Katonah Chapter of Great Decisions
January 22, 2013 – Discussion Synopsis

The Future of the Euro
Topic Leaders– Tyler Beebe and Peter Grunthal

Tyler opened the discussion with a presentation about the development of the European Union and the adoption of the Euro as a common currency. Together the Union members have a population of 332 million, about the same size as the U.S. and a GDP about 80% the size of the U.S.' The EU has economic and political bonding impacts. At the basic level, it has made trade, travel and business within the continent vastly easier than before its development, and the common currency is designed to take that consolidation of trading power to another level. For many the goal is greater, however, to replace millennia-long traditions of armed competition with economic interdependence.

He noted, however, that neither the Union nor the Euro has won the overwhelming support of the European populace, as contrasted with support among their governments and business communities. And only 17 of the 27 EU members have actually adopted the Euro. A recent poll in Britain actually placed support for the Union at less than 28% of the population. There is no provision in the EU treaty, however, for orderly secession, which could be problematic if, in fact, the union or the Euro fails.

There are standards governing both national monetary and fiscal policies in the EU treaties (Rome, Maastricht and Lisbon) designed to protect the integrity of the financial system and the currency. But, they have been honored primarily in the breach. Enforcing consistent policies is an essential reform.

Peter warned that it was too easy to use labels like "bad actors" to stigmatize individual countries for their roles in creating the recent sovereign debt crisis. He said that all the players shared blame. Some of those with strong economies took advantage of those in weaker positions when the bubbles were growing by making the loans for which the weaker nations are now being criticized as irresponsible for taking. While Greece, Portugal, Spain and Ireland have received most of the attention to date, the real key nation to watch is Italy, whose economy is vast compared to those that have needed bailouts to date.

Discussion was wide ranging. In addition to the debt crisis and the impact on the banking system, some members of the group compared the problems of Europe to those of the United States and raised the question of whether the issue was not one of debt but of jobs – or the lack of them. The portability of employment opportunities (especially in manufacturing) was discussed and Peter Kuniholm expanded that concept to the portability of capital, pointing out that money supporting factories and technology can now easily move from county to country, taking jobs with it.

At present, the crisis for the currency seems to be easing. The challenge for the future, most felt, is whether the reforms that have been identified during the time of stress actually do get implemented once the immediate pressure is off.

HJS