

European Economic Centre

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A. History of the European integration

B. European institutions

C. EMU - EURO

D. Selected problems of the EU

History of the european integration

A. History of the integration

- **old idea**
- **1929 Briand plan** Pan European Union
- **real forms after WW2 - reasons:**
 - USA
 - fight against own nationalism and political disputes (X war)
... the biggest success
 - X USSR
 - economic – larger markets =
 - mass production -> economies of scale
 - deeper specialization
 - increasing competitive pressure

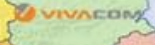
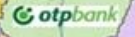
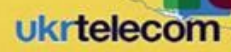
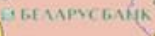
History – ECSC

- **European Coal and Steel Community - 1951**
- based on **Schuman plan** (1950)
 - to integrate Eur mining companies under one supranational authority
- **goal** – common coal and steel market
- **signatories** - **FR, DE, IT, NL, BE and LU**
- **reasons:**
 - coal and steel inevitable for military production ⇒ mutual control (to control DE)
 - concretely - control of the Ruhr area
 - **FR dependent on coal from Ruhr area**
 - **1870 – 1945 3x abused for military purposes**

Europe



DailyInfographics.eu



History – **Treaties of Rome**

- 1957
- establishment of **European Economic Community (EEC)** and **European Atomic Energy Community (EAEC or EURATOM)**
 - ⇒ existence of three individual org ECSC, EEC and EURATOM
- **common market**
 - elimination of tariff barriers and quantitative restrictions on EX and IM
 - X FR
 - ⇒ **concessions FR** – list of problem commodities + trade with colonies
 - common external tariff policy
 - elimination of barriers to free movement of persons

History – **1960s**

● **1960 European Free Trade Association (EFTA)**

- counterweight to EEC
- signatories: DK, NO, PT, AT, SE, CH and GB

• 1961 GB attempt to join EEC

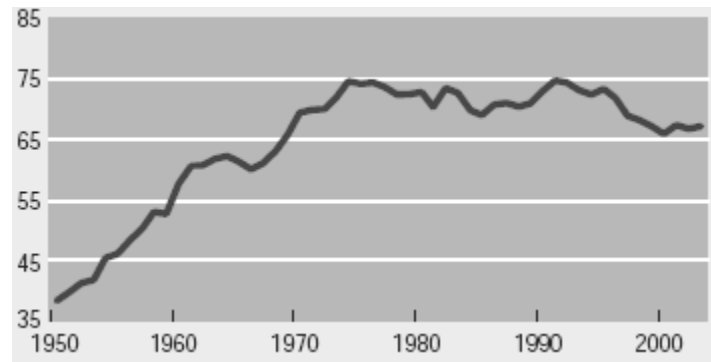
- reasons:
 - decolonization
 - USA
 - balancing power
- 1963 officially rejected (de Gaulle)

History – **1960s and 1970s**

- 1963 treaty between **France and Germany**
 - “axis of cooperation“
- 1967 **Merger Treaty** EEC, ECSC and EUROATOM → EC
 - + customs union since 1.6.1968
- 1972 **FTA** - EC with FI, ISL, PT, AT, SE and CH
- 1973 **admission of GB, IE, DK** – Norway NOT
- in 1970s **Lomé Conventions**
 - EC elimination of barriers on IM from former colonies



GDP p.c. in the Eurozone as % of GDP p.c. in the USA (according to the purchasing power parity)



History – **1980s**

- 1981 Greece
- 1986 Spain and Portugal
- 1995 Austria, Finland and Sweden
 - in Norway accession rejected in referendum
- BUT slow integration process inside EC during 1970s and 1980s = eurosclerosis
 - inability to reach consensus due to different opinions of member states ⇨
 - ...



History – **Single European Act**

- in **1970s** stagflation + eurosclerosis
- + beginning of **1980s** ⇒ deregulation in USA (Reagan) and GB (Thatcher)
 - attempt to create better functioning markets + to stimulate competition
- ⇒ Europe under pressure to follow them ⇒ **initiative to create a single market**

History

- 1987 Single European Act
- goals = to eliminate remaining barriers of common market
 - material barriers at borders
 - differences in technical norms
 - differences in tax rates
 - ⇒ deadline for establishing a common European market (31.12.1992)
- + to strengthen institutions
- + extension of interventions to new areas
- + greater cooperation in foreign policy

History – **Maastricht Treaty**

- officially „**Treaty on European Union**“
- reaction on German reunification ???
- approved in **December 1991 BUT ratification**
 - DENMARK, ...
- **main points:**
 - agreement on establishing a monetary union
 - granting right to accession to EU
 - common social policy
 - changes in the European institutions

History - **AGENDA 2000**

- adopted in 1995
- **political priorities for 1996 – 2000**
- **content:**
 - adoption of common currency
 - to prepare and to commence negotiations with associated countries
 - transformation of EU – reform of voting + institutional changes, etc.

History – **Amsterdam Treaty**

- 1997 ⇒ratification ⇒in force since **1.5.1999**
- new treaty on EU- **Maastricht II.**
- **goals:**
 - a. to eliminate remaining barriers to free movement inside of the EU ⇒ important part - Schengen Agreement
 - b. employment and civil rights
 - c. stronger Eur in international relations – to strengthen military structure
 - d. institutional changes ⇒more effective structure of the EU– to strengthen EP, clause of flexibility, ...

Lisbon Strategy 2000

- attempt to liberalize – Summit in Lisbon 2000
- goal: „until 2010 the most dynamic and competitive economy“
 - electricity market, post offices, ...
 - slow implementation
 - 2005 officially abandoned b/c unrealistic goals

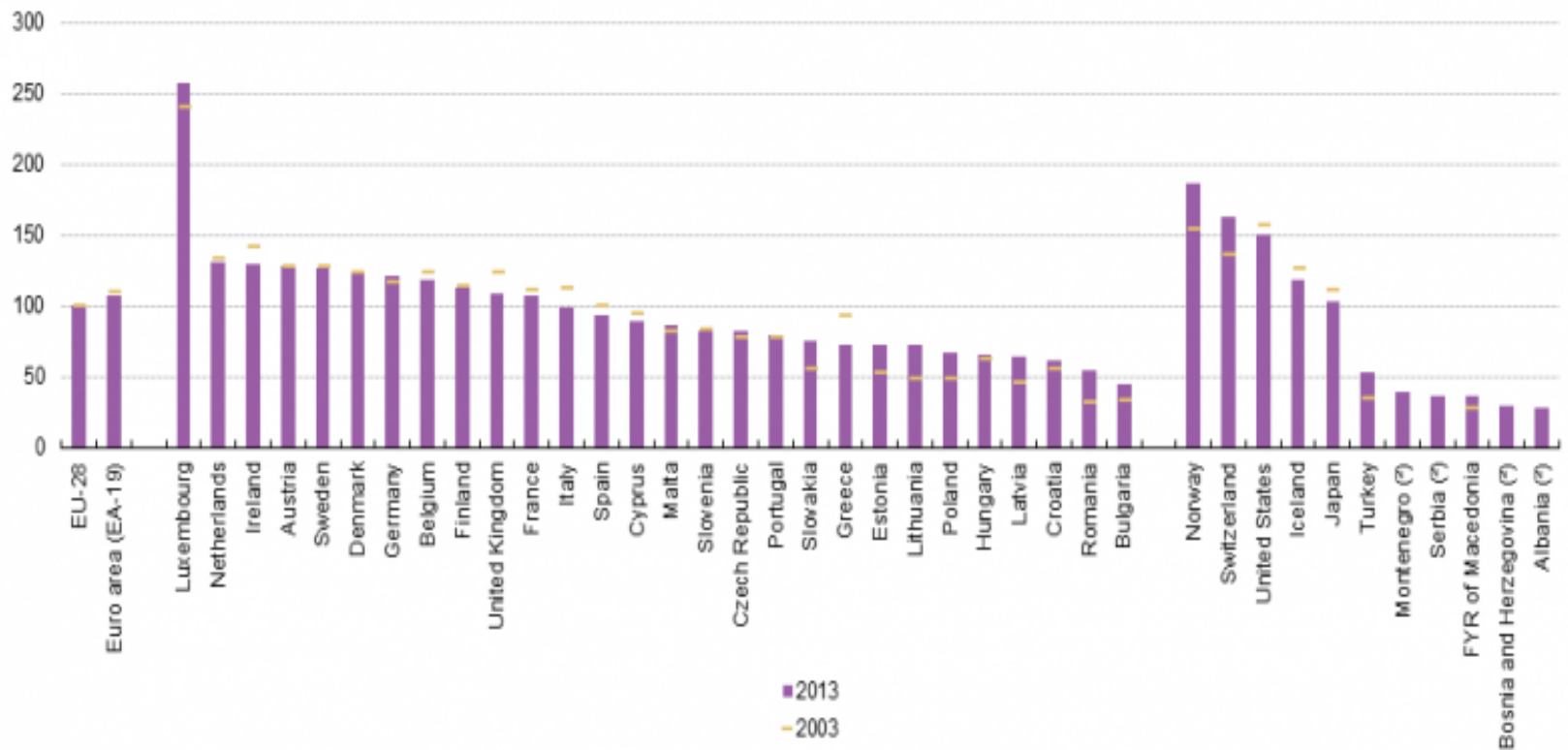
Further enlargement

- **2004 10 countries** at the same time
 - Czech Republic, Hungary, Poland, Slovakia, Slovenia, Latvia, Lithuania, Estonia, Cyprus and Malta
- **2007 Bulgaria and Romania**
- **2013 Croatia**
- further countries: Turkey, Ukraine, ...?
- ... **need of institutional changes** – Lisbon Treaty

Copenhagen Criteria

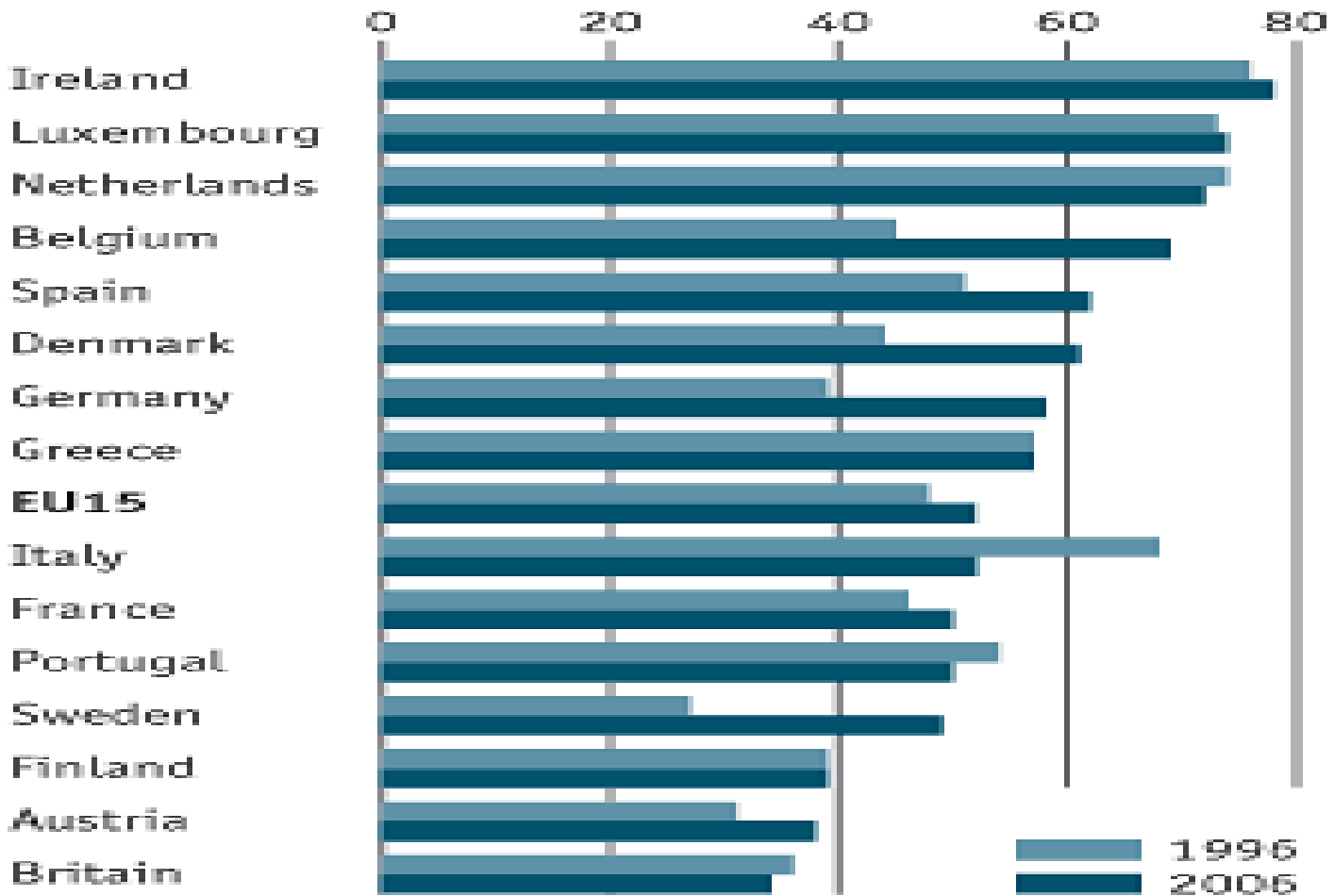
- 1993 – European Council = **criteria for joining the EU:**
 - **political** = democracy + rule of law+ protection of minorities + respect for human rights
 - **economic** = functioning market economy
 - other = adherence to aims of political, economic and monetary union + adopting of *acquis communautaire* = > 80 000 pages of laws
 - ⇨ screening = comparison of legal systems

GDP p.c. at current market prices, 2003 and 2013 (EU-28 = 100; based on PPS per inhabitant)



Winning hearts and minds

"Our country's membership of the EU is a good thing"
% of interviewees in agreement



Source: Eurobarometer

European institutions

B. EU Institutions

- European Council
 - Council of the European Union
 - European Parliament
 - European Commission
 - European Court of Auditors (ECA)
 - European Investment Bank (EIB)
 - European Central Bank (ECB)
 - European Economic and Social Committee (EESC)
 - Court of Justice of the European Union (CJEU)
-
- enough to know their main tasks – e.g. which one is the main executive body + chairman of the EU Commission
 - see e.g.: <http://europa.eu/about-eu/institutions-bodies/>

*DON'T STUDY
from old textbook!*

EMU - EURO

C. Monetary Union

- **1970 Werner Report** = 1st project of monetary union
- after the collapse of Bretton-Woods system – effort to increase stability → **EMS**
- ...
- the most important part of the Maastricht Treaty = **European Monetary Union**

EMU - Stages

I. stage: 1990 – end of 1993

- elimination of barriers in free movement of capital

II. stage: from 1994 to 1998

- establishment of European Monetary Institute
- convergence criteria

III. stage: since 1999

- introduction of single currency
- to fix exchange rates
- European system of Central Banks

IV. stage: since 1.1.2002 – physical money

Single currency - **Advantages**

- + elimination of exchange rate risks
- + CBs not forced to hold foreign currency reserves
- + no fluctuations of exchange rates
- + end of speculations with national currencies
- + lower inflation
- + strong EURO = world reserve currency
- + euro + common market ⇒ ↑ competition
⇒ ↑ effectivity

Single currency - **Disadvantages**

- impossibility to use exchange rate as a tool of EP
- different phases of business cycle
- ECB's behaviour ?
- SR costs
- very difficult return to national currency

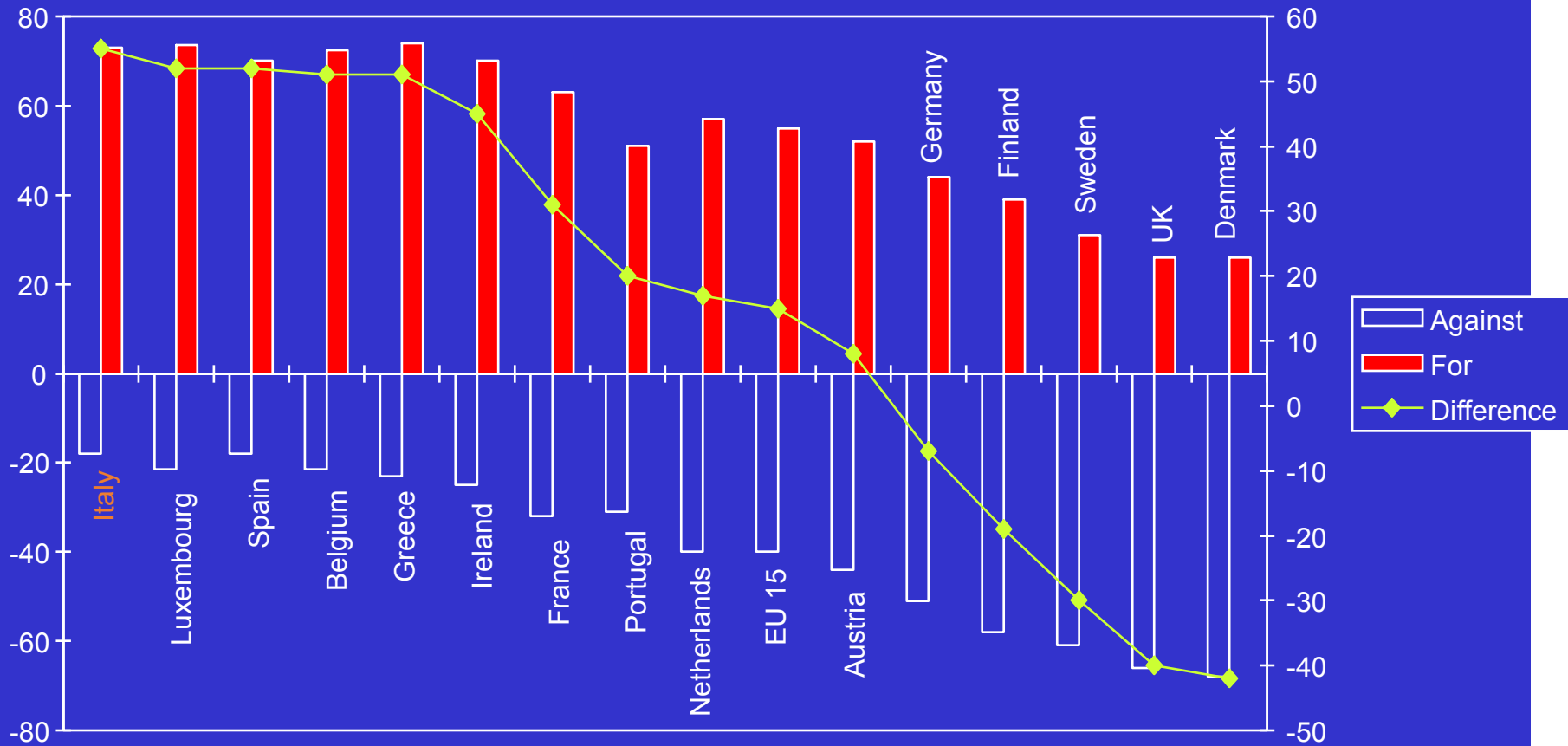
Convergence criteria

- aim of quality currency → **criteria for adoption of euro:**
 - government deficit < 3% GDP
 - national debt < 60% HDP
 - inflation < average of 3 lowest + 1,5%
 - LR interest rates higher by max. 2% than the average of 3 lowest
 - stability of exchange rates $\pm 15\%$ and 2 years without devaluation
- **Stability and Growth Pact**
 - = sanctions for non-fulfilment of budget deficit criterion
 - \Rightarrow limits on the use of fiscal policy
 - reforms in 2005

Convergence Criteria

- problems with fulfillment – all countries except LU
- May 1998 – finally 11 countries
- 1st round not joined by:
 - GB – against → no formal membership in EMS
 - Sweden – more or less against → no membership in EMS
 - Denmark - against
 - Greece – did not fulfill the criteria
- 2000 Greece – criteria fulfilled ⇒ euro since 2001
- 2007 Slovenia
- 2008 Malta and Cyprus
- 2009 Slovakia
- DÁN unsuccessful referendum
 - economically disadvantageous ($r >$ than in Euro Zone)
 - ⇒ referendums in SE and GB postponed
- 2011 Estonia
- 2014 Latvia

Public support of monetary union in July 1997



Results

- **exchange rate to \$**
 - initially
 - performance of EU x USA economy
 - flexibility of US economy
 - ⇨ high confidence in \$
 - last years
 - trade deficits of USA
- **\$ still the primary reserve currency**

FRED 

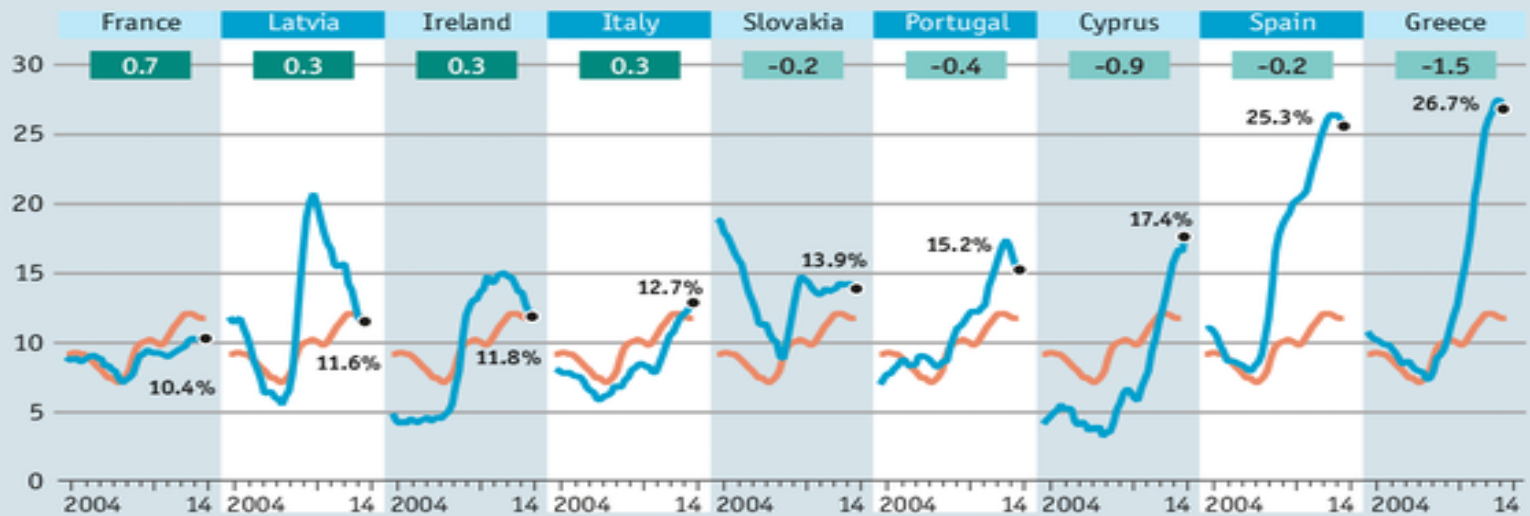
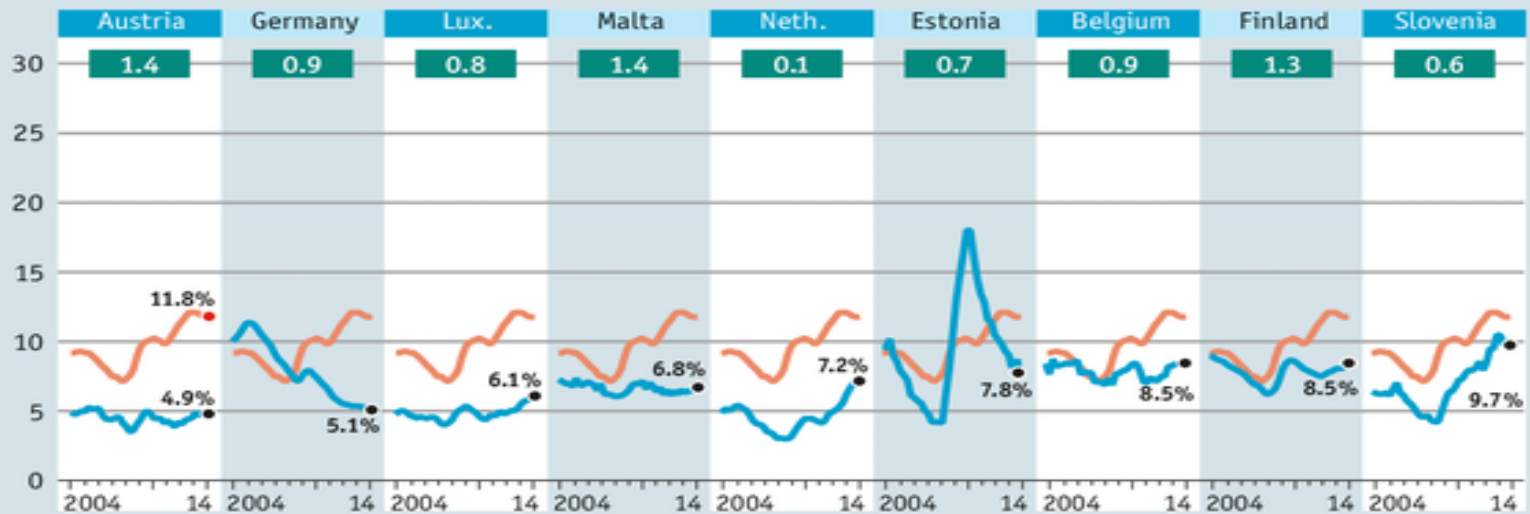
— U.S. / Euro Foreign Exchange Rate



Euro-area unemployment rates

— Euro-area average

Annual inflation rate*, March 2014, %



Source: Eurostat

*Euro-area average: 0.5%

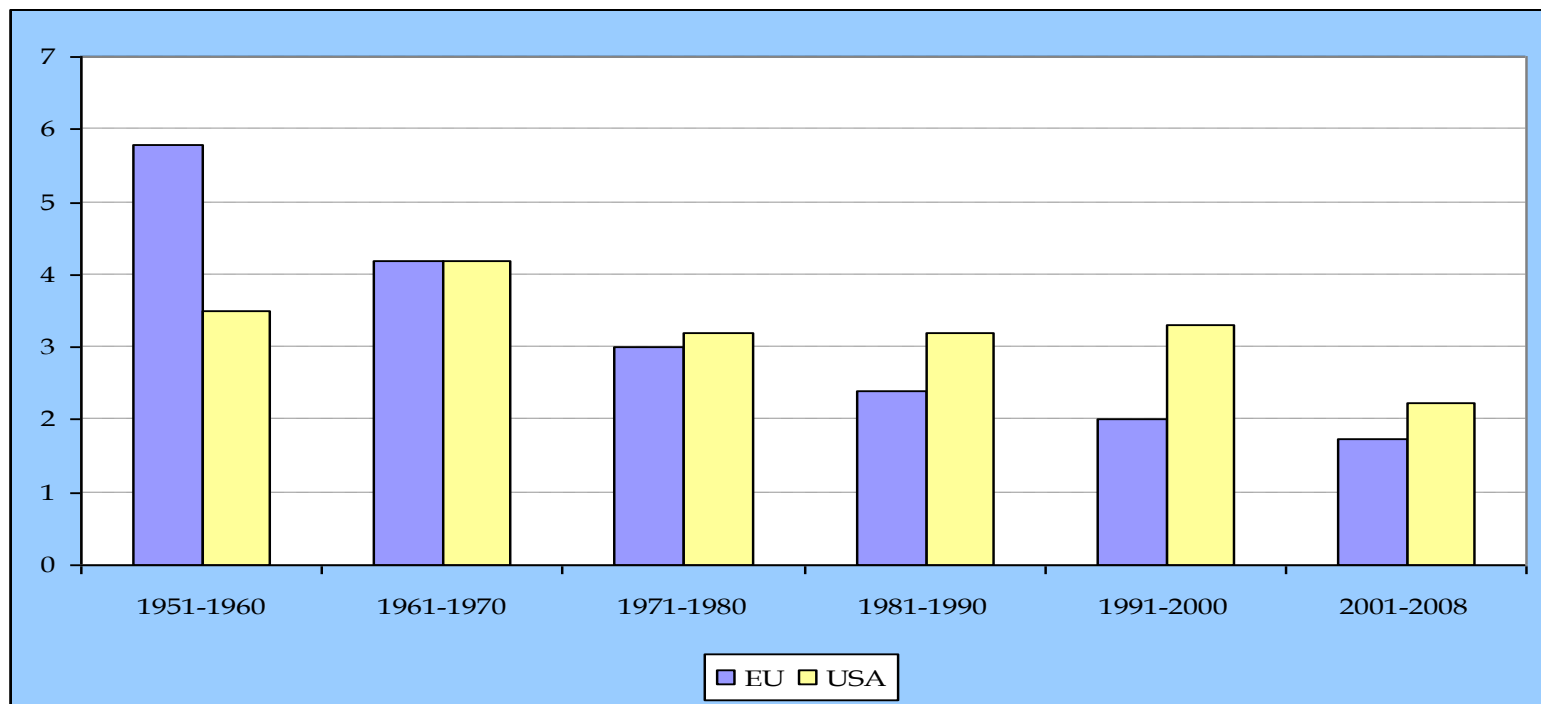
Selected problems of the EU

D. The most serious problems of the EU

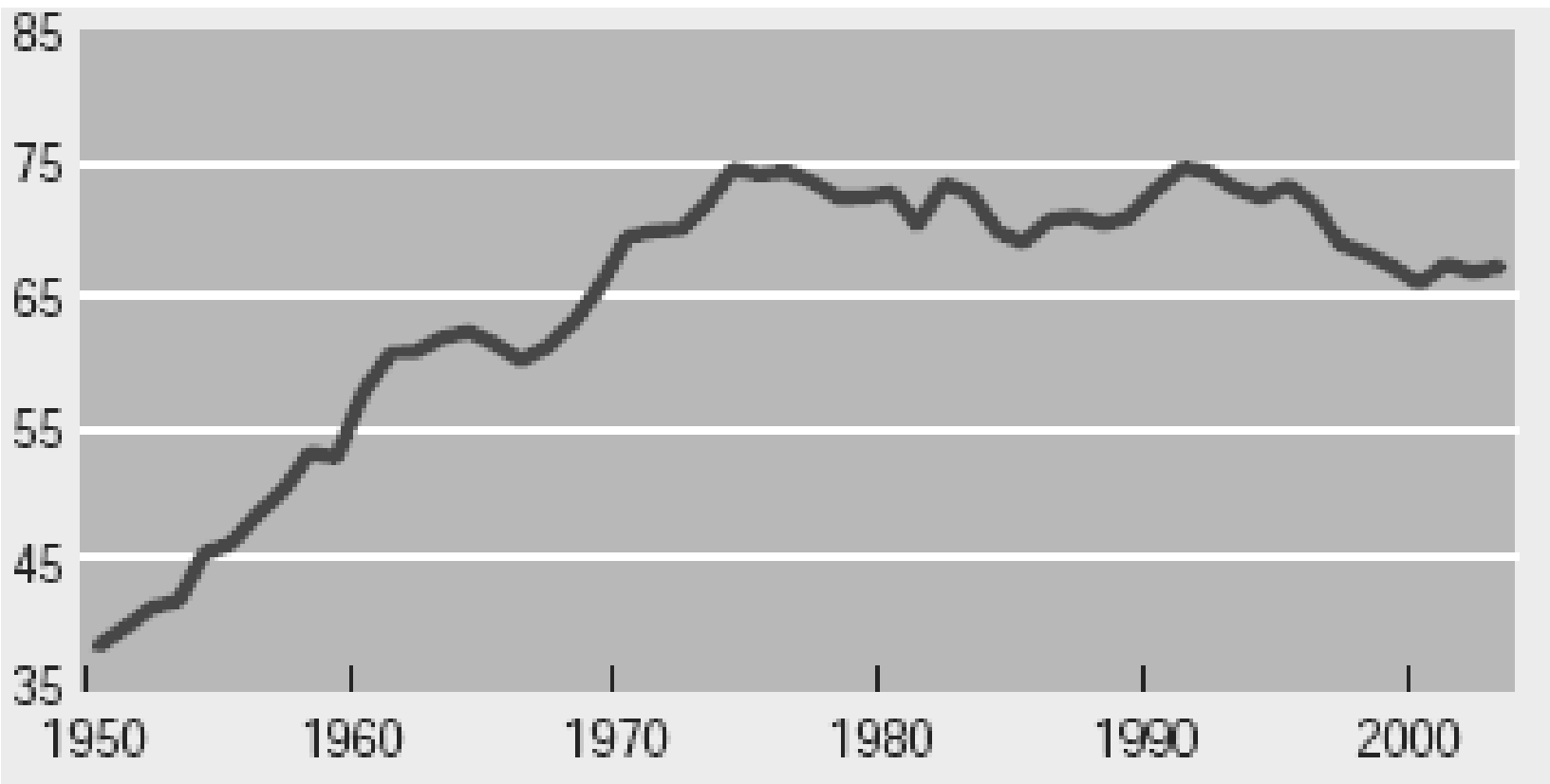
- a. lagging behind in economic performance
- b. unemployment
- c. Common agricultural policy
- d. financing
- e. internal disputes
- f. liberalization - reform

a. lagging behind in economic performance

- low labour productivity X USA
- low economic growth X USA – see figure



GDP p.c. in the Eurozone as % of GDP p.c. in the USA (according to the purchasing power parity)



Services with a smile

14

Productivity growth, 1995-2005
Contribution by sector, %



United States

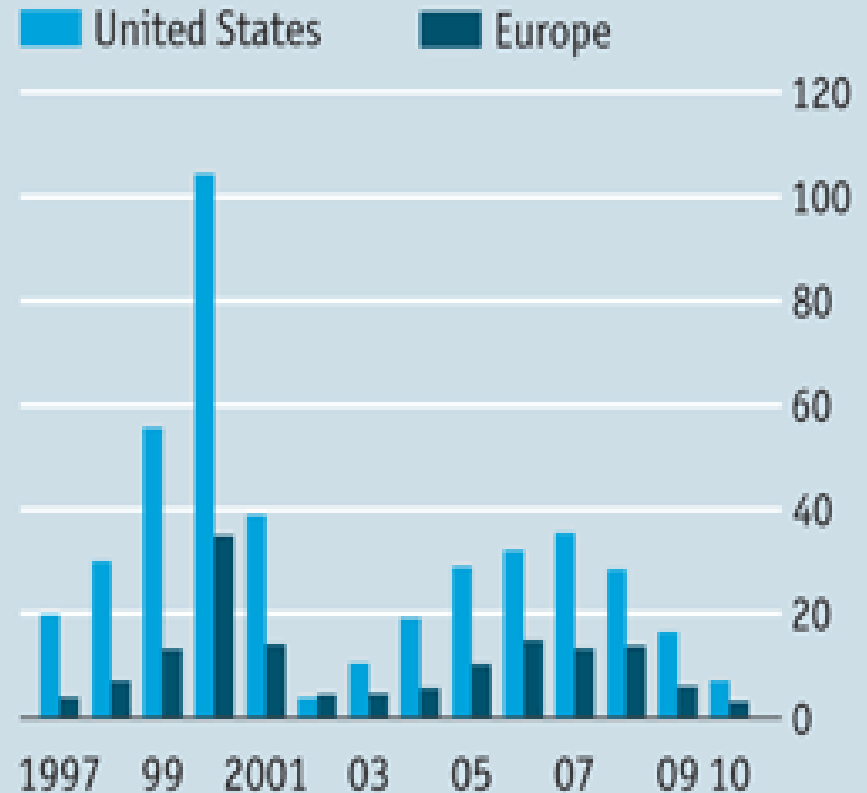
EU-15

Source: McKinsey Global Institute

Nothing ventured, nothing gained

7

Venture capital, net funds raised, \$bn



Source: Thomson Reuters

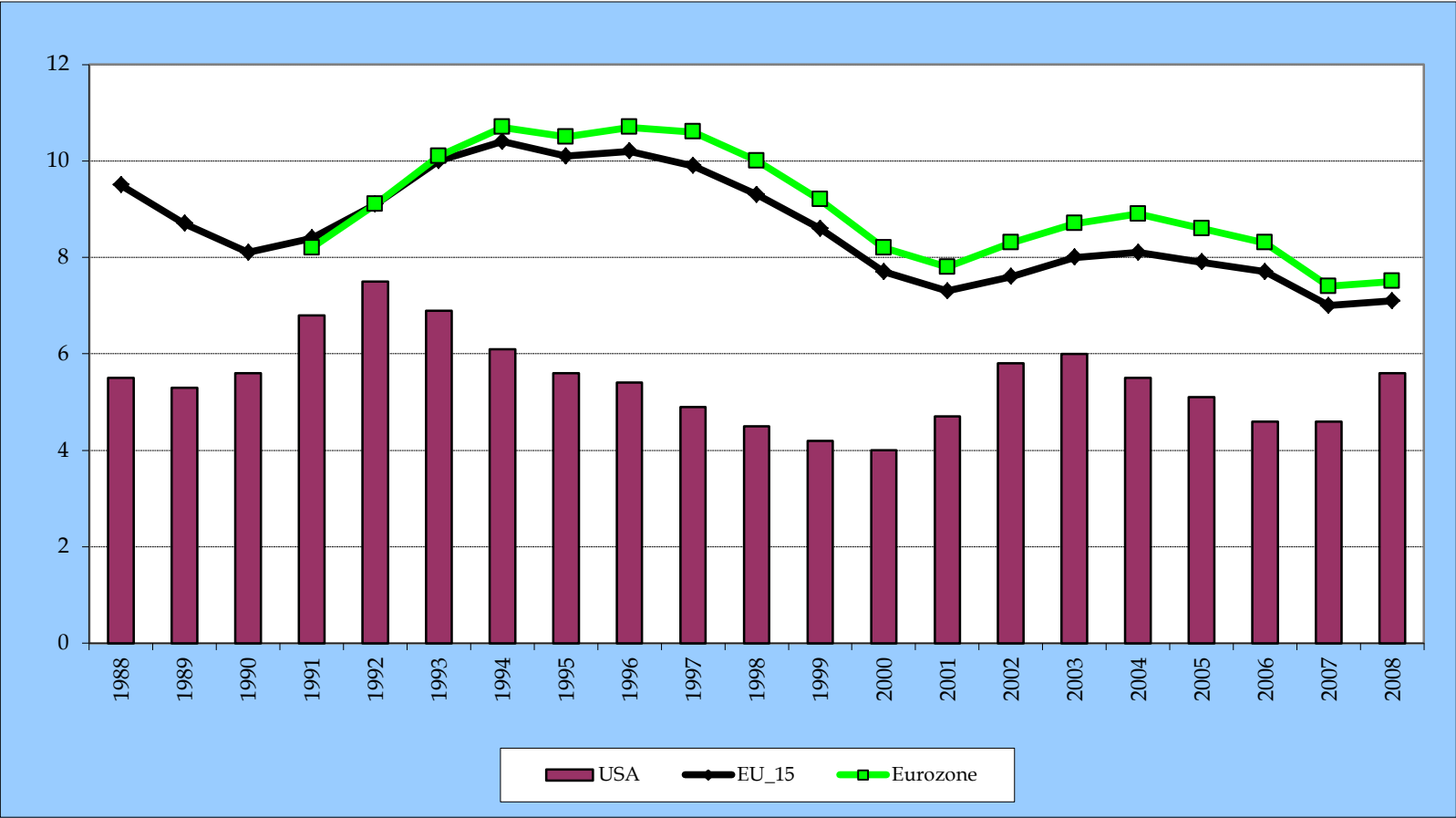
b. unemployment

permanent and serious problem

- mainly internal causes:
 - regulation
 - social conveniences
 - high dismissal costs
 - high taxes → INV to abroad
 - high costs on social insurance
 - high benefits provided by social security system
 - + e.g. attempt to decrease working hours, ...

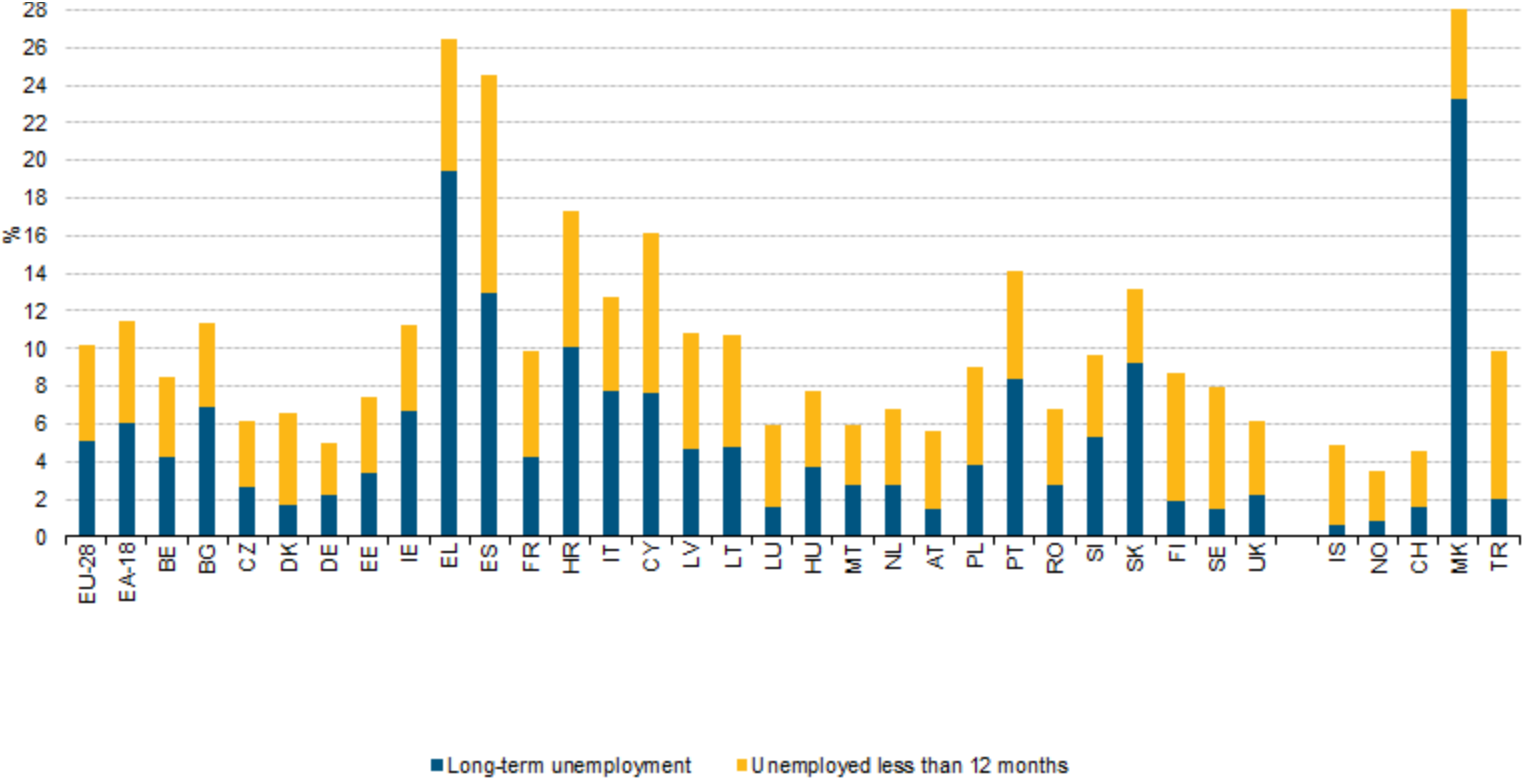
- **improvement** in recent years
 - deregulation of economy
 - liberalization of labour markets
 - institutionally – summit in Lisbon
- **BUT unemployment rate** over a long period 8% in EU X 5% in USA
 - Dec. 2015: 9% U in EU

Unemployment rate in the USA and the EU, 1988 - 2008 (%)



Long-term unemployment

Unemployment rates by duration in 2014 (%)



c. agricultural policy

- **Common Agricultural Policy = CAP**
- 50% of EU **expenditures**
- benefits for agriculture higher than somewhere else
- **problems** already at the time of introduction
 - different agricultural policies – finally the FR model
- + problems in **GATT negotiations** and still problems with **WTO** + problems **with DC**

Goals of CAP

- already in Treaties of Rome
 - a. to increase productivity in agriculture
 - b. fair living standard for farmers
 - c. to stabilize market with agricultural commodities
 - d. measures for food security
 - e. to secure food supply at acceptable prices

CAP policies

- intervention prices and buy-ups
- tariffs
- export subsidies
- production quotas



Arguments in favour of CAP

- **arguments for CAP:**

- at the origin X repeat of war famine
- to maintain nature of country and cultural heritage
- ecological INV
- X monopolization of agriculture
- X loss of jobs

Arguments against CAP

- **reality:**

- empirically
 - support of large and effective X small
 - support of chemistry X ecology
- huge overproduction → wastage
- “mistakes” in financing
- inefficiency
- higher taxes
- high prices (impossibility to purchase cheap IM)

Sugar in EU



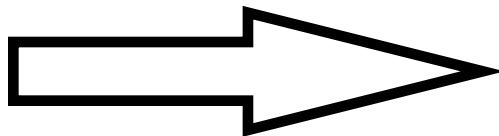
- producers in EU get 4x world price \Rightarrow surplus of 4000000 tons \Rightarrow surpluses are exported to world markets and subsidized by 1 mld € - which comes to small group of producers \Rightarrow Europe is the world's second largest producer of sugar without having comparative advantage in the area \Rightarrow \downarrow world price about 1/3 \Rightarrow loss for developing countries

Why? What next?

very powerful agricultural lobby

BUT:

- Uruguay Round of GATT
- 2001 agriculture as part of next round of negotiations of WTO in Doha (Qatar)
- enlargement – new countries (Poland)
- big losses – estimates around 1 - 7% of GDP EU



Need of reforms

d. financing

permanent problem

- **side of revenues**

- contributions = secret information
- revenues unequally distributed
 - GB
 - Germany

- **side of expenditures**

- large part – agriculture and structural funds
- accession of new members

e. internal disputes

- **partial disputes**

- British beef
- definition of chocolate

- access to **WTO negotiations**

- **conceptual**

- ever closer Union (FR ...)
- X two-speed Europe (GB, DE, ...)

- disputes in **international policy**

- e.g. relation to China...

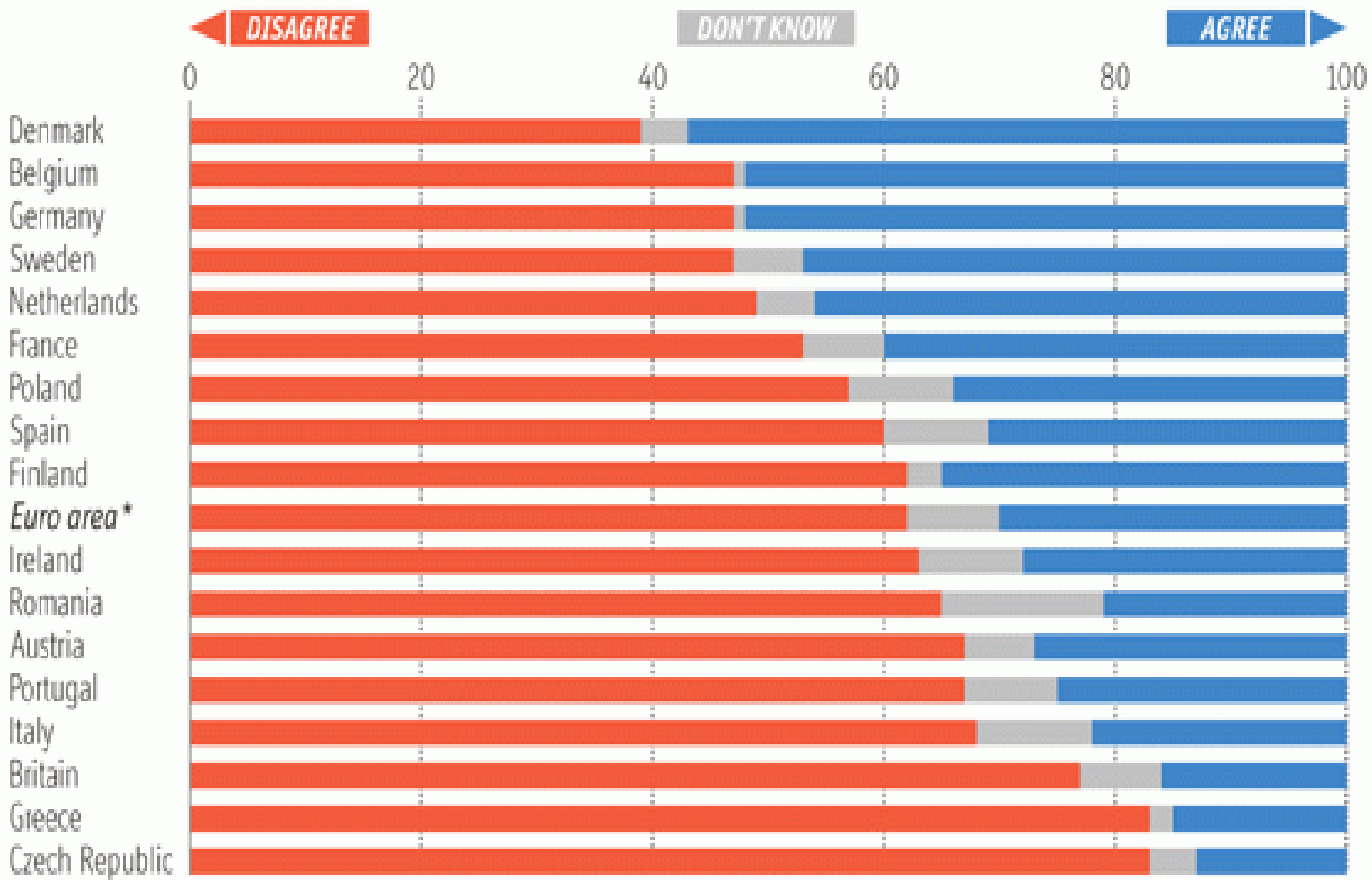
f. liberalization - reform

- Summit in Lisbon 2000
- + need of reforms
 - financing
 - CAP
 - market with services



Europeanions

"My voice counts in the EU", % of respondents who:



Source: Eurobarometer, spring 2011

*Average

Good bye!