Euro college essay

In Europe, the debut of the euro is widely hailed as the most important event affecting the international monetary landscape since the breakup of the Bretton Woods System in 1971 to 1973, or since the Bretton Woods Agreement in 1944, or maybe even since the founding of the Federal Reserve System in 1913. It has become a contest for European officials and commentators to see who can push the analogy back furthest in time. Eminences elsewhere in the world have similarly greeted the euro with high hopes and great expectations. Only in the United States has the euro been greeted with a yawn. It is not hard to see why. So far, its advent has not weakened the international financial position of the dollar; if anything the opposite has been true. The dollar has been strong against the euro rather than weak; for much of last autumn the fear was that the euro, which had started out being worth well more than a dollar, might plunge through the dreaded psychological barrier of one to one. There has been no sign of Asian and Latin American central banks replacing their dollars with euros en masse, as prominent commentators had predicted. The United States has not had to change the way it does business at Group of Seven summits, the OECD, or the IMF. Many Americans thus cannot help but feel that the euro is a tempest in a teapot. The Euro’s Slow Start Perhaps Asian and Latin American central banks have been waiting to dump their dollars until the euro stabilizes. Through much of 1999 the euro was weak because the European economy was weak; governments and private investors were understandably reluctant to overweight a currency that seemed to be losing value by the day. Investors were slow to move into euros because they thought that Europe was less well prepared than the United States for Y2K. They worried about the stability of the European banking system because

European banks had lent much more aggressively than their American counterparts to Indonesia, Korea, Malaysia and Thailand. But now that European growth is finally accelerating, the euro could strengthen, and the anticipated shift into euros at last could get under way. Perhaps governments and investors have been reluctant to embrace the euro because of a series of missteps by the European Central Bank. In the early months of 1999, ECB officials issued a series of confusing and contradictory statements, and on several occasions the ECB board's decision on whether or not to raise interest rates leaked to the press in advance of the official announcement. In April the ECB cut interest rates faster than most market participants thought wise in response to signs of weakness in the European economy. Now that the ECB has apparently concluded that less is more (by issuing fewer public statements and moving interest rates less frequently) and has begun to demonstrate the priority it attaches to price stability, skepticism about its ability to act as the steward of a strong currency may be about to fade. Learning to Think European And perhaps it is simply taking time for Europe to learn to speak with one monetary voice. It is understandable that an extended process of acculturation should be required in order for the national central bank governors on the ECB board to learn to think and talk as representatives of Europe and to frame policy with Europe-wide conditions in mind. Similarly, not until well into 1999 was real progress made on reorganizing European representation at G-7, G-10 and OECD meetings. Europe, unlike the United States, has not been able to effectively represent its views on how best to reform the international financial architecture because it is still creating mechanisms for conveying its views and, more importantly, forming those views. Given time, however, this will change. With time, the euro will significantly alter the international monetary and financial landscape. Europe’s new money will develop into a serious rival to the dollar as a reserve currency for central banks, an invoicing currency for importers and exporters, and a financial asset for international investors. But this will take more time than suggested even by many “ euro-skeptics.” Because changes in the international monetary and financial landscape tend to occur extremely slow, the exaggerated hopes of euro-enthusiasts like Fidel Castro are likely to be disappointed. Similarly, Europe will eventually learn to speak with one monetary voice. But the political changes needed to make that level of financial solidarity possible will take many years to complete. Just as the dollar will continue to dominate the international financial arena for the foreseeable future, the United States will retain the loudest single voice in international monetary debate. A Rival to the Dollar? n A world where the euro rivaled or even surpassed the dollar would represent a major change from the status quo. At the moment, the dollar is far and away the leading currency. Aproximily sixty-seven percent of the foreign exchange reserves of central banks around the world are in dollars, compared to less than a quarter of the total for all Euroland– of the 11 E. U. Forty percent of the minor currencies that are pegged to one of their major counterparts are pegged to the U. S. dollar, a far larger percentage than any of its rivals. In one of the articles I also read that the dollar is used to denominate more than half of all private financial transactions. There was an interesting articles which said that Less is known about whose cash is held outside the home country, since much of it is used for purposes like drug smuggling, tax evasion and money laundering. But the best guess of the Federal Reserve and the German Bundesbank is that perhaps 80 percent of the total is dollars. Those who hope or fear that the euro will quickly rival or overtake the dollar as an international currency point to the size of the European market, which are still growing. The population of Euroland approaches 300 million. The euro area is the single largest importer and exporter in the world, accounting for 19 per cent of world exports, followed by 15 percent for the U. S. and 9 percent for Japan. Its share of world GDP is 16 per cent, far higher than Japan’s and not very far behind the United States. And as Euroland expands its E. U. member states like Greece, Denmark, Sweden and the UK that are now outside the monetary union decide to participate and the E. U., and also the Eastern European countries if they every decide to join, its share of global GDP will quite possibly surpass that of the United States. Moreover, the euro has created an immense European financial market. With so much economic activity taking place in Europe and so much of it denominated in euros, the euro should become increasingly convenient for use in international transactions by governments, banks and traders in other parts of the world. Increasingly, importers and exporters in Latin America and Asia will invoice their transactions in euros rather than dollars because so many European importers and exporters will be invoicing in euros. I also believe that multinational corporations and governments will grow even more enthusiastic about denominating their international bond issues in euros, given the large and growing volume of euro-denominated transactions on European securities markets. Latin American and Asian central banks will in the future shift the currency composition of their international reserves from dollars to euros as they see other central banks moving in that direction. Also as the liquidity of European financial markets continues to improve, will begin to shift the eyes of investors around the world towards the shinning euro. . The long future of the euro Let me now try to look ahead towards the “ long future of the euro” and the challenges which the ECB and the Eurosystem will have to address. Expectations of a long future for the euro seem warranted in light of the increasing confidence of European citizens and international investors in the single currency. The international interest in the euro is extemely evident, An important challenge for both monetary policy and economic policies is to maintain non-inflationary growth in the euro area. In the forthcoming years – I am confident – we will see that the current recovery has extended to become a period of price stability contributing to prolonged employment and output growth throughout the eurozone. However, there are important conditions to be met to achieve a increase in output growth and lower unemployment, which some EU counties suffer from such as Spain. First of all, decisive measures to address the structural problems in Europe, in particular in the area of labour markets, are needed. Second, public finances, which has made considerable progress in the past few years, has to be continued and, where necessary, strengthened. Yesterday, in a national referendum, the Danes declined to join the European currency union. When a currency plunges in value by nearly 25 percent in 21 months, as the Euro has done, the blame doesn’t lie in faulty ink or paper. It’s to be found in wrong-headed government policies that many European nations have specialized in for years. Such policies have convinced European investors to send their money to the U. S. Last year, what was a trickle early in the decade became a torrent. Nearly a quarter of a trillion dollars in European money sought a safe haven in American investments. The reasons are: „ h The European Union confiscates about 42 percent of the region’s total output in taxes to pay for its welfare state — and reduces the value of labor through 4-day work weeks, month-long vacations and generous jobless benefits. „ h So many Europeans try to escape taxes, underground economies in countries such as Italy, Spain, Portugal, Belgium and Greece equal 22 percent to 30 percent of their total economies. „ h In all of Europe, some 20 million people work off the books. „ h Europe's mammoth tax bite on energy is hitting businesses and citizens hard — and the response has been growing numbers of protests and demonstrations. By contrast, taxes in the U. S. are nowhere near European levels, at about 30 percent of gross domestic product. There is still less regulation here and growth is much stronger. " Small wonder, then, that European investors are fleeing the Euro in favor of dollars." The euro enjoyed a very short honeymoon after its launch in January, as its value fell steadily against the dollar and the pound. Not only has this been an embarrassment for Euroland politicians and central bankers; it also has caused some to doubt on the whole single-currency project and question whether UK entry is likely, or even desirable. There are, however, several good reasons why the current relative weakness of the euro is more of a public relations than a real economic problem for Euroland or the single currency project. 1. History shows that currencies often move around by large amounts in the short term for reasons that few people anticipate or can fully explain. The recent movement of the euro is nothing exceptional by historical standards. The dollar, for example, has fluctuated between 80 and 150 yen over the past five years, and even fell by about 10 percent in one day last autumn. 2. The adverse impact of the Asian and Russian crises has created a tremendous drag on the German and Italian economies since last summer. The recent weakness of the euro is just what the doctor ordered for these and other Euroland exporters if I can say that, as it makes their products and services more competitive on international markets. 3. A weak currency sometimes creates inflationary pressures by increasing the price of imports. However, this is hardly likely to be a problem in Euroland, as it is a relatively closed economy and output is currently well below potential. 4. In the short run, currency values are driven more by capital flows than by trade flows. This helps to explain why the dollar has remained so strong despite the growing U. S. trade deficit, which will probably exceed $300 billion this year. Sooner or later, however, foreign investors will start to worry about the U. S.’s ability to repay its accumulated external debtsXand the dollar will come tumbling down. This is exactly what happened after 1985: the markets finally factored in the U. S. trade deficit that had built up in the early 1980s, and the dollar fell sharply against the yen and the Deutschemark. 5. Since expectations of strong future growth are holding up U. S. asset prices and capital inflows, any slowdown in growth will also tend to bring down the dollar. 6. Once the dollar tumbles, I believe other currenys like the pound sterling will fall too. 7. There is plenty of time for this exchange rate adjustment to happen before 2001 or 2002, when the UK begins to consider seriously the case for EMU membership this will boost the euro. 8. The euro, however, is already a reality for companies that trade in Euroland markets, rely on Euroland suppliers or compete with Euroland companies in the UK, America or Asia. The more these companies struggle against a competitive euro, the greater the benefits of UK membership will seem. The European currency was launched on January 1, 1999. There have been intensive pros and cons discussions on this issue in the recent years. Famous economists, monetary experts have pleaded for and against the launch of the euro. The pro experts seem to have won, at least those, who expected and supported the launch of the euro in January, 1999. Some people never believed, that the euro would ever become reality. In my opinion there is still a bunch of open questions, which will be decided in the next years? 1. Will the euro really bring Europe together, stimulating economic growth and bringing more jobs in Europe, or, at contrary, will it divide Europe, destroying economic structures in less competitive regions and branches, causing more unemployment on our continent? 2. Will the euro really become a stable currency? The ECB has a strong independent status. 3. What about social policy in an euro Europe? The Amsterdam Treaty did not mention the word social, and the European Stability presses governments to reduce their public expenses, even to get a budget surplus in some years. Is this realistic in all EMU member countries? Who will be losers? Our country has a specific task in having to finance the reunification, so it cant be compared with the US, which have a budget surplus now. 4. What does the euro mean for me personally? So far I havent made much EUR payments at. How will we perceive possible strong changes of the EUR exchange rate, especially with respect to the USD? Is the three years transition period sufficient, too long or to short, or doesnt it matter at all to me? Questions, that everybody can answer in a different way. The European Union’s single currency has suffered another blow after Danish voters said ‘ Nej’ to joining the euro. Anti-euro campaigners in Britain say the result sounds a death knell for the UK’s propspects of replacing the pound, but supporters are pledging to forge ahead. What is the euro? The euro took effect in 11 of 15 EU countries in January 1999 for corporate and investment transactions but is not in public circulation yet. The new currency is, however, posted on menus and in supermarkets in countries that have signed on. Coins and bills go into circulation in January 2002. Denmark, Britain and Sweden opted out, while Greece, which was barred from membership because of high inflation and a budget deficit, will join on January 1st. Denmark already ties its fiscal and monetary decisions to those made by the 11-member euro zone. The euro, however, has not had an auspicious start, having lost a quarter of its value against the dollar since its launch. The slide prompted enough concern last week for major central banks – Britain's among them – to intervene jointly on currency markets for the first time in five years. Denmark and the EU Denmark's referendum on whether to join the euro is the fifth since the October 2, 1972 plebiscite that paved the way for membership of the then-European Community, which Danes joined on January 1, 1973. In 1986, 56. 2 per cent of Danes voted yes to the EU's Single Act while 43. 8 per cent rejected it. In 1992, Denmark stunned fellow EU nations by rejecting the Maastricht Treaty – which formally launched the single currency – by the tiniest margin. A year later, voters approved a revised treaty with clauses allowing it to initially stay out of the currency and the defense cooperation. In 1998, a majority of 55. 1 per cent of Danes approved the Amsterdam Treaty, which expanded the power of the EU, while 44. 9 per cent rejected it. Other EU countries include Germany, France, Italy, Finland, Netherlands, Belgium, Luxembourg, Ireland, Portugal, Spain and Austria. Statement by the Danish Government Following is the text of a joint statement by the Danish Government and central bank, Danmarks Nationalbank, on the decision by Danish voters to reject euro membership:" Given the result of the referendum Denmark shall not abrogate its exemption from Danish participation in the euro." Denmark's

EU-membership remains unchanged. “ Denmark will continue the present fixed exchange rate policy vis-a-vis the euro within the framework of the narrow band of EU’s exchange rate mechanism, ERM II.” The Danish economy is fundamentally sound. Danmarks Nationalbank and the Government will follow developments in financial markets closely and stand ready if need be to take measures in order to maintain and continue the fixed exchange rate policy.”” The Fiscal Bill for 2001 is based on Danish participation in the euro. “ The negotiations on the budget will start next week, and in this context the Government is ready to tighten fiscal policy if this should prove necessary to maintain Denmark’s fixed exchange rate policy.” Will Britain ever accept the euro? Europe is likely to be a key issue in a general election, which Tony Blair is widely expected to call early next year. The close, but clear result in Denmark is seen as a Danish snub to much more than just economic and monetary union. The euro poll became a test not just of the single currency but of the European Union’s much-heralded drive for increasing political integration and almost certainly means a ‘ No’ vote in Britain. ‘ No’ campaigners say the rejection of the euro by Denmark proves the European single currency will never be accepted by British voters. Mr Blair has promised, if re-elected, to assess the benefits of joining the euro in relation to five key economic tests early in the next parliament. Denmark’s rejection of the European single currency won’t affect Britain’s own decision on joining the euro, the Government has said. “ The people of Denmark have made their decision. The British people have the same right to make their decision for Britain,” said Foreign Secretary Robin Cook. Labour has said it supports joining the euro “ in principle,” but has yet to fix a date. A decision to join would then have to be approved by

Parliament and submitted to the people in a referendum. Anti-euro campaigners said the result of the Danish referendum made it more likely Britain would keep the pound. Tory leader William Hague has underlined his commitment to keeping the pound were he to become prime minister. “ At the next election, only the Conservative Party will be committed to keeping the pound,” he said. Britain’s business community remains split on the merits of joining the single currency. The latest opinion polls show that over two of every three British voters oppose joining the euro. Q Conclusions In summary, the first year of operation of the ECB has been successful and the monetary policy strategy of the ECB has proved to be a valuable tool both in supporting monetary policy decisions and in explaining these decisions to the general public in a transparent manner. As to the time ahead, the ECB will do its utmost to maintain price stability in the euro area. In our view, this is the best contribution the ECB can make to sustained economic growth in the euro area. Maintaining price stability in the euro area will contribute to the credibility of the single monetary policy and to the stability of the single currency. It will pave the way for the long future of the euro.

Bibliography: