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Europe

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A. The European Union

The European Union

As Russia and former Soviet republics struggled with their transition to democracy and capitalism in the 1990s, their neighbors to the west were working to integrate their economies. In 1993, countries of the European Economic Community agreed to solidify their relationship by creating a single European Community (EC), where money, people, and goods could cross borders freely, to form the world's largest and wealthiest free-trade market. Leaders in Western Europe came together to form an international alliance called the European Union (EU). Replacing what had been the EEC, the alliance established a single European currency and strengthened coordination of the foreign and defense policies among the continent's diverse countries.

B. The Road to European Unity

The Road to European Unity. In January 1992, European leaders signed the Maastricht Treaty, which outlined plans for monetary union, the creation of a single currency, and coordination of foreign and defense policies. On November 1, 1993, the EU officially went into effect with twelve members, and France, Germany, and Italy among its founding members. It has been expanding since. By 2007, membership had increased to twenty-seven countries, including ten Eastern European nations. With more than 500 million citizens, EU countries today generate nearly 30 percent of the world's economy. The Treaty of Lisbon in 2009 transferred the legal personality of the EC to the European Union with the aim of consolidating the legal nature of the EU. The EU has also facilitated a new era of law enforcement cooperation across Europe, particularly in response to international terrorism. The attacks by Islamic extremists in Spain and Britain prompted an unprecedented level of investigative coordination by authorities from many EU member countries.

C. EU Membership

EU Membership. Given the European Union's great wealth and political influence, many countries are eager to join. Gaining acceptance, however, is a slow process during which the EU's governing body evaluates the economic and human rights laws and standards of a candidate country over the course of several years.

While membership continues to grow, it is highly selective, as is evidenced in the case of Turkey. Turkey, a predominately Muslim, secularly governed country, has been a candidate for EU membership since 1999. While some supporters see EU membership for Turkey as a progressive move toward diversity and as a gateway to the greater Middle East, critics site high levels of corruption, severe human rights abuses, and lack of press freedoms as reasons for its exclusion. Turkey would be the first country of predominately Muslim citizenry to enter the union, and has been at the center of EU debate for years. If admitted, Turkey would also have the second largest population of the EU member states, giving it substantial influence in the European Parliament and as a result the future of the Union.

D. The Euro

The Euro. On January 1, 1999, twelve of the fifteen countries in the EU started replacing their national currencies with a single currency, called the euro. Great Britain is the most notable exception to the adoption of the euro. While EU leaders are eager to persuade Europe's second largest economy, to adopt, and thus add strength to the euro, so far they have had no luck. For the first ten years, the euro's value against the dollar climbed steadily, and export-dependent countries worried that the value of the currency must be brought down in order to keep European products affordable in world markets. However, following the enlargement of the EU and the financial crisis, reviews of the euro have been mixed.

E. The EU Constitution

The EU Constitution. In June 2004, European leaders proposed a constitution for the EU designed to centralize the decision-making progress and streamline human rights codes and democratic principles throughout the EU. Unfortunately, voters in France and the Netherlands rejected the constitution in national referendums on the grounds that it would strip away too much sovereignty from individual countries. Ultimately, member countries moved instead toward creating an EU "reform treaty," called the Treaty of Lisbon. The amended EU treaty went into effect on December 1, 2009.

F. European Debt Crisis

European Debt Crisis. In fall 2009, economic troubles in Europe surfaced in Greece when the government revealed that previous leaders had concealed the size of the country's swollen debt. Since then, the European Union has struggled with an economic crisis over the enormous debts faced by its weakest economies, including Greece, Ireland, Portugal, and more recently and problematically, the larger economies of Italy and Spain.

The EU, the European Central Bank (ECB), and the International Monetary Fund (IMF)—an international lending body created after World War II—put together a $171 billion package of emergency loans to Greece as well as bailouts for Ireland and Portugal that averted immediate bankruptcies. However, the loans required governments to impose fiscal austerity—including slashing social programs and wages and raising retirement ages and taxes, among other measures. These measures sparked massive street protests in Greece that often turned violent.

Ironically, the euro, the common currency that was intended to further unite Europe, is dividing it instead. Stronger economies such as Germany are growing increasingly resentful of having to bail out their economically troubled counterparts that indulged in years of cheap borrowing and unrestrained spending. Meanwhile, weaker economies such as Greece chafe at the limitations placed on them by wealthier countries as a condition of their financial rescue.

To prevent the crisis from worsening, France and Germany led negotiations for a EU-wide fiscal pact, signed by most countries in December 2011. The agreement strictly limits deficits and debts relative to each nation's economy.

G. Crisis at a Turning Point?

Crisis at a Turning Point? Economic growth remained stagnant or even contracted in a number of Eurozone countries through the spring and summer of 2012, and unemployment in Greece and Spain, Europe's fifth largest economy, hovered at more than 20 percent. Voters expressed their anger at the handling of the economy at the polls across Europe, electing representatives from radical parties to parliaments and booting out incumbent leaders, including France's Nicolas Sarkozy. The new French president, Francois Hollande, vowed to renegotiate or append the 2011 fiscal pact to allow for economic stimulus that would spur growth.

Greek citizens, bitterly divided over whether the international emergency loans were worth the strict austerity measures, elected a pro-bailout government in June 2012. However, with Athens far behind on meeting deficit-cutting targets, it seemed likely that the government would need to renegotiate some bailout terms to remain solvent. If Greece could not pay its bills, it would be forced to abandon the euro and return to using its own currency. Many analysts believe this would lead to the economic collapse of other weak Eurozone countries.

H. Rethinking Austerity

Rethinking Austerity. Many analysts worry the debt crisis could spread a crippling recession far beyond Europe's borders, and critics of the harsh austerity measures have urged European leaders to change course. At the May 2012 Group of Eight summit of world economic leaders, progrowth proponents, including President Obama, appeared to make progress in convincing austerity champions like German Chancellor Angela Merkel to consider policies that would postpone budget cutting and allow economic stimulus. Others believe the EU is taking adequate steps to contain the crisis—and ultimately the union will become stronger and more integrated as a result.

Chancellor Merkel has been a forceful advocate for such austerity measures to rein in spending and balance budgets as a way to return economies to sound footing. Two years after these austerity budgets were

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implemented, even many supporters would concede that the results have not been what they had hoped. Many European economies have contracted, raising unemployment and poverty levels to new heights—without delivering the expected reduction in debt.

Many economists argue that a debt crisis, somewhat counterintuitively, demands not painful cuts that lead to unemployment and reduced services, but instead greater public spending that will stimulate economic growth. They believe pro-growth economic policies are required to get unemployment down and increase revenues, which will at least help alleviate the debt. Once these nations have achieved a steady level of economic growth, then a fiscal retrenchment can be considered. Critics of austerity also point out that President Obama's economic stimulus package in 2009 helped pull the U.S. economy out of a recession with slow, but fairly steady, growth over the past two years.

Proponents of austerity respond that the debt crisis in Europe is simply too immense to be solved by economic growth alone. Europeans have for years overspent on social programs, health care, early retirement, and lavish worker vacation and pension packages, so the idea of "stimulating" the economies with more public spending is ludicrous, according to many experts and lawmakers. They contend that it is time for nations to do what Germany did ten years ago to make its economy the strongest in Europe—enact painful but critical cuts and focus on economic competitiveness. Austerity advocates also point out that the record of the Obama administration's stimulus policies has been at best a disappointment, delivering only tepid growth, very few jobs, and a larger budget deficit.