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The Development of the Eurozone

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The Emblematic Statement of the Nobel Peace Prize:

The Development of the Eurozone:
A look at the economic changes from 1947 until today

By Suzanne Aldahan

It is the year 1946 and the Second World War has just ended and not even thirty years had passed since the 'war to end all wars' ended, how ironic. Numerous countries in Europe suffered from both the loss of lives and the destruction of land. Powerful countries had been demolished and almost every country on European soil had been affected in some way or another. Change needed to happen for the European people, everyone knew it, and Winston Churchill voiced it. In his speech at Zurich University in 1946, Churchill brought up ideas that would forever change Europe.

> The first step in the recreation of the European Family must be a partnership between France and Germany. The structure of the United States of Europe, if well and truly built, will be such as to make the material strength of a single state less important. Small nations will count as much as large ones and gain their honour by their contribution to the common cause (Churchill).

The idea could not have emerged at a more perfect time. Churchill's speech sparked a match in the minds of visionaries across the globe and Europe was never the same. Since that time, the European Coal and Steel Community was born. Soon after, it evolved into three different institutions creating the European Community and was later changed into the European Union that lives today. One thing that has not changed since the beginning is the desire for a common economic cooperation between the countries of Europe. This paper will explain the development of the economic policies that led to the Eurozone describing the masterminds, treaties, and ideas behind each philosophy leading up to the Europe in its current state.

After listening to the wise words of Winston Churchill, many other visionaries decided to pitch in their ideas to form a community with the European states. George Marshall gave a speech on April 16, 1947 unveiling his proposal that more commonly became known as the Marshall Plan (Marshall). This led to the creation of the Organization for European Economic Cooperation, an organization focused on distributing aid to the war-torn countries of Europe. Through the OEEC, eighteen countries worked together to reconstruct Europe. The organization concentrated on the these five goals:

> Promote the co-operation between participating countries and their national production programmes for the reconstruction of Europe; Develop intra-European trade by reducing tariffs and other barriers to the expansion of trade; Study the feasibility of creating a customs union or free trade area; Study multi-literalism of payments and; Achieve conditions for better utilization of labour (Marshall).

First and foremost, the OEEC was made to bring together all of the European countries as one in order to help the destroyed countries get back on their feet. Once the goals of the Marshall Plan were achieved to their fullest extent, the OEEC became an organization focused on the economic issues of Europe. As one of the first official and permanent ways of cooperation between European countries, the OEEC paved the way for other economic policies to surface.

After Marshall came two great men without whom the European Union would not exist. Just four years after the Marshall plan was released, Jean Monnet and Robert Schuman came together and the Schuman declaration came to life. On what is now known as 'Europe Day,' May 9th, 1950, Robert Schuman proposed the idea of merging the coal and steel companies by constructing the European Coal and Steel Community (ECSC). The idea was to unite the coal and steel companies of France and Germany, their two most powerful industries, because "the solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible" (The Schuman Declaration). With the intent to providing the foundation of an economic fusion for all the member countries, the European Coal and Steel Community was officially born with the signing of the Treaty of Paris in 1951. The six new member states consisting of Belgium, France, Italy, Luxembourg, Germany, and the Netherlands became the first European member states to create a common market. The seven goals of the member states of the ECSC were to:

> Ensure an orderly supply to the common market, taking into account the needs of third countries; Ensure that all comparably placed consumers in the common market have equal access to the sources of production; Ensure the establishment of the lowest prices under such conditions that these prices do not result in higher prices charged by the same undertakings in other transactions or in a higher general price level at another time, while allowing necessary amortization and normal return on invested capital; ensure the maintenance of conditions which will encourage undertakings to expand and improve their production potential to promote a policy of using natural resources rationally and avoiding their unconsidered exhaustion; promote improved working conditions and improved standard of living for the workers in each of the industries for which it is responsible, so as to make possible their harmonization while the improvement is being maintained; Promote the growth of international trade and ensure that equitable limits are observed in export pricing; and Promote the orderly expansion and modernization of production, and the improvement of quality, with no protection against competing industries that is not justified by improper action on their part or in their favor (Treaty Establishing the ECSC).

The overall ideals of the European Coal and Steel Community were to help better the communities by raising the rates of employment and enhancing the economies of the six countries. This was the first step to creating a completely integrated Europe. Without the European Coal and Steel Community, not only would the European Union that is known today not exist, but many other occurrences could have happened, possibly even a third World War because of the lack of integration between the European countries. The desire for an economic integration between the countries of Europe did not stop there; rather, the ECSC became the driving force behind the aspiration for integration.

Ever since Jean Monnet and Robert Schuman, the desire for economic cooperation went hand in hand with creating an economic and monetary union (EMU) for the countries of Europe. An economic and monetary union would not be easy to achieve and would take many years of hard work, good ideas, and experimentation. Constructing an economic and monetary union is a multi-step process that "involves the coordination of economic and fiscal policies, a common monetary policy, and a common currency" (Economic and Monetary Union). An EMU would solidify the union of the European countries because it would mean that each and every country included would have given up a bit of their sovereignty for the entirety of the group. This would really prove that the countries of Europe would no longer just be separate countries, but united as one union – a union that would, as initially planned, live in peace and harmony without the possibility of war.

One man that was very influential in impacting economic cooperation in Europe was Paul-Henri Spaak. Spaak envisaged a mostly economic unity and a supranational Europe, stating, "The Europe of tomorrow must be a supranational Europe" (Paul-Henri Spaak). His report delivered in 1956 led to the writing and signing of the Treaty of Rome. Spaak called for "…[the] elimination of customs duties within the common market, [the] establishment of a common external tariff, and negotiations with third countries" (Spaak). Spaak's idea would help to integrate the economies of the six member states of the ECSC. The customs union would be an area of free trade with a common external tariff that would make all the trade equal for all the countries. With the goal of crafting an economic and monetary union, this was a step in the right direction.

The Treaties of Rome signed in 1957 established what became known as the European Communities and expanded upon the ideals of the ECSC, thanks to Paul-Henri Spaak. Creating the European Economic Community, the Treaties of Rome greatly impacted the quest for economic cooperation. These treaties created the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). The goal was to "establish a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it" (Treaty Establishing the EEC). The Treaties solidified the ideals discussed within the Spaak report and truly put the European countries on their way to becoming an economic and monetary union.

The first attempt of creating an economic and monetary union was officially broadcasted through the Werner Report. Pierre Werner, Luxembourg's President and Finance Minister, came up with a three-step plan to form an economic and monetary union for the European countries that would span ten years. "The final objective would be the irreversible convertibility of currencies, free movement of capital, and the permanent locking of exchange rates – or possibly a single currency" (Phase 1). Envisioning the future, Pierre Werner warned of the "grave danger of disequilibria arising if economic policy cannot be harmonized effectively" (Werner) and discussed how the economic policies had been advancing up to that year, 1970, but then argued that without a rapid change, the heads of government would lose control. Werner's plan involved three steps, but did not achieve much because the time that his plan was introduced was not ideal for the goal they desired to achieve. "In 1971 the post-war monetary order based on the dollar, known as Bretton Woods, collapsed; and in 1973 the Yom Kippur War in the Middle East led to a quadrupling of oil prices, accompanied by global stagnation and inflation. A less propitious period for introducing monetary union could scarcely be imagined…" (Concise Encyclopedia). Thus, due to the other concurrent historical events, the economic and monetary union plans of the European countries were put on hold until Jacques Delors reared his knowledgeable head a few years down the road.

In between Werner and Delors, a few ideas were brought about that would help make the Eurozone what it is today. Because Werner's plan for an economic and monetary union was unsuccessful, people of the time tried a new plan, the European Monetary System (EMS), which paved the way for a successful EMU. The EMS "encouraged countries to coordinate their monetary policies. It used an Exchange Rate Mechanism (ERM) to create stable exchange rates in order to improve trade between EU member states and thus help the development of the single market" (European Monetary System). In 1973, the European Monetary Cooperation Fund (EMCF) was created for the stabilization of exchange rates. This was to allow the country's exchange rates to fluctuate, but not more than the exchange rate mechanism (ERM) allowed, which was 2.25% from a central point. “If the exchange rate of a currency fell too far, EMCF would buy quantities of the currency on the foreign-exchange market, and if it rose too far, EMCF would sell enough of the currency to bring down the exchange rate” (European Monetary Cooperation Fund). This was to make sure that the different country’s currencies would be monitored to stay about equal. The final goal would have been to have each country in the European Community to have one single currency, but the time had yet to come. Until then, the EMCF was the second best option to stabilize and balance the currencies to try and make them as equal as possible. The European Monetary System was a sufficient second best to the ideal EMU and did its part until Jacques Delors’ plan for an EMU arrived.

Jacques Delors was the longest serving President of the European Commission, giving him a lot of time and power to influence such a huge Union. “It was Mr. Delors whose report produced the plan for what we now call the euro” (Moore). Following in the footsteps of Werner, Delors also presented a three-step plan that ended up being successful and led the European countries into an economic and monetary union. The first stage was to focus on completing the single European market. The second stage would involve more economic decisions including budgetary, public spending, and exchange rate policies. Finally, the third stage would involve economic community institutions to impose constraints on national budgets at which point the national currencies would slowly become the European currency unit, an idea that surfaced before the euro (Palmer). This plan came at the right time, unlike that of Werner, and was received well by many governments.

One very important outcome of the Delors Commission was the Single European Act (SEA). This was the first significant revision to the Treaty of Rome from 1957 and set out the objective to complete a single market by the year 1992. With the influences of Jacques Delors backing the SEA, it seemed quite easy to attain, but the past treaties proposed a problem. In order to codify the SEA and make a dream come true, revisions had to be made including “the decision-making procedure within the Council; the Commission’s powers; the European Parliament’s powers; and the extension of the Communities’ responsibilities” (The Single European Act). Signed in 1986, the Single European Act successfully amended past treaties in order to “promote overall harmonious development and pursue actions leading to the strengthening of the economic and social cohesion” (Single European Act). Without Jacques Delors and his three-step plan for economic integration, the European Central Bank and the euro would probably not have been created when they were. This plan became the central focus for paving the way to the European community becoming an economic and monetary union.

With the Maastricht Treaty signed in 1992 came the introduction of the European Union. One very influential man during this time was President of the European Union Commission, Romano Prodi. Prodi wanted to see the creation of the Eurozone and the Maastricht Treaty helped achieve this goal because it “…provided for the introduction of a central banking system and a common currency…” (Encyclopedia Britannica). This treaty was the extreme overall turning point for the creation of the economic and monetary union for the European countries because it established the Maastricht criteria that enabled the European countries to begin and complete the third stage of the EMU. The finishing touches on the economic and monetary union were completing the single market economy and instituting a single currency for all the European countries. The treaty presented three stages for transition into a single currency. The first stage liberalized the movement of capital. The second stage provided for convergence of the states’ economic policies and the last stage created a single currency and established a Central

European Bank (Treaty of Maastricht). There are four criteria a country must achieve in order for it to converge. They include “price stability, to show inflation is controlled; soundness and sustainability of public finances, through limits on government borrowing and national debt to avoid excessive deficit; exchange-rate stability, through participation in the ERM II for at least two years without strong deviations of the convergence achieved by fulfilling the other criteria; and long-term interest rates, to assess the durability of convergence achieved by fulfilling the other criteria” (The Euro). These four criteria are assessed over a long period of time to ensure that the potential member state is ready to accept the euro as their sole currency. They are necessary because without strict monitoring of a member state’s finances, accepting the euro might mean the downfall of the entirety of the euro as a single currency.

The Maastricht Treaty led to the European Union’s ability to launch the euro as a common currency. The euro was first introduced in a non-physical form, which gave the countries time to convert all their systems, and gave the EU time to print coins and notes. Two years after the unveiling of the euro, notes and coins were produced, in 2001, and each member state was given two months to fully convert all of their currency to the euro. This meant that each state had two months where both the euro and their national currency were legal tender. Both currencies could be used and there were many facilities open in each member state to change the national currency to the euro. After the two months had passed, each member state was expected to be only using the euro so that the goal would be complete.

Thus, with the completion of the economic and monetary union of the European countries and the launching of a single currency, the Eurozone was born. The Eurozone consists of seventeen of the twenty-seven European Union member states who have given up a piece of their sovereignty in order to accept a common currency, the euro. Some EU member states have chosen not to adopt the currency, like the United Kingdom, and others are in process of accepting the euro and have not yet reached the necessary criteria, like Poland. Today, Europe is in an economic crisis known as the Eurozone crisis. In 2001, Greece joined the euro. “Perhaps the greatest blunder committed by the EU was the acceptance of Greece into the union (Maurizio, 2011)(Gosper, 5).

> …In late 2009, the Greek government has difficulties selling its bond to private investors…In May 2010, the European Union and the International Monetary Fund approved a 110 billion euro loan package to the Greek government in return for promises of spending cuts to sharply reduce the Greek public deficit. In spite of this rescue package and another, 130 billion euro, package put together between June 2011 and March 2012, the debt crisis in Greece continues into 2012 (Arellano).

Greece was the first of many countries in the Eurozone to be affected by such financial hardship. The international financial crisis has affected sixteen member states of the Eurozone. They have all seen their public finances deteriorate and all significantly growing in public debt, a dangerous dynamic that threatens the sustainability of public finances (Ramon de Espinola). Since the crisis in Greece, other countries, such as Italy, Spain and Portugal, have also needed a boost in their economies. Each of these countries is asking the European Union for help and the EU is at a point of confusion because there are too many countries in need of help and it cannot help them all. The European Union Council President, Herman Van Rompuy, has decided that enough is enough. Just this past September, a new institution was created to help the EU member states that are in need. The European Stability Mechanism “is a permanent crisis resolution mechanism for the countries of the euro area. The ESM issues debt instruments in order to finance loans and other forms of financial assistance to euro area Member States” (About the

ESM). Although the Treaty of the European Union forbids bailouts from being made to help other EU member state governments, the ESM is providing loans and bonds to countries in need.

Since then, the current EU Council President, Herman Van Rompuy, called a meeting in November to discuss potential changes to be made regarding the budgets of member states. In the meeting, Van Rompuy addressed the current issues and proposed the solution: a future Multi-annual Financial Framework (MFF). Looking towards the future, Van Rompuy brought up the future budgets for the years between 2014 and 2020, "the aim of this meeting is clear: it is about ensuring that the Union has the necessary means to function in the years to come, taking into account unavoidable fiscal constraints. It is about sending a concrete signal on our determination to do everything that is needed to lift Europe out of the crisis" (Van Rompuy). The MFF is supposed to provide a balanced solution for a budget cut that will include restraints on each individual member state. It will consist of an eighty billion euro budget cut with the aims of "expenditure limits that determine how much money the EU can spend; spending programmes that determine on what money should be spent; and rules defining how the expenditure should be financed" (European Council). Nothing happens in a day and not every country involved has agreed to Van Rompuy's idea of the MMF. Nothing is expected to happen until the beginning of 2013.

The development of the Eurozone not only took a lot of brainstorming, but it also took a lot of time. The founding fathers of the European Union would be very happy to see a single market and a single currency. The crisis in the Eurozone that is happening currently is depressing considering all the time and effort put into creating such a wonderful union, but, like most other economic crises, this too shall pass and the Eurozone will continue to thrive harmoniously as it was.

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