The Challenges of the European SMP and Euro for the US

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What Specific Challenges did the European Single Market Programme and the Establishment of the Euro Hold for the USA During the late 1980s and the 1990s, and how did US Policy-makers Handle Them?

The 1985 White Paper, submitted by the European Commission, entitled 'Completing the Internal Market' set into motion a series of changes that would not only transform the European state of order, but also the economic and political equilibrium of the world. The Single European Act (SEA) had the goal to achieve a reinvigoration of "economies of EC member states by removing barriers to the movement of goods, services, people and capital."[1] It laid the foundations for the Single Market Programme (SMP) and the European Monetary Union (EMU), necessary, inter-linked steps towards an economically and politically integrated union. Although generally supportive of European integration, these groundbreaking steps represented a multi-layered web of challenges for the US. Consequently, in each section, we will attempt to comprehend the specific challenges the SMP and the arrival of the Euro posed to the USA and how they responded to these. To better understand the context of the question posed, we will first evaluate motivations and goals behind these shifts towards greater European economical integration. This will then lead us to an intricate analysis of the challenge the SMP posed to the political balance of power of the USA. Due to the multi-layered characteristics of the challenges we will also weigh out the affects on the state economy regarding the federal, national and private sectors. This will bring us to the final section that scrutinizes the Euro and its challenges to the American economy and monetary dominance.

To understand the driving-force behind the SMP and the Euro, it is primordial to bear in mind the historical context that preceded these changes and their multi-layered characteristics. The SMP and the Euro were adopted due to domestic and international economic difficulties showing the double-layered nature behind European actions. By 1983, Europe found itself on the verge of what was termed as 'Euro-sclerosis'; the euro-enthusiasm of the 1970s had faded and domestic economic concern existed regarding internal disputes over the Common Agricultural Policy (CAP) and the budget led to serious doubts concerning the future of the EC. Internationally the EC was weakened by the 1979 energy crisis and the American consumption drive that led to the 1981-82 European recession. "From the EU's perspective the 'euro-sclerosis' of the period was largely a consequence of US macroeconomic and monetary policies."[2] It was no coincidence the SEA was drafted in 1983, setting the completion date of an internal market for 1992. This move towards the SMP showed the "growing belief among many that further integration- both economic and political- was essential if the challenges to Europe in the global economic order were to be met."[3] Linked to the SMP were talks of moving towards a harmonised currency (Euro), with the arrival of both these changes, the EC ensured itself that it could have full control over its economic and monetary destiny. By creating a barrier and tariff free market with 320 million amalgamated consumers, the EC would strengthen its domestic economy and gain importance vis-à-vis the international economy whilst "creating the common currency would strengthen Europe's bargaining position regarding the US and other countries."[4] Having understood the context and components of the SMP and Euro we can now look into how these posed challenges to the USA.

The SMP proved to challenge the USA on several 'layers'; regarding the macro-economic balance of power it created problems on the national level but also on the federal level, whilst in the private sector it brought about challenges to a variety of actors. On the broader national level, the SMP showed that the economic global balance of power was shifting, this raised American concerns as “not only might an economically (and politically) more powerful Europe challenge US firms in the global market place, it would have sufficient clout to shape the attitudes and policies of other actors.”[5] Moreover, the US was concerned over the added leverage the EC would acquire in light of the GATT negotiations. For the federal sector, the perceived challenge lay in the way the European community adopted a united trade strategy that did not exist in the USA. A US General Accounting Office Report stated “ten federal agencies were engaged in export assistance, but without any overall strategy, questioned whether the federal government has ‘either the will or the resources’ to match the efforts of European countries in supporting SMEs.”[6]

As a result of these concerns emanating from the state and federal levels, the USA came to acknowledge the shift in the balance of power and responded by providing solutions for each layer. On the national level, steps were taken towards the 1990 Transatlantic Declaration on EC-US Relations; this declaration set into motion a set of events that would tighten the relationship between the EC and the US. The first of which was the New Transatlantic Agenda of 1995, which “moved the transatlantic relationship from one of consultation to […] to one of joint action.”[7] The Agenda promoted the Transatlantic Legislators’ Dialogue (TLD) in 1999 that worked on “enhancing the dialogue between European and American Federal Legislators, the European Parliament and the American Congress.”[8] Part of the drive for the TLD came from the recognition that “much legislation has an effect across the Atlantic, either intentional or unintentional”[9] and that both parties had to consider each other’s stance on matters in order to prevent disputes. In other words, the balance of power had shifted towards a state of equilibrium. Although it is obvious the US moved towards more cooperation, it also reacted by protecting itself. On the federal level, the USA moved towards the North American Free Trade Agreement (NAFTA) in 1994. This trilateral trading agreement between the USA, Canada and Mexico represented a drive towards more regionalism and barrier-free trade amidst fears and the general perception that the USA needed to ensure another way to balance out transatlantic trade relations.

When looking at the private sector, the SMP brought about unprecedented challenges to the EC-US trade cooperation on three ‘layers’. The first of which challenged service providers, namely American banks; “the problem focused on the demands that the Europeans might make on the USA in return for the right to operate in the unified European market.”[10] This revolved around the concept of reciprocity and was linked to the Commission’s 1988 Second Banking Directive aimed at unifying the European financial sector by giving “credit institutions licensed in one Member State access to all Member States.”[11] Under Article 7, this would signify that non-EC banks and EC banks alike would have to follow their home-nation’s legislation when operating in the EC. This posed immense challenges to US banks as the US dual banking system forces banks to choose to operate under federal or state laws, thus rendering them relatively uncompetitive and unable to benefit from the potential advantages of an EC’s country’s banking laws. Moreover, the directive created another challenge in the area of preferential treatment as “Member State are barred from granting preferential treatment to non-EC financial institutions, […] [and] are not prohibited from discriminating against non-EC financial institutions.”[12] Upon this, the US voiced its discontent on the apparent protectionist nature of these proposals and the ill-defined concept of reciprocity. Furthermore, the 2nd Banking directive played a role in pushing the US Congress to endorse the creation of the 1988 Exon-Florio Amendment under the Omnibus Foreign Trade and Competitiveness Act. Stating that if “there is credible evidence that leads the President to believe that the foreign interest exercising control might take action that threatens to impair the national security,”[13] that investment can be blocked. This lead to the amendment of Article 7 of the Second Banking Directive where “reciprocity was reduced to a goal rather than a requirement […] As a result […] US banks will enjoy the same range of freedoms in the EEC as the EC financial institutions.”[14] Part of this challenge lay in the EC-US conflicting views of reciprocity and national treatment and was solved through dialogue but also underlying retaliation from the USA. Nevertheless, it is important to bear in mind that “the United State has taken a position that reciprocity and national treatment are mutually exclusive”[15] whilst the EC believes they are not. “These two opposing interpretations illustrate a fundamental weakness in […] [the] multilateral trade agreements” of the time and why this disagreement on services came about.

Another major challenge to US service-providers regarded reciprocity in the public procurement of the telecommunications sector; EC “member states have a long tradition of favouring national champion firms through explicit and implicit ‘buy national’ policies.”[16] A relevant example was the European ‘Television Without Frontiers’ directive of 1989 that “contained provisions for reserving a majority of transmission time for”[17] European TV programmes. This affected US service providers in the telecommunication industry who would lose a significant amount of profit. Thus as the benefits were clear if abolition of public procurements occurred, the USA lobbied for its closure. But this challenge was not only motivated by private incentives; politically, policy-makers pushed on the issue of telecommunications "to satisfy a Congress which had become predisposed to 'fair trade' principles."[18] But the Congress's view of reciprocity and fair trade was biased as "'Buy America' laws, particularly at the level of the individual states, often prohibited public purchases of non-American product."[19] In order to solve these mutual obstacles that threatened the success of the Uruguay Round, the EC and the US came together in 1993 outside of the GATT. They subsequently "pledged to observe strict reciprocity in procurement: the total value of Union contracts open to bids from America would be identical to the value of US contracts open to EU bids."[20] In this case, the EC and the US successfully solved a challenge affecting various 'layers' in the private and political sector by dialoguing and cooperating.

Having understood the challenges to the services sector, this leads us to the analysis of the second area of the private sector to encounter challenges, precisely the US manufacturers. One of the key aspects of the SMP was the adoption of a 'mutual recognition' system in the field of technical standards. This presented both an advantage and disadvantage to US manufacturers. "There would be savings to be made since only one set of standards would have to be met; yet […] concern was expressed that US firms would be shut out of the standards-setting processes, thus limiting their access to the European market."[21] After acknowledging this problem "US-Community talks, prompted by US Commerce Secretary […] blunted the downside […] The American National Standards Institute (ANSI) […] [was granted a] voice in the EC standard boards."[22] This challenge to US manufacturers was thankfully solved through bi-lateral cooperation.

The final section of the private sector to see challenges in the SMP was US exporters. The challenge to US exporters was seen as Europe's "desire to force foreign firms to locate in the EC through the use of various rules such as rules of origin and local content regulations."[23] This troubled US exporters and policy-makers, as "it was far more desirable to export than to invest in Europe, since this would result in increased production and employment and remove the likelihood of the export of highly skilled jobs."[24] We can even see multiple private-sector 'layers' within this challenge since large firms already located in Europe had no issue with this characteristic of the SMP, whereas small to medium-seized enterprises (SMEs) who did not have the resources had to decide where to locate. Although no consensus was attained pertaining to this challenge, Europe's tendency to force investment can be seen as one of the factors that pushed the US to react with the Exon-Florio amendment mentioned earlier.

The US reaction to the Euro was similar to the one it had with the SMP, with "American policymakers […] underestimate[ing] the impetus toward monetary integration in Europe."[25] This indifference was an error on their part as the Euro had the potential of bearing advantages and challenges alike. Moreover, the SMP and the arrival of the Euro were linked together and could push the EC towards a unified "common position with reasonable efficiency and bargain externally with some degree of flexibility."[26] This could prove to be a benefit to the American policy-makers who were frustrated during the Uruguay Round negotiations and understood the importance of "the EU creating streamlined internal decision-making procedures that are conducive to international cooperation."[27] Since the Euro mainly affected monetary balance worldwide, we will now focus on the potential monetary challenges it posed to the US macro-economy and their political implications. Similar to the SMP, the Euro affected the balance of power on transatlantic and global scales; it shifted the balance of "an international monetary system that has been dominated by the dollar"[28] and pushed towards a change in the politics of international financial cooperation. Due to the fact that the US is the world's largest debtor whilst the EC was a surplus region (at the time), the loss of Dollar advantage and "availability of a more attractive alternative to the dollar could reduce the ability of the US to finance its large external deficits."[29] In addition to this, prolonged volatility and misalignment would "be destabilizing for other countries and the world economy"[30] and represented a potential challenge. Although these challenges were understood, the US and the EC did not embark on exchange rate regimes and mainly focused on the solving multi-layered challenges of the SMP. Both parties attempted to solve their own domestic monetary challenges and somewhat ignored its impact on the international monetary system. "Inside EMU, as in the United States, policies will be mainly set with a view to domestic objectives while the exchange rate is left to float. There will only be concern when swings in competitiveness become 'excessive.'"[31] In view of the on-going Euro-zone debt crisis since 2005 and previous macro-economic turmoil regarding dollar devaluation in 2006, it is possible to suggest that a longoverdue exchange rate regime should be devised in order to bring back stability and global monetary balance.

From our analysis, it is possible to see that the inter-linked arrival of the SMP and the Euro posed a variety of multi-layered challenges to the US. Not only did both of these movements affect the state level by creating a shift in the transatlantic and global balance of power but it also affected the federal sector by pushing it towards adopting a more unified stance regarding economic events. Associated to this, is yet another layer that saw challenges in the SMP; the US private sector comprised also of numerous actors who had different agendas and objectives that needed to be satisfied. As a result US policy-makers had difficult decisions to make with pressures coming from Congress and private sector firms, this lead to the adoption of three different solutions to the challenges. The first solution was one of cooperation and dialogue that lead to the solving of most private sector challenges. This drive towards cooperation was enshrined with the New Transatlantic Agenda that moved towards greater cooperation with the EC as both parties acknowledged that with the arrival of the SMP, a newfound economic balance of power was achieved. The second reaction to the SMP and Euro can be seen in various US economic legislations made to protect the US private sector, namely the infamous Exon-Florio amendment of the Omnibus Trade and Competiveness Act of 1988. Although these reactions had threatening nature, they came prior to the cooperation that ensued regarding the SMP. And finally, following the Uruguay Round, the US moved towards regionalism with the enactment of NAFTA 1993, which promoted American continental trade cooperation in an attempt by Clinton to balance economic power and found a pan-American trading block. Regarding the Euro, although it did prove to hold challenges, neither the US nor the EC moved towards mutually solving these and instead hedged inwards, attempting to tackle domestic monetary challenges. Today, the global economy finds itself in troubled waters and may have to look towards a renewed era of even closer transatlantic dialogue to find solutions in trade and monetary policy alike.

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