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The Euro Will Eventually Lead to Global Instability

by Nino Boezio

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The single European currency, once a distant dream, has become a reality. In time, it can significantly change the way the world does business, and will have some important implications on the ability of the United States and its currency to dominate the world's political and financial system.

The Euro is expected to foster greater intra-European cooperation and economic growth on that continent. However, the ECU can also damage the economic health of North America as the United States' fiscal problems including its debt and trade deficits will no longer be masked by the U.S. economy's dominance in the world. It will also encourage Europe even more to guide its own destiny, even if its vision for the world widely differs from that of non-European nations.

Understanding Europe

Unlike the relative peace and prosperity enjoyed by most North Americans the past two centuries, Europe has not been so lucky. The nations of Europe have historically been plagued by distrust, envy, competition and strife. Warfare has been a regular part of its turbulent history. Even though that continent cannot afford another world war on its territory, especially since the weapons of mass destruction today have become so powerful, it does not mean that the European psyche has changed to one predominated by a desire for peaceful coexistence with its world neighbors.

Being confined to a small continent with a large population, and where much of its resources must come from without, it can easily be seen how European politicians can become "nervous" and

want to exert some sort of political/military muscle, which continental Europe currently does not have but the United States does. Yet the United States has largely determined its own foreign policy independent of input of Europe.

Also unlike the United States which is hedged by very large oceans and peaceful neighbors, Europe has the always dangerous Middle East nearby, and an unstable Russia and turbulent Asia within striking distance. Problems with any of its foreign neighbors can easily land on its doorstep, and yet still not be of much concern to a relatively isolated United States.

The Soon-Fading Dominance of the U.S. Dollar

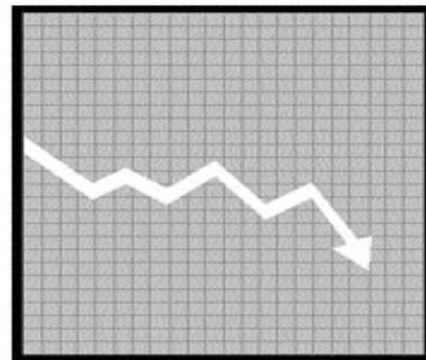
Until recently, gold was the reserve currency of choice for central banks. With inflation, gold maintained its value and appreciated relative to the average currency. It was relatively easy to convert to another currency if the need ever arose, and it was well-accepted worldwide as a trading medium. The last few years however, with the cooperative attack by central banks on inflation, have diminished gold's usefulness.

Central banks have opted instead for the U.S. currency and U.S. denominated assets such as bonds rather than gold, since these are even more liquid (the latter provided an attractive yield) and inflation has been perceived to be relatively dead, hurting gold's major appeal. Even though new gold demand has exceeded new supply since the early 1990s, this was not sufficient to maintain interest in gold, inciting central banks to liquidate their gold reserves.

If there ever is renewed concerns about inflation or the strength of a currency such as the \$US, then there may be some exodus back to gold.

The ECU is being perceived by some to be the most viable threat down the road to the \$US. Even though it will be a

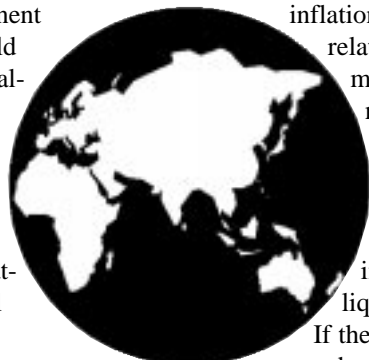
new medium of exchange, its acceptance and use by a large continent may quickly establish it as an important currency. And if relative yields on US stocks, bonds, real estate and other assets fall relative to



those achievable in Europe (which can occur if the European economies strengthen and the U.S. economy weakens or falls into recession) the dominance of the \$US dollar will quickly be undermined. Currently, trade deficits in the United States have been paid for through the acquisition of U.S. assets such as bonds by foreigners. If central banks decide to liquidate some of their U.S. assets and U.S. currency in favor of the ECU, we may find a severe depreciation in the U.S. currency worldwide and possibly U.S. inflation triggered not by robust economic activity but by too much currency with no place to go but back to the United States. The currency depreciation will help to alleviate the U.S. trade deficit but in the meantime, could destabilize the world's financial system.

The World's Dynamics Will Change

If the ECU proves to be a dramatic success, or at least achieves a position of importance comparable to the \$US, we may find that the world will no longer be dominated by the United States in non-financial matters as well. We note that Europe and the United States have often had widely differing views on foreign policy, including reactions towards events in the Middle East and Asia.



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The United States has had different international interests, is not always perceived as a source of world stability from the European standpoint, does not understand Europe or its problems, and is too far away from the hot spots. For example, it is expected that oil demand will once again outstrip supply in the next 3-5 years. Any instability in the region will impact Europe much more than it would the United States, as over 50% of its oil is imported. Will the United States come to the rescue (after all, its military has been

substantially cut back, even since the Persian Gulf War)?

We will likely find that any success in European financial endeavors will likely precipitate into political, military and social pursuits. This will certainly contest the United States' role as the peacemaker and peacekeeper (the "PAX Romana" of today). Unlike the United States, European countries may not be considered to be less diplomatic or sensible, and may perhaps shoot first and ask questions later.

The concerns raised as part of the

European 1992 initiative will once again be discussed. The prior initiative most likely failed because Europe fell into recession and various issues including excessive debt, could not be resolved quickly. The next 10 years could be quite interesting to watch.

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The Clearinghouse Scholarship Program

by Angelica Michail

The Society of Actuaries has been administering exams in many parts of the world. However, for aspiring actuaries who live, work, and/or study in developing countries with very low per capita income, those exams are out of reach. For years, the SOA tried to find ways to make the exams more accessible in those countries and assist in raising those countries' awareness, knowledge, and expertise in actuarial concepts and practices. Now the search is over with the implementation of two SOA strategies. The first, removal of surplus charges on exams administered in foreign countries, was implemented two years ago. The second, a Clearinghouse Scholarship Program (CSP), was launched recently with the release of the CSP brochure as an insert to a recent issue of *The Actuary*.

The CSP brochure gives a comprehensive description of the program. Below is a summary of its significant features.

Purpose of the CSP

The purpose of the CSP is to match low-income candidates in developing countries where SOA exams are administered with potential corporate or individual sponsors. Sponsors pay for examination study materials and fees.

Sponsors may support an individual for a three-year commitment, donate to a specific country, or allocate funds for general use.

Eligible Candidates

Candidates must live in a country where the annual per capita income as reported by the World Bank is less than US \$1,000 and where SOA exams are administered. Candidate eligibility requirements include completed application forms, letters of recommendation, minimum credits to attempt, and exam success criteria. Currently, there are 11 qualified countries:

Asia—Bangladesh, China (except Taiwan and Hong Kong), India, Indonesia, Pakistan, Sri Lanka
Africa—Ghana, Kenya, Nigeria, Zimbabwe
Middle East—Egypt

Administration

A small committee consisting of one SOA staff member, one volunteer from the Committee on International Issues and one volunteer from the E & E Committee will review applications, select candidates to be funded and advise the sponsors of candidate success. The current members of the committee are



Jeannette Selin, Angelica Michail, and Darrel Knapp.

Funding Goals

The current fundraising goal is US \$150,000 annually. This amount will support approximately 50 candidates per year. Members of the SOA Committee on International Issues are currently soliciting funds. If sufficient support levels are achieved by June 1999, the candidate solicitation process will start with the November 1999 exams.

For years, the SOA has recognized the importance and necessity of assisting the development of the actuarial profession globally. Through this scholarship program, the SOA can help improve the developing countries' access to actuarial expertise and help enhance their economic future. Today, we are all too aware that the economic success or failure of a single country can have significant global impact. The Clearinghouse Scholarship Program was a great idea for many years. It is now a reality.

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