

EVENT SUMMARY

Role for the Euro in the Global Economy

Fifth Whitman Lecture

Joaquín Almunia, European Commission for Economic and Monetary Affairs

April 11, 2008

European Commissioner Almunia Reflects on the Euro's Global Role

To coincide with the 10th anniversary of the introduction of the euro, the European Commission for Economic and Monetary Affairs will issue a report on the achievements of the euro over the past 10 years and on the challenges ahead for Europe's single currency. European Commissioner Joaquín Almunia, while delivering the fifth Whitman Lecture at the Peterson Institute on April 11, 2008, offered a preview of this report.

Achievements

Commissioner Almunia reflected on the opposition the euro faced 10 years ago. Several economists argued that a single currency would not work for Europe. However, 10 years on, the euro stands as a historic political and economic achievement for the European Union. Politically, the currency serves to solidify European integration, which began with the Treaty of Rome over 50 years ago. As far as the economic benefits are concerned, Commissioner Almunia believes that since the euro has now been through a complete business cycle, we can understand its true impact. The euro has increased macroeconomic stability throughout the eurozone. Combined with the work of the European Central Bank (ECB), inflation has been kept low and stable, and interest rates have been lower than in pre-euro periods. The policies of the European Monetary Union (EMU) have further benefited the European economy. Government deficits and debts have declined, increasing stability in the region. Stability from the euro and EMU, combined with larger economic reforms, has helped boost employment in the European Union. Job creation over the past 10 years has grown at a faster rate in the European Union than in the United States. Commissioner Almunia also outlined other benefits of the euro, including increased financial-market integration throughout Europe and the spreading of risk.

However, there have been also been disappointments. Not as much economic integration has occurred as was expected, and implementation of many reforms that would allow full realization of the euro's benefits has moved slowly. Also of concern is the persistent divergence in growth rates across the eurozone. Almunia urged that further efforts be taken to address these shortcomings of the euro.

Challenges Ahead

Globalization has changed the economic realities the European Union has faced since the inception of the euro. Emerging-market economies are now the engine of world economic growth and major players in the world economy. This has brought new challenges for the European Union. Increased global demand has driven up prices, especially commodity prices, complicating the ECB's task of controlling excessive inflation. Meanwhile, globalization has added to the competitive pressures that Europe must cope with, and the current financial crisis further complicates Europe's economic challenges. Almunia also suggested that an aging population and new climate change policy could hinder the European economy.

He stressed that in the face of these new challenges, financial stability and price control must be the top priorities of the eurozone. He urged further economic reform, especially in the services sector, to achieve these goals in the years ahead, stressing that past strides toward greater integration must continue. To that end, the role of the EMU must be strengthened, and cooperation between EU member governments and the ECB must increase.

Commissioner Almunia also discussed the euro's role as a global currency. It is the world's second most important currency, after the US dollar. The euro's growing relevance internationally has helped ensure global stability in uncertain economic times. The internationalization of the euro has also brought new challenges for the region. The recent appreciation of the euro has stifled European economic growth. To this end, during the question and answer session, Almunia admitted that the euro was "overvalued."

He also suggested that the eurozone should speak with one voice globally and consolidate its leadership position at the International Monetary Fund (IMF) and improve the governance structure within the European Union. Participants called on Almunia to elaborate on his position on IMF reform and why consolidation had not yet occurred. He suggested that the European political environment was not yet ready for immediate consolidation but that the eurozone was moving in that direction.

Almunia was also asked about the role of the United Kingdom in the eurozone and suggested that eventually it would become politically difficult for the United Kingdom to remain outside the eurozone. When asked about how the eurozone could achieve faster productivity growth and job creation, Almunia stressed the importance of economic reforms to achieve these goals.