CIVITAS

Economics and Finance

Introduction

The European Union (EU) was founded as the European Economic Community (EEC) and its original goals were focused upon making the European economy more open and effective. The Treaty of Rome (1957) set out four economic freedoms that it wanted to create in Europe: free movement of goods, free movement to provide services, free movement of capital and free movement of people. This model envisaged one day transforming the national economies of European states into a single economy. Pursuit of these goals has produced integration in many areas of the economy including internal and external trade, taxation, currency and competition. However, the process has often been slow, as member states have disagreed over which powers should be given to the EU and which they should keep.

Internal Trade and Competition

The EU operates a single market designed to allow the free trading of goods and services across the national boundaries of member states by the removal of **protectionist** barriers. **Tariffs** were removed with the European Customs Union in 1968, but the single market was not officially considered to exist until 1992, when most of the remaining barriers had been taken down. This created a zone where member states are free to trade goods and some services, although others remained controlled by national governments. The EU Commission acts as the regulator of the free market. It also has a significant role in ensuring fair competition between European companies. This involves the EU Commission and the European Court of Justice (ECJ) engaging in active investigation and court cases against businesses suspected of engaging in illegal practices.

Currency and managing money

The EU plays a significant role in member states' monetary policy. All member states are part of the Economic and Monetary Union (EMU), a project that began in the early 1980s as a way of moving towards a single **monetary policy** for the European Community.

There have been three stages to EMU: first, countries agreed to keep their **exchange rates** stable and to remove obstacles to the free movement of capital. Secondly, the European Central Bank was created and **conversion rates** were established between national currencies and the Euro. Although not one of the official EMU stages, the Stability and Growth Pact (SGP) was also created in 1997 to promote good economic management. Finally, in 1999, 11 member states agreed to fix their exchange rates and handed over the power to set interest rates to the European Central Bank (ECB), thus creating a single currency area. Euro notes and coins finally replaced national currencies in January 2002 and are currently used by 19 member states. Three old member states – Britain, Sweden and Denmark – decided to stay out of this final stage of EMU. However, Greece joined in 2001, followed by Slovenia in 2007, Malta and Cyprus in 2008, Slovakia in 2009, Estonia in 2011, Latvia in 2014 and Lithuania in 2015.

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External Trade

Promoting easier trade between Europe and the rest of the world has been one of the most significant roles of the EU Commission. The EU has the authority to represent all EU member states in World Trade Organisation (WTO) negotiations and has a responsibility for promoting **free trade**. All member states must agree to the same tariff rates on imports coming into the EU from other parts of the world. This was seen as an important part of creating a single market. However, the EU has recently been accused of blocking free trade because of protectionist policies that it imposes, such as the Common Agricultural Policy (CAP).

Tax Policy

Creating a joined-up tax system across the EU is central to the operation of an effective single market. This is needed to make a level playing field for businesses to operate and to encourage EU citizens to move between member states. **Value-added tax (VAT)** is already regulated at an EU level. However, most members have resisted giving up more control over tax because they see it as an important power of a sovereign government.

Innovation

From 2000 to 2010, EU leaders attempted to modernise the European economy through a programme called the Lisbon Strategy. This tried to make the European economy more competitive by improving research and development skills and calling for economic reforms to help member states prepare for challenges resulting from new technology. In particular, it aimed to open up the single market for services, a sector in which about 70% of Europeans are employed. The Lisbon Strategy was a limited success and was replaced with the **Europe 2020** strategy in June 2010. The new strategy aims to create an inclusive society by reducing youth unemployment. It also aims to increase investment in research and to develop environmentally-friendly technologies.

Technical Terms

- ***Protectionist:*** restriction of free trade in an attempt to protect domestic producers and markets.
- ***Tariffs:*** a type of tax imposed on imports or exports.
- ***Monetary policy:*** the policies employed by Governments or Central Banks to control money supply and interest rates to achieve economic goals.
- ***Exchange rates:*** the ratio in which one country's currency is valued against another.
- ***Conversion rates:*** the ratio by which one country's currency value would be replaced by the Euro (e.g. how many Euros would replace 1 Franc etc.)
- ***Free trade:*** international trade where there is no restriction on the import or export of goods.
- ***Value-added tax (VAT):*** an indirect tax on most sales of goods and services.
- ***Europe 2020 strategy:*** underpins all EU policy regarding the Single Market. It particularly aims to create jobs and an inclusive society.

Links

- http://ec.europa.eu/eu2020/index_en.htm

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