4. ECONOMICS FOR NON-ECONOMISTS: PROVIDING PARTICIPANTS WITH A BASIC UNDERSTANDING OF ECONOMIC CONCEPTS AND HOW THEY APPLY TO THE EUROPEAN UNION.

At the basis of economic science is the awareness that human beings have **needs** to satisfy and that, through **resources,** they can satisfy.

The needs are multiple and increasing (unlimited, they can vary from individual to individual (subjectivity), once satisfied the need diminishes (satiability) but to be able to recur again (resurgence).

Not all needs have the same importance for the survival of the individual; therefore, **primary needs** are distinguished from **secondary ones.**

Primary needs (to drink, eat, shelter, etc.) if not satisfied affect survival unlike the non-satisfaction of secondary needs (see a film, go on a trip, etc.) which, if not satisfied, do not threaten existence.

Resources are goods available in unlimited quantities (free goods) or those that the individual procures by carrying out an economic activity (economic goods and services) that allow the satisfaction of needs.

The **economic good** is understood as a tangible resource, the service an intangible resource. To be defined as economic, goods must have the characteristic of accessibility and availability.

Two important economic concepts are: **economic system** and **market.**

The **economic system:** the set of economic operators and the economic relationships that are established between them.

The **market** is the set of demand (consumers and users) and supply of goods and services, that is, of those who demand goods and services and those who offer them (private and public companies and the State)

Economic operators are the actors of the economic system. The operators present in the economic system are:
- the family;
- the company;
- the state;
- non-profit activities;
- the rest of the world.

Consumers, present in the economic system, form the family operator. It should be clarified that by "family" we mean not only the typical Rossi family (the father Mario Rossi, the mother

Luisa Rossi, the children Luca Rossi and Giulia Rossi), but also Marco Bianchi who is single, but who, from the economical, it is a family like the Rossis.

The **family** decides which goods to consume and to what extent; these decisions then make up the Demand for goods and services which, in turn, guides the Supply of businesses: the family determines consumption, consisting of spending on final goods and services (food, household appliances, clothing, services).

In Italy around 85% of income is allocated to consumption (in other industrialized countries the figure is higher); it follows that the remaining 15% is saved:
Consumption = Income – Savings

The **business operator** produces the goods and services, which will then be sold on the market, and which form the Offer. The company's objective is to make a profit.

Profit= Revenue > Costs

To produce, companies make investments (machinery, systems) and give income to families in exchange for the work they offer;

State operator satisfies collective needs through the Public Administration. The State plays a fundamental role in economic activity, as it offers the infrastructure necessary to satisfy **collective needs.** The latter include:
▪ both those needs which, by their nature, only the State can satisfy (justice, defence, public order, etc.)
▪ both those that derive from the pursuit of community well-being and which can be satisfied both by the State and by private entities; think, for example, of education, healthcare, communication routes, etc. (in our state there are public schools and private schools, public hospitals and private clinics, etc.).

The needs that the State **satisfies with its activity** are defined as **public needs,** and **the means** through which they are satisfied are defined as **public services.**
To satisfy collective needs, the Public Administration mainly uses tax levies (taxes, duties and contributions).

The principle underlying the Italian tax system can be found in art . 53 of the Constitution: “Everyone is required to contribute to public expenses based on their **ability to pay.** The tax system is based on **criteria of progression** “.

• the ability to contribute: the citizen contributes to public expenses based on the wealth he possesses. For example, a person who has an annual income of €40,000 will have to pay higher taxes than a citizen who has an income of €20,000; A citizen's ability to pay is determined by his ability to contribute to public expenses. The assessment of the ability to pay is based on the amount of income, the size of the assets and the expenditure made for consumption.

• progressivity: as income increases, the withdrawal of wealth exercised by the State increases more than proportionally. Let's say, for example, that there are two citizens: Mr. White people with an income of €40,000 Mr. Rossi with an income of €80,000 (exactly double Bianchi's income); based on the aforementioned principle, the levy on Mr.'s wealth Rossi is more than double that exerted on Mr.'s income. whites State intervention in the economy can be extended or reduced; it is precisely the measure of this intervention that characterizes the different economic systems.

Another operator are **non-profit activities.** For some years, a new economic operator has been establishing itself: the non-profit, or third sector, which includes those businesses that do not have profit as their goal, and which operate in defense of the most fragile social categories. The world of non-profits is decidedly broad: from social assistance to training, from respect for the environment to the protection of civil rights. Non-profit companies can make profits, but they cannot distribute the profits, which must be reinvested.

On the other hand, the **rest of the world operator** includes any entity, individual or company, that establishes economic relations with a State and the subjects of that State (exchanges of goods and services, through **imports** and **exports:**

-Imports: the goods and services that Italy purchases from abroad.
-Exports: that is, the goods and services that Italy sells abroad.

Money is essential for the functioning of an economic system for the exchange of goods and services within the market.

First metallic, then also paper and now even electronic, it is the payment instrument commonly used to buy what individuals, organizations and societies need. Its evolution has accompanied the development of civilizations and there are ample traces of it in history, even the most distant.

Money, in fact, is the result of a long process of evolution of means of payment determined by the search for more effective methods to facilitate exchanges and contain their costs. For centuries, trade was based on **barter,** that is, the transfer of one commodity in exchange for another, but it had **limitations as a system**:

The limit of this system was closely linked to the difficulty of meeting someone in possession of the desired good who agreed to give it up in exchange for the good offered. It is evident how rare the occurrence of this reciprocity of needs was, not surprisingly called "**double coincidence of desires**". Sometimes it was possible to obtain the desired good only by resorting to multiple barter, that is, a series of exchanges of different products between different people.

Often the parties were forced to make **long journeys** and burdensome transfers of goods before finding an opportunity to carry out barter.
Not all goods could be transported and stored for a long time (**perishability**). Perishable goods had to be bartered quickly and could not be hoarded pending future trade.

Building **reserves** of value and realizing savings in this context was not an easily achievable objective.

Another serious disadvantage was the **impossibility of attributing an objective value to goods;** this entailed the need for difficult negotiations because the absence of a unit of account, of a common yardstick, prevented the value of different goods from being compared. The need to simplify relationships and exchange operations, also following the meeting between different communities, made it necessary to find a tool that would allow these difficulties to be overcome.

The **advantages of the currency** in exchanges are:
- It is a unit of account, with which the value of goods and services is measured and therefore constitutes the reference parameter for homogeneously comparing the value of very different products and services. This function facilitates economic decisions and agreements between the parties because it uniquely expresses the value of things.
- It goes beyond the limit of the necessary coincidence of needs.
- It is transportable
- It is a store of value as it maintains its value over time, and can therefore be accumulated to constitute a store of value. This function allows everyone to save, that is, defer consumption, and set aside a reserve for unexpected expenses and future needs.

The State centralized within itself the power to mint coins made of precious metals whose value was attested by the image of the sovereign imprinted on one of the two faces.

The State guaranteed the value of the currency and that is, it undertook to have it accepted as payment by citizens and to accept it itself, for example in payment of taxes.

Initially the **coin** was **made of precious metal** but this had some **disadvantages:**
- When gold was used to make money, it could not be used for other purposes, for example for goldsmithing (opportunity cost).
- The need to adequately store large quantities of precious metal coins inevitably entailed storage costs.
-Purchasing goods in distant locations imposed transportation charges
- (transmission costs).
- Finally, a payment in coins belonging to a different monetary system determined the need to ascertain its actual value (information costs).
- fluctuations in the value of metals

The broadening of commercial horizons and the continuous growth in the volume of economic exchanges then gave greater impetus to the transition towards a monetary genre not linked to the value and availability of precious metals.

Paper **money** was created precisely to respond to the new needs for practicality and economy dictated by commercial development, needs that could not be fully satisfied by the use of metal money alone. Marco Polo (1254 - 1324) in Il Milione refers to the use of paper money in China explains its creation, classifies notes according to shape and value and talks about its use in commercial exchanges.

At the end of the 14th century, goldsmiths and merchants began issuing paper receipts in exchange for the precious metal that merchants gave them for safekeeping. These were the so-called bank notes, which declared the amount of values left in deposit and contained the promise of their return. Depositing the precious metal was therefore convenient because the goldsmith-bankers were experts in the prevention of theft, in the custody of valuables and in their transfer.

The network of business relationships organized over time by goldsmith-bankers and the various credit instruments they developed eliminated the risks and costs of transporting the precious metal. When traveling, it was sufficient to carry with you the documents issued by the banker and hand them over to his correspondent at the place of arrival to collect the payment in precious metal, which was thus available, without transport, in a place other than the one in which it had been deposited. The term banknote derives from "bank note". The merits of the banknote the merits of the banknote were immediately evident. The payment concluded with its simple passage from hand to hand, without requiring the actual transfer of the equivalent in metal coins. This new system was efficient and convenient. The demand for converting banknotes into precious metals increasingly declined, and paper money became the main form of payment for trade.

Convertibility. Possibility of returning the banknotes to the bank that issued them and obtaining the equivalent value in gold in exchange. This transformation (or conversion, hence the term convertibility) of paper money into gold is no longer necessary today because the acceptability of a banknote in payment is based firstly on trust in the authorities issuing it and secondly on an established obligation from law. When the authorities expressly declare that a currency is "not convertible", the so-called "forced tender" occurs.

Initially, banknotes were issued, against deposits of precious metal coins and loans granted to private individuals or to the State, by a plurality of banks, some of which operated with less prudence than others, issuing volumes of banknotes much higher than the deposits. of metallic currency held, risking not being able to meet conversion requests. It was difficult for economic operators to evaluate the reliability of banknotes issued by different institutions.

The experiences of banking crises gradually led, in all countries, to the affirmation of the monopoly of issuing banknotes: this activity became the exclusive prerogative of a particular bank, the Central Bank. Thus, the State Central Bank was born. In the past, the Central Bank had the obligation to convert banknotes into precious metal upon request. These, in fact, were still considered a substitute for gold. A historical trace of this obligation of conversion - even long after its abolition - remained visible for a long time: until recently the banknotes bore the words “payable on sight to the bearer", i.e. convertible by the Central Bank to anyone who presents the note.
Banknotes and coins have liberating power. This means that by paying with them the buyer frees himself from any other obligation towards the seller. It must be remembered, however, that no one is obliged to accept more than 50 coins for each single payment. Unlike precious

metal money, banknotes were and still are made of paper. They do not contain the value but represent it.

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The development of exchanges and the need not to use only cash led to the emergence of "bank money", based on records of various operations on accounts held at commercial banks. The completion of payments using this new form of money required tools and procedures that allowed the account holder to communicate to his bank the order to transfer money to the beneficiary of the payment. These tools and procedures took various forms: bank checks and bank drafts, bank transfers and bank transfers. At the same time, to allow payments between customers of different banks, it was necessary to create procedures and systems for transferring funds between banks, which in many cases hinged on the same institutions that held the monopoly on issuing banknotes, that is, on the banks central banks: payments between commercial banks were made through book movements on the accounts held by the commercial banks at the central banks.

The Central Bank is an institution governed by public law. It pursues objectives of general interest in the monetary and financial sector. The Italian Central Bank is the Bank of Italy and is part of the European System of Central Banks (**ESCB**) and the **Eurosystem** . It is responsible for the production of euro banknotes and the smooth functioning of the payment system. Furthermore, it monitors the sound and prudent management of intermediaries, the stability and efficiency of the financial system.

The core of the Eurosystem is the European Central Bank (ECB). Since 1 January 1999, the European Central Bank (ECB) has assumed responsibility for conducting monetary policy for the euro area, which represents the second largest economy in the world after the United States. The ECB's main function is to maintain price stability in the single currency area. This objective is essentially identified with an inflation level of approximately 2%. More recently, the ECB has also been assigned banking supervision tasks, which it carries out in coordination with the national central banks.

Due to the complexity of the discussion on the inflation and deflation correction mechanism, it is indicated in the main text of the project in the paragraph dedicated to the ECB.
In the path of the construction of the European Union, the **birth of a single market,** the first foundations can be traced back to the Treaty of Rome of 1957 based the reconstruction of Europe on the gradual development of a common market without borders and on the free movement of goods, services, people and capital between participating countries.

Regarding the birth of a single European market, we can trace it back to 1950 when the then French Foreign Minister Robert Schuman proposed the creation of a European Coal and Steel Community (**ECSC**), in 1951 when six European countries, France, West Germany, Italy, the Netherlands, Belgium and Luxembourg sign the Treaty establishing the Czech Republic, the European Coal and Steel Community with the aim of introducing the free circulation of coal and steel and guaranteeing free access to production sources. The independent supranational High Authority is established in Luxembourg with the task of enforcing common rules established for production and trade.

In **1957,** the treaties establishing the European Economic Community **(EEC**) and the European Atomic Energy Community (**Euratom) were signed in Rome.** The so-called Treaties of Rome enter into force on January 1 of the following year.
Subsequently, the **customs union was born in 1968,** with the total abolition of duties between the six member countries and the establishment of a common external tariff. A few years later the monetary snake mechanism was born with the aim of strengthening coordination between the exchange rate management policies of European countries and guaranteeing stability by setting fluctuation margins. The high inflation and exchange rate instability that characterized those years made us feel the need for greater exchange rate stability and economic-monetary cooperation. The monetary snake, **seven years later** and through a real exchange rate agreement, becomes the **European Monetary System** (EMS), whose objective will be to create a "zone of monetary stability" in Europe.

In **1985 the Single European Act** established a roadmap for completing the single market. The commission chaired by Jacques Delors worked on three hundred measures to be applied to complete and relaunch the common market project and shift the emphasis from complete harmonization to the achievement of common minimum standards.
The construction of the European market, a single market, represented the first step towards economic unification. **The single market was established on 1 January 1993, following the signing of the Maastricht Treaty on 7 February 1992 and is based on the so-called four freedoms.**

Free movement of goods
European countries cannot impose duties on goods that come from another country in the customs union and must respect the principle of non-discrimination, that is, they cannot hinder the importation of a good except for particular reasons such as the protection of health, environment or workers' rights.
Free movement of people
Citizens of European countries have the right to move, reside and work in other states of the Union. Freedom of movement originally referred to workers, who must not be subject to

work permits, must have access to social security and must not be discriminated against on the basis of nationality. Freedom of movement has gradually been extended to all European citizens regardless of employment status, but some restrictions remain, especially regarding access to welfare.

Free movement of services
Workers and companies have the right to establish their activities and offer their services in other countries of the Union. The matter was regulated in 2006 by the directive named after Frits Bolkestein, commissioner for the single market of the commission led by Romano Prodi. The original version of the directive had sparked heated protests across the Union because many believed it would have threatened the rights of workers and consumers. The text was then amended to increase the discretionary powers of the destination state. In 2015, the European Commission launched the Digital Single Market, which led among other things to the abolition of roaming charges for mobile telephony.

In 1993 the Maastricht Treaty prohibited any restrictions on the movement of capital (investments, share purchases, banking transactions) between member states and from member states to other countries. However, the treaty provides for some exceptions: during the debt crisis, Greece and Cyprus adopted movement controls to avoid capital flight.

Today the European single market is the largest customs barrier-free area in the world. It includes more than five hundred million citizens and has a GDP of around 13 trillion euros. Its next goal is greater integration of the digital economy, and in particular e-commerce.

In 2017, 57 percent of Europeans bought something online, but until recently there were still several barriers that could prevent consumers from buying in their favorite store and country. On December 3, 2018, a regulation came into force that puts an end to geographical restrictions for online purchases. Today, European online shops must give access to the goods and services on sale to all consumers, regardless of where they are in the Union.

By creating the internal market, Member States have come together in a unified European economic area, free of customs or trade barriers.

It should be underlined that with the Treaty of Rome, in the evolution towards the Customs Union, a common market was established. In this phase we move from the common market to the internal market or single market. The substantial difference between the common market and the internal market lies in the different regulation and interpretation given to freedom of movement. In the common market it is understood in a negative sense, that is, in the prohibition for the States of the Community to apply discriminatory treatment to people, goods, services and capital, with the consequent national treatment. In the internal or single market, freedoms of movement are understood in a positive sense, in the sense that EU states must apply the most favorable treatment, with the prospect that treatments are completely harmonized and unified compromised, so that only national products can be marketed on the market of each Member State. The extent to which Member States make use of these provisions which hinder intra-Community trade is eloquently documented by the approximately 250 complaints submitted to the Commission every year.

To date, the free movement of goods is regulated in Title Two of Part Three of the TFEU. Chapter I regulates the customs union, which entails the prohibition on the provision of customs duties on imports and exports or taxes having equivalent effect in trade between member states, as well as the setting of common customs duties for trade with third states. In doing so, the goods imported from third countries, once the obligations required uniformly by the community provisions have been fulfilled, are in free circulation, i.e. they can move freely throughout all the states of the European Union.

Regarding the **Euro,** the single currency, the need to also give a monetary face to the common market, the growing currency instability of the Sixties, marked by strong speculation, continuous devaluations and revaluations due to the progressive collapse of the International Monetary System (IMS), began to seriously damage European economies. With the launch of the Common Agricultural Policy (CAP) in 1962, the common market was equipped with new instruments which by their nature were extremely exposed to the negative repercussions of monetary instability, and which therefore required protection against currency fluctuations. In this context, during the 1960s, a lively political confrontation began between the different national positions and those of the Community. A set of agreements stipulated in 1979 between the member countries of the then European Economic Community (EEC), with the aim of stabilizing the exchange rates between the respective currencies, led to the **EMS** (European Monetary System).

The exchange rate indicates the price relationship between two currencies. It represents, in other words, the rate at which coins are exchanged. By definition, this value expresses the number of units of foreign currency that can be purchased with one unit of domestic currency and vice versa.

In particular, the agreements involved the setting of a central parity for the bilateral exchange rates of the member countries (parity grid), around which the exchange rates fluctuated with a margin of ±2.25%. If the exchange rate had reached the margins of the band, the central banks of the countries concerned would have been forced to intervene, buying or selling their currency (marginal interventions).

Efforts to create an area of monetary stability resumed with the Brussels summit in 1978 and the creation of the European Monetary System (EMS), based on the concept of fixed but adjustable exchange rates. The currencies of all Member States, except the United Kingdom, participate in the exchange rate mechanism known as ERM I. Exchange rates are based on central rates to the ECU (European Monetary Unit), i.e. the unit of European account, which consisted of a weighted average of the participating currencies. Over the course of ten years, the EMS contributes to a large extent to reducing the variability of exchange rates: the flexibility of the system, together with the political will to achieve economic convergence, leads to monetary stability.

With the adoption of the single market program in 1985, it became increasingly clear that the potential of the internal market could not be fully realized as long as relatively high transaction costs related to currency conversion and the uncertainties caused by rate fluctuations continued to persist. of exchange, however small.

In 1988 the European Council in Hanover established a committee responsible for studying the **EMU** (Economic Monetary Union), chaired by Jacques Delors, the then president of the European Commission.

The report prepared by the committee (the "Delors report"), presented in 1989, sets out concrete measures for the introduction of EMU in three stages. In particular, it highlights the need to better coordinate economic policies, to establish fiscal rules to set limits for national budget deficits and to create a new independent institution responsible for the Union's monetary policy: the European Central Bank (ECB). On the basis of the Delors report, the Madrid European Council decided in 1989 to launch the first phase of EMU, i.e. the complete liberalization of capital movements by 1 July 1990. In December 1989, the Strasbourg European Council convened an intergovernmental conference in charge of to identify the changes that need to be made to the Treaty to achieve EMU. The work of the Intergovernmental Conference resulted in the treaty for the introduction of EMU divided into three phases:

- first phase: (from 1 July 1990 to 31 December 1993): introduction of the free movement of capital between Member States.

- second phase: (from 1 January 1994 to 31 December 1998): convergence of the economic policies of the Member States and strengthening of cooperation between the central banks of the Member States. Coordination of monetary policies was institutionalized with the creation of the European Monetary Institute (EMI);

- third phase: (started on 1 January 1999): implementation of a common monetary policy under the aegis of the Eurosystem from day one and progressive introduction of euro banknotes and coins in all Member States of the euro area.
The transition to the third phase is subject to the achievement of a high level of lasting convergence defined on the basis of a certain number of criteria established by the Treaties.

Fiscal rules must become binding and any Member State that does not comply with them can face sanctions. Monetary policy for the eurozone is entrusted to the Eurosystem, made up of six members of the ECB Executive Board and the governors of the national central banks of the eurozone.

Following the **sovereign debt crisis in Europe in 2009-2012,** EU leaders committed to strengthening the EMU, including by improving its governance framework. A treaty amendment, concerning Article 136 TFEU, allows the creation of a permanent support mechanism for Member States in difficulty, provided that the mechanism is based on an intergovernmental treaty, that the stability of the euro area as a whole is threatened complex and that financial support is linked to strict conditionality.

This leads to the establishment of the **European Stability Mechanism (ESM)** in October 2012, which replaces several ad hoc mechanisms. Furthermore, ECB President Mario Draghi announces in 2012 that "within our mandate, the ECB stands ready to do everything necessary to preserve the euro". To this end, it creates an instrument for Outright Monetary

Transactions (OMT). The OMT allows the ECB to buy the sovereign bonds of a member state in difficulty, provided that the country signs a memorandum of understanding with the ESM, indirectly making ECB support subject to strict conditions. To avoid a recurrence of a debt crisis or EMU secondary legislation is strengthened. The European Semester is established, strengthening the **Stability and Growth Pact** (SGP), introducing the **Macroeconomic Imbalance Procedure** (MIP) and aiming to further strengthen economic policy coordination.

In 2015, drawing inspiration from the plan for a deep and genuine EMU, the Presidents of the Commission, the European Council, the Eurogroup, the ECB and the European Parliament publish a report entitled "Completing the Economic and Monetary Union in Europe" (known as the "Five Presidents' Report"). The report outlines a reform plan aimed at achieving a real economic, financial, fiscal and political union in three phases (to be completed by 2025 at the latest).

Meanwhile, the economic crisis induced by the COVID-19 pandemic has put public finances under considerable pressure. In March 2020 the Council activates the general escape clause of the Stability and Growth Pact to give member states a limited period of time in which they can increase their public debt beyond the constraints of the budgetary rules. This allows, among other things, to temporarily exceed the debt-to-GDP ratio of 60% without risking EU sanctions. However, Member States that already have a very high debt-to-GDP ratio are asked to use extreme caution when increasing their debt. Even with the activation of the general escape clause, the imposition of sanctions is still possible under the Stability and Growth Pact. Also in March 2020, the ECB begins the **Pandemic Emergency Purchase Program** (PEPP), which includes the purchase of large amounts of sovereign debt on secondary markets. This provides liquidity to markets and is designed to avoid the emergence of large spreads between German Bunds and government bonds from a number of highly indebted EU member states. The amounts paid are large, but the program is limited in time.

In the summer of **2021,** the **ECB** conducts a strategic review, the first since 2003, aimed at achieving an **inflation target of 2% over the medium term,** which allows for a temporary overshoot of the target and for taking climate change into account in policy decisions. 'Eurosystem.

The pandemic and the Russian-Ukrainian conflict have produced second-round effects, resulting in a drastic loss of purchasing power and resulting in a strong demand for wage increases, giving rise to a possible spiral between wages and prices. The Eurosystem makes a U-turn on its monetary policy, reducing asset purchases and increasing interest rates. In April 2023, the Commission presented legislative proposals to amend the SGP, calling for the legislative procedure to be completed by the end of 2023. The proposals, if adopted in their current form, would transfer important decision-making powers from the Council to the Commission (which, according to the treaties, has essentially no power in this field), allowing the Commission to directly influence the budgetary adjustment path of individual eurozone member states. This would allow the Commission to effectively exercise influence over the economic policies of each eurozone member state through oversight of national reforms and investments. However, strongly divergent positions in both the Council and Parliament raise doubts about the possibility of a rapid breakthrough. In 2023, after 11 cycles of interest rate increases, inflation in the euro area has started to decline, but remains well above the 2% target.