The Euro: Can Scotland Face up to the Challenge?

May 1998

Irene Goldfather
North Aryshire Council

Networking Scotland in Europe

SCOTLAND EUROPA

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THE EURO - HOW CAN SCOTLAND FACE UP TO THE CHALLENGE?

INTRODUCTION

The Objective of this paper is to assist political and economic actors in Scotland, to identify the issues requiring to be addressed in relation to a single currency. As we stand poised on the threshold of historic change what are the challenges that we face in Scotland? How can we put in place the building blocks for a successful EMU? What is the role for local authorities, for small business in helping to create a positive environment for change? Some of the actors necessarily involved in the process may not fully understand the very technical nature of the project and with this in mind, it is the intention of the report to provide a context and an overview to the whole EMU question, so that the reader may end with an understanding of the issues and the reasons why Europe has embarked upon such a momentous and ambitious project.

Over the past few years the debate on Europe and on a single currency has centred on a very narrowly focused concept - the loss of the British pound. While this has not proved an obstacle to the present Government, the people of Scotland have not yet been able to fully engage in the debate about the real issues of jobs, prices, and future economic prosperity in a global environment. This paper is an attempt to contribute something to the debate while at the same time providing some practical information, direction and assistance about the nature of the task ahead.

BACKGROUND

Economic and Monetary Union is probably the most important challenge facing the European Union since it was set up under the Treaty of Rome in 1957. Indeed within the Treaty itself was modest reference to the principle of monetary co operation[1]. The European Council in 1970 agreed to the gradual establishment of EMU by 1980 through "parallel progress" towards the convergence of economic policies. This was to include in 1972, the "snake in the tunnel" mechanism to narrow the fluctuations between currencies, in an attempt to create currency stability. Essentially the 'snake' was a narrow band of European currencies moving within a wider dollar band, known as the 'tunnel'. However the oil crisis, high inflation and the collapse of the international monetary system and a lack of political commitment, all contributed to the failure of this policy initiative.

The Single European Act confirmed the "objective of progressive realisation of economic and monetary union" [2] and the European Council meeting of Hanover in June 1988 set up a committee to be chaired by Jacques Delors to "study and propose concrete steps leading to this union."

The Delors plan proposed three phases :

1. Free movement of capital within the EU Member States.;
2. Reduction in deficits, independent central banks and a European Monetary institute;
3. Monetary Union preceded by an Exchange Rate Mechanism, to ensure currency stability and economic convergence.

Building upon the Delors idea, the Maastricht Treaty set out both the economic convergence criteria for monetary union and the timetable.[3]

WHY DO ECONOMIES HAVE TO CONVERGE?

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[1] Article 102A of the Treaty establishing the EEC.
[2] Text of the Single European Act, Official Journal No. L 169, 29 June 1987.
[3] Treaty on European Union, 1992, Title 1, Article B.

The European Commission has used an interesting analogy to explain the importance of the convergence criteria[4] which suggests that just as doctors use pulse rates and blood pressure as indicators of the state of fitness and health of our bodies, similarly economists set tests to pass the health check in the Euro zone. Thus the economies qualifying for entry were expected to be in a similar state of "fitness", hence a government's spending should not exceed its budgetary income by more than 3% of the total value of the economy in that year. A Member State should also not have accumulated debts which exceed 60% of the value of the economy or the levels should be moving towards this. Inflation rates and interest rates should both be close to the three best performing countries.

While at one point there was a great deal of speculation about the large number of countries that this would exclude, On May 2 the European Council approved entry of all Member States bar four. Sweden and Greece were noted as having made progress towards convergence and were urged to continue their efforts to allow a review of progress in two years " or sooner if one of them (presumably Sweden) so requests".[5] The UK and Denmark have opt outs of the protocol. The European Commission has said that it would fully evaluate their situation will they notify the Commission that they wish to join.

It is worthwhile noting that many of the currencies involved have been "shadowing" for some time - indeed Luxembourg and Belgium have been in monetary union for years. While Luxembourg has had no public debt to speak of, Belgium has had levels of 130% and yet seems able to service it. Many currencies in Europe have been affected by any change in the Deutschmark to the extent that any change in German interest rates have in the past been almost immediately mirrored around Europe. As a result of this, it is sometimes said that when the Bundesbank sneezes, Europe catches a cold. This has proved to be an argument in favour of a Euro currency, which supports the principle of a "collective economic sovereignty" as opposed to the domination of the markets in Europe by any one currency.

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[4] "Talking about the Euro" p.14, European Commission, 1997.
[5] "The Euro 1999", European Commission, 25 March 1998, p.9.

THE GLOBALISED MARKET

The introduction of the Euro, will create the world's second largest currency area. It is as yet uncertain as to whether the Euro will act as a competitor to the Dollar, in the sense that it will become a "globalised" currency, as opposed to a "European" currency. It has been said that neither the Deutschmark nor the Yen has effectively challenged the Dollar for this pole market position, however, it is clear from an examination of the figures that there is potential for this to happen, with the Euro. The 11 countries involved in phase 1 of EMU, have a combined GDP of $6,300 billion, compared to the US GDP of $8,100 billion.[6]

Add to this the likelihood of the UK and at least Sweden joining early in the new millennium, with the possibility of Denmark and perhaps at some later stage Greece, joining and there is the potential for a Euro GDP economy much greater than that of the US. With enlargement to the East, and the fact that already some parts of N Africa peg their currencies to European currencies, the potential exists for a Euro zone, particularly if a strong Euro emerges, to rival the dollar zone. It has to be said that currency markets in general tend to be nervous of change and much of this will depend upon economic stability and confidence of the Euro.[7]

UK GOVERNMENT'S POSITION

In October 1997, the Chancellor Gordon Brown set out the UK Government's position on EMU in relation to a number of issues and it is worthwhile noting the following in relation to this:

- the Government wants economic and monetary union to succeed and it has made it clear that there is no constitutional bar to the UK joining.

[6] Financial Times, 27 April 1998, "Watch out Dollar", Vickie Burnett.
[7] See also "EMU: prospects and Challenges for the Euro," CEPR April 1998 and "The Dollar and the Euro" by F. Hergesten, Foreign Affairs vol. 76, 1, No. 4 for discussion of procedures of Euro v. Dollar.

- the Government wishes to work in partnership with business, local authorities and others on the practical preparations for the Euro.

These are clear and unambiguous statements of principle on the Government's part and represent a substantial change of direction in terms of a policy approach towards the Euro. However before the UK can join a number of preconditions must be met and these are that:

- a period of convergence in business and economic cycles must be met (interest rates in the UK are around 7%, while in Germany and France they are closer to 3%).
- a degree of flexibility in Labour markets and the need to adjust to economic change must be present;
- there should be improved conditions for higher and more productive investment; a single currency could promote a lasting increase in jobs; and finally that
- the project would be put to the people of the United Kingdom in a referendum and subject to the agreement of the Cabinet and Parliament.[8]
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This approach to the Euro has given the UK a sustainable framework within which to work and prepare. While it is apparent that the Government is committed to achieving the convergence of the economic cycle between Europe and the UK, and that this is a very valid position, it is important to acknowledge that a successful EMU will strengthen the position of those companies operating within it and could potentially damage the export economies of those countries outside, because of the uncertainties of exchange rate risks. In outlining its position on a single currency, the Government has made it clear that there will be benefits but clearly there will also be tougher competition. Issues such as the removal of transaction costs for companies trading within the Euro zone will mean that business in the UK and within Scotland, will be facing financial barriers that will not exist between France and Germany for example.

Allied to the Government's position is the linking of employment initiatives to further European integration and the single currency, through for example, the EU's programme for unemployment

[8] HM Treasury Press Release, Gordon Brown speech in House of Commons 27 October 1997.

which has been developed over recent months.[9] To some extent this represents new challenges placed on the single currency project which, when conceived, was at heart, a strictly "monetarist" approach driven forward by the Germans. However today's European Union has acknowledged that one of the largest problems facing Europe today is its 18 million citizens who are unemployed. This has led to a more socially oriented approach put forward initially by the French and more recently the New Labour Government in the UK.

It is uncertain as to whether, if the British people were to endorse the single currency in a referendum, it would be necessary for the UK to have a three year preparation period, as other Member States will have. The Government has indicated that while this is optional, it is not essential. This makes the period between now and the referendum all the more significant in terms of preparation for business, local authorities and consumers.

In May of this year, the Government further elaborated on its approach to the Euro by announcing that it would seek to have a National Changeover Plan in place by the end of this year[10]. This is a clear direction now being given to business and the public sector in terms of preparation and will provide the essential template that is needed for all sectors to comply and work within the Chancellor's national framework.

THE REGIONAL PERSPECTIVE - SCOTLAND, THE SINGLE MARKET AND THE EURO ZONE.

While the European Commission, the Member States, and the Government closely monitor the macro position on EMU, it has to be said that it is likely that Economic and Monetary Union will not affect all regions of the European Union in the same way. In order to evaluate the challenges which regions such as Scotland face, and to be prepared to put in place strategies to maximise the opportunities which could accrue. CoSLA set up a Task Group to examine the Regional Implications of a Single Currency and reported their findings in October 1997.[11] Earlier work

[9] Outlined at Extraordinary European Council meeting on Employment, Luxembourg, 20-21 November 1997.
[10] Gordon Brown speech in House of Commons, 30 April 1998.
[11] COSLA Task Group on EMU set up in February 1997, produced a report on "The Regional Implications of Economic and Monetary Union in Scotland", October 1997. Much of this section draws on that work.

commissioned by the Convention of Scottish Local Authorities (CoSLA) in 1992[12] indicated that it is possible that in an EMU there will be concentrations of economic activity in core areas of the Community.

Peripherality

Clearly, this would present a challenge to Scotland, which as a region is on the periphery, as opposed to the core of Europe. Although Glasgow is no further from Brussels than Bordeaux, what is crucial in any analysis is journey time and journey cost and it has to be said that Scotland experiences maritime peripherality, which affects both cost and time factors and presents for markets, distance related uncertainties which do not affect the core areas of the Community, where there is generally increased levels of economic activity, and greater access to skilled labour and markets. (see 12a)

It should be remembered however, that Scotland did benefit from the single market and with the correct strategies in place in relation to transportation and communication, it will be possible to overcome the effects of peripherality. Scotland needs however to address issues such as providing direct freight and ferry services from the East Coast to mainland Europe and ensuring that transportation policy includes the improvement of road and rail networks through England to the channel tunnel and a removal of fifth freedom barriers, to allow freight services for example from the US to load cargo in Scotland before carrying on to mainland Europe. It is important that there is a co-ordinated approach towards ensuring that these strategies are put in place to enable Scotland to achieve its full potential in a single market, in or outwith a Euro zone.

Scottish exports

As well as examining the regional perspective in relation to peripherality, in order to understand the implications of a Euro zone, it is important to recognise the effect that the Euro will have upon Scottish exports. Scotland has a small domestic market and therefore exporting is crucial to the Scottish economy. Indeed between 55% and 60% of our exports are destined for mainland Europe and therefore Scotland is already an integral player in the single market. The Scottish Council for

[12] COSLA commissioned paper by Andrew Scott and Andrew Hughes-Hallett, "Monetary Union and the Regions", November 1992.

Development and Industry has valued manufacturing exports at £17..3 billion with around 125,000 jobs dependent on manufacturing exports. The difficulty for Scotland, which is intensified by the single currency is that exports are dominated by the presence of large companies, with small firms accounting for only 14% of the sector's business. It is true to say that one of the sectors which stands to gain most from the single currency is the SME sector, with the elimination of transaction costs and the prospect of currency stability and price transparency.

In other words, it will be easy for customers to compare prices across Member States, there will be no risk associated with changes in the value of the currency and there will be no costs in currency transactions. For small companies in the single market, this will represent the elimination of a major barrier . However for SME's outside the Euro zone, it will actually mean a double whammy. This means that competition from within the Euro zone will affect Scotland's export market and will intensify the need for companies to develop both export skills and marketing skills. Indeed a SCDI survey undertaken in 1995 showed that only 33% of export companies responding have a dedicated Export manager and 22% an export department.

Inward investment

Related to the question of the export market is the position of multi nationals and inward investment. Some multi nationals for example, Siemens and Phillips have already written to suppliers informing them that they will be working in Euros from September next year. This will very visibly focus attention in the UK on what is likely to be a single currency area, as large as the USA, on our borders and will necessitate suppliers and customers responding to this challenge. Multi nationals which have already chosen to set up in Scotland, are likely to be encouraged by the new Government's more positive attitude towards EMU and will see the possibility of the UK joining after the next election as less threatening than the "wait and see" scenario of the previous Government.

However if EMU entry is delayed much beyond 2002, and the Euro is as widely used as many predict, it may be that they will be tempted to review their positions on the basis of the stability of the economic environment in the Euro zone. Of course pivotal to this will also be market reaction to the British pound sterling and the degree to which it remains stable outwith a Euro zone. Under either of these scenarios, and in or out of EMU, it is clear that it will be all the more necessary for Scotland to provide a highly skilled workforce, able to compete not only at manufacturing level but also at the more technologically advanced research, design and development levels. Skills development, including linguistic skills must become a key component of strategies to embed multi nationals and others within regional economies.

Tourism and Services

Of increasing importance to Scotland is the tourism and service sector, which accounted for 1.6 billion pounds in revenue, in 1995 with the EU being one of our principal markets for service sector exports including tourism, higher education, insurance, banking, computer and business services. (see 12b) It will be important to ensure that consumers are not dissuaded from continuing to invest in Scotland in these ways despite, for example holidaymakers, incurring transaction costs here but not in other EU countries. By the same token, British families travelling within Europe will be able to immediately acknowledge the benefits of a Euro zone and ability to compare prices readily between EU Member States. This may assist in the process of overcoming barriers and fears towards the principle of the Euro.

Regional Policy

Finally, in relation to the very particular effects on the regions of Europe, it is important to briefly examine the role of regional policy. At the moment Scotland benefits significantly from both European and national policy aids. 85% of Scotland is covered in one way or another by European structural funds, which were doubled following the setting up of the single market to assist, the regions which were lagging and to ensure a degree of economic and social cohesion, following the liberalisation of trade.

Agenda 2000 proposals, while still being negotiated, may see a reduction in European structural fund aid, at a time when the impact of being outwith a Euro zone albeit on a temporary basis, is likely to have an impact on exports. Given the narrow range of exports in Scotland, somewhat dominated by the electronics industry, it is important to bear in mind the potential, in a worst case scenario for multiple shocks to the regional economy. Scotland is not the only region which could suffer, asymmetric shocks, coupled with a readjustment to structural funding.

It is therefore important to continue to press for regional economic policy instruments to deal with potential problems to regional economies. For example, a particular Structural Fund set aside to deal with the problem of asymmetric shocks within a currency union would be one possible avenue for those participating regions. Clearly this would alleviate, some potential fears, which some economists have expressed about UK participation. Although the Structural Fund budget is tight, there may be some scope for re distribution of cohesion funds from those countries like Ireland, Spain and Portugal, previously in receipt but now essentially meeting the convergence criteria and participating in the Euro.

There has been much discussion within the UK about the possibility of marrying the State Aids and the EU Structural Funds maps. While there is a great deal of merit in this complimentary approach for those regions which will continue to receive aid, there is no doubt that some regions and areas will suffer a double blow from withdrawal of both and great care and attention will require to be given to the timing and potential effects of any such change and the timetable for the UK and EMU.

PREPARATIONS - BUSINESS, LOCAL AUTHORITIES AND THE CONSUMER.

Despite the fact that the United Kingdom is not within the first wave business, local authorities, and the consumer will need information about two points in time. Firstly about what will happen in Europe on 1 January, 1999 and how this will affect them in their respective roles. Secondly, they will require information about what they need to do to prepare, should the United Kingdom join, after a referendum.

Given the fact that the Chancellor has announced a National Changeover Plan to be in place by the end of the year, this will provide a template within which to prepare in detail. In the absence of this, it is clear from the experience of our partners in Europe, the type of work that needs to begin to be done.

The Arrival of the "Euro-zone" - Some thoughts for Business

As from the 1 of January 1999, for Member States within the Euro Zone, currencies will be irrevocably fixed. This will result in a number of economic implications for both first wave countries and those termed "pre in", that is those countries not joining in 1999. A number of the key areas requiring attention are outlined below, however, it should be said firstly, that any business, or local authority will require to undertake a clear assessment of the impact of EMU on their own particular environment.

Perhaps business could evaluate the impact of a single currency in two ways by undertaking either a maximalist approach or a minimalist approach. For maximalists the issue will be, how can my organisation best create a strategy to maximise the benefits to our company of EMU? For minimalists the questions may be posed what challenges does it present, in terms of what do we need to do, if anything, to ensure that we can continue to operate and deliver at the same service level? The optimal approach is likely to be a combination of the two.

Organisations whether they are small businesses, medium sized enterprises, or indeed local authorities, need to identify a key person within the organisation to undertake ownership of EMU as a strategic and an operational challenge which the company needs to assess in terms of cost/benefits. Ideally this person should take charge of a multi disciplinary team which can be used both for information dissemination and for problem solving. Many European corporations and indeed local authorities have built into this approach a "bottom up" reporting system, which ensures that problems identified at the operational levels will be encouraged to be reported up the system. "La Poste" in France for example, intend to use postmen, who have day to day contact with the public, in both disseminating information to the elderly and vulnerable and also to report back up the system, difficulties and or problems being experienced, at on the ground levels.[13]

Assessments which will require to be undertaken will include areas such as business risk assessment as offset against the potential gains for the organisations. Staff awareness training

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[13] Conference of French Mayors, Strasbourg, France, 12 May 1998. Speech by Director in charge of EMU at La Poste.

needs, review and screening of Information Technology requirements, accounting, invoicing etc transformations required and linking the strategy to the overall company budget with a view to capitalising on any areas which may allow for a link in with other projects. For example for retailers, cash handling machinery normally has a shelf life of around five years, it may be that good contingency planning could ensure best possible use of the organisation's resources at no extra cost. Similarly, perhaps for some small businesses, programming and hardware upgrading for the millennium may offer opportunities to ensure that business takes optimum advantage of computer staff and programming.

While these are organisational issues for business to consider, they should be set in the wider policy context of what is happening at a more macro level with the single currency. The Euro will mean that business both within and outwith the Euro zone will need to take account of the following macro level issues and build them into their strategic and operational planning.

- price transparency between Euro zone countries will result in increased competitiveness. It is said for example that the price of a postage stamp ranges from 2.7 French Francs to 3.7 French Francs for the same service across Europe. The French Postal Service "La Poste" has pointed out that this is unlikely to be able to be sustained in an EMU and when one considers the number of stamps used in Europe, the potential consumer benefits are clear and the implications for businesses such as La Poste require serious strategic planning. La Poste has estimated conversion to the Euro to cost them 1 million French Francs over a four year period, however they see the costs, offset against long term potential benefits.[14]

A real challenge in terms of price transparency, lies for businesses operating in, or supplying to, Euro-zone towns in border areas. The Mayor of the French town of Nice recently expressed concern about the effects of price transparency on local business and the need to increase competitiveness. In their own case, there is much cross border shopping between, the Côte D'Azur and Italy with Italian prices being considerably lower. Businesses involved in the manufacture or retail , of high value goods which are easily transported, are most at risk from increased competition and will need to give serious consideration to marketing strategies.

[14] Ibid.

- the removal of currency transaction costs is a potential benefit from day 1 of the new currency, although clearly business will adapt at its own pace. The European Commission has stated a policy of "no prohibition - no compulsion" during the three year changeover period, which commences on 1 January. It will be possible for banks, financial institutions, multi nationals and business in general to undertake accounting in Euros. Businesses in the UK which export to the Euro zone or import from the Euro zone, may have to set up Euro accounts.

It is also clear that these businesses in the UK will be faced with two challenges - increased competitiveness as a result of price transparency as outlined above and currency transaction costs. These two factors combined could create a real temporary difficulty for British exporters, depending of course, on the level of the pound. It will be essential that particularly SMEs examine their marketing and PR strategies to ensure that strategies can be constructed to attempt to overcome these difficulties.

While, the above factors will present challenges in the UK, they will also offer for both small business and consumers the opportunity to capitalise on new technology, for example shopping on the Internet. There could also be a further stimulus for business working in the mail order catalogue field. Provided that they were willing and able to work in Euros, the difficulties of printing and converting into multiple currency units will no longer pose a barrier to expanding export markets.

Opportunities for manufacturers will also present in a number of areas. The development of keyboards with Euro symbols will be a widespread requirement and yet, it appears that little has been done to facilitate this. Educational curriculum materials will also require widespread renewal and this again could present a business opportunity in terms of published books and educational computer software.

There is a movement in mainland Europe towards the development of Electronic Purses, with attendant converters in National Currency and Euros. Much of this work is being done on a prototype basis. There are opportunities for Scottish markets to capitalise on this particularly, given the resident expertise in the electronics field in Scotland.

- The issue of dual pricing will need careful consideration for business. Companies such as Marks and Spencer and Boots have already said that they will dual price. The issue of rounding will need to be taken into account as will pricing strategies and product specifications. For example, a price of £9.99 will convert to around 14.26 Euros. Will this be rounded up to say 14.49 Euros, remain at 14.26 Euros or adopt a new price of say 13.99 Euros? Alternatively, product size, or specifications could be altered to ensure a Euro friendly price. Either way, a long lead in time for businesses exporting to, or operating within the Euro Zone will be required.

Many of the very practical changes associated with the Euro will require to be made by both the public and private sectors. While the following section deals very specifically with Local Authorities, it should be said many of the areas highlighted could equally be said to apply to the needs of small companies.

The Arrival of the "Euro-zone" Some Thoughts for Local Authorities

While the case for business preparing for economic and monetary union is evident, there has been something of a question mark over the need for local authorities to prepare particularly in the short term. The case, however, is clear. Local authorities are providers of education information to the public, they are disbursers of Euro monies, they are advisors in the field of economic development and collectively, they are the largest employers in Europe. Indeed, there is hardly any service area which will not be affected for those European local authorities in the first wave.   While as has been mentioned, the UK is not in the first wave, the Government has given a very clear lead in terms of expectations for both the public and private sectors to prepare.

CoSLA's EMU Task Group has prepared a Member Handbook for Local Authorities,[15] detailing the breadth of issues which authorities will need to examine. Preparation, education and information dissemination will all be essential elements of a strategy to ensure that the Scottish Local Authority sector is geared up for Economic and Monetary Union both in January 1999 when others join and for some future date, perhaps around 2002 when the UK government may feel that the time is right for the UK to join.

At the very minimum Local Authorities will have to consider four key areas:

1) Informing and educating all staff about what will happen in the Euro zone;
2) Evaluating Education Curricula, including teacher training and materials to include reference to the new currency and how it will operate in Europe;
3) Reviewing information provided and expertise available within Economic Development sections which will have front line access to SME's and therefore the opportunity to advise on marketing etc. to the Euro Zone; and
4) Input to Tourist Information points could provide an appropriate mechanism to advise travellers and holidaymakers about the new currency.

Looking towards contingency planning for possible future entry of the UK, it is worthwhile considering the strategic and operational areas which will require evaluation. Some of these areas may be common to the work needing to be undertaken, as mentioned above, for small business.

<u>Information Technology Systems</u>

All systems will have to be reviewed to judge their capacity to operate in a dual and multiple currency environment. While essentially the Euro, is a software problem, the symbol itself does not widely exist on keyboards or indeed printer fonts. It is also important to consider programming requirements, as combined with the significant demand for analysts for the Year 2000 programming, it may be that in some areas demands will outstrip skilled supply and this needs to be considered in any strategic planning.

[15] COSLA, Task Group draft "Member Handbook", May 1998.

Financial Systems

All areas that use currency information will be affected including payroll, taxation, accounting, cash collection etc. As well as putting in place financial systems to deal with this software/administrative problem, there will clearly be a fairly major hardware problem to be assessed. Large numbers of coin operated machinery will have to be converted or replaced e.g. parking meters, soft drinks machines in leisure facilities, changing or storage lockers too name only a few. Some of these machines have limited shelf lives of around 5 years and sensible planning ahead could avoid any unnecessary expenditure. With the Chancellor announcing the National Changeover Plan, it seems prudent that local authorities should begin to give serious consideration to financial planning. Sensible audits and reviews of the work required could avoid the difficulties that some organisations found themselves in. in relation to Year 2000 preparations.

Legal Services and Contract Management

All legal changes take time and while statutory amendments will be undertaken at National levels, local authorities will have to gear up their Administration and Legal Services departments to monitor developments and assess the impact on Member Councils. By-laws and/or contracts which contain any financial reference may require to be reviewed. Austria has estimated that 600 national laws will require amendment.

Consumer Protection and Trading Standards

Given the rounding of prices outlined above there will be a clear role for Council's to play in ensuring that consumers are protected and that any changes to product specifications will remain in line with Trading Standards requirements. Decimalisation, was viewed highly suspiciously by the public, who feared that it was an exercise in price raising. While it is intended that EU legislation will outlaw this, Trading Standards officers will have a substantial role in policing the introduction of the Euro at local levels.

Education

Within a Euro zone or not, it will be important to integrate into the curriculum, information about the Euro as a currency. Given also that the UK is within the single market, allowing for the free movement of workers, it has to be said that students will need to be familiar with the financial environment within which they could be employees. The European Commission has also observed that children are very receptive to new ideas and also have a definite multiplier effect within the family.[16]

Allied to this, must be the assessment at national level of linguistic skills. In a single market, with a single currency, where it will be just as easy to operate call centres with English speaking employees in Turin, as it would be to operate them in Aberdeen, language skills could prove to be decisive in economic and educational terms.

Both business and local authorities will want and need to be involved in wider information campaigns with the general public. For the Euro to be a success, it will need the confidence of the people. Local authorities are especially well placed in such campaigns, as the democratic level of government closest to the citizen.[17] Information could be displayed for example in public libraries and could also be distributed through the contacts which local authorities have with community and voluntary groups. It is important to remember that many local government services have contact with the most vulnerable in society, who will find the changeover most difficult - the old, the visually impaired, those with literacy and numeracy problems.. The job of helping these people through that change, is likely to fall to local government social and education services.

The Euro Zone And The Consumer

Perhaps most reticent to change, but also having much to gain will be the Scottish consumer.

[16] European Commission “Information Strategy for the Euro”, for discussion of how the information strategy is to be put in place and the influence of children within the family.

[17] Committee of the Regions, 13 May 1998, Rapporteur Irene Oldfather, Opinion on “Communication from the Commission on the Information Strategy for the Euro”. Discussion of role of Local Authorities as tier of government closest to the people.

Given the very high percentages of people who nowadays holiday abroad, it will not take long before Scottish holidaymakers are able to realise the benefits of a single currency. The well known scenario of £100 of currency, which when exchanged at each border point in Europe but without a penny of it being spent, ends up with a value £47, is a very graphic example of the benefits of the Euro to travellers. The removal of currency transaction costs, whatever the difficulty for business outwith the Euro-zone, creates a very definite opportunity for consumers to benefit. UK holidaymakers, especially if they visit more than one country during their trip, will soon realise the clear benefits of such a system.

Add to that the possibility that travellers will easily be able to compare prices across Europe, and the clear incentive for retailers to maintain prices which are both transparent and competitive, is evident. The principle of dual pricing is likely to find its way into the UK, as Scotland's big department stores have indicated a willingness to take the lead in the retail sectors. All airport shops within the UK, will be required to accept Euros. As a safeguard against any possibility of any unpredictable exchange rate fluctuations being used against the consumer, the Institute of Trading Standards has indicated that they would like the Government to force retailers which accept Euros to display prominently their exchange rates, much as a Bureau de Change.

It is sometimes cited that a disadvantage of the single currency is the independence of the Central Bank. It should be recognised that the stated objective of an independent bank is price stability and low inflation. Whatever the difficulties this presents for politicians, it has to be said that for consumers this opens up the possibility of lower prices. As well as lower retail prices as a result of competitiveness, it is likely that further moves by the UK government towards convergence of interest rates will also lead to lower cost mortgages in the longer term. The Abbey National Building Society has already said that from next year it will offer mortgages in Euros.[18]

Of course these benefits have to be offset against what may be perceived of as a "loss of sovereignty". It is perhaps worthwhile bearing in mind, that in fact in a single market, with the potential of the markets to be dominated by one currency, perhaps a formal sharing of power , is no bad thing.

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[18] Quoted in The Observer, 26 April 1998, "Who cares if Britain's out of the Euro? You may yet have to join the single currency."

EMU FACING UP TO THE CHALLENGE

In conclusion, economic and monetary union is possibly the most ambitious project upon which the European Community has embarked since the signing of the Treaty of Rome in 1957. It has taken a long time to put in place, and there have been a number of obstacles along the way. We have now reached an historic moment in time, when the economies of at least 11 of the countries will merge shortly. It is no longer an idea, a blueprint, it is a reality. To fail to recognise the change which is already taking place in mainland Europe, is to delude ourselves. It is possible that the UK will join within the next four to five years and therefore, it is very important that a proper debate on the key issues takes place in Scotland. Scotland has benefited from the introduction of a single market. The opportunity is there for Scotland also to benefit from the single currency provided that, preparation is put in place to rise to the challenge and to create strategies to maximise the benefits of the Euro. It is hoped that this report has contributed in some way towards that very important debate.

Councillor Irene Oldfather, BA Hons, M. Sc.
North Ayrshire Council.
Irvine.
21 May, 1998.

SCOTLAND EUROPA

Scotland House Rond-Point Schuman 6 B-1040 Brussels T +32 (0)2 282 8315 F +32 (0)2 282 8300
Also at: Scottish Enterprise 5 Atlantic Quay 150 Broomielaw Glasgow G2 8LU T +44 (0) 141 248 2700 F +44 (0) 141 228 2114
W www.scotlandeuropa.com E information.desk@scotent.co.uk