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### **European Union and the Euro**

European Union History: 15 nations, a single economic market, with a desire for social and political integration of its member states. Established Nov 1, 1993 with the Maastricht treaty signed by 12 nations. All nations that are admitted into the EU must eventually adopt the Euro.

BAFFLING PIGS & DUKS (read: Belgium Austria France Finland Luxembourg Italy, Netherlands, Germany, Portugal, Ireland, Greece, Spain & Denmark, United Kingdom, Sweden). The BAFFLING PIGS have agreed to adopt the euro and the DUKS have not. Together they are the 15 members of the EU.

Finland, the UK, and Denmark all feature a public that is very “Euro skeptic.” Support for the euro is relatively low in these nations compared to the others.

### What is a Euro?

Euro introduced Jan 1, 1999 as legal tender in the Euro-Zone. It was not used by individuals (not a physical currency) but only existed as a unit of account for use in electronic bank transfers.

Jan 1, 2002: Euro banknotes and coins began distribution and 12 national currencies disappeared as legal tender. Today the euro is the only legal tender in 12 nations.

There has been a general downward trend in the euro’s value against the dollar since its introduction in 1999; it has experienced roughly a 30% decline. This has made euro zone exports cheaper overseas and has had a favorable effect on growth rates of euro zone countries. The unemployment rate has fallen as well.

When the currency was introduced its value started at \$1.18/euro. Why?

-This goes back to the definition of the European Currency Unit, which was created as part of the European Monetary System and was a composite currency and was only used as a unit of account (not a physical currency). It was a basket of the 12 currencies in the European Community. On Dec 31, 1998 the ECU was worth a little less than \$1.17. The Euro was defined as same value as the ECU, so when currency was tradable in 1999 it was worth around \$1.17. (Of course, the euro is a single currency not a basket of currencies).

### Maastricht Treaty

12 Countries in Euro Community met in Dec 1991 and signed a treaty on Feb 7, 1992.

2 parts to the treaty: Political: customs, immigration, foreign affairs

Economic: Economic Monetary Union, calling for a single European currency & a single central bank.

**Price stability** was identified as the paramount goal of the European Central Bank’s monetary policy.

It was mandated that the legislatures or voters in each member state had to approve the EU. Denmark and the UK were extremely reluctant to relinquish sovereignty. Denmark said no to membership initially, but made a deal with four opt-out clauses. The British public did not support a common European currency and also negotiated a clause in the treaty to opt out of the EMU.

To Enter the Euro zone, a country must satisfy Convergence Criteria

- Low inflation
- Low long-term interest rates
- Stable exchange rate
- Small budget deficit (less than 3% of GDP)
- National debt cannot exceed 60% of GDP

11 countries entitled to participate in euro on Jan 1, 1999.

What happened to the other four?

Greece: underwent restrictive policies to meet criteria and was later admitted.

**3 are still outside Euro zone:**

Denmark: March 2000, referendum on Euro decided to take place (this is the first referendum solely on the Euro.

There was opposition:

1. Undermine sovereignty
2. Lead to harmonized taxation across EU (this would sabotage their generous welfare system)
3. Denmark diluted in a federal European super state
4. Big jump in immigration
5. Denmark lose part of its national identity (Queen's picture not on Euro)

On September 28, 2000 the Danish electorate said no 53% to 47% with 88% of those eligible voting. However, since then there has been a shift in public opinion with 51% in favor and 38% opposed.

Some observers believe that if Sweden joins, there will be a new referendum in Denmark in 2004 or 2005.

Sweden: did not negotiate opt-out clause. Instead, they deliberately did not keep a stable exchange rate and thus failed to satisfy the treaty. They also have worries about sovereignty and their welfare state. They may hold a referendum in spring 2003, and recent polls show support (53% yes and 34% no). Why the change in opinion?

1. Krona depreciated against Euro
2. Desire to be part of a bigger surrounding
3. Introduction of notes and coins has been successful.

UK:

History: blackballed from joining European Economic Community twice by French President de Gaulle (1963 and 1967). The British attitude toward the Economic

Community has been ambivalent. They have had similar sovereignty concerns and have negotiated an opt-out clause. The House of Commons ratified the treaty in May 1993. Today: Tony Blair (Prime Minister, leader of Labour party) is eager to join euro zone, but will not gamble on losing a referendum on the euro. At this point it is unclear whether there will be a referendum or not. Britain's finance minister Gordon Brown is now studying the likely effects of the Euro and there is no timetable for his decision.