, the "White Paper" plan set out distinct measures to be taken in order to achieve a single market planned for completion in 1992. What evolved was the Single European Act (SEA) that committed members to significant efforts to more fully integrate the European economy. These efforts were directed towards the removal of any remaining barriers to a single market, including those relative to "the free movement of people, goods, services, and capital." However the importance of the SEA goes even further, as Wistrich points out that:

> The Single European Act marked a major step forward in the process of European integration. It removed the log jam that had built up through the failure of governments to take decisions that were not unanimous. It ended years of stagnation and relative economic decline...but an integrated market would not endure without the removal of one of the remaining principle barriers, namely the continued existence of separate national currencies and the lack of a clear common voice with outside countries. That is why, additionally, the Act called for progress to economic and monetary union (EMU and the extension of the Community's responsibilities to foreign policy and security.[52]

This was precisely the direction that Europe took as it entered into the 1990s. In 1993 the Maastricht Treaty established the European Union (EU). Evolution had taken place once more as the EU encompassed a body committed to both an

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47 DePorte, p. 205.
48 Jones, p. 288
49 Ernest Wistrich, *The United States of Europe* (New York: Routledge, 1994), p. 47.
50 Wistrich, p. 47.
51 Ibid, p. 4.
52 Ibid, p. 5.

economic and political integration and union. The EU was founded by 12 member nations, though more were expected to join.[53]

By the time of the Maastricht treaty, the Three Stages Plan was well underway. In their work, *The Emerging European Union, 2nd edition*, David M. Wood and Birol A.Yesilada note that evidence of an effort to form an economic and monetary union could be seen as early as the failed Werner project in 1972. In 1989 European Commissioner Jacques Delors received a report that had been the product of study and investigation into the realization of the Economic and Monetary Union of Europe (EMU). The purpose of the plan was to set into motion the steps needed to secure a unified currency for Europe.[54] Wood and Yesilada emphasize that the plan included specific steps to be taken and deadlines for meeting each step in order to achieve unified currency by the turn of the century. Commitment to this plan and to the EMU was actually part of the Maastricht Treaty. Stage one was already in progress with the achievement in 1992 of the European single market. Stage two's purpose was to lay the groundwork for the full monetary unification that was to be realized in stage three. Central banks from member nations were to be made independent of their respective governments and European Monetary Institute (EMI) would become the Europe Central Bank (ECB).[55]

With the adoption of a single currency and the official formation of the European Monetary Union on January 1, 1999, as explained by Yesilada and Wood, the final stage of the plan had been reached.[56] According to Jones, the transition of the euro to replace the currencies of the eleven participating countries would take place over three years. It would begin with the use of the euro for accounting purposes. Following this, the actual coins and bills would be introduced into circulation in 2001. By February of 2002 the euro would replace national currencies altogether.[57]

The euro, as the European Union's *Guide for Americans* suggests, "represents the consolidation of European economic integration."[58] Some of the numbers from the publication give one a better understanding of the extensive and significant nature of the euro, and the progress made in the last fifty years. Everything relative to the national currencies of participating nations was changed over to the euro. All banking transactions, retail transactions, and accounting are now done in euros. The participating nations are economically united under the euro. Employing the same currency, these nations are no longer subject to fluctuating exchange rates and business can be conducted now more freely than ever across their borders.[59] However, not all members of the European Union (EU) chose to adopt the euro as their currency. Even as of 2003 Great Britain remains the front-runner of European nations that refuse to surrender their sovereign currencies and adopt the euro.

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53 David M. Wood and Birol A. Yesilada, *The Emerging European Union, 2nd ed.* (New York: Longman Publishers, 2002, p. 78.

54 Ibid, pp.129-131.

55 Wood and Yesilada, pp. 132.

56 Ibid, p. 125.

57 Jones, pp. 300-301.

58 "The Euro: Completing Economic Unity." Retrieved from the Internet, http:www.eurunion.org/infores/euguide/Chapter3.htm, on 17 November 2003.

59 Ibid.

Initially implemented by eleven member nations, listed in the EU's Guide as Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, the Netherlands, Spain, and Portugal, the euro was promoted to other nations to encourage a more general acceptance. Greece joined the EMU and adopted the euro in 2001, as nations are permitted to join as they meet the "convergence criteria."[60] As the EU continues to expand to include countries of Eastern Europe, the door remains open for continued expansion of the euro. The European single market and the backing of twelve national economies under the euro makes the euro a significant force to be reckoned with in international currency. According to the EU in their *Guide for Americans*:

> The euro-zone is roughly comparable in economic weight to the United States. The population of the twelve member states participating in EMU is about 290 million, and the euro-zone accounts for more than 21 percent of the world GDP. In 2000, euro-zone exports amounted to 14.7 percent of world exports, with the comparable figures for euro-zone imports at 13 percent. Beyond its economic impact, the euro has substantial political significance and adds to the EU's capabilities as an international actor.[61]

Indeed, replacing the German mark and the French franc, the euro holds the potential to rival that of both the dollar and the yen. Yesilada and Wood take the impact of the euro one step further by suggesting that the euro, dollar, and yen have the potential to simplify the current setup of the G7 and replace it under a new "tripolar monetary framework."[62] In consideration of this sentiment, it is worth noting that the Group of 7 (G7), founded in 1975 to protect the stability of the international monetary system following the collapse of the Bretton Woods agreements, and comprised of The United States, Canada, United Kingdom, France, Germany, Italy, and Japan, has been restructured to reflect the unification of the economic systems of those member countries that have adopted the euro. Representation by Italy, France, and Germany in G7 Finance efforts related to currency exchange has been consolidated to the European Central Bank and the Euro Group.[63]

Clearly the euro represents major evolutionary development and achievement for Europe's efforts to realize economic integration, and undoubtedly the euro seems destined to attain significant status on a global economic scale. However, the question remains, what does this mean for the U.S.? Looking back fifty years reveals a deep-rooted connection between the U.S. and the euro. Even so, this history becomes obscured to much of the population by the current world economic situation and the frequent media comparisons between the economic power of the euro and the dollar. Do the rise of the euro and the size of the economy it represents create a competitive threat to the U.S. dollar? At first glance, one may believe that it does.

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60 "The Euro: Completing Economic Unity."
61 Ibid.
62 Wood and Yesilada, p. 143.
63 "What is the G7 Finance?" Retrieved from the Internet, http://www.g7-2001.org/en/washington2/frames_c.htm , on 17 November 2003

When the euro was launched in 1999, its exchange rate opened high against the dollar (around 1.17USD to 1 euro), although it quickly dropped and stabilization efforts in 2000 on the part of the 'G7' helped the euro settle at a comparable exchange rate to the dollar.[64] Though the introduction of the euro was very much an important event among the 290 million Europeans, the change over to the euro and what followed in 2000 caused hardly a stir among the American public. However recently in 2004, the steady rise of the euro against the dollar, (As of November 2004 at 1.33 euro to U.S. dollar), has drawn more attention.

Though the current rate may *appear* threatening, the euro's higher exchange value over the dollar does not necessarily mean that the U.S. economy is in danger of losing its competitive edge. A "weak" U.S. dollar relative to the euro actually has benefits for the U.S. economy. Among those benefits, the exchange rate deters U.S. imports of European goods and at the same time there is the increased demand for the U.S. exports due to the lower price of U.S. goods. In the global economy, the weak dollar over the euro encourages outside investment to be directed to the U.S. This economic reality is echoed in articles from "To Europe's Chagrin, U.S. Economy Sits In the Driver's Seat" in *The Wall Street Journal*, to the "Greenback Game" in *Economist*. They reiterate that America should not be threatened by the euro's rise.[65] From "Diminished", an article published in the *Economist*, the author remarks, "nor is a currency's strength a reliable indicator of international confidence: despite the dollar's slide, few doubt that America's economic prospects, short- and medium-term, are better than Europe's."[66] In fact, it is often the Europeans, who are up in arms about the exchange rate.

The U.S. has reaped other benefits from the introduction of the euro. Just as in Europe, the U.S. gains from the breakdown of trade barriers between member nations. Writing on the need for international monetary reform, Fred Block emphasizes that the business of multinational corporations is hindered by having to operate in accordance with the standards and systems of many different governments. Block advocates efforts to reform this complex system.[67] The introduction of the euro is undoubtedly a means of such reform as it serves to solidify monetary union in Europe, and by extension, European economic integration. The euro reduces the cost of business operations through the elimination of currency conversions and fluctuation of currency value among participating nations. It also reduces accounting overhead associated with currency exchange and valuations among multinational corporations. All of these benefits apply to U.S. multinational corporations as well as those of Europe. These ideas are reflected in a speech made by former Deputy Treasury Secretary Lawrence H. Summers in 1998, only two months before the euro's launch. In his speech Lawrence discusses the implications of the EMU and the euro for the United States. He welcomes the EMU and coming of the euro in saying:

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64 Jones, p. 309.

65 Alan Friedman, "To Europe's Chagrin, U.S. Economy Sits In the Driver's Seat," *The Wall Street Journal*, 3 November 2003, A.2. Retrieved from Proquest on 24 November 2003. Matthew Benjamin, "Greenback Game," *Economist*, 13 October 2003, p. 36. Retrieved from Academic Search Premier on 11 November 2003.

66 "Diminished," *Economist*, 24 May 2003. Retrieved from Academic Search Premier on 17 October 2003.

67 Block, p. 212.

> We have everything to gain and little to lose from the success of this momentous project. Now more than ever, America is well served by having an integrated and prosperous trading partner on the other side of the Atlantic. Europe will benefit greatly from a single currency that supports these ends – and if Europe benefits, this will greatly benefit the United States.[68]

Summers goes on to discuss the specific benefits for the U.S., including the removal of trade barriers and the development of a unified system of standards in Europe.

The euro is neither the product of European conspirators bent on world economic domination, nor a weapon aimed towards the U.S. economy. At present, the euro does not have the potential to undermine the dollar as the world's foremost currency. An examination of the state of the European economy reveals that on its present course, even given America's weak economy, Europe's economy poses no threat. While certainly there exists the hope that launching the EMU and the euro would stimulate Europe's economy and encourage new growth, thus far that has not been the case. Europe's economy continues to slow down, and written in the article "Diminished" from the *Economist* is a caution that as Europe is currently faced with an already weak demand for European goods, a rise in the euro has the potential to "make a slow-moving economy stall altogether."[69] Europe is also hindered by its economic integration in that, it to some extent takes power away from the national governments, and limits their ability to react efficiently to economic problems that arise. This is the argument made by Alan Friedman in *The Wall Street Journal* article "The Economy; The Outlook: To Europe's Chagrin, U.S. Economy Sits In the Driver's Seat." Friedman cites high European unemployment levels, upwards of 10 percent, as areas of concern. He uses specific examples regarding labor restrictions and firing practices that limit the ability of individual European governments and businesses to make necessary adjustments to the economic conditions they are faced with.[70] Clearly, despite the potential for the euro to strengthen Europe's economy, there are a great many limitations. Economists therefore assure the public that the U.S. economy is in no danger of falling behind Europe anytime soon.

It is important to recognize however, that Americans cannot afford to become complacent in their current situation. While Europe's economy poses little threat to outperform that of the U.S., one must keep in mind that this could potentially backfire. As Deputy Treasury Secretary Summers points out, the U.S. benefits from a strong European economy.[71] Thus while it may be good news that Europe poses no competitive threat, a European economy that is crippled by stagnation could also hurt the U.S. An out-of-control rise of the euro could cause real damage to the European economy, and subsequently plague the dollar. Summers reflects on both

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68 Lawrence H. Summers, "Transatlantic Implications of the Euro and Global Financial Stability." (Remarks to the Transatlantic Business Dialogue, Charlotte, NC, 6 November 1998. Retrieved from the Internet, http://www.treas.gov/press/releases/rr2807.htm on 17 October 2003.

69 "Diminished."

70 Friedman.

71 Summers.

sides of sides of the exchange issue. He notes that there are critics who argue that the euro has the potential to take over the dollar's role as the "world's reserve currency," while on the other side of the spectrum there are those that warn the euro's weakened position will make it too competitive for the dollar and draw away foreign investments and demand for U.S. exports. Summers concludes however that ultimately it will be the relative standing of the economies behind the currencies that will have the greatest impact.[72]

There are also political costs associated with the euro. Friedman makes the connection that the rise in the euro further inhibits the European economy, limiting demand for European goods and leading to further unemployment. He insists then that this weakened state reminds Europe of its dependency on the U.S. economy and its market for Europe's exports as "one of the only reasons business confidence is slowly returning in France and Germany."[73] Friedman contends that this position of dependency does little to alter Europeans' frustration with the U.S. dominance of power. This tension, he reasons, has the potential to cause European leaders to react with political retribution, for example, coming out against the U.S. and President Bush on issues of U.S. foreign policy and Iraq. There is also the additional concern that the realization of the potential increase in European economic power as a result of monetary and economic unification under the euro will correlate to the EU's development of political power. Summers refers to this potential outcome, though notes that it is something in the distant future.[74]

Ultimately the U.S. has a vested interest its connection to the European economy and the euro. The EU emphasizes this reality by noting, "in 2001 the EU invested over 800 billion in the U.S., accounting for over 60 percent of foreign investment in the U.S. It also mentions that the U.S. directly invested over 640 billion in the EU.[75] The publication maintains that the EU has an impact on U.S. employment, supported through employment and also investments 4.9 million U.S. jobs.[76] Offering a European perspective on the relationship, van-Tartwijk-Novey writes in the foreword to *The United States and the European Community*:

> So when, from time, the headlines are dominated by conflicts between the United States and the European Community, let us also remember that we have much in common and in many respects we are treading the same path that the United States has also traveled. [77]

DePorte also recognizes both the economic and political link between the U.S. and Europe, in his discussion on the history of the "Euratlantic subsystem."[78] Given such a connection, it is necessary that the U.S. give appropriate attention to the integration of Europe's economy and the development of the euro.

Indeed, the euro represents no small change. The market under the euro rivals that of the United States and has the potential for expansion into Eastern Europe.

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72 Ibid.
72 Friedman.
74 Summers.
75 "The EU and the 50 US States."
76 Ibid.
77 Van Tartwijk-Novey.
78 DePorte.

Also, as the EU publication *The Euro: Completing Economic Unity* points out, there is the added impact that the euro "contributes to a broader sense of European identity."[79] Introduction of the euro means more than economic change, it also encourages further political unification in Europe. As Jones' reflects, the euro represents an important experiment as, "the first stateless currency."[80] Could this perhaps be a predecessor to the development of a global currency? Measuring the impact of the euro necessitates more than simply a look at where it stands in the present. Regarding the euro, having already been on a fifty-year road to realization, it will be interesting to see now where the euro's road will lead. A study of U.S. history and economics suggests that though unhappy at times, the U.S. will undoubtedly be a partner traveling on the euro's road.

As Matthew Benjamin reports in "Greenback Game", the near future could bring an even more dramatic rise of the euro. Benjamin cites expert Michael Rosenburg as predicting the euro may very well continue to rise to 1.40 against the dollar.[81] If nothing else about the euro grabs the public's attention, this may. In *The Tragedy of American Diplomacy*, William Appleman Williams discusses the problematic outlook of American foreign policy on foreign and domestic economics. Williams argues that one consequence America suffers as a result of its flawed perspective:

> This strong tendency to externalize the sources or causes of good things leads naturally enough to an even greater inclination to explain the lack of the good life by blaming it on foreign individuals, groups, and nations.[82]

This misconception can readily be applied to the U.S. relationship with the euro. Ignoring the euro's roots in U.S. history, should the euro negatively impact the U.S. the tendency exists for the American public to begin pointing fingers at Europe. When rational economic explanations for currency fluctuations are no longer satisfactory to a frustrated and critical American public wanting answers, there is at least a historical argument to fall back on. American criticism of the euro, therefore, should begin at home. No matter what path the euro takes in the future, and the impact of its wake on the United States, America can be reminded of the part it played in laying the foundations for the euro to begin with.

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79 "The Euro: Completing Economic Unity."
80 Jones, p. 287.
81 Benjamin.
82 William Appleman Williams, *The Tragedy of American Diplomacy* (New York: W.W. Norton & Company, 1972), p. 15.