10. Teaching the EU: The euro currency, and collective decision-making

Applicable course in new B.C. curriculum: Economics 12

(also has application for 20th Century World History 11 and Political Studies 11)

DESCRIPTION: This purpose of this lesson plan is to introduce students to the origins and significance of the euro currency, which is used in numerous European Union (EU) member states. The introduction of the euro required EU members to give up a great deal of their own sovereignty, and to engage in an unprecedented experiment of collective decision-making in the international system. Why did individual EU countries decide to give up their own currency to switch to a common currency and a shared monetary system? What were the risks and benefits? What have been the success and challenges since the adoption of the euro? A brief overview of the basics of economic public finances is contained within this lesson.

Big Idea

- The implementation of economic theories has profound effects on social and political decision making and movements.

Curricular Competencies

- Assess how economic approaches and theories affected social and political change (cause and consequence)
- Assess how historical conditions influenced the development of economic approaches and theories (cause and consequence)

Content

- Interdependence and international co-operation
- Classical economic thought on money, banking, and policy

Pre-reading, for students:

[The history of the euro]

[Overview of the euro area]

[How can an EU country adopt the euro?]

[The European debt crisis (Huffington Post)]

[Does the euro crisis affect Canada?]

Procedure:

Have students pre-read material above. In small groups, have them complete 'Euro: Key Terms'.

Discussion of the history of the euro. Draw parallels to Canada within NAFTA to illustrate the significance of moving to a shared currency. Discussion of the strengths and weaknesses inherent in international cooperation and interdependence.

In small groups, have students complete the scenario ('Financial crisis: Greece and the euro'). Discuss and debrief.

Euro Key Terms. In small groups, define the following terms:

Euro:

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Monetary Union:

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Financial Union:

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Public Debt:

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Public Deficit:

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Sovereignty:

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GDP (Gross Domestic Product):

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Maastricht Convergence Criteria:

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European Integration:

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Euro Key Terms – Answer Sheet

Euro: The single European currency, which replaced the national currencies of France, Germany, Spain, Italy, Greece, Portugal, Luxembourg, Austria, Finland, the Republic of Ireland, Belgium, and the Netherlands in 2002. Since then, seven more EU members have adopted the euro (Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, and Slovenia).

Economic and Monetary Union: The term for the economic convergence of EU member states. The economic union refers to the single EU market; monetary union refers to an agreement between participating EU members who share the same currency, and use the same central bank to manage this currency. The euro area in the EU is an example of a full monetary union (one currency, managed by the European Central Bank).

Fiscal Union: When individuals countries / regions share a common budget. Decisions on taxing and spending would be taken by a central fiscal authority. Fiscal union also means debt would be financed by a common bond rather than individual countries. The euro area in the EU does *not* have a fiscal union.

'Asymmetrical' Union: This refers to the design of the euro among participating EU member states. The euro zone has an Economic and Monetary Union, but does not have a Fiscal Union. This makes the euro less stable during times of crisis. By contrast, Canada has a full monetary union *and* fiscal union among all its provinces and territories.

Public Debt: Also called Government Debt or National Debt, this refers to the amount of money that a central government owes in total.

Public Deficit: Also called Budget Deficit or Annual National Deficit, this refers to the amount of money that a central government owes at the end of a fiscal year. Basically, the public deficit is amount that the government has over-spent in a given year, compared to what it has brought in (earned).

Sovereignty: The authority of a state to govern itself, and to be free from interference by other states.

GDP (Gross Domestic Product): The financial measure of all of a country's goods and services incurred over a given time period.

Maastricht Convergence Criteria: The requirements that need to be met in order for a country to begin the process of adopting the euro currency. These requirements were decided in Maastricht, The Netherlands, in 1991. There are five convergence criteria. The two most important are the country's levels of government debt and government deficit: government debt should not be more than 60% of a country's total GDP, and government deficit should not be more than 3% of a country's total GDP. These are the most important because they are ongoing criteria that countries must continue to meet even *after* adopting the euro. For some countries, these two criteria have proven very difficult to sustain.

European Integration: The process of deepening interdependence between European states. This process began in 1951 with the integration of coal and steel among six European countries, and has progressed to the integration of many economic, monetary, social and legal policies among 28 European countries. The European Union (EU) is an unprecedented example of regionalism in modern international affairs.

Financial Crisis: Greece and the euro

In late 2007, the beginnings of what is now known as the 'Global Financial Crisis' took place with a crisis in the subprime mortgage market in the U.S. This quickly escalated into a full-blown international banking crisis affecting countries all around the world, and soon becoming the worst global economic downturn since the Great Depression. In Europe, the crisis first manifested itself in the United Kingdom, and very quickly spread to Iceland and Ireland, where banking and government borrowing were heavily intertwined with UK economics.

As the crisis spread to the EU in 2008, two things became readily apparent. The first was that some EU members were better equipped than others to cope with a large-scale recession. This was evident with differing systems of taxation, different levels of public debt, and different systems of social security. The second was that for some countries using the euro, the level of financial crisis was actually made worse by the limitations of a common monetary policy. Countries that did not use the euro (such as the UK, Sweden, and Denmark) were able to use monetary tools for their own independent currencies such as lowering interest rates and intentional deflation to try to stimulate the economy. Countries that did use the euro did not have those tools available to them; thus, they were left with politically difficult options such as raising taxes and lowering public spending.

Greece had benefitted economically a great deal by joining the euro zone in 2002. The country received a higher credit rating from international investors after adopting the euro. As a result, the Greek government was able to borrow more money at lower interest rates. The Greek economy grew a great deal 2002-2008, but so did the rate of debt. After the financial crisis hit, the Greek government was in the position of nearing bankruptcy; its public debt had reached proportions of nearing 200% of GDP (well past the euro zone requirement of no more than 60% of GDP), its banks were on the verge of collapse, and there was no money to pay back creditors or to pay public bills, such as pensions. Added to this was the loss of international investment, which led to a surge in unemployment. Since 2010, Greece has received numerous bailout packages from other EU members, the IMF, and other international actors. With these bailouts have come stipulations for financial governance – basically, the actors providing emergency loans to Greece want to demand big changes to Greek rules on spending, taxation, and borrowing. Public protest has been a steady part of Greek society since the crisis, making for frequent elections and changes in government. Some argue that Greece is an independent country and as such should be able to govern itself according to the norms of representative democracy; others argue that Greece is bound into a European Union, and thus needs to do what is for the greater good of the EU economy. Added to this is the reality that a Greek bankruptcy would harm the economies of all EU countries using the euro, thus making the Greek crisis a shared crisis.

What should Greece do? What should the EU do?

Things to keep in mind:

1. How does the design of EMU make financial crises worse?
2. What are the obstacles to creating a full financial union within the euro zone?
3. Why did euro zone countries voluntarily give up sovereignty over monetary policy in the first place?
4. What is the significance of the euro for European integration?
5. Why haven't some EU members (such as the UK, Denmark, Sweden, Poland, and others) adopted the euro?
6. What is the idea of 'moral hazard'? How does this apply to Greece?
7. When is the health of the collective economy more important than the democracy of a single economy?