

# The euro and what it entails



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Dario Rainone English 102-05926 February 2011 The Euro and What It

Entails July 1st, 2002, marked a historic date as the beginning of a centralized monetary policy among the countries of the Eurozone.

The German Mark, the French Franc, the Italian Lira and various other local currencies ceased to exist to be replaced by the Euro. Although the history of the Euro began with the Maastricht Treaty in 1992, which set forth the creation of the European Union, the idea of a single European currency dates back to the post World War I era. Its purpose would have been to avoid an ever-increasing economic division within Europe due to several new nation states. The modern, actual implementation of the Euro served primarily to improve economic growth, ease the exchange rate volatility of former currencies, and offer a greater financial integration among markets.

Over the decades however, the degree of political union in Europe never caught on with the economic unification. Due to a lack of adequate political union within Europe, the monetary union set forth by the Maastricht Treaty is not a realistic long-term prospect. The European economy finds itself in a difficult situation that Americans and even Europeans often overlook. In countries of the Old World that are less affected by the Euro crisis, little is discussed about the crippling debt and unemployment that other neighboring nations are facing. This phenomenon is not due to a scarcity of information, but rather to a lack of the public's interest. Although the Euro was supposed to strengthen the spirit of European unity, it is not always apparent to Europeans that they are now part of a larger economy, in which all European countries are dependent on each other. Since its establishment,

the Euro has defined a clear line that separates the wealthier countries of Europe from the poorer. The differences appear striking.

Several countries of Europe, such as Greece and Italy, have abnormally high public-debt levels. This raises the question of whether or not they are going to be able to serve their bond obligations during a time of low economic growth. In addition, it would not be possible to redistribute transfers to the countries with high debt, due to a lack of a centralized federal budget. The absence of a ??? financial-solidarity mechanism??? makes subsidizing deficit regions in Europe extremely difficult (De Grauwe). On the other hand, in a country like the United States of America, with a central government and federal budget, deficit regions are alleviated by deficit redistributions.

In America, this is made possible not only through a political and economic system, but also through a common culture and sentiment of solidarity among the individual states. In contrast, up until seventy years ago, Europe was a continent literally devastated by war. A sense of animosity, hatred, and a state of imperialism governed the political relations of countries. Despite a current, long-term state of peace, European nations still hold inherently different values, which reflect themselves in the state of the economy and politics. The European Commission has been attempting to create and promulgate a sense of European identity, appealing to the historical and cultural heritage of the European continent as a whole. Nevertheless, the creation of a monetary union, where nations collaborate toward each other??™s economic interest, cannot last without a common culture and language. The recent unwillingness of Germany and France to create a Euro-bond market corroborates this notion (Dempsey). Furthermore, <https://assignbuster.com/the-euro-and-what-it-entails/>

transferring taxes within Europe is an idea on which European nations greatly disagree upon.

A pole conducted in January 2011, shows that two-thirds of German voters oppose extra aid for indebted euro (Czuczka). An article from the British magazine, *The Spectator*, titled *The Euro Is Great- Let's Have Two of Them*, summarizes this dissent by stating that, "It would be difficult to see how it would be politically feasible for the French government to raise taxes on its citizens and redistribute them to assist displaced Portuguese fishermen" (Korski). A single culture and stable economy lack even within certain countries of Europe.

Italy is a country consisting of two opposing socio-economic scenarios: the north and south. Since the 1950s, the north and central regions have benefited from the economic miracle of the post-war era, while the south has always remained economically undeveloped. The northern work ethics and mentality are also intrinsically different from the southern ones. These profound disparities are leading the nation toward a system of federalism, where the northern regions demand greater political and economic autonomy and wish to be dissociated from their southern counterparts. As Professor Michel Huysseune, Ph. D. in political science, explains in his essay titled, *Federalism and the Extreme Right in Italy*, "The idea of federalism has acquired political prominence in Italy as a consequence of the crisis of Italy's political system and of the secessionist challenge of the Lega Nord [a right-wing political Italian party]."

?? The idea of a more federal Italy is an on-going debate in Italian politics. If a political and economic union cannot be reached within the individual countries of Europe, it is difficult to picture political and economic unity throughout the entire continent of Europe. Dividing the Euroland (set of European nations where Euro is the national currency, also referred to as Eurozone) into two monetary zones has been a long sought solution by many policymakers to eliminate the economic gap between the wealthy and lagging countries.

The proposal consists in the establishment of two Euro currencies: a strong Euro operational in countries with great potential of growth and a cheap one for the rest of the Eurozone. As Professor Michael Arghyrou from the Cardiff Business School stated in a university journal publication, ??? The two-currency solution would ensure that countries with strong economies are not responsible for bailing-out others, whilst giving struggling economies breathing space to recover and implement reforms without undergoing severe hardship.??? Although various economists from all over Europe agree that implementing a two-Euro currency might be the last resort to rescue the Euro, it would also be a hypocritical and counterproductive strategy. The purpose of a unified Europe has always been to compete with America, aid the poorer countries of Europe, and harness Germany??™s powerhouse to revive the economy of the post-communist block. A two-speed Europe would only offend the weaker nations and damage the vision of a true European Union that visionaries throughout the decades have long imagined.

Chancellor of Germany, Angela Merkel, stated during the annual World Economic Forum of 2011 in Davos, Switzerland, ??? We are going to defend

the euro — there is no doubt about this. [??!] The euro is our currency and is much more than just a currency; it is, if you like, the embodiment of the Europe of today.

Should the euro fail, Europe will fail.??? Her assertion demonstrates the honest willingness of the core countries of Europe to create a solid European Union, with a single economy and common values and interests. Even though a two-speed Euro might secure the viability of the Euro and would benefit both the wealthy and lagging nations of Europe, it would not reflect the determination to save the vision of Europe that European leaders have expressed. Unless Europe??™s nations reach a consensus to establish a real political union, the Euro currency and the European idea that it entails are not realistic long-term prospects. Works Cited Arghyrou, Michael. “ Two-Currency EMU Might Be ??? Last Resort??™ for Eurozone.” Cardiff Business School (2011): 1. Web.

01 Mar 2011.

html>. The article above written by the professor of macroeconomics, finance, and economics of the European Union at the Cardiff Business School in Cardiff, Wales, serves as primary evidence for my thesis, inasmuch it states how a two-speed Euro might be the last resort to save the Euro currency. Czuczka, Tony. “ Merkel Demands Euro-Area Debt Reductions in Return for Help From Germany.” Bloomberg (2011): n. pag. Web.

03 Mar 2011.

com/news/2011-01-28/merkel-demands-euro-area-debt-reductions-in-return-for-help-from-germany.html>. This report contains a quote from Angela Merkel, Chancellor of Germany, in which she expresses her determination to keep the Euro and the idea of Europe alive at any cost. In addition, she sets in place the conditions that countries currently in-debt have to respect if they expect financial help from Germany. The article also includes a statistics on what percent of Germans are in favor of extra aid for the indebted Euro. De Grauwe, Paul.

“ Euro Has No Future Without a Political Union: Paul De Grauwe.” Bloomberg (2011): n. pag. Web. 02 Mar 2011.

. In his piece on the Euro crisis, Paul De Grauwe explains how the Euro currency does not have a future unless the countries of Europe settle to create a greater political union than is currently in place. He also refers to a ??? financial-solidarity??? mechanism in times of crisis in nations with a centralized budget. Dempsey, Judy.

“ Euro Bonds Rejected by Germany and France.” NY Times (2011): 1. Web. 04 Mar 2011. .

In her article on the latest news in terms of Euro policy, Judy Dempsey reports that France and Germany have expressed their unwillingness to create Euro-bond markets. Yet, despite this, it seems that their number one priority is to defend the Euro and the vision of Europe. It serves to support my thesis on how a lack of political union leads to a default situation where implementing policy and reaching agreement is often difficult. Huysseune, Michael.

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?? Federalism and the Extreme Right in Italy??, *Federalisme Regionalisme*, Volume 2: 2001-2002 - Extreme droite et federalisme <http://popups.ulg.ac.be/federalisme/document.php?id=250>

In his essay on Federalism in Italy titled, *Federalism and the Extreme Right in Italy*, Professor Huysseune outlines the increasing popularity of the Italian rightist party in Italy and also the intrinsic socio-economic differences between the north and south in Italy. It supports the idea behind my paper that a European Union cannot be reached unless the individual countries within Europe are culturally and economically united in the first place. Korski, Daniel. "The Euro is so great ?? let??™s have two of them."

*Spectator* (2011): 1. Web. 02 Mar 2011.

<http://www.spectator.co.uk/coffeehouse/5868933/the-euro-is-so-great-lets-have-two-of-them.html>. This journal article from British magazine, *The Spectator*, explains the possibility of a two-speed Euro and also details how transferring taxes within Europe is a notion on which nations often disagree upon. It serves as evidence for my paper to prove that without political union and a sense of solidarity in Europe, mutual aid cannot always be distributed among nations.