

In the monetary realm, long-standing scepticism is giving way to a growing movement that will vitalize banking and financial activities. This movement involves financial organizations both within Europe and beyond.

The Commission has measured the likely economic impact of a truly unified market in a comprehensive study, known as the *Cecchini Report*. The Report forecasts a GNP increase of between 4 and 7 per cent over several years, raising the average annual growth for EC Member States from the current 2.4 per cent to about 3.8 per cent. Prices could drop by 6 per cent, exports could surge by 10 per cent and between 1.7 and 5 million jobs could be created. However, some commentators feel these forecasts are overly optimistic. On the other hand, recent studies—in particular one by the Centre for Economic Policy, in London—consider the *Cecchini Report* too conservative, underestimating the gains from Europe 1992 by concentrating only on the static effect of removing trade barriers. The dynamic effect, the study concludes, will be felt over the medium term and could produce an increase of between 3.5 and 19.5 per cent in Europe's real standard of living.

Richard B. Baldwin, a Columbia University economist, argues that the EC economic integration will not only boost output by fostering more effective use of existing capital, but will also create an attractive climate for new investment. His calculations indicate that the enhanced growth resulting from accelerated investment could eventually double or triple the initial rise in income produced by the efficiency effects of market integration. Baldwin points out that his predictions are already supported by Europe's current capital spending boom. This is confirmed by figures published by Translink's *European Deal Review*; 117 foreign acquisitions occurred in Europe in the last six months of 1989, amounting to \$50 billion, double the total for the first six months. The rapid

acceleration of foreign investments as 1992 approaches seems to show a recent perception of the credibility of the EC program, and an acknowledgement of the necessity of attacking this market from the inside. The Americans invested \$15.2 billion (27.6 per cent of the total), followed by the French with \$10.6 billion and the Germans with \$7.3 billion; the Japanese trailed with \$1.6 billion, or 3.3 per cent.

What are the main characteristics of this great European market? One of them is size. The volume of bank deposits is comparable to that of the U.S., although stock market capitalization is less. The potential for growth is large. The European banking market is already open, and will become even more so. For example, from 1985 to 1989 the number of banking and financial establishments under foreign control in France rose from 192 to 277; 167 foreign banks now have affiliates or branches in Paris, and the number continues to grow. A similar or even more open situation exists in a number of other Member States.

This banking and financial market will not be fragmented: once approval to operate a bank in the EC has been received, it will be possible to cover the whole market from a single location, under only one controlling agency. Finally, the concept of universal banking is very widespread in Europe, and gives financial organizations considerable flexibility in adapting to changes in the market. The European market will thus become more competitive and more selective.

The next major step after a single market has been created will be monetary union: a single European currency will allow large capital markets to develop. This strong stimulus to economic growth will create a great demand for financial services, and the free flow of capital will create greater competition among financial institutions. This competition will, in turn, permit lower costs.