

European Union: Introduction and Overview

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Agenda – European Union

- **Introduction EU**
- EU History
- EU Institutions
- EU (Monetary) Integration: Advantages/Problems
- Conclusion

CIA - The World Factbook - European Union

The evolution of the European Union (EU) from a regional economic agreement among six neighboring states in 1951 to today's supranational organization of 27 countries across the European continent stands as an unprecedented Phenomenon in the annals of history. (. . .)

Following the two devastating World Wars of the first half of the 20th century, a number of European leaders in the late 1940s became convinced that the only way to establish a lasting peace was to unite the two chief belligerent nations France and Germany - both economically and politically.

Source: CIA World Factbook

The European Union: 493 million people – 27 countries



The answers of the European Union Peace

Before becoming a real political objective, the idea of uniting Europe was just a dream in the minds of philosophers and visionaries. (. . .)

The dream was shattered by the terrible wars that ravaged the continent during the first half of the 20th century

Source: European Union

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Founding fathers - New ideas for lasting peace and prosperity... (see [ECB History Video](#))



Konrad Adenauer



Alcide De Gasperi



Winston Churchill



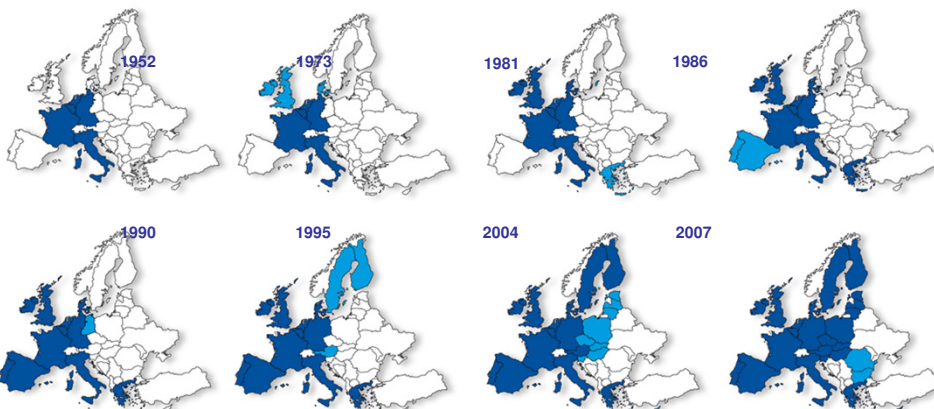
Robert Schuman



Jean Monnet

Video Source: <http://www.ecb.int/ecb/educational/movies/html/index.en.html>

Eight enlargements



The Evolution of the European Union

In 1950, the French Foreign Minister Robert SCHUMAN proposed an eventual union of all of Europe, (. . .)

The 1992 Treaty of Maastricht laid the basis for further forms of cooperation in foreign and defense policy, in judicial and internal affairs, and in the creation of an economic and monetary union - including a common currency. (. . .)

***Ten new countries joined the EU in 2004
- (. . .) - and in 2007 Bulgaria and Rumania joined,
bringing the current membership to 27. (. . .)***

The treaties – basis for democratic cooperation built on law



The Development after World War II

USA:

- *productivity leader, large free integrated market*

Europe:

- *productivity backwardness, splitted, destructed,*
- *rigid borders, small markets, hardly international trade*
- **Reconstruction and Economic Integration**
- *democracy and market economy,*
- *opening of the borders, productivity catching-up*



The Relevance of Economic Integration

Facilitation of International Trade

- *competition and comparative advantages*
- *liberalization of capital flows and direct investments*
- *free movement of people as precondition for trade*
- *macroeconomic / monetary stability*

Aid with (Re-)construction

- *Marshall-Plan for Germany and EU-Structural Funds*



MARSHALL PLAN AID TO EUROPE, 1948-1952

The Relevance of European Integration

Liberalization of Markets

- *a common market, competition → the EU Single Market*
- *the common currency → the Euro*
- *economic stability → the Maastricht Criteria*

Political Liberalism

- *human rights and democracy*
- *welfare policy and political stability*
- *openness and free movement of people*

The Process of Catching-up

- **Poor countries need capital and “Knowledge”**
- **Capital und knowledge flows into poor countries via direct investments and technology transfers**
- **Preconditions: political and economic stability**
- **Aid might speed up the catching-up process**
- **The rich countries benefit from increasing trade**

The Deepening of European Integration

The European Monetary System I, 1979-1998

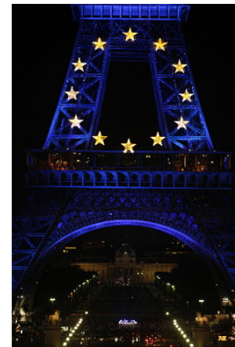
- *the preparation of the currency union*
- *dominant role of the DM and the German Central Bank*

The Treaty of Maastricht, 1992

- *step by step to the Euro*
- *since then no exchange rate realignments*

The European Stability and Growth Pact

- *single currency and rules for fiscal deficits*



The Treaty of Lisbon will make the European Union:

More efficient:	Simpler processes, full-time president for the Council, etc.
More democratic:	Stronger role for the European Parliament and national parliaments, "Citizens initiative", Charter of Fundamental Rights, etc.
More transparent:	Clarifies who does what, greater public access to documents and meetings, etc.
More united on the world stage:	High Representative for Foreign Policy, etc.
More secure:	New possibilities to fight climate change and terrorism, secure energy supplies, etc.

Signed in December 2007 – and entered into force on 1 December 2009

Key Characteristics

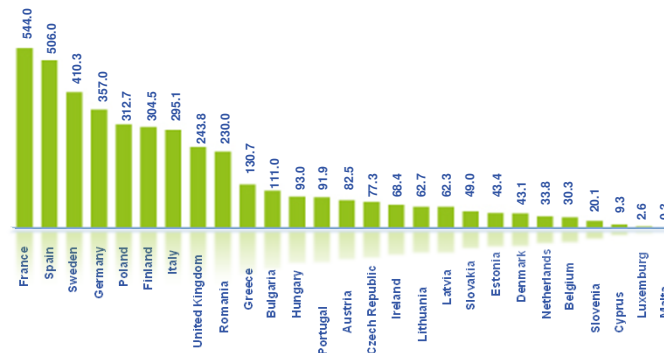
	€-15	EU-27	USA	Japan
Population (millions)	319	495	302	128
GDP (PPP, € trillions)	8.9	12.6	12.0	3.7
GDP per capita (PPP, € thousands)	27.8	25.4	39.6	29.0
Share of world GDP (PPP, %)	16.1	22.7	21.3	6.6
Exports (goods and services, % of GDP) **	22.6	14.2	11.8	18.4
Gross fixed capital formation (% of GDP)	21.7	21.2	18.7	23.3
Gross saving (% of GDP)	22.5	20.8	13.4	29.6

* 2007 ** The figure for the euro area excludes Cyprus and Malta
 Sources: for euro area and EU: ECB, Eurostat, national data, IMF and ECB calculations; for the United States and Japan: national sources, IMF.

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How big are the EU countries?

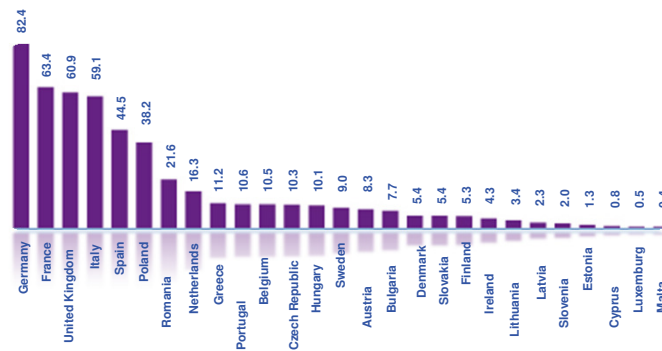
Surface area 1 000 km²



Source: http://europa.eu/abc/euslides/ppt/slide_13_en.ppt

How many people live in the EU?

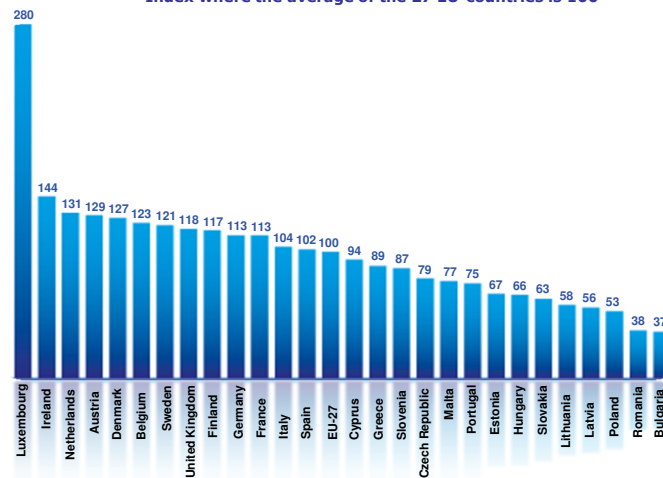
Population in millions, 2007
497 million



Source: http://europa.eu/abc/euslides/ppt/slide_14_en.ppt

GDP per inhabitant: the spread of wealth

GDP per inhabitants in Purchasing Power Standards, 2007
Index where the average of the 27 EU-countries is 100



Source: http://europa.eu/abc/euslides/ppt/slide_15_en.ppt

The euro – a single currency for Europeans



- EU countries using the euro
- EU countries not using the euro



Can be used everywhere in the euro area

Coins: one side with national symbols, one side common

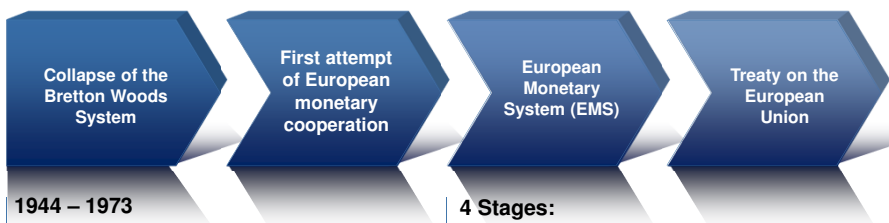
Notes: no national side

ECB – History (see [ECB History Video](#))

1972 – 1979

3 Stages:

Stage 1: 1990 – 1994
Stage 2: 1994 – 1999
Stage 3: Since 1999



4 Stages:

Stage 1: 1979 – 1983
Stage 2: 1983 – 1987
Stage 3: 1987 – 1992
Stage 4: 1992 – 1993

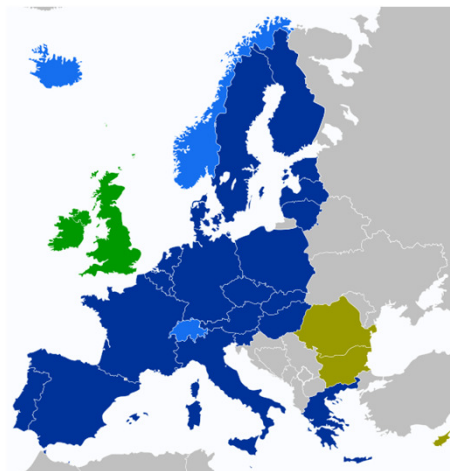
Video Source: <http://www.ecb.int/ecb/educational/movies/html/index.en.html>

Schengen Agreement



- **No police or customs checks at borders between most EU countries**
- **Controls strengthened at EU external borders**
- **More cooperation between police from different EU countries**
- **You can buy and bring back any goods for personal use when you travel between EU countries**

Schengen Area



Going abroad to learn

Over two million young people have studied or pursued personal development in other European countries with support from EU-programmes:

- **Comenius:** school education
- **Erasmus:** higher education
- **Leonardo da Vinci:** vocational training
- **Grundtvig:** adult education
- **Youth in Action:** voluntary work and non-formal education

Climate change – a global challenge

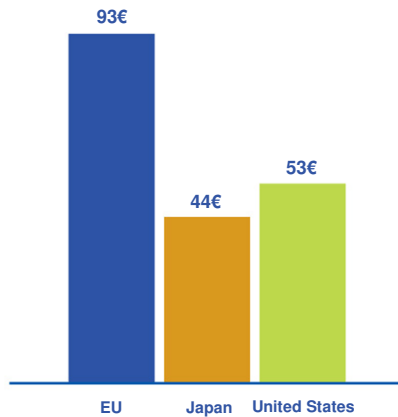
To stop global warming, EU leaders decided in 2007 to:

- **reduce greenhouse gas emissions by 20% by 2020 (30% if other developed countries do likewise)**
- **improve energy efficiency by 20% by 2020**
- **raise the share of renewable energy to 20% by 2020 (wind, solar, hydro power, biomass)**



The EU is the biggest provider of development aid in the world

The EU provides 60% of all development aid



Official development assistance per citizen,
2007

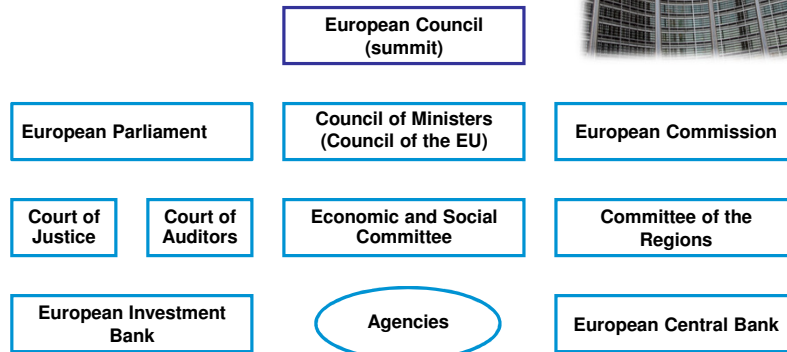
Source: http://europa.eu/abc/euslides/ppt/slide_31_en.ppt

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The EU institutions



- **The Council of the European Union:** *the representation of the member states and main decision making body*
- **The European Commission:** *the Government of the EU*
- **The European Parliament**
- **Important Institutions:** *the European Central Bank, the Court of Justice*

How EU laws are made



Council of Ministers – voice of the member states



- One minister from each EU country
- Presidency: rotates every six months
- Decides EU laws and budget together with Parliament
- Manages the Common Foreign and Security Policy

Council of Ministers – number of votes per country

Germany, France, Italy and the United Kingdom	29
Spain and Poland	27
Romania	14
Netherlands	13
Belgium, Czech Republic, Greece, Hungary and Portugal	12
Austria, Bulgaria and Sweden	10
Denmark, Ireland, Lithuania, Slovakia and Finland	7
Estonia, Cyprus, Latvia, Luxembourg and Slovenia	4
Malta	3
Total:	345

“Qualified majority” needed for many decisions:
255 votes and a majority of member states

Summit at the European Council

Summit of heads of state and government of all EU countries

**Held at least 3 times a year
Sets the overall guidelines for EU policies**



The European Commission – promoting the common interest

**27 independent members,
one from each EU country**

- Proposes new legislation
- Executive organ
- Guardian of the treaties
- Represents the EU on the international stage



The Court of Justice – upholding the law

27 independent judges, one from each EU country

- Rules on how to interpret EU law
- Ensures EU laws are used in the same way in all EU countries



The European Court of Auditors: getting value for your money

27 independent members

- Checks that EU funds are used properly
- Can audit any person or organisation dealing with EU funds



The European Central Bank: Managing the euro (see [ECB History Video](#))

- Ensures price stability
- Controls money supply and decides interest rates
- Works independently from governments



Jean-Claude Trichet
President of the Central Bank

<http://www.ecb.int/ecb/educational/movies/html/index.en.html>

Beating inflation

European Economic and Monetary Union: stable prices



Source: http://europa.eu/abc/euslides/ppt/slide_23_en.ppt

The European Economic and Social Committee: voice of civil society

344 members

- Represents cities, regions
- Advises on new EU laws and policies
- Promotes the involvement of local government in EU matters



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Advantages of Integration

Facilitation of International Trade

- frequently changing exchange rates are bad for imports, exports and direct investments

Macroeconomic Stability

- monetary stability and fiscal discipline: without Maastricht fiscal deficits would be higher and price stability would be endangered

International Confidence

- Germany after World War II, Eastern Europe today



Problems

Eurosklerosis

- high and persistent unemployment since the eighties, low economic growth since the nineties
- these are problems of the member countries, not problems of globalization and European Integration

Integration within – Trade Barriers outwards

- "trade war" with the USA:
The View from the Outside Internally, the EU is attempting to lower trade barriers, adopt a common currency, and move towards convergence of living standards. Internationally, the EU aims to bolster Europe's trade position and its political and economic power.
(. . .)

Source: World Factbook (<http://www.cia.gov/cia/publications/factbook/>)

Further Problems

Subsidies, Burocracy and Regulation

- coal and steel, agriculture
 - a problem since the fifties
 - a problem with respect to enlargements



Fiscal Discipline

- the European Stability and Growth Pact:
 - large fiscal deficits in many member countries in the recent years and in the near future

Microeconomic Benefits of Common Currency

The Euro is important in realising some of the gains from a functioning single market

(1) Potential Gains for consumers

- **Lower prices** because of increased competition/ greater **price transparency** (this is more likely with easily transportable goods)
- Reduction in the **transactions costs** of travelling within Europe (e.g. **costs of currency exchange**)
- Easier to live and work in different EU countries

Microeconomic Benefits of Common Currency

(2) Potential gains for businesses

- Invoicing can be done with **one currency**
- **Lower transactions costs** – some people argue that staying out of the Euro is equivalent to exporters facing a tariff when they trade inside the EU
- Gains for the tourist industry in **attracting overseas visitors**
- Businesses might be able to fund their capital investment at **lower real interest rates**

Microeconomic Disadvantages of Common Currency

(1) Changeover Costs from joining the Euro:

- Costs of changing accounting systems
- Menu Costs (vending machines, catalogues, franking machines, postage)
- Installation of new payments systems
- Customer confusion (imperfect information)

(2) Higher prices

- Potential loss of consumer welfare if suppliers increase prices when converting from sterling to euro

(3) The vast majority of consumers will continue to buy locally

- what matters more is the effectiveness of competition policy in targeting anti-competitive behaviour

Macroeconomic Disadvantages of Common Currency

(1) Entering the Euro means losing an instrument of policy adjustment

- A “one-size fits all” monetary policy may work against a country if their cycle is not convergent with Euro Zone
- Retaining the option of making an exchange rate adjustment is useful

(2) Fiscal Policy constraints

- The EU Growth and Fiscal Stability Pact
- Limits on government borrowing
- But now largely ignored – especially with the effects of the credit crunch / fiscal bail-outs etc

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Conclusion

Peace

- *reconciliation with France*
- *surmounting the Iron Curtain*

Freedom

- *democracy and market economy*
- *Wealth, economic growth and income convergence*

. . . it was worth it

