Creating a Functioning European Union

Introduction

This chapter looks at the evolution of the European Union (EU), and the establishment of the European Central Bank (ECB) and the Economic and Monetary Union (EMU) in relation to the deregulation process and legal framework. Moreover, it informs readers about the story behind the single currency, deregulation and liberalization policies applied by numerous EU countries during the 1980s and 1990s as well as procedures during to change over to the euro. Furthermore, the price stability of the euro since its introduction, as well as financial integration in the EU are discussed. The overall objective of this chapter is to explain why all these developments have been a turning point for the global financial system.

Origins of the EU, EMU and ECB

For centuries, and most recently during the period 1870–1945, Europe was the scene of devastating wars, with consequent loss of life. A number of European statesmen – Winston Churchill, Konrad Adenauer, Alcide De Gasperi, Jean Monnet and Robert Schuman – came to the conclusion that the only way to maintain a lasting peace in Europe was to integrate the countries economically and politically. Following this, in 1950, the French Foreign Minister Robert Schuman proposed integrating the coal and steel communities of Western Europe, known as the European Coal and Steel Community (ECSC), as the first step towards creating the EU, which was set up in 1951. In 1967 the institutions of the three European communities (Benelux, Germany and Italy) were merged, and since then there has been a single Commission and Council of Ministers as well as
a European Parliament. Accordingly, the Court of Justice, the Court of Auditors and the European Central Bank (ECB) were established. The ECB defines the roles of these institutions as:

- **The European Parliament**: The EU’s institution of democratic expression, political control and legislative process.
- **The Council of the European Union**: The main decision-making institution with legislative and budgetary power, which brings together the ministers of relevant member countries.
- **The European Commission**: Follows the implementation of regulations and directives adopted by the European Council. It can appeal to the Court of Justice to ensure the application of community law.
- **The Court of Justice**: Can ascertain and give a ruling as well as control the legality of the EU’s or institutions’ actions.
- **The Court of Auditors**: Checks the legality and regularity of the revenue and expenditure of the Community and its good financial management.
- **The European Central Bank**: Is in charge of managing the euro and the EU’s monetary policy.
- **The ECOFIN Council**: Decides whether a member country has reached the necessary degree of sustainable convergence to adopt the euro based on the Convergence Reports prepared by the ECB and the European Commission, an opinion of the European Parliament and a proposal from the European Commission.

**Origins of the European Union (EU)**

The origins of the EU go back to the Treaty of Paris signed in 1951, which established the ECSC.² At the initial stages, the ECSC consisted of six countries, namely: Belgium, Germany, France, Italy, Luxembourg and the Netherlands, which established the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) after signing the Treaties of Rome on 25 March 1957. Following this, the EURATOM developed into the European Communities (EC) and then, with the adoption of the Maastricht Treaty in 1992, the EU.³

The early years of the EEC were principally focused upon developing a customs union. Over the same period an economic boom created much greater prosperity in Western Europe and drove forward the liberalization of the EEC economy. In 1963, the United Kingdom (UK) made its first attempt to join the EEC, but was rejected by the French President Charles de Gaulle.