14.1 The European Union

Europe, the EU and You

Actually, how "European" is your class? Is Europe the same as the European Union (EU)? When are you or your relatives affected by European Union's decisions?

A short history of the EU – "The War to end all Wars"

The history of Europe is long and comprehensive, whereas the history of the European Union is relatively brief. And although the history of **European integration** is comparatively short, it was not without conflict.

(European) Integration

Integration means merging smaller units into larger ones. Economic integration can take different forms. They can range from simple unilateral trade facilitation to an economic and monetary union, which has been the case in the EU since 1992.

The EU's history has its roots in a centuries-long history of war and conflict in Europe. France and Germany, long referred to as "sworn enemies", fought against each other in the German-French War 1870-71 and the First and Second World War.
After 1945, both countries wanted lasting peace: economic integration might make a new war between France and Germany impossible. Therefore, in 1951, the **European Coal and Steel Community (ECSC)** was established. This included the Benelux countries and Italy as well as France and Germany. Coal and steel were considered to be essential war goods and were also important for the reconstruction of industries after the Second World War.

picturedesk.com/akg-images

Figure 1: Signing of the Treaty of the European Coal and Steel Community ("ECSC") 1951

These same states founded the European Economic Community (EEC) in 1957. This **customs union**, initiated by Britain, was launched in opposition to the **European Free Trade Association** (EFTA).

Free Trade Area and Customs Union

Within a **free trade area** the member states have the same internal, but different external, tariffs. Therefore, they can make their own free foreign trade policy.
Within a **customs union**, the member states have agreed on the same tariffs among each other and with trading partners outside the union.

In 1967, the ECSC, the EEC and the European Atomic Energy Community (EURATOM) grouped together to become "The European Communities" (EC). In 1973, Denmark, Ireland and the UK entered the EC (the first extension to the North).

The end of the dictatorships in Greece, Spain and Portugal launched the southern enlargement of the EU. The early start helped to stabilize the democratic development in these countries.
Greece was included in 1981, at the same time as the economically weak states, Portugal and Spain in 1986. This led to increased regional policy with the aim of settling regional disparities between the centres and peripheries (outskirts) of the EC.

In 1986 the Single European Act (SEA) was signed. It was an essential step for the economic integration of the domestic market. Single market means **free movement of goods, services, capital and persons.**

Free movement of goods, services, capital and persons

Free **movement of persons** is regulated by the Schengen Agreement. The border controls between Member States have been abolished. EU external border controls, however, have been strengthened.
Free movement of goods means that there is no more control of movement within the EU, and the tariffs have been lifted. Therefore, goods imported from one EU country must not be treated differently than domestic goods.
Neither money nor physical capital is subject to restrictions under the **movement of capital**.
The free **movement of services** allows cross-border provision of services (e.g. a construction company).

The Treaty of Maastricht in 1993 transformed the political community with the term "European Union" (EU). The single market remained the core of the European Economic and Monetary Union (EMU).
With the Treaty of Maastricht, there was an expansion of European policies. In addition to the economic pillar (EC) the Common Foreign and Security Policy (CFSP) and the cooperation in the fields of homeland security and justice (PJC - police and judicial cooperation in criminal matters) were established.

After the collapse of communism in 1989, the neutral countries of Austria, Finland and Sweden joined the EU in 1995. In 2004, in the wake of the Eastern enlargement, the EU increased by ten other Member States. In Lisbon, a new treaty on the European Union was signed. In the same year Bulgaria and Romania joined the EU. The Lisbon Treaty has been in force since 2009.

In 2013, Croatia joined the EU, increasing the number of member states to 28.

The European Union

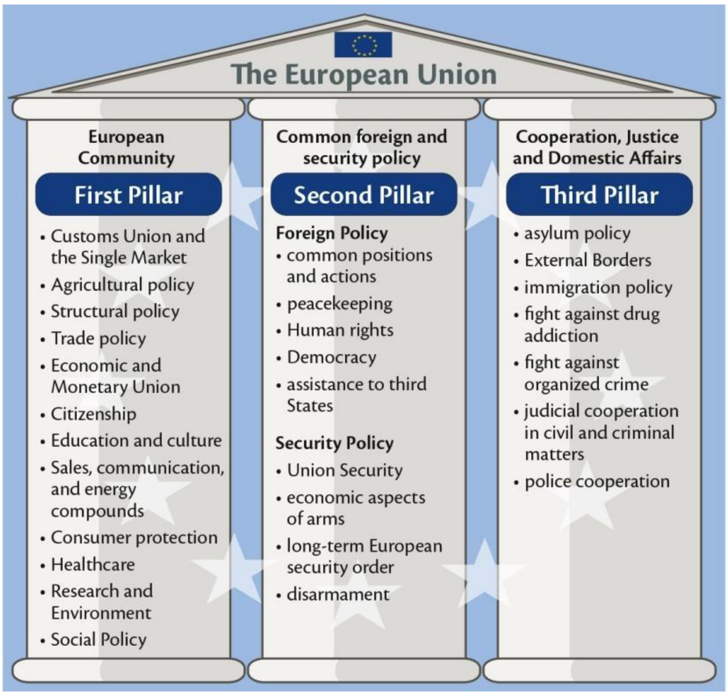

Figure 2: The 3-pillar model of Maastricht

Croatia joined the EU in 2013. The EU now comprises 28 members. Has anything changed since then?

Policy in the European Union

The EU itself has no constitution. The cooperation between Member States and institutions is regulated by contracts. In order "to be able to make policy" within the EU, however, an institutional framework is necessary. This consists of the following institutions:

The **European Council** is represented by the Heads of Government and State. They provide the general lines of development and strategy of the EU. Since the Treaty of Lisbon there has been the Office of President of the EU Council (Chairperson). Since the cooperation within the Council is purely at government level, the Council President acts as a mediator between Member States.

The **EU Commission** is made up of 27 European Commissioners who work together for a period of five years. They represent and uphold the common interests of the EU. Each Member State sends a Commissioner. At the top there is the Commission President. Through its right of initiative, the Commission proposes new laws to the European Parliament and the Council of Ministers (EU regulations, EU directives). In this respect, the European Commission may be referred to as "government".

EU regulations

EU legal instruments, which aim directly at EU citizens. They relate to the rights and obligations of citizens, and must be implemented in all member countries.

EU Directives

These are addressed to the Member States of the EU and give them uniform goals that must be implemented through national laws.

Figure 3: Political institutions of the European Union

The **Council of Ministers** consists of the national ministers of the respective policy area of the EU member countries. Being the central legislative power, the Council of Ministers makes EU laws. The main policy areas of legislation are the agricultural, economic and monetary policy and the internal market.

The **European Court of Justice** (ECJ) is responsible for the interpretation of EU law. It makes decisions about disputes between the EU Member States administration and EU institutions. Private individuals, companies or organizations can call this institution if they believe that an EU institution has committed violations.

The **European Parliament** (EP) is made up of the elected representatives of European citizens. They have been elected every five years since 1979 in direct elections. In connection with the Council of Ministers the EU parliament is the EU legislature. It oversees the work of the Commission and meets alternately in Brussels and Strasbourg.

Figure 4: History of the European Union

Since its accession, Austria can have a say in EU decisions. It is represented in the EU institutions as follows:

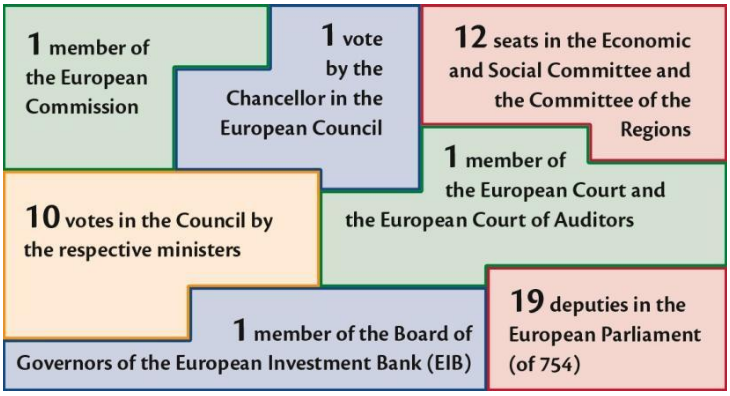

Figure 263.1: Austrian representation in EU institutions

Europe’s economic crises

Economic booms and busts are inherent to capitalist systems. Two severe global economic crises took place in 1929 and in the 1970s, when the OPEC states’ petroleum policy triggered an energy crisis. The governments’ austerity policies deepened the crisis following the 1929 bust, leading to the infamous Great Depression. Conversely in the 1970s, deficit spending served to boost the economy at the cost of increasing national debts.

Today several crises have inflicted the EU. 2008 marked the beginning of the latest economic crisis in Europe, followed by the euro crash in 2009. The latter is a combination of three seemingly separate, yet ultimately connected crises: the sovereign or national debt crisis, the financial crisis and the crisis of the banking system.

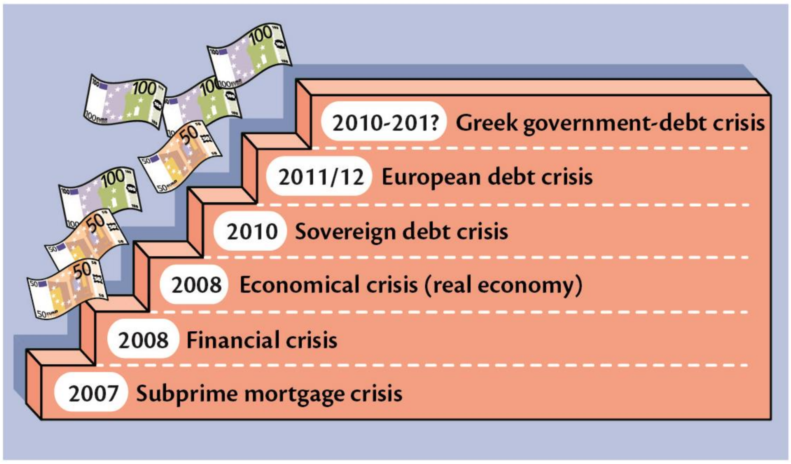

Figure 5: The global economic crisis since 2007

The beginning of the current global economic turmoil can be traced back to the US subprime mortgage crisis in 2007, when thousands of borrowers with bad credit scores took on mortgages to buy property. Because the US-American Federal Reserve System (FED) had cut interest rates to stimulate the economy, credits were very cheap. As a consequence of the FED’s low interest rates and the increasing demand for real estate, the so-called housing bubble developed.

Subprime
A classification of borrowers (individuals or businesses) with poor credit rating.

Credit rating
It gives information about a borrower's financial standing. A poor credit rating or bad credit score negatively affects the borrower's ability to take out a new loan.
Mortgage
A mortgage is used by borrowers to buy property without paying the entire amount up front. It is a debt instrument or loan, secured by that property, that the borrower eventually has to pay back.

The subprime mortgage crisis triggered financial turmoil both in and outside of the US. Banks all around the globe were affected by the collapse of the housing bubble. Bankers had speculated and "gambled" themselves into ruin, often losing billions. Banking giants such as Lehman Brothers went bust and had to shut down with thousands losing their jobs.
Governments who feared a domino effect and the collapse of the entire banking system soon decided to bail out other banks on the brink of insolvency. For the sake of saving the system some banks were declared "too big to fail" and given public money to survive. Other banks were nationalized. For governments, rescuing the big banks and nationalizing smaller ones meant running into new debts. Their reaction to the banking crisis thus led to the sovereign debt crisis.

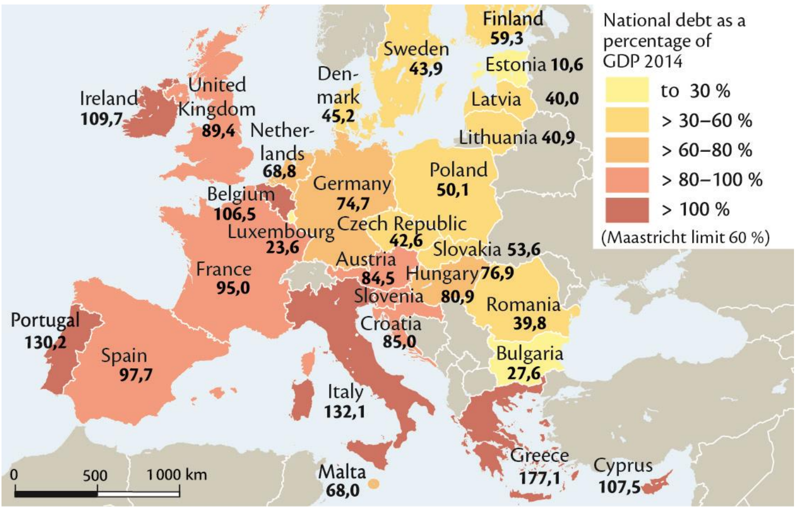

Figure 6: National debt as a percentage of GDP

During the **sovereign debt crisis**, banks handed out loans much more carefully Unsurprisingly, this had a negative effect on economic growth as it reduced investments and productivity. To improve market liquidity the European Central Bank (ECB) provided the banking system with fresh money and lowered the key interest rate. Such measures did not have the effect the ECB had hoped for – productivity kept declining, economic growth slowed down and unemployment rose – the first signs of a euro crisis emerged in 2009.

With the aim of preventing the imminent bankruptcy of individual EU member states, EU financial policy officers introduced the public limited liability company EFSF (European Financial Stability Facility) and the European Stability Mechanism (ESM) as part of the so-called rescue package. The particularly badly effected states Greece, Ireland, Portugal, Spain and Cyprus soon received financial aid. In return, the 5 countries had to commit themselves to implement certain reforms. And to control their implementation the so-called **troika** began to regularly visit those countries. Comprised of the EU-Commission, the International Monetary Fund (IMF) and ECB financial experts, the troika's task is to evaluate the success of the aid-receiving countries' reforms. Only if the troika is satisfied with a country's performance, the next tranche of financial assistance will be issued. This mechanism is often criticized for undermining the national parliaments' rights to choose their own policies and reforms.

Triggered by the financial crisis, the sovereign debt and the euro crises illustrate the interdependence of EU member states and their economies. Consequently, in several member states all responsibility for banking policy was transferred from the national to the EU level. The ECB Banking Supervision Committee, which promotes stronger regulation for banks and better investor protection for consumers, is at the heart of the so-called **EU Banking Union**. And to address the looming threat of a eurozone breakdown, Germany urged the EU to introduce a European "Fiscal Stability Treaty". In the Stability and Growth Pact (SGP), entering into force in the late 1990s, the member states had already committed themselves to reduce their national budget deficit – with little success. Stricter than the SGP, the "Fiscal Stability Treaty" by constitution obligates the member states to cap their debt. This kind of economic policy, known as austerity policy and vigorously defended by Germany, has been implemented by the troika in Greece.

Austerity
A set of economic policies imposed on economies to stabilize public finances and restore competitiveness. It typically includes cuts in public and social sector spending. Critics question austerity policies' ability to deal with crises.

Greece: Testing the stability of the eurozone

Greece was among those countries which, at the beginning of the financial crises, had already accumulated large debts. What is more, it had made false claims about its financial situation. When in 2009 credit rating agencies re-evaluated and downgraded Greece' credit score to the lowest level of the eurozone, the consequences for the country were dreadful: Not only did government bonds fail to attract foreign investors, the country also had to pay a higher interest rate for taking out new credits. Since 2010, Greece has relied on financial assistance by the euro rescue package, paid out by the IMF and the **ECB**

Rating agencies
Credit rating agencies are private sector organizations which evaluate the creditworthiness of governments, corporations and nonprofit organizations. The creditworthiness is expressed by a letter grade. AAA is the highest rating, D (insolvent) the lowest. Moody's, Standard & Poor's, and Fitch & Co are the three largest credit rating agencies.

Euro rescue package
The term describes all measures set to ensure solvency and to stabilize the eurozone after 2010: bank lending, guarantees and the purchase of government bonds by the ECB.

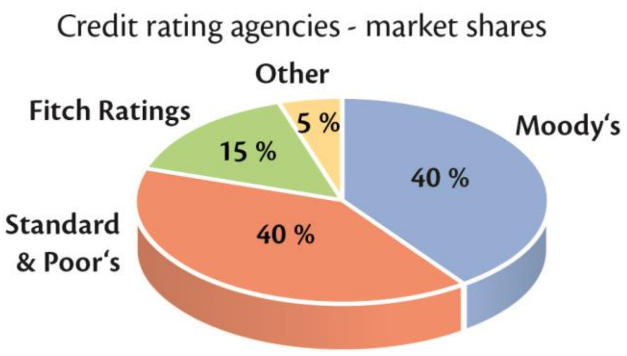

Figure 7: Credit rating agencies' market shares

Thus far the rescue package has prevented both Greek bankruptcy and the eurozone breakup. In return for the extension of credit periods, the deferral of interest and the partial cancellation of debts, Greece has had to cut public sector, social, health and pension spending. Privatizations followed suit. In 2016, the Port of Piraeus, the largest Greek seaport, was sold to a Chinese shipping group. Tackling the refugee crisis, too, came at a financial cost and increased political instability.

Confronted with Greek financial and political problems, the eurozone has to decide whether to cut Greek debts, to renegotiate credit arrangements or to allow for a Grexit, the Greek withdrawal from the eurozone. While Grexit could be prevented, the EU is now confronted with **Brexit**: In 2016, 51.9% of the British population voted for leaving the EU. This is the first time for a member state to actually leave the EU. There has been a lot of disagreement about the possible consequences of this move.

Tasks:

14.1.A Get started: The European Union

In groups of four consider the following questions. Appoint a speaker to present your ideas to the class.

How "European" is your class? Who comes from an EU Member State? Who comes from a non- member state?

Is Europe the same as the European Union (EU)?

When do you think that you or your relatives are affected by European Union decisions? Write down your ideas on yellow post-its.
What opinions and prejudices do you know about the European Union? Use red post-its for negative and green post-its for positive aspects.
What are you interested in learning about the European Union? Find three questions everybody in your group would like to know about the European Union and write each of them on the yellow cards provided by the teacher.

14.1.B1 Work with key words

Play the domino in groups of four.

14.1.B2 Consolidate key words

Let's play bingo: Choose 9 terms from the memory and the glossary, write them into your blank bingo form and listen carefully if they fit the definitions read out by your teacher.

14.1.C The history of the EU until 2013 – timeline

When did what happen? Put the correct event to the year.

1951	1957	1967	1973	1981–1986	1986	1993	1995	2004	2007	2009	2013

A	Accession of Bulgaria and Romania
B	Accession of Croatia
C	Accession of Greece, Portugal and Spain
D	Accession of the neutral states Austria, Finland and Sweden
E	Eastern expansion: enlargement by 7 new members
F	European Coal and Steel Community (ECSC): members: the Benelux countries, Italy, France and Germany
G	European Economic Community (EEC): customs union
H	First Northern Expansion: Accession of Great Britain, Ireland and Denmark
I	Lisbon Treaty: simplifies and modernizes the EU's institutions, following the bloc's enlargement from 15 to 27 member states since April 2004
J	Single European Act (SEA): free movement of goods, services, capital and persons within the single market
K	The European Communities(EC): comprising the ECSC, the EEC and the European Atomic Energy Community (EURATOM)
L	Treaty of Maastricht – foundation of the "European Union" (EU): agreements on the European Economic and Monetary Union (EMU) as single market, Common Foreign and Security Policy (CFSP), - police and judicial cooperation in criminal matters (PJC)

14.1.D The history of the EU – what's wrong?

True or false? Complete the table with correct answers about the historical development of the European Union.

Statement	**True**	**False**	**Explain**
The European integration process is stimulated by the nationalism of European countries.			
Germany and Italy started the integration process.			
The European single market consists of the free movement of goods, capital, people and services.			
The Treaty of Maastricht consists of three pillars ECSC, CFSP and JZPS.			
EU Council of Ministers and the European Parliament constitute the legislative power in the European Union.			
EU Member States are also euro countries as a matter of course.			
The entry of Romania and Bulgaria was called Eastern enlargement.			
The last EU Treaty was signed in Lisbon.			

*14.1.E (optional) Open questions of interest on the European Union

Coming back to the questions you have collected in 14.1.A, get into groups of common interest and choose two you are going to investigate to present to your class.

14.1.F The future of the EU – which Union should be used?

Determining the purpose of the European Union relates to various areas. The European Union therefore recognizes different ideas and models.
Use the Internet to find the sources used by the different forms of the European Union, and complete the table with definitions that make these differences clear. Search for people and organizations who advocate a particular Union. What are their arguments? Which Union do you prefer? Justify your conclusions.

Type of Union	Definition	People, Institutions, Organizations
POLITICAL UNION		
ECONOMIC UNION		
BANKING UNION		
STATE UNION		
FINANCIAL UNION		
SOCIAL UNION		

*14.1.F (optional) Conceptions and misconceptions of EU

Let's have a look at the first ideas you had when starting with the European Union. Which ideas have been clarified? Which ones have been proved correct, which ones are incorrect? Defend your opinion.

Glossary

bailout	Rettungsschirm	*The bailout was created to help financially troubled EU member states.*
customs union	Zollunion	*In a customs union both internal and external tariffs are the same for all member states.*
directives	Richtlinien	*EU directives define EU goals that have to be implemented by national laws of the member states.*
external tariff	Außenzölle	*tariffs of a state/union with states outside the union*
free movement of goods, services, capital and persons	Freier Waren-, Dienstleistungs-, Kapital- und Personenverkehr	
free trade area	Freihandelszone	*In a free trade area the member states have the same internal, but different external tariffs.*
internal tariff	Innenzölle	*tariffs among the member states within a union*

monetary union	Währungsunion	In a monetary union members share the same currency.
net contributors	Nettozahler	countries that financially contribute more to the EU budget than they receive from it
net recipients	Nettoempfänger	countries that receive more funding than they pay into the EU budget
regional policy	Regionalpolitik	the policy affecting a certain area
regulations	Verordnungen	EU regulations define the rights and obligations of EU citizens.
revenue	Einnahmen	income of an organization or a state or big enterprise
single or internal market	Binnenmarkt	an association of countries trading with each other without restrictions or tariffs
subsidies	Förderungen	a sum of money granted by the state to help an industry or business
trade facilitation	Handelserleichterungen	Trade facilitations between states were established.