

THE FUTURE VIABILITY OF THE EUROPEAN UNION

by

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ABSTRACT

The Brexit vote and the rise of populism across the globe, made most evident following the election of Donald Trump in the US, threatens the integration and stability the European Union (EU) knows today. Many European citizens are becoming frustrated with the EU's free movement immigration policy in light of heightened terrorism in their countries and the current refugee crisis. This paper explores the pros and cons of membership in the European Union to come to an unbiased conclusion on whether other member nations may choose to leave the Union, as the United Kingdom did. Understanding the formation of the EU and the current economic, legal, political, and cultural implications of membership will help students, investors, and business people understand the intricacies of the EU to better respond to future events surrounding its member nations. Though populism and frustrations are rising across Europe, this research concludes that the benefits of increased stability and political and economic integration outweigh the costs of open borders. However, European leaders must work together to address citizens' concerns and make concrete changes to its immigration policies in order to protect the unity of the EU and fend off another "Brexit" or populist election.

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The United Kingdom's decision to leave the European Union (EU) has caused investors, historians, and citizens around the world to question why they voted to leave and to what extent they will actually separate themselves from the EU. The vote also led more people, both in the European Union and abroad, to look closer into what it means to be part of the EU, and this is exactly what people in Germany, France, and Italy are doing as they approach upcoming elections. Immediate news responses to Brexit expressed shock, anger, and apprehension as the stock markets plummeted and people across the world wondered what this meant for Europe and the globalized world. Was this a signal that the spread of globalization was halting and xenophobia and inward-looking nations would be the new wave of the century? Or was there more to the story that people across the world were looking over?

As the period of panic and shock passed, people began looking for the more rational reasons for a Brexit, finding that the news was not as shocking as the world thought. In fact, Great Britain has a long history of skepticism and unrest with the structure and policies of the European Union, and it is much easier to understand the referendum to "leave" after looking into this history. The nation's leaders' primary issues with the EU were its supranational nature and ability to control the country from outside its borders. The politics of the European Union are unlike any other in the world, causing membership to mean giving up some control of the individual nations to a much larger, central federation.

While Great Britain was apprehensive about membership in the EU from its very onset, other nations may be learning gradually about what it means to be a member. A specific case to observe for this scenario is the debt crisis Greece faced in 2009. The nature of interest rates, debt, and monetary policy controlled by the European Central Bank (ECB) has created complexities the financial world has never seen before. The reality that nations in the European Union have

unique financial goals and needs makes it difficult for one bank, one monetary system, and one currency to effectively respond to each nation's needs.

Complex politics and economics may be the real drivers behind the United Kingdom's decision to leave and other nations' growing frustrations, or the referendum may truly be a case of xenophobia and isolationism, as people originally believed. As Donald Trump was elected president of the United States on November 8, 2016, backed by his anti-immigration campaign, people across the world experienced déjà vu of Brexit. It is possible that the European Union's politics and economics are effective and that the referendum to leave was based primarily on human emotion and xenophobia.

Each of these issues and concerns leads to the question of whether the EU will be able to exist as it does today into the future. Will the 27 remaining nations in the EU be able to continue working together under one source of power and one financial system, or will the problems it has faced over the past decade cause it to fall apart? In the book *The Great Deception: The Secret History of the European Union*, Euroskeptic Christopher Booker states, "After 50 years of slowly and painfully assembling the puzzle, was it possible that the pieces were not in fact going to fit together after all?"ⁱ The answer to this question will reach across the globe as businesses and policymakers have come to depend on the current structure of the EU to run "business as usual." Another concern is that globalization and world trade may slow, leading to the more isolated, inward-looking world we knew decades ago.

To offer a potential answer to these questions, this paper will delve into the history, economics, politics, and human nature of the European Union to determine the strengths and weaknesses of its structure and determine if its continued, future existence is viable. My research will explore the pros and cons of membership to determine if the European Union will

remain as integrated and powerful of a supranational entity in upcoming decades. Historians, economists, and bloggers alike have their strong opinion on membership in the European Union, but there is little research that looks at all the pieces of the puzzle in an unbiased way. This paper will attempt to do just that by comparing these opinions and research with each other and by observing key events in the European Union to find their greater implications. Posing a solution will educate people on the intricacies and history of the European Union at a vital time in its existence. This understanding will allow investors, businesspeople, and everyday citizens to be better prepared for any future changes in the European Union, which may create shocks throughout the financial markets, business world, and governments.

Pros and Cons of Membership

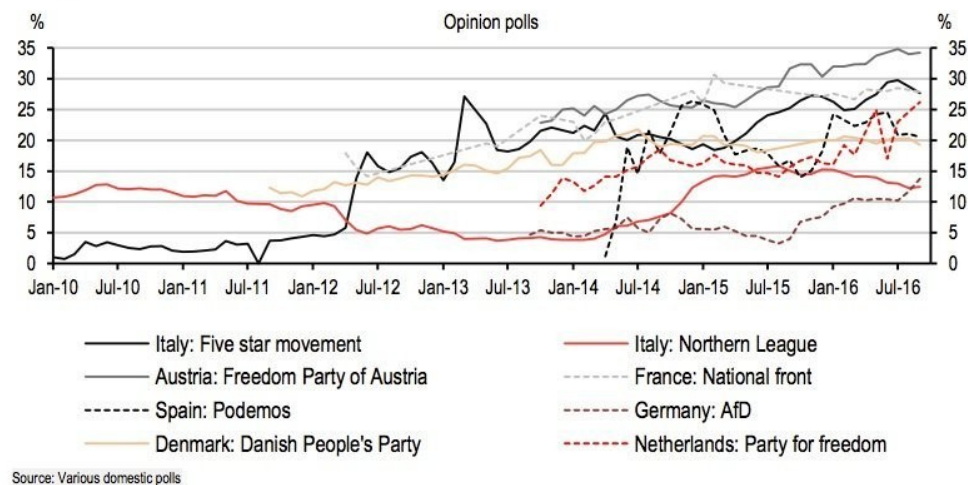
This paper will explore many aspects of membership within the European Union, ranging from economic, legal, political, and cultural implications. In summary of my research, below is a generalized list of the pros and cons I have found of member nations' participation in the European Union. It is impossible to determine the true cost or benefit that comes with membership, as there has not been a test case to observe, but multiple studies show that membership has both benefits and downfalls, it is simply hard to determine the net effect and how this differs over time and through different countries' experiences.

Pros	Cons
Increased peace and stability between European countries	Increased regulation
Ability to make a larger global footprint and to enter global trade agreements as an EU bloc	Required to give up power of some governing rights to supranational body
Access to a large trading bloc—creating the inexpensive and free movement of goods and services, which eliminates tariffs and other taxes that would otherwise exist within Europe	Internal EU trade making some nations winners and others losers, requiring the “winners” to financially protect the “losers”
Access to skilled workers through free movement clause of a single market	Loss of control of borders, allowing at times unwanted immigration
Greater investment in debt market by outside investors due to converged interest rates, a single currency, and the backing of larger EU nations	Loss of control of monetary policy, such as through quantitative easing or managing interest rates on a per-country basis
Common currency eliminates foreign exchange costs and related risks	Inability to devalue currency for nations facing trade deficits

Current Events

The United Kingdom's decision to leave the European Union has people across the world considering their own cost-benefit analysis of their nation's membership in the EU, as populist groups with similar sentiments gain power in general elections. Though recent polls show it is unlikely for a populist party to win upcoming elections in Germany and France, the growing support for these movements illustrates European citizens' growing frustration with the operation of their nations and the EU as a whole. The rise of populist sentiment across the world underscores the importance and relevance of understanding the true pros and cons of membership in the EU. Additionally, the surprising nature of Brexit and Donald Trump's election has proven it is hard to trust the polls and that almost anything is possible.

11. ...which has contributed to the rise of populist and euro-sceptic parties across Europe



Netherlands—General Elections on March 15, 2017

Dozens of candidates from numerous political parties ran to become the Dutch Prime Minister in March 2017. Geert Wilders, an anti-Islam member of the Dutch Party for Freedom, was at times winning the polls on his populist stance. Wilders and the Freedom Party wanted to close

mosques and Islamic schools and increase border security, and the party revered the UK for their exit from the EU. ⁱⁱ Though Conservative Prime Minister Mark Rutte won the election in March, Wilders' standing in the race illustrated the growing populist sentiment in Europe.

France—Presidential Election on May 7, 2017

The French will take the polls this May 2017 to select their next president, and the world will watch on in anticipation of discovering the progress of a populist movement in France. After the April elections, which ended with no candidate winning the majority of votes, the race lies between Marine Le Pen and Emmanuel Macron. Marine Le Pen is taking advantage of the growing Populist Party in France, and polls show she is a top contender due to the “Trump effect” leading dissatisfied voters to choose her to change the direction of the country. Le Pen is the daughter of Jean-Marie, previous Front National leader and a “racist and a convicted holocaust denier.”ⁱⁱⁱ Le Pen has softened the image of the party, but her background and anti-immigration stance makes her a starkly controversial candidate. ⁱⁱⁱ Though Le Pen is currently behind in the polls, the recent Trump election demonstrated the possible inaccuracy of polling and the growing populist sentiment across the world.

Germany—Federal Election on September 24, 2017

Angela Merkel will run for her fourth term and arguably her most difficult campaign this September. The Alternative for Deutschland (AfD) political party has gained popularity due to its anti-immigration stance fueled by the refugee crisis and Berlin Christmas Market attack. A recent poll by *Forsa* found Ms. Merkel's conservative party with 38% of the votes, the Social Democrat party with 21% of the votes, and the AfD with 11% of the votes. Though Merkel is currently favored to win, the emergence of the populist AfD is a concern for her standing as it

may also ride the “Trump effect” of attracting frustrated German citizens. This federal election will determine members of the Bundestag, the German legislative body, and the Chancellor. ^{iv}

Italy—General Elections in 2018 may be called early

Though Italy’s general elections are scheduled for 2018, President Sergio Mattarella may reschedule them for some time this year, following the resignation of Prime Minister Matteo Renzi in February 2017. After Renzi’s proposals to amend the Constitution were rejected by Italian voters, the Prime Minister resigned in frustration with the current operations of the Italian government; he was hoping to streamline the legislative process through the referendum.^v Mattarella appointed Foreign Minister Paolo Gentiloni as prime minister to replace Renzi, but parties such as the Five Star Movement are challenging the legitimacy of his government and calling for an early election. The Five Star movement is an anti-establishment, populist organization that has pledged to hold a referendum on Italy’s membership in the EU. In current election polls, The Five Star Movement and Democratic Party, which Renzi was part of, are tied with about 30% support in polls asking Italians who they would vote for in the upcoming Parliamentary elections.^{vi}

Trends

The populist movement appears to be growing at an insatiable rate across Europe. Triumphs in the UK and US driven by a nationalist and anti-immigration stance have further awakened and empowered these groups. In a populist meeting in Germany last month, Le Pen stated, “We are living through the end of one world, and the birth of another. In 2016, the Anglo-Saxon world woke up. In 2017, I am sure it will be the year of the Continental peoples rising up.” Wilders followed, stating, “The world is changing. America is changing. Europe is changing. It started last year with Brexit, yesterday there was a Trump and today the freedom-loving parties gathered

in Koblenz making a stand.”^{vii} Across Europe, the rise of these populist parties threatens the “Union” aspect of the European Union, potentially leading to further exits from the EU.

The Birth of a Union

The European Union is facing a critical time in its existence as the UK begins its exit and populist groups gain support, and it is important to look back to the foundation of the Union to determine its initial intentions. Belgium, France, Germany, Italy, Luxembourg, and the Netherlands created the foundation of the European Union in 1945 as a means to ensure peace in the region.^{viii} Observing the origins of the Union helps analyze the true viability of its future, as this is where the true purpose of the endeavor can be found. Historians state that the concept of a supranational European endeavor emerged in the mind of a French diplomat and adviser, Jean Monnet, in 1943. As a member of the French Committee of National Liberation, Monnet first declared his idea of an integrated Europe at an August 1943 meeting, stating,

“There will be no peace in Europe, if the states are reconstituted on the basis of national sovereignty... The countries of Europe are too small to guarantee their people the necessary prosperity and social development. The European states must constitute themselves into a federation...”ⁱ

His idea materialized into action through the Schuman Plan in 1950, which placed all production of coal and steel under one governing body. The stated purpose behind the plan was to unite the most powerful producers of this resource to prevent future war, and the union was the precursor to the European Economic Community and European Union.

A significant gap in the literature of European history is an unbiased account of the psychology behind its foundation. Great polarity exists between pro-Europeans and Euro-

skeptics, which makes it difficult to find a common ground. Some explanations, such as the one posted on the *Europa* website, bias towards the benefit of the Union, noting its creation of peace, economic prosperity, growth, etc. Other accords, such as told in Christopher Booker's novel, portray a very pessimistic picture of the Union, calling it undemocratic and manipulative.

Throughout his book, Booker speaks to the propaganda of the European Union and states that it is the only story of its kind because the EU's leaders work to suppress its true intentions. This begs the question, is Booker a conspiracy theorist, or just one of the only people to figure out the truths to share with the world? Book critics claim both.

For Booker, the story of Monnet has two key aspects. The first is his desire to create a federation, a supranational European power that presides over national sovereignties. The second is his nationality as a Frenchman. Booker explains that Monnet's greatest trait was his ability to manipulate others from behind the scenes, hiding the true intentions of his actions.¹ Booker believes Monnet had a predetermined agenda to make a Union that was all-powerful and very much undemocratic, with egotistical intentions, but that the diplomat was able to hide his true motives and slowly lay the foundation of the Union we know today. Because these initial motivations remained hidden, European countries were not able to find out how overreaching this Union would be until their governments were truly integrated, as was the case for the United Kingdom. As more countries continue to feel the power of the Union in the lives of their people, the more may choose to leave, which would continue weakening the strength of its unity and call into question the viability of its future.

The other notable piece of Monnet's story is his French background and France's lead role in the Schuman Plan. The very foundation of the European Union was based on the desires of the French for the benefit of the French. The country was able to enact an agricultural policy

that would protect French farmers, take over 90% of the Community's budget, and enact a fishery policy that gave control of the United Kingdom's best fishing waters to the French.

Booker claims,

“For France the rules of the Community were there to be imposed on other countries when this served French interests, and ignored by France herself whenever it suited her...the ‘European project’ had all along been as much a project for promoting the power, wealth, influence and glory of France as anything else.”ⁱⁱ

Just as France controlled the Union during its formation, Germany has now taken its reigns due to its overpowering economic capabilities. The odds of another European country truly winning at France and Germany's game are slim.

Though many skeptics emphasize France's role and prestige in the Union, many pro-Europeans also confirm its legitimacy. George Soros, a Hungarian-American businessman, mentions in an interview that the euro was a Franco-German development. Soros speaks to the responsibility he feels Germany has to find a way for periphery countries to enjoy the economic benefits equal to Germany and France, which he thinks is impossible due to the nature of the euro and basic economic trade truths: where there are winners, there must be losers.^{ix} While Soros' stance is extreme, as the nature of trade ultimately results in net gains for participants, the foundation of a single monetary union does benefit some members more than others.

As time continues, more people will begin to feel the power of the Union in their everyday lives, allowing them to better understand its intricacies. For a long-term future of the Union to be viable, individual governments and citizens must benefit from the complex regulations and structures currently in place as they learn more about them with time. For the United Kingdom, as its understanding of the policies of the Union grew, so did its people's

distrust and distaste towards membership, ultimately leading to its exit. The prospect of other countries coming to a similar realization is not far-fetched and would slowly break down the unity it took so long to put together.

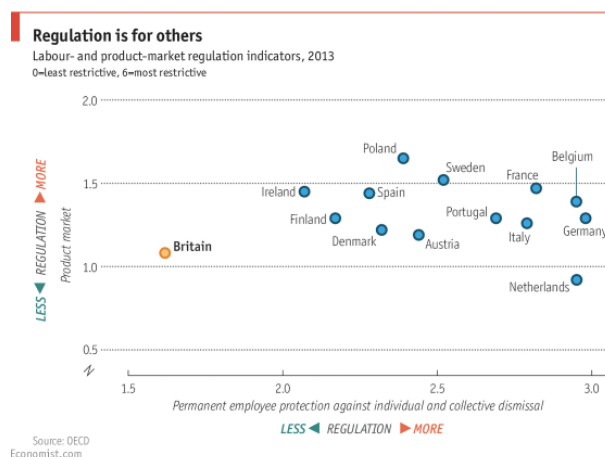
Economic Implications

One of the primary purposes of the European Union is enhanced economic benefit brought about through a Common Market. To determine the viability of the EU's future, it is important to ensure that a Common Market truly is benefitting its member countries.

Regulation

In light of the upcoming referendum, *The Economist* wrote an article titled "Better off in or out" to observe pros and cons of EU membership, specifically looking at the United Kingdom. The article states that the greatest economic factors within membership are "regulation, trade, foreign direct investment, and migration." It is hard to compare the true cost of regulation in the EU because it is impossible to determine whether regulation at the individual market level would be less or greater than at the current Common Market level. While some policies benefit member countries, there are others that have been extremely costly for members, such as the EU's working time directive, which limits the number of hours employees can be required to work.

The OECD examined the level of regulation across European countries and found that Britain is actually one of the least restrictive, signaling that it is possible to manage the regulation in the Common Market.^v



Trade

Another relevant economic issue is trade and measuring how much membership in the European Union truly enhances it. John Springford of the Centre for European Reform researched this topic and determined that Britain's trade within the EU was 55% greater than it would be if it was not a member. A Eurosceptic argument is that leaving the EU would allow for greater trade with other countries. However, *The Economist* states that this argument is not convincing since other EU countries have much larger trade accounts with countries such as China and India, so it must not be membership that is blocking the UK from international trade. The article also states that membership has bolstered foreign direct investment in the UK significantly, and an end to its membership would create greater barriers between the UK and the common market.

Migration has also been a topic of focus surrounding Brexit as UK politicians speak of potentially closing their nations' borders. *The Economist* illustrates, however, that the nature of migrants living in Britain actually provides economic benefit to the country, as they are large taxpayers and small benefit-consumers. A reduction of migration would be costly to the UK.^x

Globalization and trade has slowed over the past few years, and economists argue if this is a result of growth saturation, China's economic slowdown, declining commodity prices, or anti-trade government policies. Over the past several decades, the world has experienced strong trade growth, but trade to GDP has been declining since 2012.^{xi} A 2016 report by the Center for Economic Policy Research in London explains that "the sense of the global pie getting larger has the soothing implication that one nation's export gains don't come at the expense of another's." Economists Simon Evenett and Johannes Fritz argue that in this circumstance, one nation's gains come at the expense of another nation's, creating rising tensions across the world.^{xii}

The World Trade Organization (WTO) produces an annual report on global trade developments to examine growth and patterns, specifically since the 2008 financial crisis. The report notes that between October 2015 and May 2016, World Trade Organization members created 154 new trade-restrictive measures, such as import or export tariffs, import bans, quantity restrictions, and the establishment of more complex customs measures. This is the highest monthly average of new restrictive measures since 2011. Additionally, there is a slower pace of removing previous restrictions, causing the growth of overall restrictions to reach 11% over the past year. Though the WTO report does not comment on the reasoning to these trends, the statistics illustrate that countries are becoming more bordered from others' trade.^{xiii} The UK's decision to leave the EU follows these trends and causes others to wonder if other nations will follow.

Sovereign Debt

An outcome of an economic union and common currency was the convergence of sovereign debt interest rates. Due to the guarantee of an assumed risk-free government-backed security, many lower-rated countries, such as Italy and Greece, were able to receive financing at less expensive levels than ever before. The convergence of debt and bond markets made most nations better off, guaranteeing investors greater stability and nations better debt ratings. This led to the onset of increased investments within these countries that, unfortunately, could not be sustained over the long-term.^{xiv}

When the reality of Greece's financial situation was revealed after the 2008-2009 financial crisis, rating agencies downgraded the country's bonds making it harder for Greece to access the capital markets and refinance its debt. In March 2010, Greece went to the EU and IMF for a €45 billion bailout package. The rescue package continued to increase, reaching €130

billion of bailout funds by October 2011. This bailout increased long-term distrust in the Greek economy and other periphery countries in the EU (Portugal, Ireland, Italy, Greece, and Spain), causing their costs of financing to increase. In Ulrich Volz’s paper “Lessons of the European Crisis for Regional Monetary and Financial Integration in East Asia”, he states,

“In particular, the Greek crisis and the hesitant political response from the other European countries raised concerns over the debt situation and the structural and competitiveness problems of the economically weaker periphery member countries of the Eurozone.”^{vi}

Volz explains how the structure of the EU helped cause the crisis for Greece and then made it furthermore difficult for the country to recover.

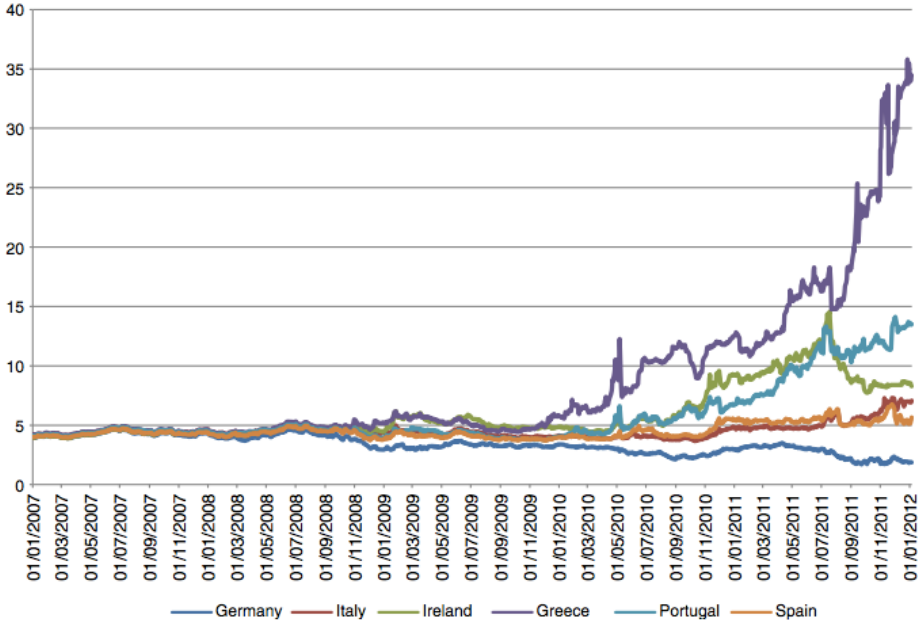


Fig. 1 Ten-year government bond yields, January 2007–January 2012. Source: Datastream

George Soros further supports this idea explaining that the convergence of interest rates across countries created a divergence in performance as the weaker countries enjoyed booms in real estate, investments, and consumption. When the financial markets reimposed interest rate differentials, these weaker countries became heavily indebted. Soros goes on to explain that

Germany's focus on competition over unity with other EU nations is further hurting the periphery countries.ⁱⁱⁱ He states,

“The German emphasis on competitiveness is intellectually incoherent. Not everybody can achieve a trade surplus, because for every trade surplus, there has to be a deficit. That is simply a matter of arithmetic. So to insist that everybody should have a trade surplus is to insist on suspending the laws of arithmetic. If Germany does insist on this mathematic impossibility, it may end up destroying the European Union.”ⁱⁱⁱ

The reality that each nation has its strengths, weaknesses, and unique needs makes it difficult for each to operate within a single bank. As the European Union is the first of its kind to impose a supranational government and bank over its member nations, policymakers have no lessons from the past to base their policies and responses on, forcing them to learn as they go.

As the weaker economies struggle without the monetary tools to devalue their currency and access the capital markets at their own rates, and as stronger countries continue supporting the EU's budget and other member nations, these difficulties may incentivize other nations to leave for the good of their economies, businesses, and people.

The Euro

The euro is used as the common form of currency in the European Union, and is currently used by 19 of the 28 countries in the Union. Non-eurozone countries include Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Sweden, and Denmark. Denmark is legally exempt from having to adopt the euro, just as the United Kingdom was, but each of the other nations must enter the Eurozone after meeting specific criteria, such as reducing annual budget deficits and controlling exchange rate stability. Benefits of using a common currency within the trading bloc include eliminating the risk of fluctuating exchange rates and exchange costs. It also

provides convenience to companies that operate across borders. Finally, the euro gives the EU more global recognition, as it is currently the second most important currency in the world behind the US dollar.

Using the common currency also has its costs, such as giving up control of monetary policy. By joining the Eurozone, EU member countries give the European Central Bank (ECB) the power to enact quantitative easing/tightening programs and manage interest rates. Each member country has its own challenges, and monetary policy under the ECB makes it impossible to independently address the challenges of one nation without affecting the others. For example, after the 2008 financial crisis, the ECB raised interest rates to protect Germany from inflation. While this positively impacted Germany, other nations, such as Italy and Portugal, struggled to recover in the high rate environment.^{xv}

While using a common currency surely has its benefits and its costs, UK's exclusion from the Eurozone makes Brexit a much cleaner break than if it had adopted the euro. The UK decided not to join the Eurozone after it failed an economic test created by Gordon Brown that tested whether the UK would prosper with the euro. The test looked at if interest rates could manage its business cycles, if the ECB could manage its local economic challenges, and if, overall, the common currency would protect its businesses, financial services, growth, and stability. After analyzing these factors, the UK Prime Minister at the time, Tony Blair, decided the UK would not join the Eurozone.^{xvi} Since the UK kept the sterling pound instead of adopting the euro, exiting the European Union will be much simpler than if the nation also had to worry about transitioning its currency. This is an important factor to consider for other member countries that express frustration with the EU; a Eurozone country leaving the EU would be much more complicated and costly for the exiting nation.

Legal Implications

The differentiating feature about the European Union from other alliances in the world is that it operates with independent countries that have agreed to unite their decision-making capabilities to benefit from the Union's scale. This requires member nations to give up some of their power in choices that affect the EU as a whole.^{xvii} Eurosceptics worry that the member nations have given up too much of their decision-making abilities and are giving policymakers operating in other countries and behind closed doors the power to make important decisions for their countries. To examine the legitimacy of these claims, it is important to understand how the European Union's legislation works and determine the pros and cons of the system.

Formal System

According to the European Union's guide to EU institutions, every action taken by the governing bodies of the Union is based on treaties voluntarily approved by member states.

For example, the Treaty of Lisbon simplified voting methods and created a President of the European Council with intentions to make the EU a bigger player in the global stage. The main governing bodies of the EU are the European Parliament, the European Council, the Council, and the European Commission. The European Parliament is made up of 766 members elected by their countries with the goal to represent citizens' interests, pass laws, and supervise other branches of the EU legislative body. The European Council consists of the Heads of States or Governments, such as a prime minister, the President of the European Council, and the President of the European Commission with the intention to decide on the priorities and direction of the European Union. The Council consists of ministers from each member state that meet to discuss and pass laws; the minister that attends from each state is dependent on the subject of the meeting, such as foreign relations or environmental issues. Finally, the European Commission is

the independent, executive arm of the Union that proposes new laws and represents the EU to the outside world.

Typically, the European Commission proposes new laws and the Parliament and Council are responsible for accepting and executing them. If a regulation is passed, all member states are responsible for following suit, but do not need to change their national laws unless there is a law in place that directly conflicts with the regulation. Another form of binding legislation is a directive, which defines a particular goal for the Union to achieve and typically requires member states to adjust national laws in a way they seem fit to achieve the objective.

The governing bodies of the European Union are only intended to act when action would be more impactful at the higher level than member state level. The EU has control over areas such as customs, monetary policy, competition procedures, and trade conservation. The EU shares control with member states when dealing with their internal markets, agriculture, consumer protection, the environment, and transportation. All other decisions are made at the member state level.

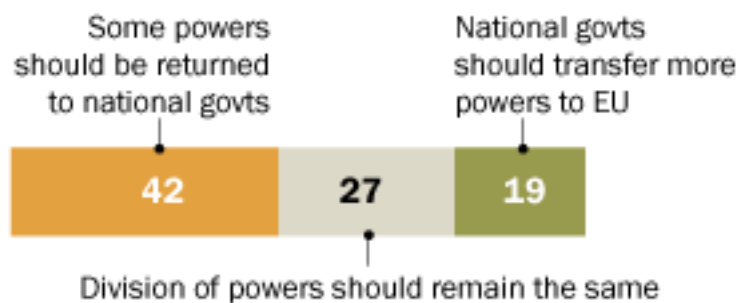
Criticisms of the System

Blogger Fjordman explains on *Europe News* that the EU Constitution is hundreds of pages long and displays an essence of wanting to “regulate all aspects of human life.” He argues that the length and complexity of the Constitution make it nearly impossible for all citizens to understand, which is also often a critique of US tax law. Fjordman also criticizes the structure of the Union in not having a sufficient checks and balances system and claims that the system lacks transparency as decisions are made in “shady backrooms.”^{xviii} Statements such as these add merit to theories by euroskeptics that information may be hidden from member governments and her citizens. While the system is designed to represent each member country and the good of the

entire Union, many complain that decisions are made by few for many and with little transparency.

A *Business Insider* article argues that critics of the EU's legal structure simply do not understand the election process, as each body and position follow different procedures.^{xix} An article by *Oxford Royale Academy* claims the EU is undemocratic because its focus was never on achieving a democracy—its mission has always been to keep peace between its nations. Democracy, then, was then at best a second priority.^{xx} Regardless of the reasoning behind citizens' critiques of the structure of the European Union, research shows most European citizens want to see more power in the hands of their own nations, not the EU. A *PewResearch* report shows that 42% of people want power given back to their nation's states, with only 19% of participants wanting more power in the hands of the EU.

Views about the future of the EU



Political Implications

Great Britain's Perspective

To observe the political implications of membership in the EU, it is best to look to the United Kingdom, as this was one of their greatest concerns. News of the United Kingdom's decision to leave the European Union in July 2016 sent shocks across the globe. The true story of Great Britain's involvement in the Union illustrates that this decision should not have been a shock at

all. The reality is that Great Britain is very different than its fellow European countries, and its leaders were always weary of the Union's impact on the country since its emergence. When the country was considering its entrance into the Common Market, French President Charles de Gaulle vetoed its entrance stating,

“England, in effect is insular. She is maritime. She is linked through her trade, her markets, her supply lines to the most distant countries. She pursues essentially industrial and commercial activities and only slightly agricultural ones. She has, in all her doings, very marked and very original habits and traditions. In short, England's nature, England's structure, England's very situation differs profoundly from those of the Continentals.”^{xxi}

The process of the United Kingdom's entrance into the European Union was long and protested, both with its own leaders and the leaders of other member nations. Many recognized the uniqueness of the UK government and questioned its fit in the Union from the onset. Even when the nation was completely “in” the European Union, it never accepted the single currency and, instead, maintained its independent monetary system.

Margaret Thatcher was one of the largest opponents in the United Kingdom to joining the European Union. She disagreed with the supranational nature of the organization and worked adamantly to keep Great Britain away from its control. At a speech in the Great Hall of the College of Europe in Bruges in 1988, she stated,

“It is ironic that just when these countries, such as the Soviet Union, which have tried to run everything from the centre, are learning that success depends on dispersing power and decisions away from the centre, some in the Community want to move in the opposite direction. We have not successfully rolled back the frontiers of the state in Britain only to see them re-imposed at a European level, with a European super-state

exercising a new dominance from Brussels... Willing and active co-operation between independent sovereign states is the best way to build a successful European Community... Europe will be stronger precisely because it has France as France, Spain as Spain, Britain as Britain, each with its own customs, traditions and identity. It would be folly to fit them into some sort of identikit European personality.”^{xxii}

Thatcher’s beliefs differed entirely from the Union’s founders’ and current leaders’. She believed in a Europe that focused on intergovernmental cooperation over supranationalism. A common slogan expressed by euroskeptics that shared this perspective was “we want to be in Europe but not run by Europe.”ⁱ This perspective illustrates many citizens’ desires to be allies with other European nations while maintaining its control of its governance.

After years of pressure for the UK to join, the nation slowly agreed, due partially to misconceptions of economic benefits that would follow after becoming a member. The nation’s economy was slowing in the 1960’s and its leaders looked to other nations in the European Union and watched them thrive. In 1967, UK per-capita-GDP was 6% less than the EU members as a whole; its leaders hoped joining the EU would help turn around its decline.^{xxiii}

Great Britain was accepted into the EEC in 1973 and began almost immediately feeling the gravity of membership. The country became one of the largest contributors to the EEC’s budget and had to begin complying with 13,000 pages of regulation that was written by other countries, damaging their competitiveness in key industries.ⁱ The nation’s leaders also further discovered the nature of the power setup for the Union. Malcolm Rifkind, a British politician, explains, “What disturbs people in Britain and many elsewhere is that they see a constant transfer of power in one direction only. They see all the footprints leading into the cave and none coming

out... where does it end?" For Rifkind, the prospect of closer political unity is just as dangerous, if not more so, than economic integration.^{xxiv}

Germany's Perspective

Germany today remains the powerhouse of the European Union due primarily to its large economy. Germany specializes in the production and exportation of complex products, allowing the economy to expand its exports of goods and services as a percentage of GDP much faster than its European neighbors. The complexity of its products has also protected the economy in times of recession. Germany's defensive manufacturing strategy, low government interference in the business world, highly educated citizens, and prosperous business environment has made Germany the fiscal leader of the Eurozone.^{xxv}

Germany's economic prowess gives the country a larger seat within EU politics, and the success of Angela Merkel further cements the positioning. Merkel became Germany's Chancellor in 2005 and is currently running for her fourth term. She is revered for keeping Germany's economy resilient during the financial crisis and gained more power during this time, as Germany became the largest payer in Eurozone bailouts.^{xxvi} *Time Magazine* named her Person of the Year in 2015 and titled her "the de facto leader of the European Union."^{xxvii} While the EU started as a Franco-German Partnership, the economy and leadership of Germany in present-day allows the country to lead the Eurozone, both politically and economically. However, with great power comes great responsibility, and Germany has been looked to for both Greece and Spain's bailouts.

Others' Perspectives

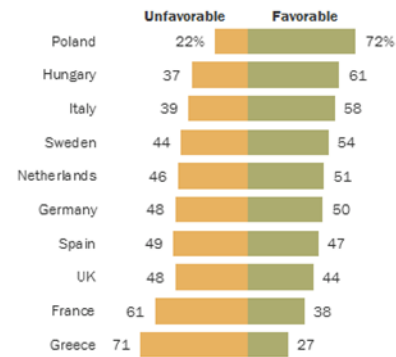
Though the EU was formed as a partnership between France and Germany, France now has one of the lowest approval ratings of all EU countries, followed only by Greece. Greece's disapproval is well understood following their debt crisis and continued struggling economy.

France's dissatisfaction is more of an enigma due to their original power in the Union. A *Reuters'* article claims

France is more concerned with its domestic affairs and is unhappy about the direction France is positioned, both globally and in the EU. A recent *TNS* poll found that 90% of the French disapprove of French President Francois Hollande due primarily to the high unemployment rate and recent terror attacks.^{xxviii} As France struggles internally, it fails to compete for power with other EU nations and loses control of its positioning and voice within the European Union.

EU favorability varies widely in Europe

Views of EU

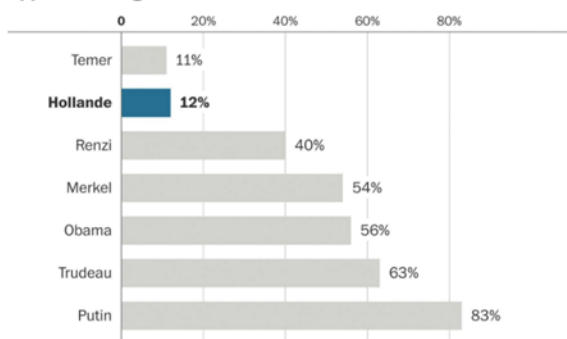


Source: Spring 2016 Global Attitudes Survey, Q10c.

"Euroskepticism Beyond Brexit"

PEW RESEARCH CENTER

Approval ratings of selected world leaders in 2016

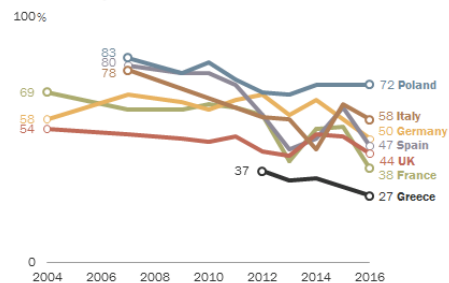


Publishing dates of respective approval ratings: Merkel, Putin, (March); Obama, Hollande (July); Trudeau, Temer (June); Renzi (April)

Source: Media reports
THE WASHINGTON POST

After short-lived rebound, views of the EU on the decline again in key European countries

Favorable view of EU



Source: Spring 2016 Global Attitudes Survey, Q10c.

"Euroskepticism Beyond Brexit"

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Poland, however, has a 72% approval rating of the European Union, due in part to the stability they have enjoyed since their 2004 entrance to the Union following a communist era and their thriving, export-oriented economy. A *Geopolitical Futures* article projects that Poland will

become a greater leader in upcoming years as its economy continues to grow and it builds its defenses and alliances to protect itself from Russia.^{xxix} Other countries continue to rely on the trade and financing capabilities they achieve through membership and are generally happy with membership in the EU. Across the board, however, most nations' approval of the EU is declining.

Cultural Implications

Looking past the science and into the authenticity of human nature, it is important to consider whether European nations' disapproval of the EU is actually a matter of xenophobia. A breakdown of acceptance of people from other nations in the EU threatens the existence of one of the Union's primary aspects as an open-market trading bloc.

Immigration

The immigration conversation surrounding the European Union is two-fold: some member nations are concerned with the free migration policy set by the EU between EU countries, and most are currently being faced with a migrant crisis as refugees seek shelter from the tumultuous Middle East. As these matters press on member nations, citizens and policy makers are becoming frustrated with the EU's supranational control over the issue, and are beginning to take matters into their own hands.

Free movement of people and jobs throughout the European Union is a key pillar to the single market objective created by legislation. The European Commission states,

“The Single Market refers to the EU as one territory without any internal borders or other regulatory obstacles to the free movement of goods and services. A functioning Single Market stimulates competition and trade, improves efficiency, raises quality, and helps

cut prices. The European Single Market is one of the EU's greatest achievements. It has fuelled economic growth and made the everyday life of European businesses and consumers easier.”

The EU claims that a single market cannot be achieved without the free movement of workers to facilitate the movement of these goods and services throughout Europe, so this requirement is a key provision of membership within the Union.^{xxx}

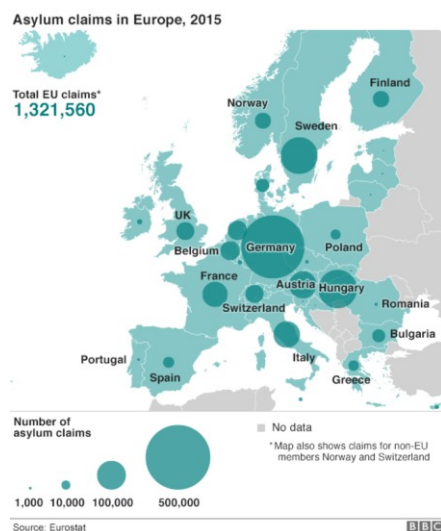
One of the primary complaints of UK voters during the Brexit campaign was that immigrants were taking British jobs, affecting their wages and taking advantage of their public services. This feeling was stirred following a report that 330,000 immigrants came to the UK in 2015, with 184,000 coming from EU nations. A *Wall Street Journal* article argues that this influx of migration was a result of success the UK has enjoyed from increased European immigration. For example, London is the financial hub of the European Union, conducting business for most European nations, thus creating European jobs, not UK jobs. The article warns that putting up borders and halting integration will take from the UK's success, causing the nation to lose the jobs entirely that they are trying to protect.^{xxxii}

UK officials admit that closing its borders will have both its costs and benefits, as Theresa May stated in her January 2017 speech that the UK intends to leave the EU single market. May stated, "What I am proposing cannot mean membership of the single market. Instead we seek the greatest possible access to it through a new, comprehensive, bold and ambitious free-trade agreement."^{xxxiii} However, it is unlikely EU leaders will give the UK the ability to trade freely within the Union. Keeping the EU's borders open to the UK may be seen as unfair to members and discourage continued unity between these member nations. Immigration's importance to the EU is underscored through Brexit—both the UK's decision to

leave, and the EU's complacency to let them go instead of changing policies proves the magnitude of immigration to the EU's objectives.

The United Kingdom is not the only nation that is attracting immigrants. The strong German economy has attracted immigrants for years, and their government is doing what they can to fill the available jobs with skilled workers. Though Germany has also dealt with concerns about immigration similar to the UK, they have taken a more accepting and productive stance in matching workers with jobs. Alex Plunnecke, a professor at the Cologne Institute, stated that one out of every two new German citizens born has foreign roots, illustrating that German is not the homogenous society it once was. ^{xxxiii}

Though immigration within EU nations has been a hot topic for member nations throughout the last decade, a more pressing current issue is the number of immigrants entering the European Union as refugees. Citizens primarily from Syria, Afghanistan, and Iraq are flooding into Europe to flee the violence occurring near their homes. In 2015, Germany claimed the most new asylum applications, reaching over 476,000, followed by Hungary, receiving 177,130 applications. Even more refugees are entering EU countries undocumented, predicted to be near one million immigrants into Germany in 2015.



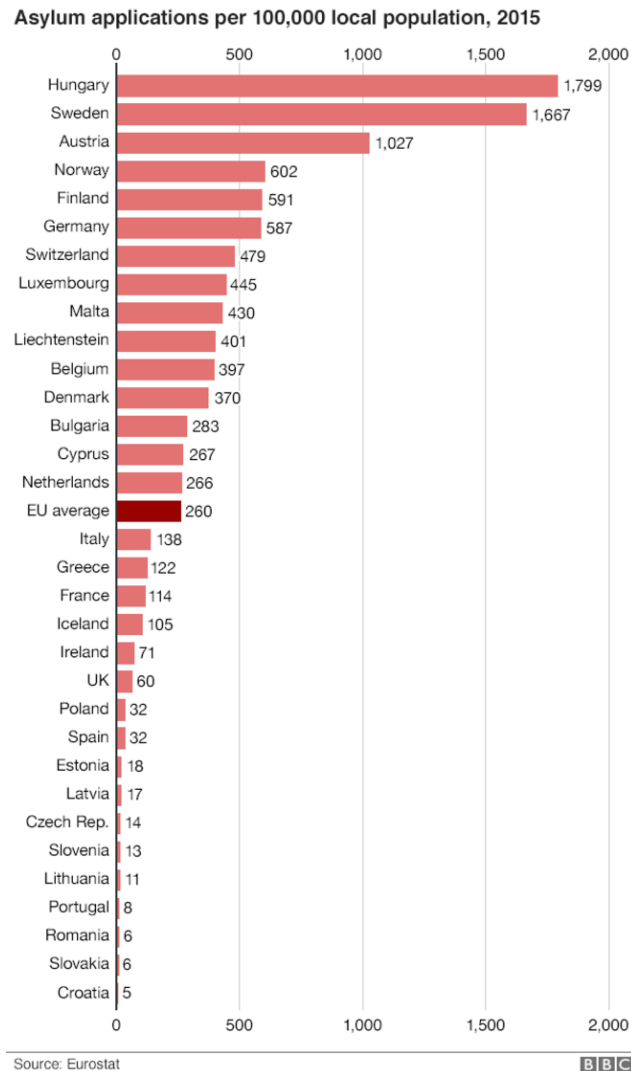
Angela Merkel, Germany's Chancellor, has been most accepting of refugees, but is receiving some backlash for these policies as terrorism and crime rise in recent years. The Chancellor was once revered for her open-armed, humanitarian approach to refugees, but was then blamed by some for the Berlin terrorist attack, when a truck drove through the Christmas market, killing 12 and injuring 56 people. Attacks such as these have animated parties like the AfD, a right-wing German political party that shares Trump-like anti-immigration perspectives. According to *NBC News*, if elections took place at the time of the article publishing, December 2016, the AfD would be the third largest political party in Germany. The NBC Article explains,

“While much has been said about the rise of right-wing parties across Europe, the ascent of the AfD stands out as particularly remarkable due to Germany's tragic history with populist politics, and the fact that it has accomplished in three short years what other European nationalist parties have taken decades to achieve.”^{xxxiv}

In response to similar sentiment growing across Germany, Merkel has hardened her stance on immigration by enacting new policies to discourage immigration to Germany. New policies include more rejected asylum applications, mass deportations, greater flexibility for police to detain suspicious people, and increased financial incentives for immigrants to leave.^{xxxv} Shifting sentiment in Germany is indicative of growing tensions in Europe, as increasingly more nations take an anti-immigration stance.

Hungary, though coming in second behind Germany for total migrants, has become most populated by immigrants in comparison to their local population and most cynical of their arrival. The government's spokesperson, Zoltan Kovacs, has announced new measures to detain those who have applied for asylum until they have been legally accepted—this policy goes

directly against EU guidelines.^{xxxvi} Additionally, the Hungarian government rejected the EU’s 2015 quota plan to share the burden of refugees in the EU.^{xxxvii} Kovacs explained that a “change in the mind of Europe” and Trump’s similar stance in the US as a justification to Hungary’s harsher positioning.



Across the world, from Europe to the United States, the globe is becoming more connected, tumultuous, and dangerous. As citizens fear for their lives from acts of terror, and politicians work to protect their nations and positioning, countries are becoming increasingly

more inward-looking. The spread of terror has instigated paranoia, and at times racism and xenophobia.

Xenophobia

A *Fox News World* article noted the rise in threats against foreigners in the United Kingdom following the decision to leave the European Union. Tribulations include people shouting “Send them home” at news reporters, a 57% rise in hate crime complaints the four days following the referendum, vandalism at a Polish cultural center in London, dog feces left in an immigrant’s mailbox, and numerous other accounts of explicit words being yelled at foreign-born citizens and visitors.^{xxxviii} Whether xenophobia was the only reason for a Brexit could be debated, it is evident that these feelings had a part in British citizens’ desire to leave.

After two Polish immigrants were beaten and one killed in a potential hate crime, *The New York Times* released an article further describing the changes facing the United Kingdom. The article explains that members of the far-right in the UK worried that immigration was threatening their way of life, made them more vulnerable to terrorism, and was hurting their workers.^{xxxix} These are almost exact arguments made by Donald Trump, showing that this sentiment is growing across the world.

Dictionary.com’s word of the year in 2016 was xenophobia, due to “The Brexit vote, police violence against people of color, Syria’s refugee crisis, transsexual rights, and the U.S. presidential debate” driving users’ search of the word. The site defines xenophobia as “fear or hatred of foreigners, people from different cultures, or strangers...customs, dress and cultures of people with backgrounds different from our own.” The magnitude of this word can be felt across the globe as Theresa May states the UK will close its borders, the US attempted a travel ban

from Middle Eastern nations, and multiple European Union members reject refugee quota requirements. ^{xl}

Even more surprisingly, a recent *YouGov* poll found that almost half of European adults in 12 countries hold anti-immigrant views. The poll surveyed 12,000 people to measure the extent of authoritarian populist perspectives, looking at “anti-immigration sentiment, strong foreign policy views, and opposition to human rights laws, EU institutions, and European integration policies.” The survey found authoritarian populist attitudes in 49% of British adults, 63% of French adults, 47% of Italian adults, 18% of German adults, 82% of Romanian adults, and 78% of Polish adults. The former leader of the UK Independence Party, Nigel Farage, explains, “What is happening across Europe is not some sudden revelation, but a slow build-up of disillusion amongst the peoples of Europe let down by an anti-democratic political class who are attempting to build a United States of Europe without the consent of the citizens.” While clearly an opinionated view of the EU, similar sentiment is being held by more people across Europe.^{xli} In early October 2016, Merkel warned,

“In 1990, when the wall fell, the Cold War came to an end and freedom blossomed everywhere; it looked like we were on an irreversible road to victory, and that it was just up to the rest of the world to join our model. Freedom had won. It now turns out things aren't that simple.”^{xlii}

After years of extended globalization and freedoms, many are worried we are facing a backwards trend of isolationism and closed borders

The gravity of this sentiment is often ignored in the typical cost-benefit analysis of membership in the European Union, but it is just as important as studying the political and economic implications of membership. In the article “Xenophobia and the European Union”,

authors Sara De Master and Michael K. Le Roy describe the rise of xenophobic groups in the European Union and the sympathetic views others share with them. They state that the rise of this sentiment threatens the integrity of the EU, but that these nationalistic influences and cultural factors are being ignored despite how diverse the EU is. The article claims,

“The perception of irreconcilable national differences plays a significant role in shaping public opinion, and the failure to recognize and address the issue of xenophobia may threaten the political transformation of the European Union.”^{xliii}

Continued integration and success of the European Union not only depends on its political and economic viability, but also is largely dependent on human nature and people’s nationalist sentiment. Further integration may lead to heightened xenophobia, and it is crucial to consider this impact on the potential viability of a continued European Union into the future.

The United States of America’s Successful Integration

In many ways, the states within the United States of America follow similar policies as the member nations do in the European Union. Why has the USA been successful at converging its governing and monetary bodies while maintaining some control at the state level while the EU structure has received so many complaints? A *Quora* response by Matthijs Lenaerts, a Representative of International Student Affairs at the University of Leuven, notes several differences between the two governing bodies. The largest difference is that the United States is one sovereign nation, while the European Union is made up of several sovereign nations that all have the option to join or leave the Union. His article also claims that cultural diversity is more varied in the EU than America, which is logical as European differences in languages are to American differences in dialects. Another *Quora* participant, Martin Brilliant, a doctorate from Massachusetts Institute of Technology, notes that when the states joined together in America,

they were already using the same currency, speaking the same language, and opposing a common enemy—this is not the case of EU member nations.^{xliv} Though the US has been able to more seamlessly allow the transfer of goods, services, and people between the borders of their states, they started the union of their nation with much fewer differences, complexities, and individual, national policies.

Conclusion

Membership in the European Union clearly has its costs and benefits, and as European countries struggle with recovery from the financial crisis, increased terrorism, and a dramatic refugee crisis, frustration with the costs of membership are rising and taking the spotlight. Citizens across the EU are pressuring their leaders to make a change to protect their safety, jobs, and individual cultures. Donald Trump's election and the Brexit vote underscored that this sentiment can lead to concrete change, illustrating the potential for a successful populist movement throughout Europe, especially in light of the upcoming elections in France and Italy.

While the focus of these populist campaigns is primarily on immigration, citizens are now, more than ever, pointing to other cons of being a member in the EU, such as having given up some of their nations' control over legislation and monetary policy to a large, external, and supranational body. Immigration in the light of heightened terrorism and the current refugee crisis has served as the tipping point of frustration for many member nations.

Citizens' concerns and the various cons to membership previously discussed are legitimate claims to voting against continued membership in the EU, signaling the potential for additional "exits" from the Union. However, the pros to membership give an equally, if not more so, legitimate rationale to staying inside the Union going forward, signaling, instead, that member nations may find other ways to address the immigration issue than simply leaving the

Union. The EU has experienced years of peace amongst its member nations since forming the Union, a drastic change following the two World Wars fought amongst its members. The benefits the Union gains as a whole through increased power on the international table, having combined their individual powers into one, is also inarguable as a clear advantage to membership. Finally, member nations' access to the largest trading bloc in the world, especially in an increasingly inward-looking global economy, gives each country an economic advantage to membership. The UK's future economic success or decline outside the EU trading bloc will serve as a test case for this argument, but the implications of its exit from the EU will not be clear for several years.

Though populism is growing throughout the world, it is unlikely these euroskeptic, anti-immigration parties will gain enough support to win an election in the upcoming year. The peace and stability created through the European Union is likely to win over the frustrations surrounding immigration and monetary policy; however, it is vital for EU leaders to listen and respond to their peoples' concerns. Though free immigration is a main pillar of free trade in the European Union, leaders, both on the national and supranational levels, need to work together to create new legislation that protects and pleases its citizens. Donald Trump's election and the Brexit vote illustrate the growing frustrations blue-collar citizens have with the current nature of politics, and how these frustrations can lead to shocking changes in governance.

If EU leaders wish to keep the EU together, incremental changes need to be made that increases legislation's control over immigration in light of increased terrorism and the refugee crisis. Without these changes, the frustrations of European citizens will continue to rise, demanding more dramatic changes and driving the populist movement. Though the current standings of European elections doubt a populist party victory in Germany, France, and Italy, the

research laid out in this paper illustrates the logical grievances these parties express, and the tumultuous world politics over the last year warns people to be prepare for anything.

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