MEP Esko Seppänen 30.8.2003

Finland joined European economic and monetary union (EMU) and gave up control not only of its currency, but also its monetary policy. Now Finland is not able to pursue its own monetary policies: neither foreign exchange nor interest rate policies. That has happened irrevocably.

The Euro is a federal currency with a supranational administration . The European Central Bank (ECB) has the monopoly over monetary policy, and the national central banks of the Member States are its branches, lacking independence.

Central bank

The Executive Board of ECB has six members. From the beginning, one of them was a Finn (Ms Sirkka Hämäläinen) but once her term finishes in 2003, there will be no Finnish representative on the board for decades. Then monetary policy will be imposed on Finland from outside, by foreign decision-makers. If monetary policy is not pursued nationally and if adaptation measures are needed in case of economic difficulties , national flexibility is required through finance policy (state budget) or the labour market (flexibility of wages).

Such decisions are taken by the Executive Board of ECB, together with the governors of the national banks (i.e. the branches of ECB) of the Member States, which constitute the Governing Council consisting of 18 members. It is the highest supervisory organ of ECB where all the members are not equal: the central bank representatives from bigger Member States have a permanent right to vote, a privilege not enjoyed by those from the smaller countries.

The ECB has been guaranteed total sovereignty, which in turn takes the power away from the monetary policy decision-makers in the Member States. The bank is controlling itself. The problem of democratic deficit is obvious.

The European Central Bank is a one cause movement as its only operational target is a fight against inflation. The fight is going on even when there is no inflation.

Stability Pact

At the Dublin summit, the Germans pushed through their demand concerning a so-called Stability and Growth Pact. A special sanction system was created for those countries which do not fulfil certain EMU criteria. The system became a deterrent to the member countries, imposing a "financial" style of political discipline.

On the basis of this pact, the Commission has warned the big countries—Germany and France—for their slack budget discipline: their economies are failing to fulfil the stabilisation criteria. Nothing has happened. The sanctions have not been executed. The system is biased towards big powers and is not egalitarian. A different discipline is required from bigger countries than from smaller countries. The system creaks.

The Euro is primarily a political currency, which is administered according to the interests of its larger members.

The Finnish referendum

The Finnish people were not told the truth of what kind of commitment their political leadership had made in the membership negotiations.

Before the EU referendum in Finland, the electorate was told that a separate decision on EMU would be made and that the fate of their currency would not be decided in the context of the referendum on EU membership. When the debate on EMU membership became current, the political elite started sayingthat the decision on EMU had already been made in the referendum on membership.

Now the same people are saying that the future - federal and federalist - European Constitution was also approved in that referendum. This is not democracy. Many Finns feel that they have been cheated.

The economics of EMU

The use of the euro as a measure of value is not problematic. For those who are incapable of mental calculation, there are calculators, and with a few touches of a button it is easy to find out the value of property, goods and services, both past and present, both in old and new currency.

The introduction of the new currency as means of payment was carried out by changing all monies in circulation into euros. That meant costs which were due to be paid by private citizens. Existing prices were rounded off. That was done upwards, and in this way the changeover to the euro was paid by consumers. That was what happened in Finland already before the changeover, and so all the costs of the euro cannot be calculated starting only from EMU membership.

Before joining EMU, its proponents argued that it would enable an inflation-prone national economy to get out of the so-called devaluation-inflation circle. When EMU currencies have devalued in relation to the US Dollar, just the opposite has happened.

At the outset, the euro was devalued by a quarter in relation to the US Dollar. Because of the positive impact of this depreciation on the value of the common currency and on the demand of export industries, the overall economic consequences of EMU have been slight compared to what may be coming.

Devaluation had a positive impact on the competitiveness of Finnish enterprises. Exports increased and foreign debt decreased. Firms paid record high dividends to their owners, and as well asprofits, old assets of the companies were distributed to their owners. It looks like that after joining EMU, the US "shareholder value" concept was launched in Finland, which entitles a firm’s present owners to all the money that can be raised from the firm and shared out. Dividends were tax-free to their receivers, and in addition, sales profits were tax-free or under-taxed.

The revaluation of the US Dollar in respect to euro had a remarkable influence on the Finnish stock market. In terms of US Dollars, the value of the Finnish stock exchange was low, and as a consequence, some 70% of the stocks have ended up in foreign ownership. Economic power flowed away from Finland.

The influx of foreign currency in Finland distorted the internal distribution of income, and income disparity has become wider than ever before.

As money from dividends and sales profits was not distributed through taxation to those Finns dependant on social security, in the midst of all the new wealth, Finland experienced breadlines, with hungry people seeking food offered by voluntary organisations.

Uneven income distribution

In no other EU country has the functional income distribution changed as much as in Finland, benefiting the capital owners. It can be read from the following table. This describes the share of wages from the national gross product between the years 1990-2000.

	1990	2000
Sweden	69,0 %	64,9 %
Britain	63,0 %	62,7 %
Denmark	64,6 %	60,7 %
Germany	62,2 %	59,9 %
France	58,6 %	58,6 %
Austria	59,8 %	58,3 %
Belgium	57,3 %	57,9 %
Holland	56,2 %	57,7 %
Luxembourg	58,9 %	55,8 %
Spain	56,1 %	55,4 %
Portugal	49,6 %	54,5 %
Finland	64,2 %	54,1 %
Italy	50,7 %	45,6 %
Ireland	51,6 %	45,3 %
Greece	37,1 %	37,3 %

During those 10 years, the Finnish labour market lost more than 10 percent of its units from its share of the national income. It happened in those years when Finland was being moulded into the EU and EMU shape. The biggest changes happened after the launch of EMU. That was the gold rush of the capital owners according to the philosophy of shareholder value capitalism.

The purchasing power of wage earners has increased, but this is a result of the political decisions: the state has collected less taxes. While the rich and those with high income have been given tax reliefs, this policy has resulted in reduced welfare benefits. The state has financed its expenditure by selling state-owned companies, by privatisating public services and by increasing the cost paid by the beneficiaries themselves.

The labour productivity has increased in the long run by 3,5 %, but the increase in salaries only by 2,1 %. This difference has been exploited from the labour to the capital.

EMU is federalism

Finland has been led away from its former foreign policy of political neutrality.

Unlike Sweden, Finland's goal is to join the federalist core of the EU. The political elite are prepared to give up the independence of the country by accepting a new constitution for the Union as designed by a Constitutional Convention in Brussels. This incorporates the concept of supranational decision-making: political decisions are made depending on the size of population of each state. There will be no political or economic democracy in the Union of 500 million EU citizens.

The EU is being turned into a federal state. The new Constitution has an article about a common EU flag, an EU anthem, an EU motto, an EU national day and the federal money: the euro. EMU is part of the federalisation process of the Union.

There is also on ongoing militarisation process of the EU. The Union is being militarised by placing at its disposal permanent military organs and a European army. The non-allied countries are made Nato-compatible, both politically and militarily, through the new EU structures. The new EU, which will be established by the new constitution, is a highway to Nato. All countries must be alike.

In that sense, the federal basis of EMU is interconnected to the militarisation of the Union and the Nato-membership of the majority of the member countries.

The biggest problem from a small country's perspective is the lack of democracy in the federal state and weakening of democracy on a national level. That is what EMU represents

The Finnish economical situation

Today the Finnish economy is in a low-growth situation.

The export demand is low, and the devaluation of the US dollar in respect to euro is taking its toll.

The state budget for the year 2004 is in deficit, and the new tax reliefs to the rich are financed by loan money.

The biggest bubble in the Finnish EMU discussion have been the so-called buffer funds: the funds were to be used in a low conjuncture situation to pursue a Keynesian finance policy. They have been forgotten. They could be needed now, but the buffer funds have been only virtual. In Finland, the EMU was marketed to the labour unions in the form of buffer funds, but it has been a bubble. There are no EMU buffer funds against unemployment or dismissals.

After the benefits of the euro devaluation have now been lost (and after the profits of the devaluation policy have been transferred to the capital owners), there are only two alternatives for a small country to adapt itself to the federal EMU policy: the finance policy (cuts in the welfare state) or the income policy (lowering salaries).

There is no such thing as free choice of policy in EMU. Every member country, except the larger ones, must obey the rules which may lead to overall stagnation in the fight against non-existent inflation.