



## **Summary The Euro crisis: From the Treaty of Rome to the Stability Treaty.**

**Why trade unions and citizens can and should support it**

**This is a short summary of the main document which is available on the Charter Group website at [www.thechartergroup.ie](http://www.thechartergroup.ie)**

The purpose of the main document is to show that the idea of a single currency has been at the heart of the European project since the Treaty of Rome in 1957. After the Second World War there was a new internationally agreed monetary system established, with new international institutions including the World Bank and the IMF. The so called Bretton Woods regime was a fixed but adjustable currency system with the US dollar linked to Gold at \$35 to the ounce. In the Treaty of Rome Member States were required to view currency rates as a matter of common concern. The Bretton Woods regime was based on capital controls between participating States, whereas the principle of free capital movement was central to the Treaty of Rome. A move to a single currency was always therefore inevitable.

Once the Bretton Woods system began to breakdown in the 1960's, the first proposal for a single currency in Europe emerged in 1970. This original blueprint was known as the Werner Report, and it proposed a three Pillar structure of Fiscal, Economic and Monetary policy to be decided at Community level. While two new Community institutions were proposed for Economic and Monetary policy, the detail of Fiscal policy would still be for national decision. Community influence on Fiscal policy would however be significant.

The Bretton Woods system was fatally undermined when President Nixon ended the link between the US dollar and Gold in August 1971. Economic conditions in the 1970's were extremely challenging due to the 1973 oil crisis, and the emergence of stagflation. The US policy at the time involved printing dollars to fund the Vietnam War and expansionary domestic policies. The divergence between European economies in the 1970's made it impossible for the single currency to proceed. However the idea remained as common policies such as the Common Agricultural Policy were compromised by divergent currencies. In 1979 the Community reestablished monetary stability with the introduction of the European Monetary System and the punt joined without sterling.

The Single European Act of 1985 was predicated on the introduction of a single currency which was included in the text of the Treaty. The internal market was planned for 1992, and new proposals for the single currency were outlined in the Delors Report of 1988. These were accepted and implemented in the Maastricht Treaty of 1992. However they differed significantly from the original blueprint in that only one Pillar that for monetary policy was agreed as an exclusive Community competence. There would be no new institution for

economic policy and fiscal policy would be based on coordination by Member States based on limits on budget deficits and debts. These were incorporated in a Protocol in the Treaty and became the Stability and Growth pact in 1996. This new approach reflected the changed economic thinking that emerged in the 1980's. A signal of the confidence in a market based approach was the decision to exclude Euro zone Member States from the provisions of mutual assistance for balance of payments difficulties written into the Maastricht Treaty.

In 1992 as the internal market was established the exchange rate mechanism of the European Monetary System came under severe strain in part due to divergence following German reunification. However a major factor in the capacity of the markets to attack the system was due to the removal of capital controls in most Member States. This showed that a pegged exchange rate system with free capital movement was at the mercy of the currency markets and a single currency was the only solution.

When the Euro was established in 1999 interest rates and bond yields across Member States converged. This allowed for low inflation and low interest rates across the Eurozone and gave rise to significant credit expansion in Ireland and some other Member States. It was viewed as part of a catch up phase even though much of the expansion was in property and construction. When the crisis hit following the collapse of Lehman Brothers in autumn 2008, the bond markets suddenly awoke and the fragility of EMU without the E quickly became evident. With no bail out allowed, no lender of last resort function for the ECB and no rescue mechanism in place, the bond markets quickly set their sights on weaker Eurozone countries. Each country was in effect borrowing as if the Euro was a foreign currency. When market rates became unaffordable, they were left with no choice but to seek a rescue.

The role of the dollar as a destabilising influence on global financial markets was identified in the 1970's with some economists seeing a floating dollar as the origin of "casino capitalism". Once it was removed from the constraint of the Bretton Woods regime the proportion of speculative currency trading grew dramatically. In many of the financial crises that have emerged since the 1980's the swings in the value of the dollar have been a factor. It is for this reason that Europe has always valued currency stability, and concluded that the array of common policies at the heart of the European project can only be effective with a single currency. The foundations on which the Euro was built turned out to be much weaker than realized and the Stability Treaty is intended to strengthen

them. A common currency needs common fiscal rules to survive. Otherwise the markets could destroy the Euro.

Nobody disputes the need for new policies for Investment to create growth and more importantly JOBS. It is accepted that they are both essential and urgent. The changed political climate in Europe as a result of recent elections provides the basis for real progress on that front. However calming the markets which is one of the reasons behind the Stability Treaty is a necessary platform to provide the currency stability for growth initiatives to work. Here the Treaty is also essential to guarantee access to future funding at affordable rates.

Blair Horan Secretary The Charter Trade Union Group.