From Europe to the Euro

Student Orientations
2015 Euro Challenge

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 region in the world.

• World’s most successful model for advancing peace and democracy (2012 Nobel Peace Prize winner).

• World’s largest donor providing assistance to developing countries.
Sizing up the European Union

- **28** member states
- **over 500 million** combined population
- **24** official languages
- **22%** of global GDP
- **4.3 million km²** total surface area
- **20%** of global exports and imports
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Outline of the Presentation

**History of the European Union**
- Half a Century of Change and Progress

**How does the European Union function?**
- A Unique Institutional Structure

**The €uro Currency and the Monetary Union**
- United in Diversity

**The European Union and the United States**
- Partners in Global Leadership
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.
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.

* A tariff is a tax on imports or exports
Widening the Union - EU Enlargements

**Candidate Countries:**
- Iceland
- FYR Macedonia
- Turkey
- Serbia
- Montenegro

**Potential Candidates:**
- Albania
- Bosnia & Herzegovina
- Kosovo*

* under UNSCR 1244

Map: Wikimedia Commons
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European Commission – Promoting the Common Interest

- 28 Commissioners, representing the European perspective, each responsible for a specific policy area.
- EU’s executive branch proposes legislation, manages Union’s day-to-day business and budget, and enforces rules.
- Negotiates trade agreements and manages Europe’s multilateral development cooperation.

Jean-Claude Juncker
President of the European Commission
Council of the EU (Council of Ministers by field, e.g., agriculture, foreign policy, economy)

EU’s main decision-making body, comprised of ministers of 28 Member States, representing Member State’s point of view.

European Council meets at the level of heads of state and government to set the main political direction of the EU.

The President represents the Council for a 2 ½ -year term (renewable one); but a country “presidency” rotates among Member States every six months.
European Parliament

*The voice of the people*

- European citizens directly elect members for five-year terms.
- With the Council, passes EU laws and adopts EU budgets.
- Approves EU Commissioners.

*(Parliament in session pictured below)*

European Court of Justice

*Upholding the Law*

- Highest EU judicial authority.
- Ensures all EU laws are interpreted and applied correctly and uniformly.
- Can act as an independent policy maker and overrule national law in areas (economy, agriculture) covered by the Treaties.
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The Euro and the Economic and Monetary Union (EMU)

1986 Single European Act
Sets objective of establishing an internal market

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 integration is the cornerstone of the EU

Economic and Monetary Union (EMU) enshrined as an objective in the EU Treaties

**The euro area** – Countries share the euro as their currency, ECB sets interest rates.

18* member states

**The single market** – elimination of trade and competition barriers; free movement of goods, services, capital and people

28 member states

**Enhanced policy coordination** – countries maintain control over economic policy, but have to coordinate at EU level

28 member states

* 19 as of January 2015
Of the 28 EU Member States today, 18* have adopted the euro

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

What about the other 10?

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

Bulgaria, Croatia, Czech Republic, Hungary, Lithuania, Poland, Romania, and Sweden aim to adopt the euro eventually, when they are ready.

* 19 as of January 2015
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 *Additional* Benefits and “Costs” of Adopting 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 **give up their ability to set their own monetary policy**
How Do Countries Qualify for Membership of the Euro Area?

Countries must fulfill the convergence (or “Maastricht”) criteria

- **Price Stability**
  - (low inflation)

- **Public finance discipline**
  - (low government debt and deficit)

- **Interest rate convergence**

- **Exchange rate stability**

- **%**
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**

- **Monetary policy**
  - Fed Chair: Janet Yellen

- **Fiscal policy**
  - Treasury Secretary Jack Lew + Congress

**Euro area**

- ECB President Mario Draghi

Eurogroup Finance Ministers

→ Eurogroup: economic policy co-ordination is required
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President of the United States of America Obama with President of the European Commission Juncker on the occasion of the G20 Summit in Australia
“America has no better partner than Europe. Now is the time to build new bridges across the globe as strong as the one that bound us across the Atlantic. Now is the time to join together, through constant cooperation, strong institutions, shared sacrifice, and a global commitment to progress, to meet the challenges of the 21st century.”

Barack Obama
President of the United States of America
US and EU – Partners in Global Leadership

• EU and U.S. work together to develop international standards:
  – Fighting terrorism and transnational crime
  – Advancing global trade liberalization
  – Combating piracy and intellectual property violations
  – Spreading benefits of globalization

• EU and its Member States are helping restore peace and stability in Afghanistan.

• EU and U.S. work together in the Middle East Quartet to advance the peace process.

• When the EU and U.S. agree, others tend to follow.
US and EU – Shared Values and Responsibilities

- **Freedom & Democracy**
  Support free elections, good governance, human rights, and the rule of law around the world.

- **Security**
  Cooperate to fight terrorism, limit the spread of nuclear weapons, and work for global peace.

- **Development**
  Together, EU and U.S. provide 80% of global development assistance and an even larger share of global humanitarian aid in times of disaster and conflict.
• Together, the EU and the US account for nearly half of world GDP and generate more than a billion dollars in transatlantic trade every day.

• The transatlantic economy employs 15 million workers on both sides of the Atlantic.

• Since 2001, Europe has accounted for global investment flows into the U.S. – by far the most significant source of foreign investment in the U.S. economy.
Good luck in the Euro Challenge 2015!