Max Baehring, Outside? No, preferably inside! (1998)

Caption: In 1998, Max Baehring, President of the Danish Metalworkers' Union, expresses his support for Denmark's participation in Economic and Monetary Union (EMU).

Source: EMU: voices from without. Stockholm: Industriförbundet, 1998. 95 p. ISBN 91-7548-519-2. p. 16-29.

URL: http://www.cvce.eu/obj/max_baehring_outside_no_preferably_inside_1998-en-9a892fb4-bfda-41b7-91cd-95d39c344c82.html
Publication date: 20/12/2013

Outside? No, preferably inside!

By Max Baehring, Chairman, Danish Metalworkers' Union

Max Baehring was born in Copenhagen in December 1939.

He trained as a machine operator and became active in the union soon after starting work in the engineering industry. He was involved in training issues, both in the Workers' Educational Association and in the Danish Metalworkers' Union. Following a long series of union posts, he became secretary of the Danish Metalworkers' Union in 1976, deputy chairman in 1980 and chairman in 1991. He is a member of the board of the Federation of Nordic Metalworkers' Unions and of the central committee of the International Metalworkers' Union. Until 1994 he was deputy chairman of the executive committee of the European Metalworkers' Union.

Max Baehring has been elected to numerous posts, both nationally and internationally. He is a member of the board of the Workers' University Colleges in Esbjerg and Roskilde and of the trade union college. He has been chairman of the Workers' Educational Association for over 20 years and is a member of the Central Organisations' Joint Council, of the Technology Council, of the Economic Advisory Council and of several parliamentary standing committees reporting to the Danish Ministry for Foreign Affairs. He is chairman of the International Metalworkers' Union's shipyard division, a judge in the Danish labour court and a member of the Board of the Danish Trade Union Confederation.

Introduction

The Danish people decided in 1993 that we would not join the economic and monetary union. We will retain the beautiful Danish krone, embossed with a portrait of Queen Margrethe.

For Denmark to join EMU, there would have to be another referendum, at which the majority voted in favour of EMU. But does it benefit Danish exports to remain outside EMU? My answer is 'no'!

The consequences of Denmark remaining outside EMU are:

- higher interest rates
- uncertainty
- fewer investments
- lower employment
- costs for currency hedging and foreign exchange
- continued risk of speculative pressure against the Danish krone.

These consequences could all be very damaging for employment in Denmark and thus for Denmark's development potential.

Uncertainty

The main consequence is uncertainty. Uncertainty over the future exchange rate of the krone. Uncertainty over whether someone will come to Denmark's rescue if we are exposed to speculative pressure. Uncertainty over our future ability to sell our exports on the large European market, when the core countries implement the single market in full, with a single currency, whilst we are still standing halfway, with one leg inside the single market and the other outside with a different currency.

Uncertainty and risk of speculation could lead to a decline in the level of capital investment in Denmark. Perhaps foreign companies will stay away from Denmark and Danish companies will invest abroad.

Every day work-places in Denmark are being closed. Every day new ones are opened. Investments are the key to new work-places. If capital investment declines, we will be undermining the very foundation for future employment. We should live off the exports of our industrial products. We should not export our work-places.

Wait and see

Denmark’s so-called economic wise men claim that the extra costs to industry of remaining outside EMU are not so great that they cannot be borne. They recommend us to wait and see how this new economic and monetary union goes.

The wise men and women say that the European single currency could turn out to be unstable. It is, therefore, wiser to remain outside EMU. If the European single currency should turn out to be stable and successful, we can always apply to join the currency union later.

It is very Danish to wait and see; it’s a good way of letting others make fools of themselves. Then we can come along afterwards and make use of their experiences to get it right from the beginning. But are the wise men’s recommendations prudent when it comes to EMU? Once again my answer is ‘no’!

The reality is that there will be repercussions in Denmark, if the euro is an unstable currency. Our trade with the euro’s core countries is so extensive that we will be affected just as much by an unstable euro, regardless of whether we are inside or outside EMU. Germany is currently our largest market, more than twice as large as the Swedish one. Britain comes in third place. When Denmark was an agricultural nation, Britain was our largest market.

It is in Denmark’s interest to have a stable, growth-fostering economic policy with low inflation. This is now official Danish policy, one that the economic wise men agree on. But the EMU countries will also pursue a stable, growth-fostering policy with low inflation.

Denmark therefore has a strong interest in the success of this policy. The only proper thing to do is to join and make a positive contribution to the future stability of the euro and the success of EMU. We are doing nothing to help it succeed by waiting in the wings.

We can choose to remain without influence and avoid taking responsibility, but we cannot protect ourselves against the backwash from the euro zone.

Strangled by exchange rate changes

Cross-border trade has brought wealth and prosperity to Denmark. The money which lays the foundation for Denmark’s welfare state is earned through exports. Fixed exchange rates are of great importance in foreign trade, in that they make it easier for companies to export. In this way, they can concentrate on what they are good at, namely producing and selling.

Changes in the exchange rate are an unpredictable joker in the cards, which can help some companies to prosper and close others down. For instance, the exchange rate strangled Denmark’s famous shipyard Burmeister & Wain in 1996. For a whole year we struggled to save the shipyard, but all our efforts were in vain. Agreements to build ships are made in dollars and B&W needed at least 6 Danish kroner per dollar in order to keep its head above water financially. But during 1994 and 1995 the dollar rate fell to a level of between 5.25 and 5.54 Danish kroner per dollar. B&W could not manage to survive on this. With the low dollar rate it cost B&W more to build a ship than they received when they sold it. Since then the dollar has strengthened. If B&W had been able to survive until its exchange rate luck turned, the shipyard could have been building ships at a profit now and 2,000 Danish workers would have had a job they enjoyed. The B&W workers were good at their jobs and with a dollar rate of over 6 Danish kroner B&W could have built ships at internationally competitive prices.

A strong single currency — the euro — will take its place in the international currency system, alongside the US dollar, so that export deals can be contracted in euros. This will liberate European companies from the exchange rate uncertainty that brought down B&W. It is not reasonable that whether a company lives or dies should depend on the exchange rate. The deciding factor should be the company’s efficiency in developing, manufacturing and selling its products.

Driving Force

The EU’s core countries have worked for 30 years with forming the basis for economic and monetary union to promote free competition on equal terms between companies in different countries. I will return to this later on.

The driving force behind the regrouping in Europe was to eliminate the risk of a new war between France and Germany, a war which would drag all of their neighbouring countries into catastrophe. The old French-German rivalry had already erupted into several wars. Now they wanted to win the peace together. To this end, the European Coal and Steel Union was formed in 1952, by France, Germany, the Benelux countries and Italy. The Benelux countries could not remain outside and Italy did not want to be left out.

Another driving force was Germany’s need for a larger market for its industrial products and France’s need for a larger market for its agricultural produce. The Treaty of Rome in 1957 put France in a position of leadership in the political sphere and Germany in the economic sphere. German industry gained access to a large free trade area and was willing to pay the price in the form of financial support for French agriculture and acknowledgement of France’s leading political role. The collaboration between France and Germany, in which both German industry and French agriculture were assured a larger market and more customers, has proved so dynamic that one European country after the other has been knocking on the door to come in from the cold, to what is now known as the European Union. Fifteen countries are now members of the EU and a further eleven have applied to join.

In 1960 Denmark and Sweden, among others, attempted to set up an alternative trade area centred on Britain. We managed to get the EFTA free trade area started, which consisted of seven countries, compared with the Treaty of Rome’s six. But EFTA suffered from the weaknesses that the co-operation between the seven countries was too loose and that Britain had no long-term interest in remaining outside the French-German alliance.

After only a decade, EFTA started to fall apart. There is more dynamic in an alliance between countries that is capable of making decisions and also making these decisions observable in everyday life. To the average man in the street, it is quite incomprehensible that countries can sign ceremonious agreements, like that on the global environment plan in Rio, for instance, when many of them then say that they have no intention of ratifying the agreement and do not intend to comply with it.

When opponents of the EU claim to be in favour of international collaboration, as long as it has fewer obligations, I would like to remind them that we have already tried this during the days of EFTA. There is no reason to return to something which we have already tested and rejected.

Competition on equal terms

One of the objects of the Treaty of Rome is to bring about fair competition on equal terms between companies in different countries. There are many methods for achieving this:

- the single market
- common standards, both technical and otherwise
- common social minimum norms, to avoid social dumping
- common (minimum) environmental norms; one company should not be able to win competitive advantages by disregarding environmental requirements
- a single currency.

As long as countries have different currencies, exchange rates can be altered and prices cannot be compared objectively with each other. As long as it is not possible to compare prices in different countries, the single market has only been partially implemented. The single market will be fully implemented when it is possible to make direct comparisons of prices on both sides of a national border — i.e. when the single currency has been introduced.

In the USA it was necessary to have a bloody civil war between 1861 and 1865 to bring about a single market and the common dollar — but one can still always see which state has issued a dollar bill. With the aid of a battle of words and arguments, but not weapons, Europe is now in the process of introducing a single market and a single currency.

The single market and the common dollar has given the USA the strength it has today, politically and economically. Since the 1960s, Europe has been lagging behind the USA technologically. The single market is Europe's response to the challenge from the USA, Japan, globalization and the fear of falling behind in the technological field. We must have companies which can succeed against competition from American, Japanese, and Asian companies and we will acquire these by creating a large domestic market for European enterprises.

The EU will not become a large domestic market without a single currency. The alternative to implementing the single market in full, with the single currency, is to stand aside and let jobs and technological development drain out of Europe and into the USA, Japan and, nowadays, also to other advanced industrial nations.

Export of economic ailments

The first step on the way towards the single currency was taken at a summit meeting in 1969. The then six EEC countries set up a committee which subsequently produced a plan in 1971 for creating an economic and monetary union with a single currency within the space often years. However, this plan was shattered when the Arab oil sheikhs in the OPEC oil cartel doubled the price of oil in 1973 and made the whole of Europe poorer at a single blow. This led to a new wave of chauvinism and protectionism.

The EC stood still, more or less, during these years. But it was in itself a great victory that the alliance prevented Europe from sliding back into the depression of the 1930s, with mass unemployment in all countries. In the 1930s, countries fought to obtain competitive advantages by devaluing their currencies, which is of course one way of making all of the citizens of that country poorer at a stroke. It is far easier for a government to devalue by, say, 20 per cent, than to lower all wages and incomes by 20 per cent. Once one country had acquired a competitive edge by reducing the value of its currency, other countries in its vicinity were compelled to do the same. The result was competitive devaluations and mass unemployment in all countries in the 1930s.

Devaluation means that a country is exporting its problems and its financial ailments to its neighbours, instead of constructively solving its problems itself. Competitive devaluations do not benefit the man in the street. On the contrary, they lead to lower employment in all countries.

In times of crisis one or two countries can devalue their way out of the chaos in the economy so long as their neighbours remain calm, even if the devaluation is costing the latter jobs, thousands of jobs. But if the neighbouring countries also devalue, the combined actions come to nought.

The EU therefore aims at preventing countries from falling, for reasons of national selfishness, into the downward spiral which led to competitive devaluations and high unemployment all round in the thirties.

In a common market there is also a problem if one country, without formally devaluing its currency, allows it to fall in value gradually. Currency depreciations are one means of improving a country's competitive position and taking jobs from neighbouring countries. Regardless of whether this is done by means of a devaluation with the attendant publicity and protest, or whether it occurs gradually and without being officially recognised, it means that a country will improve its competitive position by reducing the living standard of its inhabitants.

It is not the intention that Europe should compete by forcing down the wages and living standards of the ordinary worker. One of the advantages of EMU is that it will make it impossible to do this. The proud goal of the EU community is to make fair competition on equal terms an instrument for achieving the goals of growing prosperity combined with sustainable development.

In a Europe which had used devaluations as a means of putting right a long period of economic neglect, practice was needed in becoming accustomed to running an economy with fixed exchange rates. The EEC countries therefore introduced the currency snake in 1972, with fixed intervals defining how much each country's currency was to be allowed to deviate from the others.

In 1979 the community introduced the European Monetary System, EMS. The goal was to broaden the economic and monetary policy co-operation between member states to create a stable currency zone in Europe and it was hoped that this could be achieved by making decisions on exchange rates in consultation with one another. With the EMS agreement the individual country's government lost the right to decide on a devaluation. Governments now have to negotiate politely with the governments of the other EMS countries to achieve a well-balanced agreement on devaluation.

The package deal in 1987 on majority decision-making in the EU in a number of areas of integration meant that the single market really took off, after 14 years of stagnation in the shadow of the oil price shock. The package deal also established the goal of an economic and monetary union, but did not state a timetable.

The EC summit meeting in 1988 instructed the chairman of the Commission, Jacques Delors, to put forward a plan for an economic and monetary union. It was the Delors Report of 1989 and the Treaty of Maastricht on February 7, 1992, between the heads of state in Europe, which stipulated that an economic and monetary union should be introduced with effect from January 1, 1999, at the latest, for those countries whose economies were in sufficiently good shape to join. From that day the freedom for EMU countries to devalue their currencies will disappear. Three years later the euro will be introduced as an alternative means of payment and on July 1, 2002, national notes and coins will cease to be legal tender in EMU countries.

Economic freedom

One frequently used argument against Danish membership of EMU is that we wish to retain our freedom to determine our economic policy ourselves. This sounds very nice, but it is an illusion.

In tomorrow s world of EMU the EU's monetary policy will be shaped by the European Central Bank and Denmark will not be involved in this, as we are not members of EMU. The ECB's monetary policy will serve as the foundation for interest rate developments in the whole of Europe — including Denmark.

It is a long time since Denmark was able to decide its interest rates on its own. Because of our foreign debt, it is foreign lenders who determine interest rates in Denmark. And even if our economy were in the best of health and running as smoothly as an SKF ball-bearing, lenders would demand a higher return when lending money to Denmark. Danish governments, both its present, Social Democrat-led government and the previous non-Socialist one, have therefore chosen to tie the exchange rate of the Danish krone to the German mark. When the Bundesbank has changed German interest rates, Denmark's Nationalbank has followed suit with only a 20-minute delay.

Our *monetary policy* freedom consists of doing what the Bundesbank does. This keeps interest rates in Denmark down and definitely promotes employment. It has been estimated that a reduction in interest rates of 1 per cent, from the current level, would generate approximately 15,000 new jobs within the space of three years.

Another argument against EMU is that Denmark's finance minister and the Folketinget want the freedom to pursue their own *fiscal policy*.

Seen through the eyes of foreign lenders, we can only use this freedom to one end: to suddenly devalue the Danish currency. The more they believe that we might devalue, the more they will raise interest rates to cover themselves against possible losses in the event of a devaluation. If we want to prevent interest rates from rising and employment from falling, we would be wise not to use this freedom of ours. On the contrary, it would be smarter to follow the EMU area's fiscal policy to 110 per cent. So long as we remain outside EMU, we should be more Catholic than the Pope to avoid interest rate increases. But this might also be to the detriment of employment.

The consequence of remaining outside EMU, therefore, is that we will pay an extra cost for having our freedom, which we will use to follow the EMU areas policy to the letter, or even more closely.

We in the Danish Metalworkers' Union cannot see the point of this. What we can see, however, is that it will have harmful effects on the population in general and on industry in particular in Denmark, if the country stays outside EMU. Denmark will not achieve a greater degree of independence and influence by remaining outside. On the contrary, by remaining outside, Denmark is voluntarily rejecting participation and influence in one of the most important assemblies in the Europe of tomorrow — namely the board of governors of the European Central Bank.

The road to riches

For the USA, the fact that the dollar is the world's reserve currency is worth billions. The euro will probably be so strong that it could eat away at some of this gold mine.

Understandably, American financial institutions are fighting to retain this gold mine intact — partly by stirring up the widespread public belief that the preparations for EMU have forced Germany and France to make cuts in welfare spending and increased unemployment. They are confusing cause and effect. In the long run, a country cannot function on a deficit. It is necessary to have an economy that is in good order. This is what all of the European countries are now busy doing — and now even Sweden.

And it is far easier to blame EMU than to stand in front of a TV camera and explain: "We politicians have long lacked the courage to ensure that the economy is sound, but now we have got our act together and are going to do something about it."

By way of preparation for the economic and monetary union, the EU countries agreed very sensibly in the Treaty of Maastricht on certain 'convergence criteria, which must be satisfied before an economy can be regarded as healthy. The criteria are, inter alia:

- A public finance deficit of no more than 3 per cent of the gross domestic product (GDP).
- A central government debt of no more than 60 per cent of GDP
- An inflation rate of no more than 1.5 per cent more than the average in the three countries with the lowest inflation.

It can be discussed as to whether these requirements are tough or not. It does not seem particularly unreasonable for a country to have a national debt of 60 per cent of everything that can be produced over the coming twelve months.

It appears to be a Social Democrat and socialist illness to believe that employment can be kept up using borrowed money and artificial means. In 1973, during the fourth war in the Middle East, when the Arab oil sheikhs took the whole of western Europe hostage by doubling oil prices and cutting production to 75 per cent, we became 25 per cent poorer at a stroke. Nonetheless, we behaved as though nothing serious had happened in the belief that the good times would return after a short transition period.

Denmark and a number of other west European countries became accustomed to living on borrowed money at a time when global competition was intensifying. The result was many years of inflation, deficits, foreign debt and high interest payments, which almost crippled our economies. The longer a country waited before tightening its economic policy, the more violent was the subsequent transformation and the higher was unemployment.

High employment on borrowed money is not a sustainable policy.

For a short time it is possible to close one's eyes to reality, but not in the long term. Sweden was the country which managed to keep employment up by artificial means for the longest. They did not heed all of the warnings uttered by the then finance minister, Kjell-Olof Feldt, about the need to change direction in time, while the austerity measures could be kept as painless as possible. During the 1990s Sweden was also hit by globalisation.

A healthy economy provides a stable and safe foundation for employment and welfare in a world characterised by global competition. We now have a healthy economy in Denmark and employment is rising.

Employment

Ever since the signing of the Treaty of Maastricht, leading economists have said that it was far too narrow a view merely to make economic demands regarding the national debt, the annual budget deficit and the inflation rate. A demand for low unemployment and high employment is also essential to make the EMU project a success.

I agree that the most important goal is secure employment. Unemployment can devastate the individuals affected and causes social divisions. But employment can best be secured by adopting an industrial policy that focuses on the future, a high level of education, new technology and a healthy economy From the point of view of employment, much could be achieved if the EU countries were to move at the same time in a direction that would promote employment, without setting aside the criteria for a healthy economy. With Social Democratic governments in 13 of the 15 EU countries, it should now be possible to improve both the economy and employment at the same time.

Devaluations mean that a country is exporting its problems and its economic ailments to its neighbours instead of constructively solving its problems at home. This is not a positive approach and it does not benefit the man in the street.

The European Monetary System, EMS, is a defence union in the currency field. Its purpose is to prevent the member states from exporting their economic ailments. The economic and monetary union will mark the completion of this, after many years of effort. The freedom to devalue will be eliminated and governments will no longer be able to fob off their problems onto their neighbours. Now they will have to solve their own problems. This is only fair, surely.

I see no reason for us to allow job opportunities and the future pass us by for reasons of petty disagreements. I would prefer to fight for employment and activity in Denmark and in Europe and hope therefore that the Danish people will decide to join the economic and monetary union.

The introduction of a single currency will thus serve as an independent contribution to the reduction of unemployment in Europe. Overcoming unemployment in Europe is the greatest and most decisive challenge facing the European community. It is therefore a positive sign that the Amsterdam treaty contains a special chapter on promoting the employment aspect in European policy. The economies of the European national states are now so dependent on each other that the struggle against unemployment can only be fought — and only take on a real meaning — in a European perspective.

To sum up, the introduction of the single currency and the higher priority given to employment are necessary preconditions for the creation of more jobs in Europe. The EU should be the umbrella organisation for the co-ordination of employment programmes that are based on national needs. More concrete input from the EU should also be provided in respect of investments in European infrastructure projects.

We can thus see, even now, the contours of what could be called the fourth phase of EMU, where the main focus of European policy is shifted in a direction that takes greater account of the efforts being made to create job opportunities in Europe.