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Business Expectations and Strategy for the United States of Europe

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The economic size and significance of the 15 countries that make up the European Union are indisputable. The combined 1995 gross domestic product of these countries was estimated at $8.4 trillion, exceeding that of the United States ($7 trillion). This means that Europe is the largest single market on the face of the globe. The European market is not just large -- it is also affluent. The EU's population stood at 371 million in 1995 and G.D.P. per capita was $22,690; comparable figures for the United States were 264 million and $26,640.

One manifestation of these simple facts has been the significant presence of foreign investors in Europe, corporate and individual, with the result that the stock of foreign investment in the EU, at the end of 1995, stood at $6.55 trillion, as compared with $3.16 trillion in the United States. Any corporation that pretends to be global has to have a substantial European presence.

Although the EU's significant contributions to postwar European economic development (in the form of lower trade barriers and greater mobility of capital and labor) are generally acknowledged, predictions for the future are more uncertain due to recent developments.

From 1960 to 1980, the EU's economic performance was superior to that of the United States. (See Exhibit I.) Europe was a rapidly expanding market. But since the early 80's, the performance of the United States has typically been superior to that of the EU -- unemployment has been relatively stable in America while it has risen in the EU from less than 3 percent in the 60's to more than 10 percent in the 90's.

EXHIBIT 1
COMPARATIVE ECONOMIC PERFORMANCE

	1961-1970	1971-1980	1981-1990	1991	1992	1993	1994	1995
Real G.D.P. Growth Rates (Annual)								
EU	4.8	3.8	2.4	1.7	1.0	-0.5	2.5	2.8
U.S.	3.8	2.7	2.7	-1.1	2.6	3.0	3.9	2.7
Unemployment Rate								
EU	2.2	4.2	9.6	8.7	9.4	10.5	10.9	10.9
U.S.	5.2	6.4	7.1	6.7	7.4	6.8	6.2	5.9

Some observers, summarizing a line of reasoning popular in Europe, attribute this development to supply-side factors. The factor most stressed is the rapid rise in European real wages, reflecting union power as well as the growing welfare state, which guarantees high incomes to those who are unwilling to accept available jobs and who report themselves as unemployed. The rise in the real wage, in turn, resulted in a slower increase in employment because of the substitution of capital for labor, reduced international competitiveness and lower investment due to lower profitability.

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Others have argued that the culprit has been insufficient aggregate demand, reflecting primarily much too tight a common monetary policy, together with a coordinated fiscal policy that was grossly inconsistent with that monetary policy.

The overly tight monetary policy spread from the Bundesbank as a result of two simultaneous developments: the adoption of fixed parities, with shrinking margins of permissible exchange rate fluctuations (until August 1993) on the way to Maastricht, and the increasing mobility of capital. The latter resulted at first from deregulation of currency transactions and then from the increasing familiarity and confidence in foreign investments on the part of the public and of intermediaries. In recent years, capital mobility has been close to perfect, and this, together with rigidly and believably fixed parities and very limited central bank reserves, has had the implication that interest rates must be very nearly the same in all member countries. In essence, this has meant an identical monetary policy for all, with the policy being dictated by the most powerful and credible of all central banks, the Bundesbank, which soon became the de facto central bank of the system.

The insufficient aggregate demand resulting from the mismanagement of monetary policy in turn stifled investment and job creation with an attendant high level of unemployment, this school of thought contends.

More recently, in 1992, the core members of the EU, with the exception of Britain, committed themselves to the Maastricht Treaty and to the adoption of a single currency (called the euro) in January 1999, to be phased in by 2002. While this commitment to Maastricht has become almost an obsession among some European leaders, many questions remain unanswered.

Will the new EU function as does the United States? Will the future benefits of a single currency and all that it entails outweigh the costs? What are the benefits and costs during the long protracted "march" toward Maastricht? Have the necessary policies for a successful introduction of the euro been achieved or have they been fudged with adverse consequences for the future? What is the economic future of the EU, or the "United States of Europe," after 1999? How will the changed economic landscape affect the business outlook? As a result of these predictions, what should foreign corporations adopt as a strategy toward the changing European market?

A SINGLE CURRENCY UNION: HEAVEN OR HELL?

Listening to some European politicians, one gets the impression that the adoption of a single currency is almost heaven, and that Europe will be magically transformed. Unfortunately, as with most things in life, there are losses as well as gains, and so it will be with Maastricht and the euro.

A primary benefit of a single currency is to magnify the expected gains of a single market (a market with no trade barriers). While the elimination of barriers has already increased trade within the EU, the single currency further promotes trade by eliminating currency risk and currency transaction costs for EU members. Over time, increased trade and the larger single market that is created will support more efficient plant sizes; in turn, companies will be in a position to capture the benefits of economies of scale, learning by doing and other related gains in efficiency. Similarly, the free flow of capital in the unified market is increased by the elimination of currency risk and currency transaction costs. There will be a similar effect on the movement of labor, but this will probably be much smaller in size and in importance. All of these will improve resource allocation within the EU.

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A secondary benefit of the single currency is that the euro, representing a much larger unified economy than that of any one of the members individually, will be a more stable currency and will encourage further EU-world trade and foreign investment in the 15 member countries. Additionally, a euro that represents a larger economic bloc will be more attractive as a reserve currency, affording the EU the benefits of seigniorage.

Other projected benefits are embodied in the reduced role of the Bundesbank. The emergence of the euro will be accompanied by the elimination of the individual central banks of the participating countries. These will be replaced by the System of Central Banks, with a single independent European Central Bank at the helm, entrusted with the singular policy goal of containing inflation.

Monetary policy for the new European Central Bank will be set by a committee of all the governors of the member banks, of which the Bundesbank is but one. It is to be hoped that countries like Belgium, France, Italy and Spain, whose employment has suffered grievously as a result of the overly tight German monetary policy, will be able to move policy in the needed, more expansionary, direction.

This hope is supported by the consideration that, by now, inflation is rather low and will be even lower by 1999. Certainly that is what France is counting on, explaining the great urgency it manifests in getting Maastricht implemented.

If all of this happens, Europe as a whole will benefit. A new era of low inflation and lower real interest rates will be ushered in, with an impetus for faster and more sustained economic growth. Although these benefits are focused and readily identifiable, their size is still difficult to estimate with precision. At best, a huge leap of faith is required.

The potential costs of a single currency, though as real as its potential benefits, are broader in nature and seem to have escaped the minds of European leaders. First and foremost, individual EU members will lose control over their monetary and exchange rate policies and will have limitations on the use of fiscal policy for adjusting to external economic and financial developments. Instead, the European Central Bank will control overall monetary and exchange rate policies for all countries as a single economic bloc.

The negative impact of the loss of control over these policy instruments for an individual member is ameliorated to the extent that the economies of all EU members are in lockstep (with full employment, similar fiscal positions and balance-of-payments equilibrium) when the euro is introduced. However, if the economies are out of phase with each other (if some countries have high unemployment while others have low unemployment), the European Central Bank can make adjustments for the bloc as a whole, but individual members may suffer from deflation (with too little employment) or inflation (with too much employment). Because of the singular policy goal of containing inflation, it is possible that the central bank will adopt policies that might aggravate unemployment in some countries or regions.

Although a country experiencing high unemployment will no longer be able to pursue independent monetary and exchange rate policies to improve the situation, it is presumed that fiscal policy and the unimpeded flow of capital and labor across borders will help. While this presumption is correct for the United States, it may prove to be quite wrong for the EU.

In the United States, individual states face a similar problem to that foreseen for individual EU countries, but American labor markets are flexible (i.e., workers readily move from industry to industry) and intraregional adjustments are facilitated by labor mobility across states and by fiscal outlays of the Federal Government.

The EU has no such mechanisms. Labor markets are highly inflexible. Labor mobility across countries is limited, in large part because of significant language and cultural barriers. Independent fiscal measures will be limited by the Maastricht "convergence criteria," while the central budget of the EU is only 1.1 percent of combined G.D.P., giving it little flexibility in discretionary, or automatic, fiscal outlays to address regional imbalances.

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Persistently high unemployment in individual countries and regions will become an even larger problem (at least for a time) in the new EU with the adoption of the euro. The convergence criteria (or targets) were designed in large part to reduce existing imbalances through policy harmonization before the introduction of the euro. But even if harmonization is achieved, it will be in a general state of high, as opposed to low, EU unemployment. Moreover, in the post-1999 era, there is no clear mechanism (fiscal policy or labor mobility) to address imbalances within the EU.

In short, although the European Central Bank will use monetary and exchange rate policies for the adjustment of the EU bloc to future external economic disturbances, regional imbalances may become more pronounced until labor market flexibility, labor mobility and central fiscal measures are increased.

Do the potential benefits exceed the costs? While the bravest have made estimates demonstrating large net benefits, the unknowns are too numerous to venture an accurate guess. To the extent that labor market flexibility, labor mobility and central fiscal expenditure are forthcoming, net benefits in the post-1999 era are more likely.

While the ongoing debate has focused on the post-1999 era, what about the problem of getting there? Indeed, what will happen during the march toward 1999?

THE MAASTRICHT MARCH

Adoption of a single currency is tantamount to the adoption of a system of permanently fixed nominal exchange rates. To maintain permanently fixed rates with full employment and balance-of-payments equilibrium, member countries have to coordinate macroeconomic policies, that is, pursue consistent price and wage policies.

Because of this reality, or constraint, the EU countries adopted the convergence criteria -- debt/G.D.P., budget deficit/G.D.P., inflation, interest rates and exchange rates -- to bring about policy harmonization by 1997. (1) Thus, they would be adopting de facto fixed nominal exchange rates and harmonized economic policies during the period from 1997 to 1999.

Unfortunately, these criteria do not represent the policy coordination that they need. Although nominal exchange rates are fixed as a part of the agreement, real exchange rates (the rates that matter) can still vary through differential movements of the price level among the countries. Such movements will in fact be the only tool for changing the real exchange rates and thus should be a part of the policy coordination package, yet no one is discussing their relevance and importance. This in turn requires coordination of wage inflation, as wages in each country will have to rise at different rates because of differential labor productivity growth and the required adjustment in real exchange rates.

The specifics of the Maastricht criteria and the omission of needed policy coordination, most importantly wage policy, are a potential source of pessimism for the future.

The deficit criterion is arbitrary -- why 3 percent and not some other number? The figure is not adjusted for inflation. There is no distinction between the current account deficit and government investment. Any meaningful deficit criterion should be stipulated over the business cycle and not on a year-by-year basis -- if year-by-year, then why not month-to-month or day-to-day?

[1] Debt/G.D.P. 60 percent or less, deficit/G.D.P. 3 percent or less, inflation no more than 1.5 percentage points higher than the average of the three lowest in the EU, long-term interest rates no more than 2 percentage points above the average of the lowest three in the EU, and exchange rates within the normal EU margins for at least two years. This latter criterion has become almost meaningless, given the size of the band of permissible fluctuations around parity.

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Similarly, the debt criterion makes little sense, as some 85 percent of the countries will not be able to satisfy it and this has invited fiscal fudging.

Yet while these criteria have been cast in concrete, wage policy coordination -- by far the most important ingredient for full employment -- has not even been mentioned.

The inevitable clash between this process and reality is posing a dilemma for the EU.

On the one hand, if the criteria are strictly adhered to, in spirit and to the letter (no fudging of whether countries have achieved the targets), the current adverse economic conditions (the generally high level of unemployment) would become even more dismal as budget deficits are cut further to conform strictly to the convergence goals. In this case, the euro would be introduced in an environment of seemingly similar fiscal conditions across the EU, but the general level of unemployment would increase further. (High unemployment could be avoided if the Bundesbank were to pursue a more expansionary monetary policy now, enabling other central banks to follow, but there is little hope of that happening.)

On the other hand, if the attainment of the criteria is "fudged" so that countries appear to meet the requirements, then true harmonization, as defined under Maastricht, would not be attained. That would mean regional imbalances during the 1997-to-1999 period and ongoing imbalances when the euro is introduced in 1999. In this case, future economic strains will be more pronounced because countries will not have independent monetary and exchange rate policies for adjustment. The situation could be made worse if the new European Central Bank is obsessed with containing inflation because of the dominant influence of the Bundesbank. At the same time, countries with high unemployment and budgetary constraints will be limited in using fiscal policy (government expenditures) as an effective policy tool to increase aggregate demand.

The EU has adopted a mixed approach -- some fudging and some policy coordination resulting in substantial unemployment now for most countries and lots of disputes over the new central bank's policy stand. However, if most members stand up to Germany in the European Central Bank, then conditions may improve from their current depressed levels unless the Germans quit.

Even before the adoption of the Maastricht Treaty in 1992, European unemployment was high. But with the acceptance of the Maastricht targets -- and with continuing high real interest rates in Germany -- tight monetary and fiscal policies have been forced on other members, resulting in chronically higher unemployment across Europe. Unemployment, in turn, has meant that economic output has been, and continues to be, at levels well below its potential. This implied loss of output, investment and savings has been the major cost associated with the Maastricht march. Moreover, no respite from this dismal unemployment picture is on the horizon. Thus Europe is set to become the "United States of Europe" with the burden of massive unemployment, with imbalances across countries (which will continue after 1999) and with no clear light at the end of the tunnel.

That said, there seems to be no turning back. In order to meet the targets, fudging or creative accounting has become the standard operating procedure in Europe. France, for example, has raised Government receipts by 37.5 billion francs ($7.2 billion), or five-tenths of 1 percent of G.D.P., through a one-time transfer from the partial privatization of France Telecom to cover the company's future pension liabilities.(2) Italy has increased receipts by 12 trillion lire ($7.9 billion), also on a one-time basis, by assuming the obligation to pay the retirement benefits of workers (one month of salary for every year of work plus interest) in return for a current cash payment by the employers to the state. Belgium has increased one-time receipts by 222 billion francs ($7 billion) from the "surplus" on the sales of gold by its central bank. Spain is using receipts from privatization to balance losses in other state-owned enterprises. Germany has increased its projected receipts for 1997 by predicting a G.D.P. growth rate of 2.5 percent, while the consensus estimate is 2.2 percent with 1.2 percent growth in 1996.(3)

[2] Financial Times, Oct. 9, 1996.

[3] Financial Times, July 4, 1996.*The rank of "1" indicates the best performance in satisfying the Maastricht targets.EXHIBIT II

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Although the basis of creative accounting may be debatable, one thing is sure. At best, these gains in receipts are one time only in nature and the current level cannot continue beyond 1997 unless economic growth or taxes are increased. The exception is Italy, where the budget is in a large surplus on a current basis (that is, excluding interest on the debt) and will be in a surplus position as inflation and interest rates continue their recent decline.

What will happen in 1998 and beyond? Under the original proposals, stiff automatic fines would have been levied on countries that fell short of deficit targets, unless their economies shrank by more than 2 percent in a year. Germany had supported automatic fines of two-tenths to five-tenths of 1 percent of G.D.P., the exact amount determined by how much the deficit exceeded the target. These fines would have been deposited with the EU and forfeited if the deficit continued at such levels.

Such huge and ludicrous fines would have constituted a political bombshell. And fines were almost certain, in part because to achieve a deficit-to-G.D.P. ratio of less than 3 percent in each and every year would, in all likelihood, have required budget surpluses in some years over the business cycle. These strict and burdensome guidelines, supported by Germany, would have further reduced the ability of countries to achieve full employment and price stability.

In the Dublin meeting of the EU heads of states, in December 1996, the severity of the measures was greatly reduced. The fines are not to be automatic, but subject to the approval of the Council of Ministers, and a country can request an exemption if its economy shrinks by three-fourths of 1 percent to 2 percent in a year. (As before, any country whose economy has shrunk more than 2 percent is automatically exempt.)

Given Europe's high level of unemployment, the French, as usual, chose form over substance, and fought to change the name of the agreement to the "Growth and Stability Pact." If they do not have growth, they at least pretend to have it!

At the same time, if policies are not truly harmonized and fiscal fudging becomes a way of life, then regional imbalances could be further exacerbated. The popular press has stressed this opinion. In the words of The Financial Times: "If the EU eats a great deal of fiscal fudge over the next couple of years, it is likely to suffer from serious indigestion later on."

However, this may prove to be an exaggeration as the adopted criteria are largely senseless.

The decision of whether economic convergence has been achieved will be based on projections by the European Statistical Office and it will ultimately be subject to a "qualified" majority vote of the EU; this is another loophole in the process. Initially, it was predicted that only Austria, France, Germany, Ireland and Luxembourg would qualify under the Maastricht criteria. The European Commission's latest forecast indicates that all countries except Britain, Greece and Italy will qualify, but at the end of it all, only Greece is likely to be excluded. In the end, sense and harmony are likely to prevail over senseless purity in compliance.

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THE SINGLE CURRENCY AND CORPORATE BUSINESS STRATEGY

One fact remains undeniable: the EU is the largest single market in the world. And it will get even larger in the future, when it adds to its current roster of 15 countries. No global corporation worthy of the name can ignore the EU market -- to be credible, one has to be an active player there. But when and where?

In forming a corporate strategy, these are some of the relevant facts:

- The EU market will be truly one, with no trade barriers and no internal currency risk or transaction costs.
- Average economic growth in the period from 1997 to 2002 will be low (even in comparison with the post-1973 period). Countries with the smallest one-time fudge factors (i.e., with more fiscal flexibility) should fare the best.
- In turn, unemployment will be high and more uneven than in the past because of the loss of control over individual monetary and exchange rate policies.
- Labor market flexibility and labor mobility will continue to be limited in comparison with the United States.

In view of the above facts, corporations should pick locations for investment based on two factors:

- The "true" degree of actual and forecasted fiscal convergence, not just on a one-time basis.
- The real labor cost, defined as the nominal compensation in a common currency (including all contributions for social benefits etc., paid by the employer), adjusted for labor productivity.

While these two considerations are especially critical in the EU these days, other important factors determining location include:

- Government efficiency and transparency.
- Central government incentives (tax holidays, interest subsidies, land grants and the like).
- Social and political stability.
- Condition of physical infrastructures.
- Cost of transporting products to markets.
- Tariffs and other barriers applied by countries outside the EU to exports from individual EU countries.

We believe that most global companies will want a European presence, because of the economic size of the EU and the fact that in the new trade and employment environment it may be difficult to rely on exports as the way to reach the EU market. Which brings us back to the key question: where and when to locate (or to expand) in the EU?

Part of the answer is to translate the Maastricht criteria into more meaningful numbers. The target for budget deficits as a percentage of G.D.P. is set at 3 percent and that of government debt at 60 percent; for Maastricht to go ahead, these criteria have to be achieved in 1997. In reality, it is understood by most economists that the debt criterion has little economic justification; for example, for a country such as Belgium, it would take a budget surplus of 2 percent for 35 years to meet the target!

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Thus, for high-debt countries, the relevant debt/G.D.P. criterion will not be the mythical and unachievable 60 percent but merely that the debt ratio be on a declining path. It is worth noting that the two countries with the highest debt -- Belgium and Italy -- seem to be satisfying this criterion, while in Germany, where the ratio until recently was less than 60 percent, the debt is still rising. (Even if the German deficit were contained within 3 percent, the debt is still rising faster than income because of slow economic growth.)

In 1995, the last year for which we have actual figures, five countries met the debt target, four met the deficit target and only two (Germany and Luxembourg) satisfied both. (Germany is not expected to meet both targets in 1996 -- see Exhibit II.) While three countries were expected to meet both targets by 1997, the latest forecast, incorporating the one-time impact of creative accounting, projects that 12 will do so -- quite a miracle!

EXHIBIT II
GOVERNMENT BUDGET DEFICIT AND DEBT

	Budget Deficit (as a percentage of nominal G.D.P.)				Debt (as a percentage of nominal G.D.P.)				Our Rough Composite Ranking for 1997-2000*
	1994	1995	1996 (Forecast)	1997 (Forecast)	1994	1995	1996 (Forecast)	1997 (Forecast)	1997
Austria	4.0	4.6	3.9	4.6	65.0	69.4	72.4	73.9	10
Belgium	5.3	4.2	3.9	3.5	136.0	133.7	132.2	130.6	14
Britain	6.8	4.8	2.9	2.8	50.3	54.0	55.5	58.2	4
Denmark	4.0	1.6	1.2	0.5	76.0	71.9	71.0	68.7	7
Finland	5.8	5.0	1.1	0	59.5	59.4	62.5	63.2	2
France	6.0	4.8	3.9	2.9	48.4	52.4	56.1	57.8	3
Germany	2.5	2.1	2.4	2.4	50.4	58.1	61.8	62.4	5
Greece	12.5	11.2	10.2	7.2	110.4	111.5	111.8	111.4	15
Ireland	2.3	2.8	2.8	1.3	91.1	85.5	81.3	77.3	6
Italy	9.0	7.6	8.1	5.2	125.6	124.8	124.5	122.8	8
Luxembourg	-2.2	-1.4	1.8	-0.7	5.9	5.9	6.2	6.8	1
Netherlands	3.1	3.2	2.5	2.2	77.6	78.0	78.4	78.7	9
Portugal	5.8	5.6	4.7	4.1	70.0	71.6	72.2	71.6	13
Spain	6.6	6.0	4.8	3.6	63.1	65.7	67.8	68.0	12
Sweden	10.4	8.1	5.8	3.2	79.3	79.0	80.8	78.6	11
European Union	5.5	4.5	3.9	3.1	68.2	71.2	73.0	74.3	NA

To see large version click on chart

(Use the "Back" button to return to this page)

If one were to (roughly) take the fudge factor into account and incorporate where these countries were in 1995, a ranking (combining both criteria) of countries more likely to satisfy the targets might be more useful. (See the last column in Exhibit II.) The country with the highest mark is Luxembourg, while the lowest mark goes to Greece.

Thus, for a corporation looking to invest in the new Europe, little Luxembourg shines, the economies of France and Italy look on track, Germany is doubtful, but Belgium and Greece have a long way to go. In the end, the decision as to which countries have fulfilled the Maastricht criteria will be more political than economic.

As for the labor cost, what matters to any employer is the comparative real labor cost across Europe; that is, as noted above, a comparison of the nominal cost of labor (including all social security contributions) in a common currency adjusted for productivity. It is acceptable to pay labor in one country more if that labor is commensurately more productive than labor in another country. On this basis, real labor costs (unit labor costs) are shown in the third column of Exhibit III. The range of these costs, compared with that of nominal compensation, is still quite large.

EXHIBIT III
LABOR, PRODUCTIVITY, WAGE RATES AND UNEMPLOYMENT (1995)

	Labor Productivity *	Nominal Compensation (Wage and Benefits) *	Unit Labor Cost *	Unemployment Rate
Belgium	126.1	119.1	94.5	9.9
Britain	61.7	83.0	134.4	8.8
Denmark	73.1	88.6	121.1	6.8
France	100.0	100.0	100.0	11.5
Germany	Not Available	Not Available	Not Available	8.3
Greece	34.8	27.7	79.6	9.1
Ireland	147.7	51.6	34.9	14.4
Italy	63.7	70.6	110.7	11.8
Luxembourg	158.0	112.6	71.2	2.9
Netherlands	106.3	106.5	100.1	7.3
Portugal	Not Available	Not Available	Not Available	7.2
Spain	60.6	55.1	90.9	22.9
European Union				10.9

While a corporation would normally prefer the lowest-cost labor, it can be a fruitful exercise to determine the degree to which the corporation itself affects labor productivity and thus the real labor cost. This is for management to figure out. But to the extent that a corporation believes that it determines labor productivity in its plants around the world (i.e., productivity will be roughly the same no matter where it locates), then the nominal compensation (in a common currency) may become the more important decision variable. (See the second column of Exhibit III.)

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And while unemployment in a country may have adverse social implications, it may be a benefit to the investor (at least in the medium term) in holding down labor costs and labor turnover. Again, the range in unemployment in Europe is wide, though not among the larger countries. Moreover, unemployment may be more persistent in countries that have fiscal difficulties. These countries will have less room to maneuver in the future because of their inability to increase fiscal expenditures to stimulate demand.

Thus, if a corporation feels that it does not determine the level of labor productivity, it should pick the country with the lowest real cost of labor and high unemployment. On the other hand, if it decides that it does determine labor productivity, then it should pick the country with the lowest nominal labor cost and high unemployment.

Many other factors affect the location decision. A couple of these are contained in Exhibit IV. Countries with the lowest cost of living would be most attractive for relocation of American managers. Government efficiency and transparency is a universal benefit to honest business.(4) While the general condition of the physical and social infrastructure, including the cost of transporting products to markets, is important, the degree of its importance will be determined by the specifics of the corporation and its products and services.

EXHIBIT IV
OTHER LOCATION FACTORS (RANKINGS)

	Cost of Living	Government Efficiency and Transparency
Austria	30	14
Belgium and Luxembourg	27	25
Britain	38	23
Denmark	35	6
Finland	31	4
France	37	26
Germany	42	10
Greece	16	46
Ireland	6	17
Italy	39	45
Netherlands	33	11
Portugal	17	29
Spain	24	27
Sweden	23	13
United States	25	20

Where does all this leave a corporation that is forming a strategy for the EU?

While Europe is a big market that promises to become even bigger, its performance has not been stellar over the last 15 years. Indeed, the road has been particularly rocky for the last five or so years, and it will likely continue to be for the next few years.

Meeting the Maastricht criteria has been problematic and the introduction of the euro will bring further uncertainty and risk. Unemployment will be an even more serious problem in the near and medium term as countries lose control over monetary policy and face limits in their fiscal expenditures. When the euro is introduced in 1999, the exchange rates between EU members will be permanently fixed. There may be a great deal of currency speculation leading up to that event. If the exchange rates are not announced until the start of 1999, speculators will likely be very busy before then. But if the rates are announced any earlier, the markets must be convinced of the EU's credibility. Otherwise, speculation will not be avoided. In short, the next few years promise to be a period of general uncertainty.

The bottom line, then, is this: while it is important to monitor European economic and financial developments, it may be prudent to wait until late 1999 or early 2000 to see how these uncertainties play themselves out before expanding ongoing European operations or choosing a new European location.

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