Europe Faces Chaos In Euro Transition

by William Engdahl

At the recent EU Summit in Gothenburg, Sweden, the president of the European Parliament, Nicole Fontaine, warned that European governments in the 12 member countries of the European Monetary Union (EMU)—the so-called "Euroland"—face a popular uprising which could be catastrophic for the EU, if they continue to ignore problems in preparing the introduction, within six months, of coins and bills denominated in the EMU currency, the euro. Fontaine accused her colleagues of ignoring "the mass of very tangible problems" ordinary citizens will face beginning next January, when national bills and coins will be phased out. The conversion from 12 national currencies into the supranational euro will be the largest currency changeover in world history.

Twelve countries will change from their existing national bills and coins for some 15 billion euro bills and 50 billion individual coins of various denomination. Already reports are emerging of the most simple logistical bottlenecks, in physically distributing to local banks and shops, by Jan. 1, 2002, such a huge volume of coins and bills. In Finland, for example, the government has admitted it cannot find sufficient numbers of armored trucks to deliver the coins and bills to the far remote areas of the country in the short time allowed.

The most aggressive logistical preparations so far come from France. President Jacques Chirac has signed an order to deploy thousands of police, paramilitary gendarmes, and the Army, as well as enlisting satellite monitoring to safeguard introduction of the new currency notes. It has identified 14,000 distribution routes it regards as "sensitive." To protect these, six companies (18,000 men) of the elite CRS security forces, plus 12 squadrons of mobil gendarmerie, will be deployed. The shipments will be monitored by satellite.

'Ordinary Businesses Not Ready'

In France alone, between Jan. 1 and Feb. 17, 2002, the Central Bank will distribute 7.6 billion coins and 1.5 billion in euro notes, of a total value FF 350 billion or $50 billion. At the same time, the government must arrange collection, storage, and ultimate destruction of the 9.2 billion franc coins and 1.4 billion notes now in circulation. The logistics include having to transport the euro notes and coins to French overseas territories and colonies, from Francophone Africa to the Indian Ocean island of Reunion.

Moving this large physical volume of notes and coins across 12 countries simultaneously, is reason enough to expect major foul-ups at the start of the year, with significant economic disruption. Yet, even were the physical logistics of this part of the euro introduction to go flawlessly, odds of avoiding chaos worse than the worst of the Y2K scare-scenarios, are tiny.

By law, as of Jan. 1, 2002, all Euroland companies must do business only in euros. They must also do book accounting for taxes in euros, including sales taxes. A recent report by the European Federation of Accountants (FEE) estimates, that between 25% and 33% of all euro-zone companies are still unaware of the most basic facts of the euro introduction.

The FEE warns companies of "an inability to continue doing business, because their software will not work." EU Commission President Romano Prodi, the former Italian Prime Minister, convened a secret closed-door meeting in early June, with representatives of leading European banks, to discuss concerns over lack of adequate preparations. No details beyond the fact of the secret talks were released. The FEE says even companies that had switched their main accounting systems to euros, had no plans to change supporting data, such as stock records or customer accounts. That incompatibility, warns FEE director Noel Hepworth, could stop computer systems. "We are beginning to see quite a serious logjam. Businesses may well find there are difficulties in continuing to trade."

To prepare the general public, the European Commission has spent $85 million on TV ads, billboards, and leaflets to reach a population of 300 million. The ad campaign is a joke. One aspect is a travelling EU road show, complete with tent and bureaucrats from EU headquarters in Brussels, going across Germany from east to west to inform locals of the coming euro. Since early April, the tent show has visited just 25 towns.

In addition to changing accounting ledgers and computer programs from deutschemarks or francs to euros, moreover, all automated teller machines (ATMs) across the 12 countries must be changed. This alone will cost some $75,000 per bank branch. The conversion will occur between Dec. 17, 2001 and Jan. 1, 2002 at noon. That comes in the midst of the busiest shopping season of the year, adding to certain shopper anger over long delays in getting cash.

In preliminary tests, the French Finance Ministry found it took four times longer to get correct change in the euros. French citizens must calculate 6.55957 francs = 1 euro, not exactly an easy sum to calculate in one's head at the checkout counter. In Germany the figure is closer to 2:1, where DM 1 will equal 0.51 euro. There have been growing concerns in the European Commission, as well as in the European Central Bank, that the conversion period will lead to "rounding off" by businesses or shops, causing a covert form of price inflation against customers, which could be potentially explosive, if the broad population wakes up to the fact.

The introduction of euro coins also requires conversion of millions of vending machines, parking meters, shopping carts, and other such everyday devices. Germany has the most extensive use of coins in such machines or carts: In Germany alone, there are some 2.4 million coin automats that have to be changed over, a job that will take two or three months and cost $1.5 billion to complete.

'Mattress Money' at Risk?

The greatest room for chaos, however, comes from the untold hundreds of billions of marks or francs in so-called "mattress money"—cash hidden from public authorities by both ordinary citizens and criminals—as well as the untold amounts of deutschemark bills used as hard currency outside Germany, from Poland to Bulgaria to Serbia and Turkey and beyond—places where the German mark is considered the only "sound" money. The German Bundesbank estimates that some 40% of its total deutschemark currency in circulation is outside the country, approximately DM 75 billion. Others place the amount far higher.

Michel Legros, of the large investment bank Merrill Lynch in London, estimates that as much as $90 billion of secret "black cash" bills are waiting to be spent or converted before Jan. 1. Informed European bankers estimate that a significant factor in the bizarre rise of the U.S. dollar against the euro in recent weeks, despite the plummeting U.S. stock market and falling economy, owes to Europeans rushing secretly to convert their hidden franc bills or mark notes into dollars. Under the EU euro conversion rules, national central banks will accept old national notes and coins only until March 1, 2002. After that, no conversion is possible. In Germany, because of the vast size of the expatriate deutschemark market, the Bundesbank has decided to shorten that conversion period by four weeks, ending Feb. 1, 2002.

In France, Merrill Lynch estimates that $21 billion of domestic black French money, is held in private mattresses. Many repairmen or handymen accept payment only in cash, in order to avoid taxes, and hide it for later use. In Germany, it is common to hear of workers hoarding such black money, in order to buy retirement homes in Spain or Portugal. In Spain, DM 120 billion is believed to be stashed under mattresses. And, in addition to the estimated DM 75 billion unaccounted for outside Germany, the Bundesbank estimates at least another DM 100 billion is being privately hoarded by elderly or other workers inside Germany. EU money-laundering regulations require anyone presenting a sum greater than DM 30,000 must be able to account for its origins, or face serious inquiries from tax police.

A timebomb is ticking, between now and March 2002, when these black notes will become worthless. That timebomb could well be the detonator to financial chaos, and an explosion, for the shaky world financial architecture.