From Europe to the Euro

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www.euro-challenge.org

What is the European Union?

- A unique institution – Member States voluntarily cede national sovereignty in many areas to carry out common policies and governance.

- Not a super-state to replace existing states, nor just an organization for international cooperation.

- Shared values: liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law.

- Largest economic body in the world.

- World's most successful model for advancing peace and democracy.

- World's most open market for goods and commodities from developing countries.

Sizing up the European Union

27 member states

500 million
combined population

23 official
languages

30%
of global GDP

4.2 million km^2
total surface area

20% of global
exports and imports

The Plan for a Peaceful Europe After WWII: Coal and Steel

1951



Six founding countries (Belgium, Federal Republic of Germany, France, Italy, Luxembourg, the Netherlands) signed a treaty to run heavy industries (coal and steel) under common management in 1951:

The **European Coal and Steel Community** was born, precursor of the EU.

Images: National Archives of the United States, German Federal Archive

The Rome Treaties: Ever Closer Union?

1957

[The signatories are] "determined to **lay the foundations of an ever closer union among the peoples of Europe**, resolved to ensure the economic and social progress of their countries by common action to **eliminate the barriers which divide Europe** (…)"

Preamble of the EEC Treaty

Six founding countries **expanded cooperation to other economic sectors**, creating the **European Economic Community** (EEC) – or “common market“.

➡ Elimination of tariffs on trade between the six original members achieved by 1968.

Widening the Union - EU Enlargements

1973
- Denmark
- Ireland
- United Kingdom

1981
- Greece

1986
- Portugal
- Spain

1995
- Austria
- Finland
- Sweden

2004
- Cyprus
- Czech Republic
- Estonia
- Hungary
- Latvia
- Lithuania
- Malta
- Poland
- Slovakia
- Slovenia

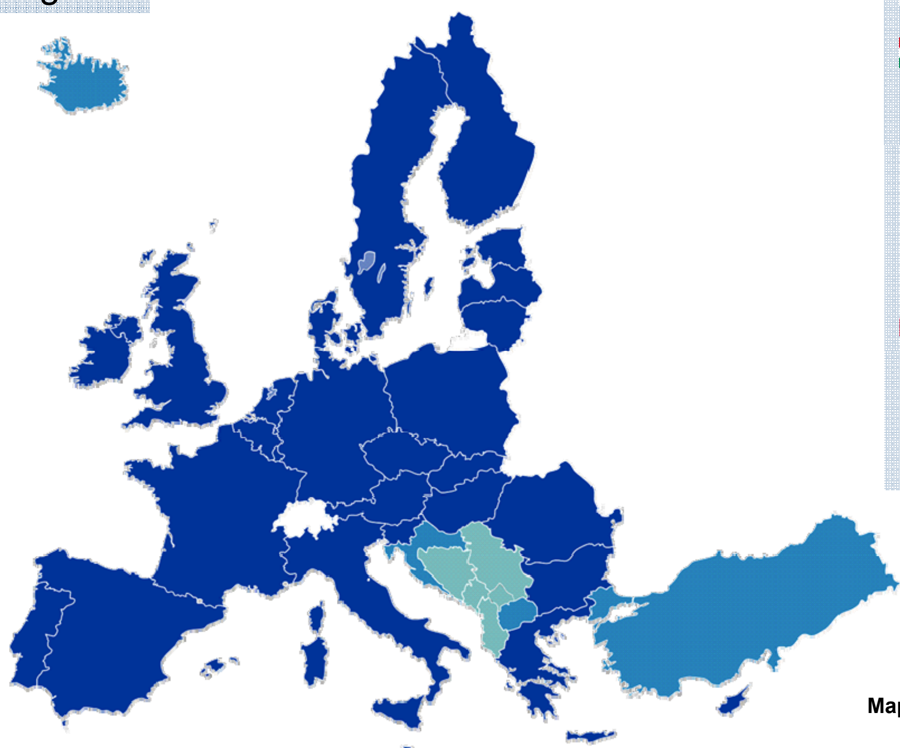
2007
- Bulgaria
- Romania

Future

Candidates:
- Croatia
- Iceland
- FYR Macedonia
- Turkey

Potential candidates:
- Albania
- Bosnia & Herzegovina
- Montenegro
- Serbia
- Kosovo*

* under UNSCR 1244



Map: Wikimedia Commons

The Euro and the Economic and Monetary Union (EMU)

1992 Maastricht Treaty

Sets out how to achieve EMU, lays down convergence criteria

1999 Introduction of the euro

The euro is officially introduced as a virtual currency in Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain.

2002 Banknotes and coins

Introduction of euro banknotes and coins, replacing national currencies

Economic *and* Monetary Union?

- **Monetary Union**: a single currency and a single monetary policy run by the ECB

- **Economic Union**:
  - A single market (free movement of goods, services, capital, people)?
  - Closer coordination of economic policies?

EMU ≠ Euro Area ≠ European Union

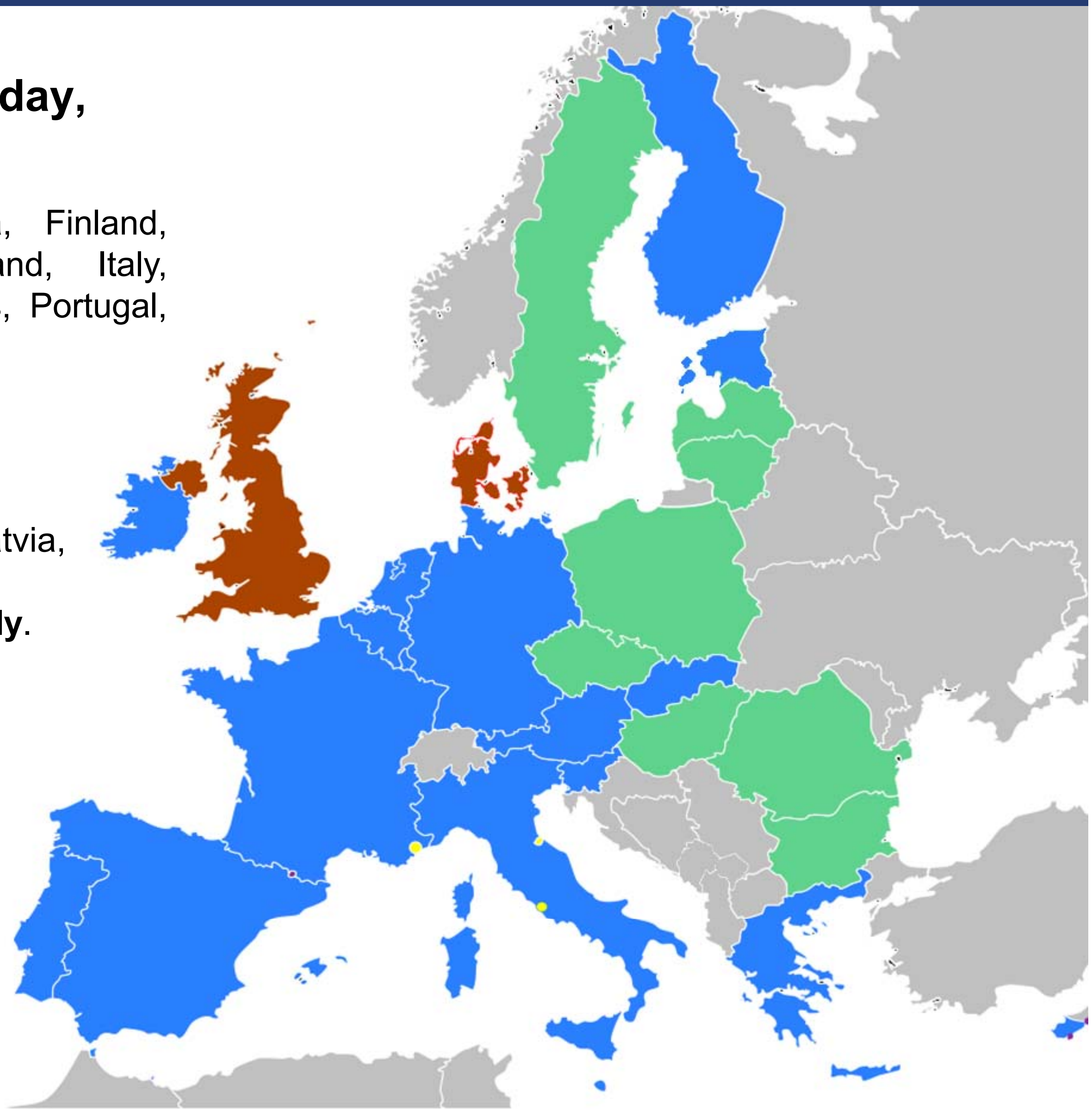
Of the 27 EU Member States today, 17 have adopted the euro

Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain

What about the other 10?

Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania, Sweden **will have to adopt the euro eventually**.

Denmark and the United Kingdom **have opted out and are not obliged to adopt the euro.**

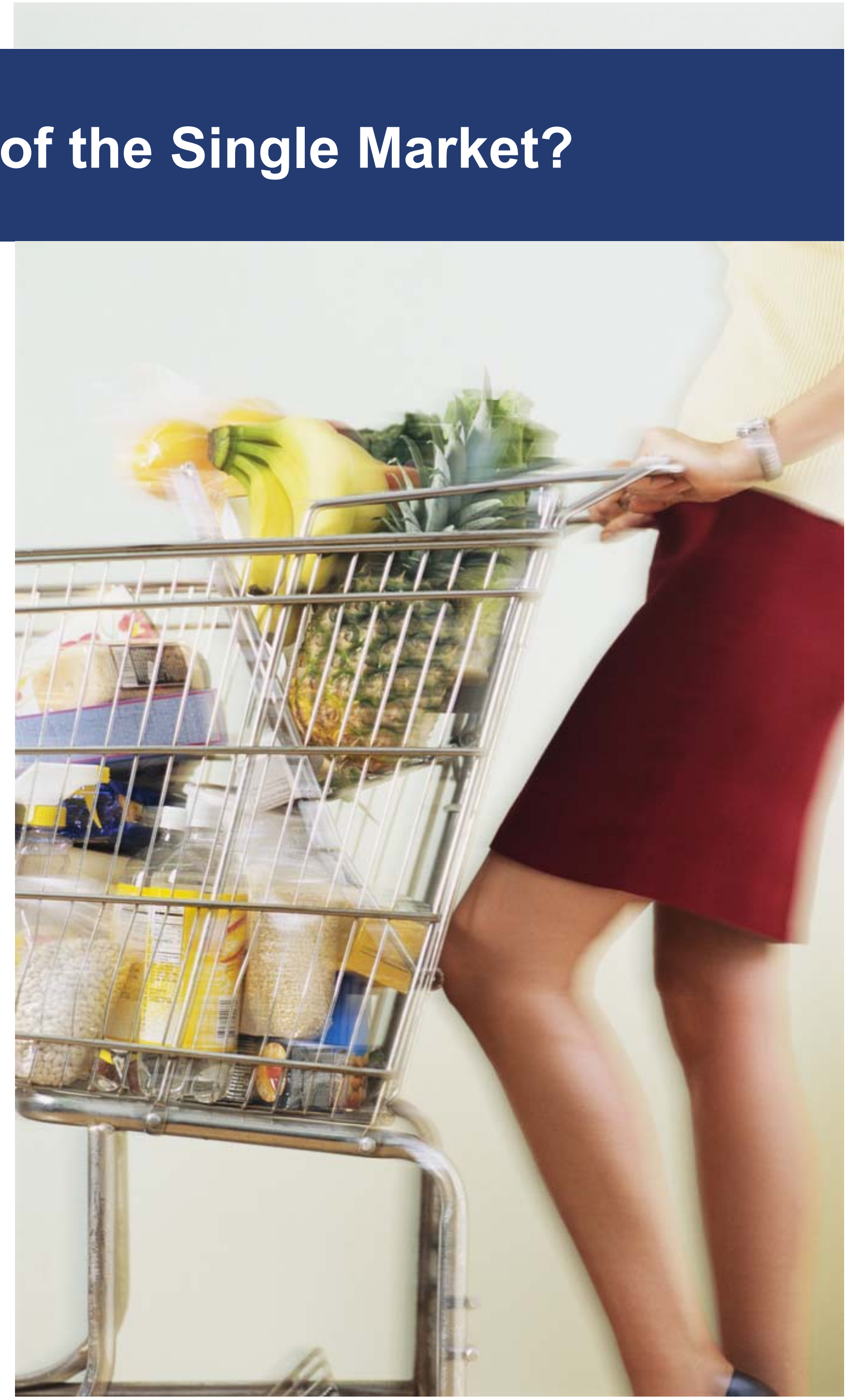


What Are the Benefits of the Single Market?

- ✚ Increased competition
  - → Lower prices
  - → Wider choice of products and services
  - → More jobs

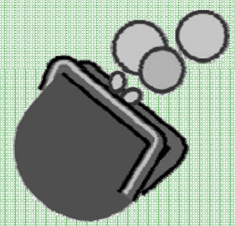
- ✚ Easier travel

- ✚ More opportunities to live, work and study in other EU countries



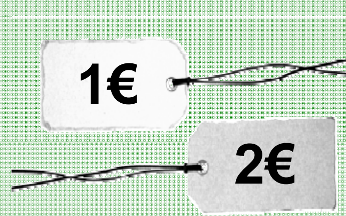
What Are the Benefits and “Costs” of the Euro?

Price stability and **security of purchasing power**

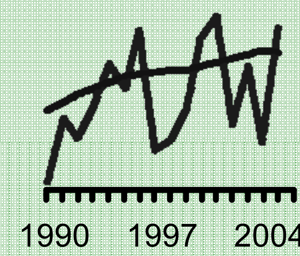


Elimination of **transaction costs**

Price transparency across countries



Elimination of **exchange rate risks**

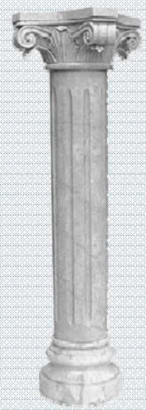


Countries can no longer change their **interest rate** or their **exchange rate.**

Countries **cannot have an independent monetary policy!**

How Do Countries Qualify for Euro Membership?

Countries must fulfill the convergence (or "Maastricht") criteria



Price Stability

(low inflation)

Interest rate convergence

%

Public finance discipline

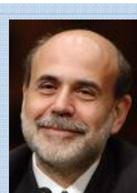
(low government debt and deficit)

Exchange rate stability

The European Central Bank – managing the Euro

- The European Central Bank (ECB) is the central bank for the euro area.
- The ECB's main task is to maintain price stability in the euro area, i.e. keep inflation low.
- This is done by steering interest rates, thereby influencing economic developments (by affecting borrowing and lending by consumers and companies)
- The ECB operates independently from Member State governments.

Economic policy making: the euro area and the US

	US	Euro area
Monetary policy	 Federal Reserve Chairman Ben S. Bernanke	 ECB President Jean-Claude Trichet
Fiscal policy	 Treasury Secretary Timothy M. Geithner	         Eurogroup Finance Ministers        

➔ **Economic policy co-ordination more difficult?**