

International Summer Program

European Integration



European Union – An Overview

Prof. Dr. Werner Smolny, Tuesday, June 27, 2006



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Faculty of Mathematics and Economics

Ludwig Erhard Chair

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European Union – An Overview

- **A View from the Outside**
- **Why European Integration**
- **Europe in the World**
- **The Process of Enlargement**
- **The Convergence of Income**
- **Monetary Integration**
- **Conclusions**

European Union: A View from the Outside

● 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 25 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.

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
- (...) - bringing the current membership to 25. (...)***

European Union: Today and in the Future

Although the EU is not a federation in the strict sense, it is far more than a free-trade association such as ASEAN, NAFTA, or Mercosur, and it has many of the attributes associated with independent nations:

its own flag, anthem, founding date, and currency, as well as an incipient common foreign and security policy in its dealings with other nations.

In the future, many of these nation-like characteristics are likely to be expanded.

Why European Integration?

The answers of the European Union

● Peace

The idea of a united Europe was once just a dream in the minds of philosophers and visionaries. (...)

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

The Foundations of European Integration

But from the rubble of World War II emerged a new kind of hope. (...)

***Robert Schuman** (French Foreign Affairs Minister), (...) on 9 May 1950, proposed setting up a European Coal and Steel Community (ECSC). (...)*

This bold and generous move was a big success. It was the start of more than half a century of peaceful co-operation between the member states of the European Communities.

The Birthday of the European Union

● The declaration of May 9, 1950

World peace cannot be safeguarded without the making of creative efforts proportionate to the dangers which threaten it. (...)

The coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany. (...)

Vision ... and Economic Basis

It (the French Government) proposes that Franco-German production of coal and steel as a whole should be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe. (...)

The solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible.

A Combination, valid until Today

The setting up of this powerful productive unit, open to all countries willing to take part and bound ultimately to provide all the member countries with the basic elements of industrial production on the same terms, will lay a true foundation for their economic unification.

European Integration: The Treaties

- **Foundation and the Treaties of Rome**
 - *the European Coal and Steel Community (ECSC), 1951*
 - *European Economic Community (EEC) and Euratom, 1957*

- **The Process of Deepening**
 - *Common Agricultural Policy, 1962, Customs Union, 1968, and the Single European Act, 1986*

- **The Results of Maastricht / The Netherlands**
 - *the Single Market and the European Union, 1992*
 - *the common currency, the Euro, 1999/2002*

The Institutional Framework of the EU

- **The Council of the European Union**
 - *the representation of the member states*
 - *the EU's 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*

Map of Europe



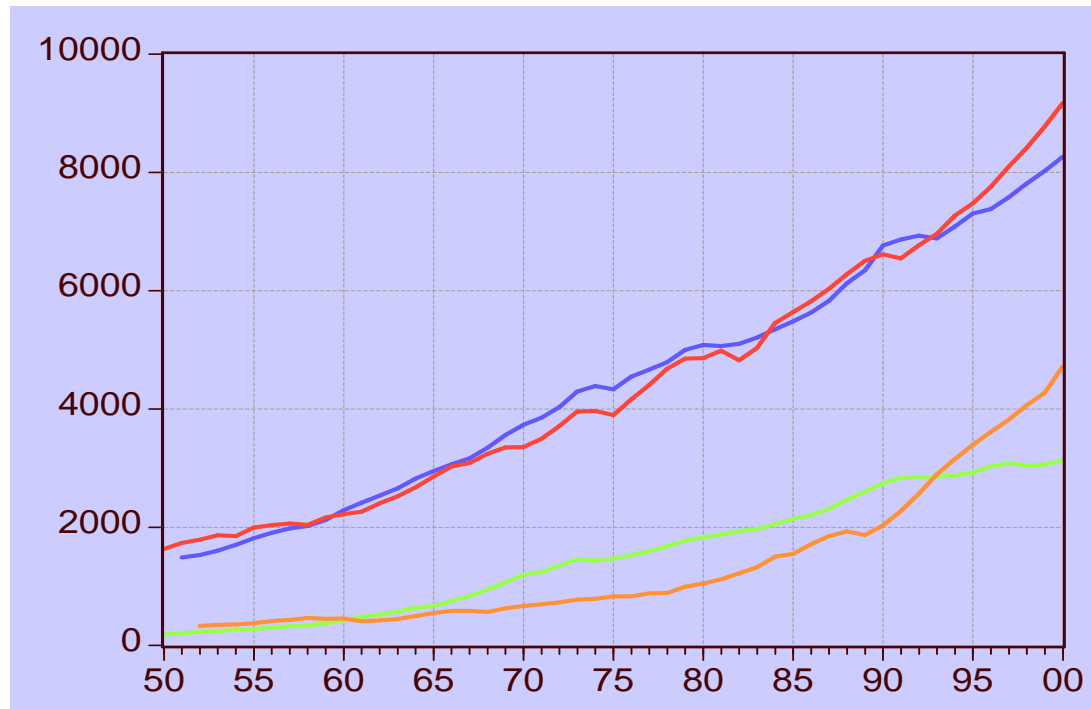
The Economic Relevance of the EU

	Income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-25	12357	27 000	455
EU-15	11225	29 000	381
USA	12360	42 000	298
Japan	4018	32 000	127
China	8859	7 000	1314
World	60710	10 000	6500

figures for 2003, Purchasing Power Parities

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

The Development of Income

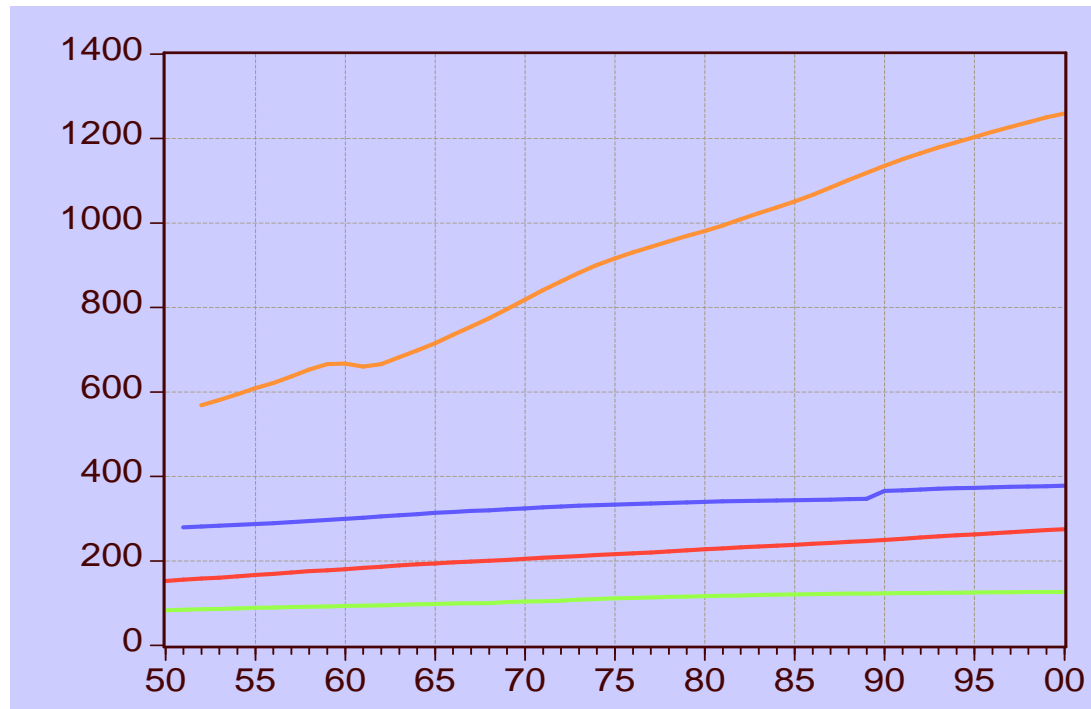


– EU-15 – USA – Japan – China

GDP total, bill. US \$, Purchasing Power Parities 1996

Source: Penn World Tables

The Development of the Population



– EU-15 – USA – Japan – China

millions

European Integration: The Founding Members

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
Germany	2504	30 000	82
France	1816	30 000	61
Italy	1698	29 000	58
Belgium	325	31 000	10
The Netherlands	500	31 000	16
Luxembourg	31	56 000	<1
EU-6, 1951/1957	6874	30 000	227

The Process of Enlargement

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-6, 1951/1957	6874	30 000	227
United Kingdom	1830	30 000	61
Ireland	165	41 000	4
Denmark	188	35 000	5
together	2183	31 000	70
EU-9, 1973	9057	30 000	297

Southern Europe, 1981 and 1986

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-9, 1973	9057	30 000	297
Greece	237	22 000	11
Portugal	204	19 000	11
Spain	1029	26 000	40
together	1470	24 000	62
EU-12, 1981/1986	10527	29 000	359

The third Enlargement 1995: EU-15

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-12, 1981/1986	10527	29 000	359
Austria	268	33 000	8
Finland	162	31 000	5
Sweden	268	30 000	9
together	698	32 000	22
EU-15, 1995	11225	29 000	381

Eastern Europe, 2004: EU-25

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-15, 1995	11225	29 000	381
Poland	514	13 000	39
Hungary	163	16 000	10
Slovenia	43	22 000	2
Slovakia	87	16 000	5
Czech Republic	199	20 000	10
MEEC	1132	15 000	74

Eastern Europe, 2004: EU-25

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-15, 1995	11225	29 000	381
Estonia	22	17 000	1
Lithuania	49	14 000	4
Latvia	30	13 000	2
Cyprus	17	22 000	<1
Malta	8	20 000	<1
MEEC	1132	15 000	74

EU Enlargement: An Overview

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-6, 1951/1957	6874	30 000	227
EU-9, 1973	9057	30 000	297
EU-12, 1981/1986	10527	29 000	359
EU-15, 1995	11225	29 000	381
MEEC	1132	15 000	74
EU-25, 2004	12 357	27 000	455

Candidate Countries

	income		population
	<i>total</i> <i>bill. US \$</i>	<i>per capita</i> <i>US \$</i>	<i>millions</i>
EU-25, 2004	12357	27 000	455
Romania, 2007	184	8 000	22
Bulgaria, 2007	72	10 000	7
Croatia	56	12 000	4
Turkey	572	8 000	70
Candidates	884	9 000	103

EU Countries: An Overview

EU-6, 1951/1957 founders	Germany, France, Italy, Belgium, The Netherlands, Luxembourg
EU-9, 1973 EU-12, 1981/1986 EU-15, 1995	Denmark, Ireland, United Kingdom Greece, Spain, Portugal Austria, Finland, Sweden
EU-25, 2004	Poland, Estonia, Latvia, Lithuania, Hungary, Malta, Cyprus, Slovenia, Czech Republic, Slovakia
Candidates, 2007	Romania, Bulgaria
Candidates, (?)	Croatia, Turkey

Another Map of Europe



The Development after World War II

● The Starting Point

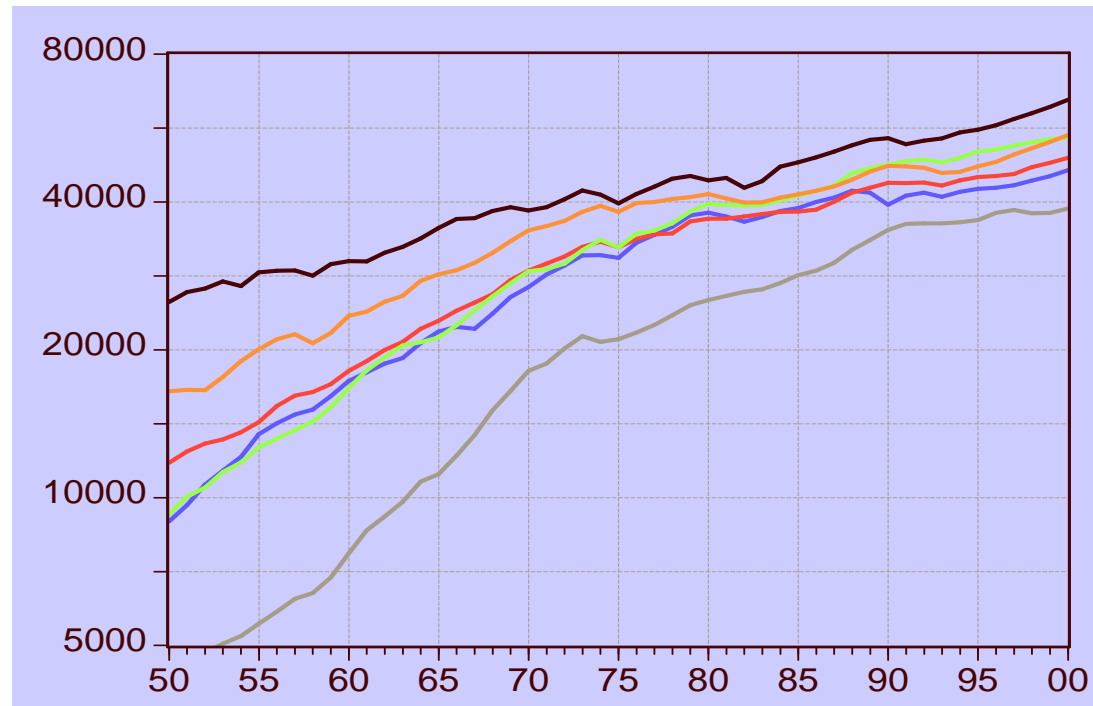
USA: productivity leader, large free integrated market

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*

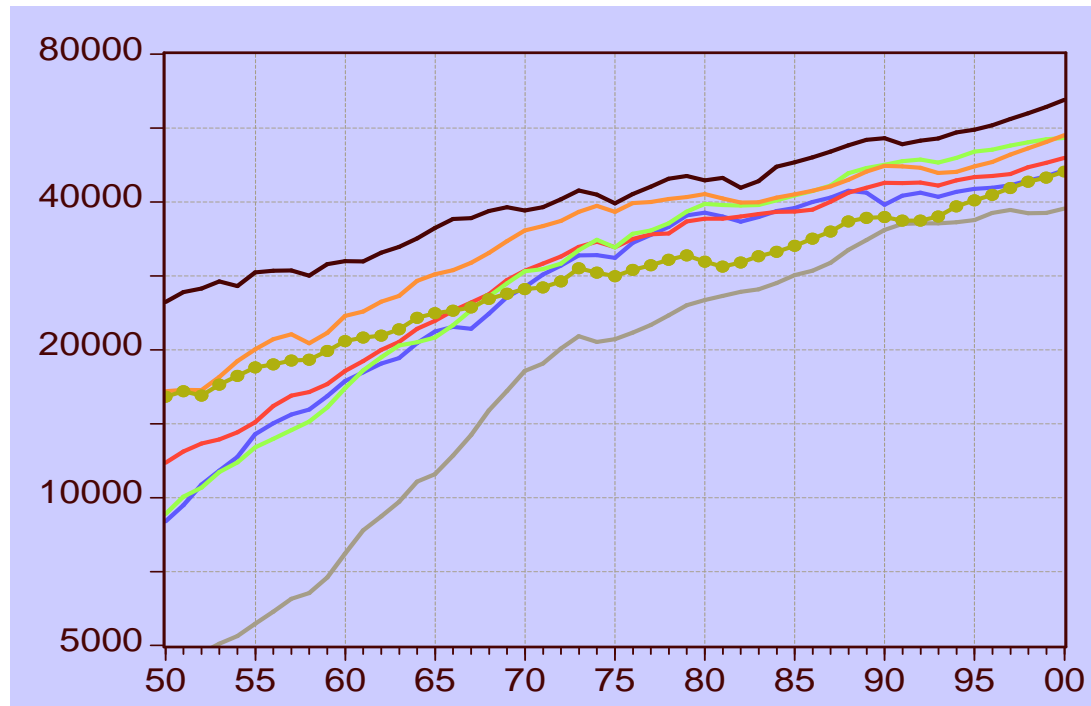
Convergence of Productivity



- **Germany** – **France** – **Italy**
- **BeNeLux** – **USA** – **Japan**

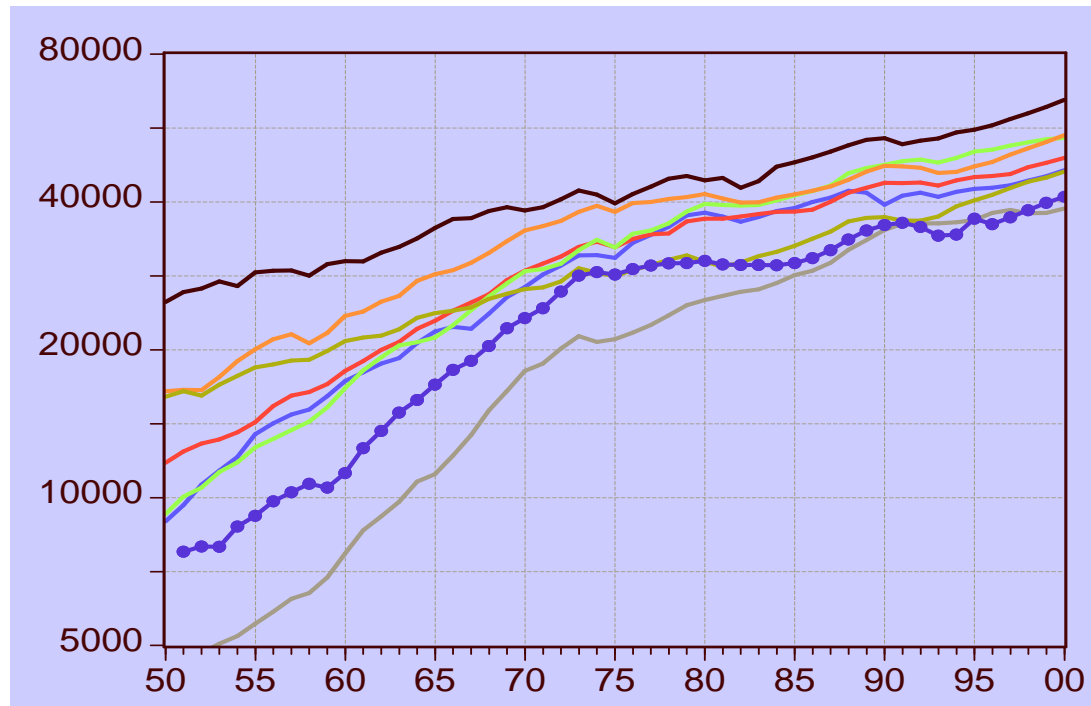
income per worker, US-\$, PPP 1996, log. scale

The first Enlargement 1973



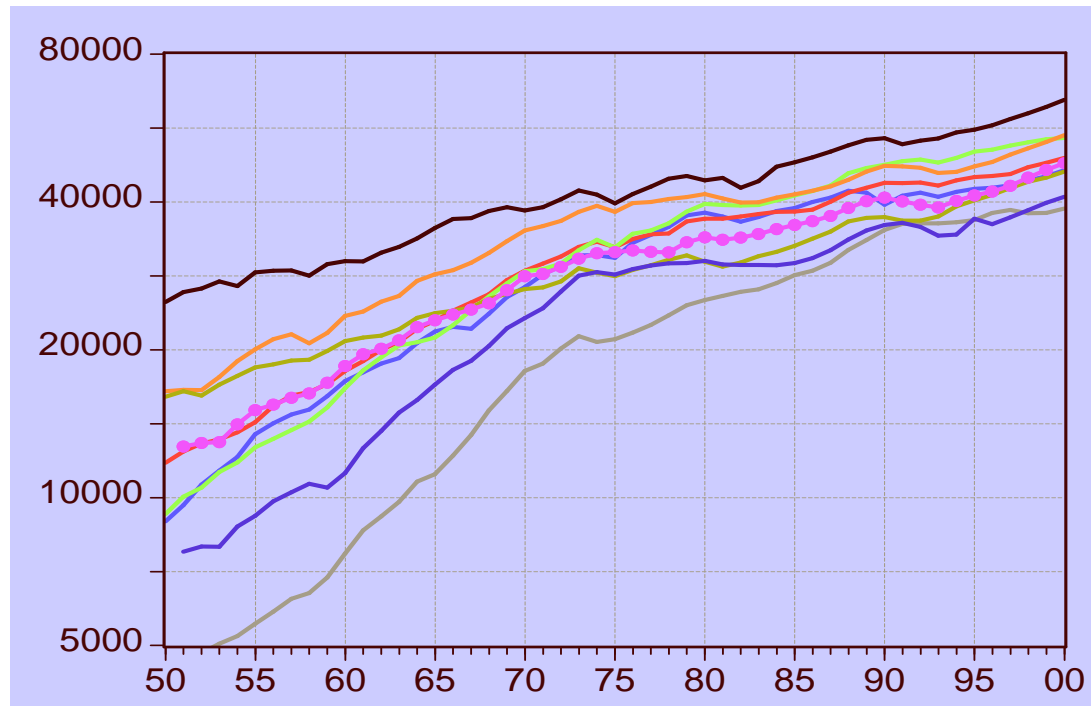
United Kingdom, Ireland und Denmark

Southern Enlargement 1981 and 1986



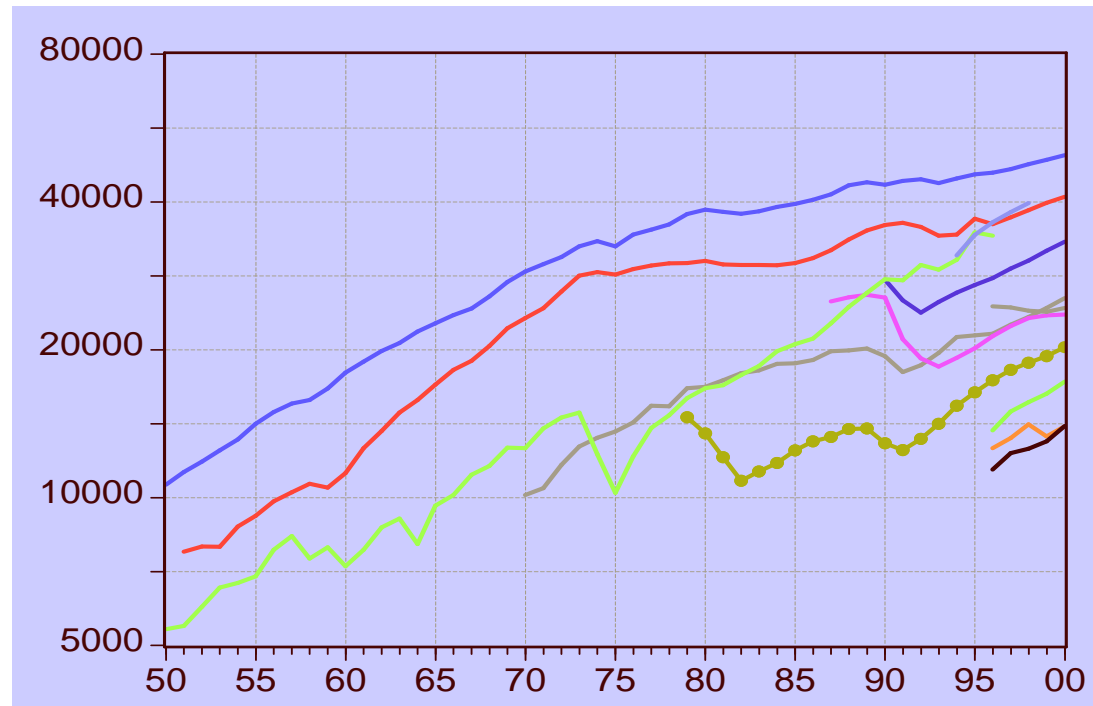
Greece, Spain and Portugal

The third Enlargement 1995



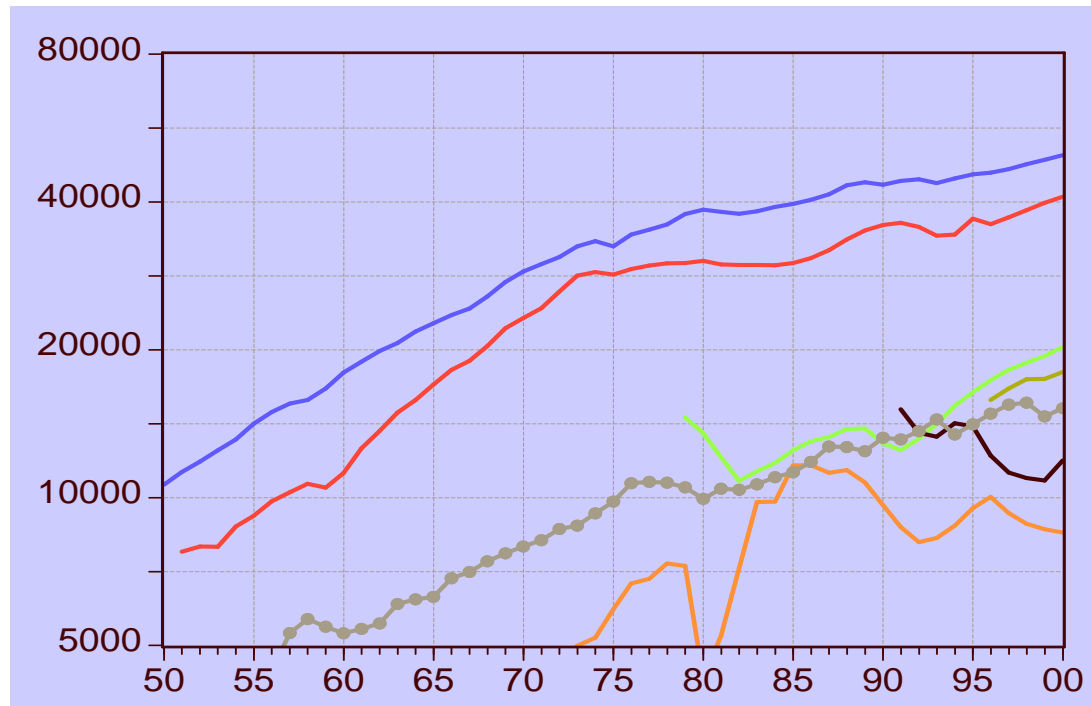
Sweden, Finland and Austria

Eastern Enlargement 2004: The MEEC



– **EU-6** – **Southern Europe**
MEEC (Poland)

The Candidate Countries



– **EU-6** – **Southern Europe** – **Poland**
Candidates (Turkey)

Preconditions for Productivity Catching-up

Political and Economic Stability

- **Germany and Italy after World War II**
 - *surmounting fascist dictatorship*
- **Southern Enlargement**
 - *military dictatorships and civil wars until the mid seventies*
- **The Fall of the Iron Curtain**
 - *German unification and the transformation towards democracy and market economy in Eastern Europe*

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*

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**

Monetary Integration

- **The Bretton Woods System**
– *the starting point, 1944 – 1973*
- **The Transition Period: Exchange Rate Agreements**
– *“snake” and EMS I, 1973 – 1998*
- **European Economic and Monetary Union**
– *the treaty of Maastricht 1992, the Euro 1999/2002
and the Exchange Rate Mechanism II since 2004*

The Bretton Woods System

- **The Bretton Woods Conference 1944**
 - *integration began, when Europe was still at war*
- **The Bretton Woods System 1944-1973**
 - *fixed exchange rates of most important currencies*
 - *“common” currency*
- **Institutions**
 - *dominant role of the USA, the US-\$*
 - *World Bank and International Monetary Fund*

Globalization and Wealth

- **The Time Period after World War II until 1973**
 - *the economically most successful time period*
 - *increasing international integration*
 - > *high economic growth rates in industrial countries*
- **The Development in Germany**
 - *“Wirtschaftswunder”, fast reconstruction*
 - *doubling of income in the 50th*
 - > *full employment and high economic growth 1960-1973*

Breakdown and Reorganization

- **The Collapse of the Bretton Woods System 1971/73**
 - *increasing international discrepancies, differences in inflation, trade deficits, Vietnam war and US monetary policy*
- **The European Reaction**
 - *the “snake” exchange rate system 1972-1978*
- **during a destabilized economic situation**
 - *high inflation rates, oil price shocks, increasing unemployment, frequent realignments*

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 European Monetary Union

- **The single Currency – the Euro €**
– fixed exchange rates since 1999, coins and notes since 2002
- **The 12 Member States:**
Germany, France, Italy, Belgium, The Netherlands, Luxembourg, Ireland, Austria, Finland, Spain, Portugal, Greece (since 2001), (Slovenia in 2007)
- **Exceptions: *United Kingdom, Sweden, Denmark***
- **Candidates in ERM II since 2004:**
Denmark, Estonia, Lithuania, Slovenia, Malta, Cyprus, Latvia, Slovakia

Advantages of Integration

- **Facilitation of International Trade**
 - *frequently changing exchange rates are bad for imports, exports and direkt investments*
- **Macroeconomic Stability**
 - *monetary stability and fiscal disciplin:
without Maastricht fiscal deficits would be higher and price stability would be endangered*
- **International Confidence**
 - *Germany after World War II, Eastern Europe today*

- **Eurosklerosis**

- *high and persistent unemployment since the eighties, low economic growth since the nineties, in Germany, but not only in Germany*

- **but without going into detail**

- *these are problems of the member countries, not problems of globalization and European Integration*

Further Problems

- **Integration within – Trade Barriers outwards**
– *“trade war” with the USA*
- **The View from the Outside**

Domestically, the European Union attempts to lower trade barriers, adopt a common currency, and move toward convergence of living standards.

Internationally, the EU aims to bolster Europe’s trade position and its political and economic power.

(...)

Further Problems

- **Subsidies, Burocracy and Regulation**
 - *coal and steel, agriculture*
 - > *a problem since the fifties*
 - > *a problem with respect to enlargements*

- **Fiscal Disciplin**
 - *the European Stability and Growth Pact:*
large fiscal deficits in many member counties
in the recent years and in the near future

Perspectives

- **Deepening, . . .**
 - *the Stability and Growth Pact*
 - *the European Constitution*
 - *political and military engagements*

- **Opening, and Enlargement**
 - *Switzerland, Norway, Iceland*
 - *Ukraine, Belarus and Russia*

Conclusion

● Peace

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

● Freedom

- *democracy and market economy*

● Wealth

- *economic growth and income convergence*

... it was worth it