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Overview of the European Union & the Eurozone Debt Crisis

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Union

- Where have you heard the word “union”?
- What organizations, people, countries, etc. you associate the word with?

What is the European Union?

- The European Union is a unique **economic and political partnership** between **27** European countries.


EUROPE
EUROPEAN UNION
EU Member States
EU New Members 2004
EU New Members 2007
EU Candidates
EFTA Member States
© Nations Online Project
Greenland Sea
Norwegian Sea
North Sea
Atlantic Ocean
Celtic Sea
English Channel
Bay of Biscay
Baltic Sea
Gulf of Bothnia
Adriatic Sea
Tyrrhenian Sea
Mediterranean Sea
Ionian Sea
Aegean Sea
Black Sea
ICELAND
Reykjavik
Faroe Islands (DENMARK)
NORGE NORWAY
SVERIGE SWEDEN
SUOMI FINLAND
RUSSIA
EIRE IRELAND
UNITED KINGDOM
DANMARK DENMARK
NETHERLANDS
BELGIUM
LUXEMBOURG
DEUTSCHLAND GERMANY
FRANCE
Switzerland
Österreich Austria
POLAND
CZECH REPUBLIC
SLOVAKIA
HUNGARY
SLOVENIA
CROATIA
BOSNIA AND HERZEGOWINA
SERBIA
MONTENEGRO
ALBANIA
MACEDONIA
ROMANIA
BULGARIA
MOLDOVA
UKRAINE
BELARUS
ESTONIA
LATVIA
LITHUANIA
ITALIA ITALY
ESPAÑA SPAIN
PORTUGAL
ANDORRA
Ελλας GREECE
TURKEY
ASIA
CYPRUS
MALTA
CRETE
AFRICA
Hammerfest
Murmansk
Kiruna
Oulu
Trondheim
Sundsvall
Tampere
Helsinki
St. Petersburg
Bergen
Oslo
Gavle
Stockholm
Tallinn
Moscow
Riga
Goteborg
Copenhagen
Kaliningrad
Vilnius
Minsk
Aberdeen
Edinburgh
Belfast
Newcastle
Dublin
Liverpool
Cardiff
London
Rostock
Hamburg
Gdansk
Hannover
Berlin
Amsterdam
Poznan
Warsaw
Bruxelles
Cologne
Leipzig
Kiev
Le Havre
Prague
Frankfurt
Krakow
Lviv
Paris
Strasbourg
Nantes
Munich
Vienna
Bratislava
Budapest
Chisinau
Odessa
Bern
Cluj-Napoca
Bordeaux
Geneva
Lyon
Ljubljana
Zagreb
Pecs
Milan
Venice
Belgrade
Constanta
Bucharest
Bilbao
Marseille
Florence
Sarajevo
Varna
Porto
Sofia
Madrid
Barcelona
Rome
Podgorica
Skopje
Istanbul
Lisbon
Naples
Tirana
Thessaloniki
Valencia
Sevilla
Cagliari
Malaga
Palermo
Patrai
Athens
Valletta
250 Km
250 Mi.

Why Was the European Union Created?

- The EU was created in the aftermath of WWII. The first steps were to foster **economic** cooperation: countries that **trade** with one another are economically interdependent and will thus **avoid conflict**.

- Through a series of trade and political agreements from 1951 – 1993, a European Community (EC) was created.
  - Focused on economic and political cooperation among the countries.

Why Was the European Union Created?

- In 1993, the **Maastricht Treaty** was signed, replacing the EC with the EU.

- Maastricht Treaty established:
  - Common **Foreign and Security** Policy
  - Coordinated policy on **asylum**, **immigration**, **drugs**, and **terrorism**
  - EU citizenship, which allowed people to **travel freely** throughout the EU
  - Established a timetable for an economic and **monetary union**.
  - Specified the **economic and budgetary criteria** which would determine when **countries were ready to join**

European Union Symbols

- The stars symbolize:
  - **unity**
  - **solidarity**
  - **harmony among the peoples of Europe.**

- The number of stars has nothing to do with the number of member countries, though the circle is a symbol of unity.

European Union Symbols

“**United in diversity**”

- EU Motto

It signifies how Europeans have come together, in the form of the EU, to work for **peace and prosperity**, while at the same time being enriched by the continent's many different cultures, traditions and languages.

Political Component of the EU

- What began as a purely economic union has evolved into an organization spanning all areas, from development aid to environmental policy.

- The EU actively promotes **human rights and democracy** and has the most ambitious emission reduction targets for fighting climate change in the world.

- Thanks to the **abolition of border controls** between EU countries, it is now possible for people to travel freely within most of the EU. It has also become much easier to live and work in another EU country.

How Are Decisions Made?

- **Codecision**.
  - The **directly elected** European Parliament has to approve EU legislation together with the Council (the **governments of the 27 EU countries**).

- Before a Commission proposes new laws, it assesses the potential impact, listing the advantages and disadvantages to the policy.
  - Solicit a wide range of input: **experts, citizens, businesses, etc.**

How Are Decisions Made?

- The European Parliament and the Council review proposals by the Commission and **propose amendments.**

- If the Council and the Parliament **cannot agree** upon amendments, a **second reading** takes place.

- In the second reading, the Parliament and Council can again propose amendments. **Parliament has the power to block** the proposed legislation if it cannot agree with the Council.

How Are Decisions Made?

- If the two institutions agree on amendments, the proposed legislation can be adopted.
- If they cannot agree, a conciliation committee tries to find a solution.
- Both the Council and the Parliament can block the legislative proposal at this final reading.

What is the European Monetary Union?

- The Economic and Monetary Union involves the coordination of **economic and fiscal policies**, a **common monetary policy** and **the euro** as the common currency.
  - **Eurozone**
  - EMU

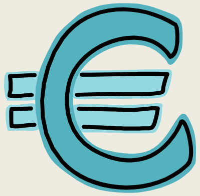
- The euro was launched on **1 January 1999** as a **virtual currency** for cash-less payments and accounting purposes.

- **Banknotes and coins** were introduced on **1 January 2002.**

What is the European Monetary Union?

17 of 27 EU countries are part of the Eurozone

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



Why a single currency?

- A single currency offers many advantages:
  - eliminating fluctuating exchange rates and exchange costs.
  - Because it is easier for companies to conduct cross-border trade and the economy is more stable, the economy grows and consumers have more choice.
  - encourages people to **travel and shop** in other countries.
  - At global level, the euro **gives the EU more clout**, as it is the **second most** important international currency after the US dollar.

Why a Single Currency?

- A single currency also allows countries with smaller economics to borrow more money.
  - This can help lead to more economic growth.
  - But borrowing too much, can lead **default**, or the inability to pay back what you have borrowed.

What are the disadvantages to a single currency?

- Joining a monetary union can lead to the following:
    - **Monetary policy** not suited to the individual county’s needs.
    - Larger **economic fluctuations**.
    - Budget deficits
    - Inability to devalue currency
        - There are two implications for a currency devaluation. First, devaluation makes a country's exports relatively less expensive for foreigners and second, it makes foreign products relatively more expensive for domestic consumers, discouraging imports.

- Possible **moral hazard** in the legislation and execution of government budgets.
    - Meaning, governments could borrow recklessly and know that someone will bail them out.

- Costs that are not necessarily economic include
    - Loss of some country identity and culture.
    - For example, you can no longer put the picture of your heroes on your currency.

What is Monetary Policy?

- The term "monetary policy" refers to what a central bank, does to **influence the amount of money and credit in the economy**.

- What happens to money and credit affects interest rates (the cost of credit) and the performance of the economy.

What is inflation?

- Inflation is a **sustained increase** in the general level of **prices**, which is equivalent to a **decline in the value** or purchasing power of **money**.

- If the supply of money and credit increases too rapidly over time, the result could be inflation.
  - As a general rule, if a Central Bank prints too much money, inflation goes up because the money is worth less.

Who Manages Monetary Policy?

- The independent **European Central Bank** is in charge of monetary issues.
  - Its main goal is to maintain **price stability** or keeping inflation low.
  - The ECB also sets a number of **key interest rates** for the euro area. These rates determine how much you pay when you borrow money.
- **Taxes** are still levied by EU countries and **each country decides upon its own fiscal policy**.

What is Fiscal Policy?

- The use by a government of its **taxing** and **spending power** to influence economic activity.

- In the EU, the European Central Bank is responsible for monetary policy. While each individual government is responsible for its own fiscal policy


1
EURO
The Economist/photolibrary

What is the Eurozone Crisis?

- When countries with weaker economies joined the Euro, they were allowed to borrow more money because they were viewed as a safe borrower.

- Unfortunately, due to poor government planning, countries borrowed large sums of money to pay for various projects and services and accumulated huge debts.

What is the Eurozone Crisis?

- After the 2008 US financial crisis, the world experienced an economic slowdown.
- This slowdown forced governments to run deficits to continue to operate and provide services.
- In 2009, it became clear that Greece had too much debt and would be unable to repay it.

What is the Eurozone Crisis?

- If Greece defaulted, or failed to pay back their debts, it would affect the entire Eurozone.
- All the countries using the Euro would be viewed as a credit risk, and banks and other countries would not lend money to the Eurozone.
- This would shut down all the Eurozone economies because countries, businesses, and people need to borrow money to operate.

What is the Eurozone Crisis?

- As a result of Greece's problems, the crisis has spread to the other PIIGS countries and they have seen their deficits rise and debt swell.
  - **P**ortugal, **I**reland, **I**taly, **G**reece, **S**pain.
  - Considered the weaker European economies

- Germany and France still have stable economies, but if the Eurozone collapses, their economies, will suffer because many of their banks hold the debts of the PIIGS nations.

What is the Eurozone Crisis?

- Two major solutions to the Eurozone Crisis:
  1. Germany could bailout the weaker economies, but they are reluctant to because of **moral hazard** and because they feel it will punish Germany for the poor decisions made by other nations.

  2. The European Central Bank can act as the lender of last resort and bailout the banks by printing more money and giving it to countries to pay off their debts.
     - This is was the US Federal Reserve did in 2008 to prevent the collapse of the US banking system. This is what the “bailouts” refer to.

What is the Eurozone Crisis?

- The historical reasons for not wanting to bailout nations has to do with inflation.

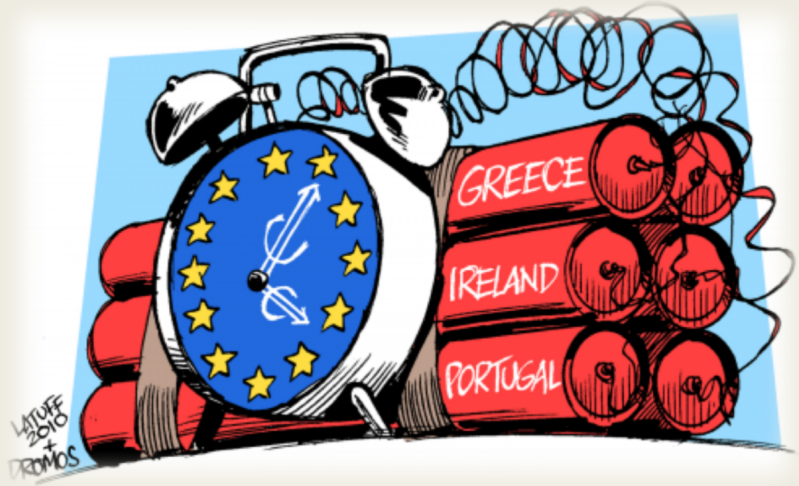
- Weimar Germany experienced massive inflation after World War I. It was so bad that the price of bread would rise thousands of dollars in a day.

- Many historians count Germany's economic woes as a reason for Hitler's rise to power.

What is the Eurozone Crisis?

- The ECB is afraid that by giving money to the indebted countries, they will cause inflation to skyrocket – which is counter to their stated mission of keeping inflation low.

- What should be done?



Two Views About the Crisis

Paul Krugman

- Nobel Prize winning economist
- Liberal opinion writer for the *New York Times.*

David Brooks

- Respected political pundit and bestselling author
- Conservative opinion writer for the *New York Times*.

Sources

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