A New Era: The Euro

Karthikesh Raju

December 12, 2001

Abstract

This article briefly talks about the history of history of the Euro ever since it was concept to the day it would be a reality. The enormous tasks that has been and will be involved during the introduction phase of the euro has been described in a concise manner. The launch of a single currency in Europe, would change the way people think, certain examples of how it would affect peoples lives is touched upon.

1 The Year 1979

Economic crisis of the 70s prompted the leaders of Europe to adopt a single currency, and plan that was pre-maturely abandoned, only to later resurface in a new name : *The Euro*.

It is been a long way since 1979, when fixed exchange rate was abandoned and a *currency snake* - tying together European Currencies - was established. This small establishment led slowly to the Maastricht Treaty in 1992, where 15 members of the EU, met at the small Dutch town and agreed to set up a single currency as a part of a drive towards establishing an economic and monetary union. Strict criteria including targets for inflation, interest rates and budget deficits were agreed upon and the European Central Bank was established in Frankfurt, Germany as a regulator for the Euro Zone. A week from now seems, the time when these dreams are realized - albeit partially.

Since that day in Maastricht to the day Euro was officially launched on the 1st of January 1999, 12 countries - Belgium, Germany, Greece, Spain, France, Ireland, Italy, Luxembourg, The Netherlands, Austria, Portugal, and Finland have joined the Euro zone, Greece being the last to join after the official launch of the Euro. Sweden, Denmark and the United Kingdom, though members of the EU are currently non members of the Euro zone, which effectively means they are not adopting the Euro.

While the Danns keep their *Krones* and the Swedes their *Kronors*, the Brits their *Pounds*, people in the Eurozone have given up their *Schillings* (Austria), *Franc* (Belgians, the French and the Luxembourgians), *Markkas* (Finns), *Marks* (Germans), *Drachmas* (Greeks), *Liras* (Italians), *Punts* (Irish), *Guilders* (Dutch), *Escudos* (Portuguese) and the *Pesetas* (Spanish) for a single currency: the Euros. Since 1999 each of these currencies were fixed to the Euro thru an irrevocable exchange rate, which itself was determined interestingly. On 2nd May 1998, Ministers of the EMU (European Monetary Union) along with the governors of the respective banks held a tele-conference during which these rates were fixed. It means that come what may, the Germans always paid 1.95583 Marks to an Euro, while the Italians paid 1936.27 Liras to an Euro.

While all this was taking place, time moved as fast as it could and now on January 1, 2002, the conceptual medium of exchange is going to be a physical reality - we are going to see, feel, spend and experience the Euros. Seems interesting, the long way these countries have come just after two nasty wars in the very last century.

2 So, what does this exactly mean?

While it is not new for countries to totally abandon one of their currency and adopt another form, it is invariably a difficult and monstrous operation. Typically such measures are done in countries having hyper-inflation, wherein the central bank decides to throw away a couple of zeros from their currencies. This has been the case in Turkey several times, and most recently Argentina.

Argentina in the 90s faced with hyper-inflation (200% monthly), found itself abandoning its australes for the re-born peso fixed - through a currency board system - to the USD. Other times, countries that badly manage their economy find it more reasonable to adopt the currency of another stable economy - usually the USD, a process - that is increasingly getting popular - known as *Dollarization*. Panama, El Salvador, Ecuador, Ivory Coast are few countries where the USD is the official medium of exchange. In-fact 27 countries in the world have no national currencies at all. The most successful conversion of a currency in modern times is the establishment of a single German mark after the German re-unification. The old east German mark gave way to the west German mark in a process that is widely considered a grand success in currency replacement.

All the above did mean replacement of one currency form to another, but never before has there been an attempt to replace the currencies of 12 countries that are apart by at-least 20 degrees latitude. While it can be argued that such a mammoth task was indeed carried out in the 50s when India and Pakistan separated, not much is documented and hence nothing can be really commented on the currency transition during that stage. Much of history talks about the blood shed that followed partition rather than unique means by which Pakistan introduced currency notes - uniqueness being an oxymoron.

Back to the Euro, according the European Central Bank, a total of 14.5 billion bank notes have been printed along with 50 billion coins, the total value being 664 billion Euros. The whole effort is mind boggling considering the fact that the notes laid next to each-other covers the distance between the moon and earth twice. Quite and effort indeed.

Apart from the problem of design, the effort involved in the distribution of these coins and notes to the respective banks and the shops (a term called *Front Loading*, according to the ECB), which started on the 1st of September 2001, is by itself a security nightmare.

3 Design of the Euro

The Symbol Euro, is an adapted version of the Greek symbol epsilon. Greece being a cradle for European civilization, Epsilon was chosen since it represented E, which again was Europe and additionally two horizontal lines were added just to have an improved feeling of stability - a fact that remains to be seen in the coming months after the concept becomes a reality.

While cleverly avoiding any nation symbols and monuments in the bills (most of the monuments were built to commemorate one country's victory over another), the design of the notes was awarded to an Austrian - Robert Kalina. His theme - Ages and Styles of Europe' - has mainly focussed on the architectural periods of Europe - strangely only bridges - maybe abstractly bridges between nations ensure the stability of the euro.

The coins reflect the national sentiments of member countries apart from having a common side - designed by Luc Luycx of Belgium.

4 A new thought process

As the Euro becomes a reality and national currencies cease to exist after the 28th of February 2002, interestingly it would mean an entirely different means of thinking for the people of the Eurozone.

The Austrians will miss Freuds and Mozarts, but then the millionaires of

Italy would suddenly see themselves poor, the Irish being the only ones to feel a sense of price raise as their punt is worth more than one euro. The Italians used to the many zeros and a concept of non-decimal prices will have to learn to calculate prices of vegetables and fruits once again. With more coins than what the people are used to, new wallets and trouser suits have been designed. To encourage the namesake millionaires to convert their accounts to euros, one of Italy's largest banks, *IntesaBci* had even offered prizes of Toyota four wheel drives. Local advertisements, show people how to write cheques with decimal points. Portugal, a predominantly catholic country, has enlisted the services of priests to popularize and familiarize the people with the euro.For the government of Luxemburg, that secretly printed bank notes, should its union treaty with Belgium collapse (a fact revealed quite recently), Euro meant destroying all this money. For the shop keepers in the eurozone, the launch of the euro will mean no holidays during the month of January. A scheme devised to facilitate the smooth changeover. Shops are the biggest change over points as customers can pay in local currencies while the change is to be given in euros. For the two towns in Northern Europe (Tornio in Finland and Haparanda in Sweden), the case is rather unique. Just separated by a road, one side of which is Haparanda and the other side Tornio, it would be mean Finns would shop around Sweden - Haparanda with their shiny new Euros and the Swedes would have to accept them, even though Sweden is not a part of the EMU. What more, the fire service, common to both, but situated in Tornio, employing both Swedes and Finns would now have to give two salaries. For the rest of the world, it means less currencies to have when you travel to Europe and for the numismatists and bill collectors it is 12 less currencies to keep track of - or is it just may be!

5 References

1. European Central Bank - Euro Web Pages
   `http://www.euro.ecb.int/en.html`

2. BBC News - Euro Special
   `http://news.bbc.co.uk/hi/english/in_depth/business/2001/euro/default.stm`