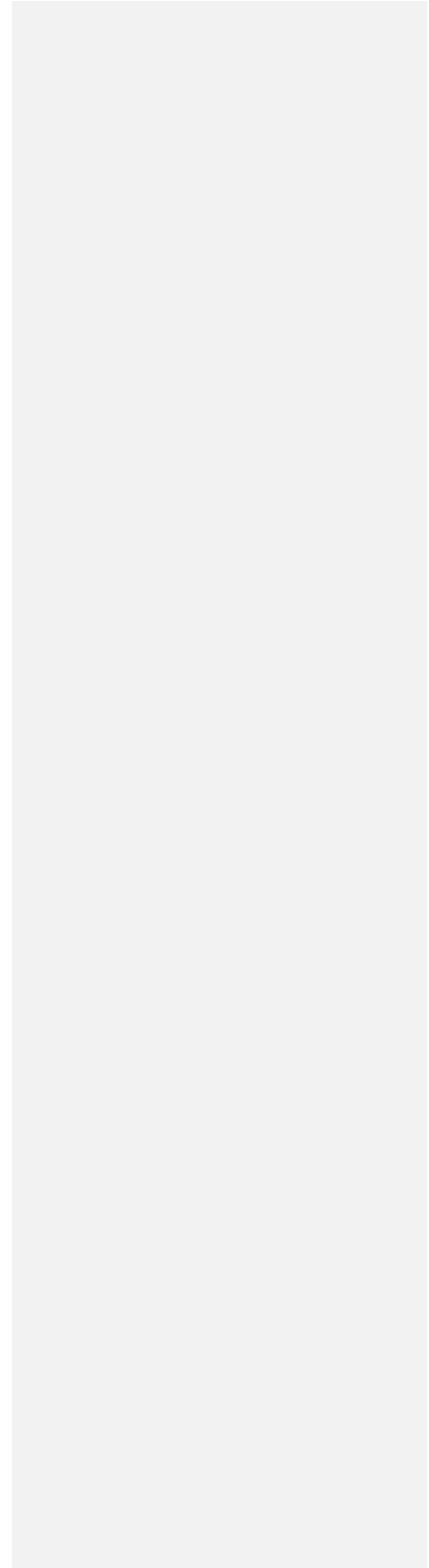


# **Mapping European Economic Integration**

Edited by  
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## Table of Contents

<b>List of Abbreviations</b> .....	iii
<b>List of Tables and Graphs</b> .....	v
<b>Preface</b> .....	vi
<b>Acknowledgements</b> .....	vii
<b>1. Introduction</b> .....	2
<i>Amy Verdun and Alfred Tovias</i>	
<b>2. EU Agricultural Policies and European Integration: A Thematic Review of the Literature</b> .....	6
<i>Tim Josling and Alan Swinbank</i>	
<b>3. The EU External Trade Policy</b> .....	30
<i>Peter Holmes and Alfred Tovias</i>	
<b>4. EU Competition Policy from an Economic Perspective: Shaping Policy or Shaped by Policy</b> .....	52
<i>Peter Holmes and Beatrice Dumont</i>	
<b>5. The Emerging Economics of Single Market Regulation</b> .....	76
<i>Jacques Pelkmans</i>	
<b>6. European financial market integration: A Review of the Literature</b> .....	107
<i>Paul Schure</i>	
<b>7. Governance in the Euro Area - Approaching an Optimum Currency Area?</b> .....	108
<i>Niels Thygesen</i>	
<b>8. Economic Governance and Sustainability</b> .....	123
<i>Annette Bongardt and Francisco Torres</i>	
<b>9. EU Enlargement and Theories of Economic Integration</b> .....	149
<i>Susan Senior Nello</i>	
<b>10. A review on research in economic and social cohesion in the EU, the design of EU regional policy, and its implications</b> .....	170
<i>Gabriele Tondl</i>	
<b>11. Pensions and European integration</b> .....	191
<i>Heikki Oksanen</i>	
<b>12. Conclusion</b> .....	214
<i>Amy Verdun and Alfred Tovias</i>	
<b>Appendix: List of Contributors</b> .....	?

## List of Abbreviations

ABARE	Australian Bureau of Agricultural and Resource Economics
ACP	African Caribbean and Pacific countries
AD	Anti-Dumping Policy
AOL	America Online
BE-COMP	BreakEven and COMPetition
BEPGs	Broad Economic Policy Guidelines
BMA	Bayesian Model Averaging
CACs	Collective Action Clauses
CAP	Common Agricultural Policy
CARPE	Common Agricultural and Rural Policy for Europe
CEECs	Central and Eastern Europe countries
CEPR	Centre for Economic Policy Research
CET	Common External Tariff
CFI	Court of First Instance
CJEU	Court of Justice of the European Union
CMOs	Common market organizations
CSF	Community Support Framework Programmes
CUFTA	Canada US Free Trade Agreement
DB	Defined Benefit
DC	Defined Contribution
DG	Directorate-General
DG Comp	Directorate-General Competition
DG ECFIN	Directorate-General for Economic and Financial Affairs
DR	Doha Round
EA	European System for Accreditation
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAGGF	European Agricultural Guidance and Guarantee Fund
EASA	European Aviation Safety Agency
EBA	Everything but Arms
EC	European Communities
ECB	European Central Bank
ECHA	European Chemical Agency
ECJ	European Court of Justice
ECMR	EC Merger Regulation
ECOFIN	Economic and Financial Affairs
ECSC	European Coal and Steel Community
EDP	Excessive Deficit Procedure
EEA	European Economic Area
EEC	European Economic Community
EFC	Economic and Financial Committee
EFSA	European Food Safety Authority
EMEA	European Medicines Agency
EMS	European Monetary System
EMSA	European Maritime Safety Agency
EMU	Economic and Monetary Union
EP	European Parliament
EPAs	Economic Partnership Agreements
ERA	European Railway Agency
ESM	European Stability Mechanism
ESPON	European Observation Network for Territorial Development and Cohesion
ESRB	European Systemic Risk Board
ESRI	Economic and Social Research Institute

ETS	Emissions Trading System
EU	European Union
EU ETS	EU Emissions Trading System
FDI	Foreign Direct Investment
FEOGA	Fonds Européen d'Orientation et de Garantie Agricole
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEFRA	Gesellschaft für Finanz- und Regionalanalysen
GHG	Greenhouse gas
GNP	Gross National Product
GWB	Gesetz Gegen Wettbewerbsbeschränkungen
ICN	International Competition Network
IO	Industrial Organization
IORPs	Institutions For Occupational Retirement Provision
IPR	Intellectual Property Rights
LDCs	Least-developed Countries
LFAs	Less Favoured Areas
LUFPIG	Land Use and Food Policy Inter-Group
MCAs	Monetary Compensatory Amounts
MNMCs	Mediterranean non-member countries
MTO	Medium-Term Objective
NAFTA	North American Free Trade Agreement
NAPs	National Allocation Plans
NICNIR	No Imperfect Competition, No Increasing Returns
OCA	Optimum Currency Area
OECD	Organisation for Economic Cooperation and Development
OEEC	Organization for European Economic Co-operation
OMC	Open Method of Coordination
PAYG	Pay-go
PP	Precautionary Principle
PPP	Polluter Pays Principle
QMV	Qualified Majority Vote
R&D	Research and Development
RD	Rural Development
REACH	Registration, Evaluation, Authorisation & Restriction of Chemicals
RIA	Regulatory Impact Assessment
RoW	Rest of the World
SF	Structural Funds
SGP	Stability and Growth Pact
SHEC	EU regulation about safety, health, environment and consumer protection goals
SIEC	significant impediment to effective competition
SME	Small and Medium Sized Enterprises
SPC	Social Protection Committee
SPS	Single Payment Scheme
SSA	Sub-Saharan Africa
TFEU	Treaty on the Functioning of the European Union
UN-ECE	United Nations Economic Commission for Europe
UNCTAD	United Nations Conference on Trade and Development
UR	Uruguay Round
US	United States
USA	United States of America
USDA	United States Department of Agriculture

## List of Tables and Graphs

Box 5.1	Market Failures: Definitions and Examples
Figure 5.1	A Properly Functioning Internal Market
Table 5.1	EU Subsidiarity Test
Figure 5.2	Internal Market: Interface With the EU Common Policies
Table 8.1	Costs and benefits of a European competitive, low-carbon economy industrial strategy: Cooperation vs. non-cooperation from the rest of the world (RoW)
Figure 9.1	Costs and Benefits to Existing Club Members of Expanding Membership
Table 9.1	Pre-Enlargement Empirical Studies of the Potential Economic Impact of Enlargement
Figure 9.2	Shifts in the Marginal Costs and Benefits of Enlargement
Box 10.1	The Concept of Regional Income Convergence
Figure 10.1	EU Cohesion Policy Aid Intensity by Member State, Programme 2000-2006 and 2007-2013
Table 10.1	Long-Term Increase of GDP Level in Per Cent With SF Support in Contrast to GDP Level Without SF
Box 10.2	How Does the Long-Term Regional Income Distribution Look Like?
Figure 10.2	GDP Per Capita Growth in EU-27 Regions, 1995-2000 and 2000-2004
Table 10.2	Structural Funds 2007-2013, Cumulative Multipliers
Box 10.3	Spatial Dependencies and Convergence
Figure 10.3	Perfect Convergence Among EU Regions in 1960-1973 – Growth Versus Initial GDP Per Capita
Box 10.4	Using Macroeconomic Models to Assess the Effects of the Structural Funds
Figure 10.4	Moving From Unimodal Income Distribution to Club Convergence

## Preface

Many a university instructor will have found herself or himself in a situation where she or he did not know what book to consult to learn about the cutting edge research on a topic of instruction. This book aims at serving that constituency in the area of European economic integration. It aims to respond to the needs of both instructors of European economic integration who are generalists – that is, those who are not necessarily well-versed in economics but who have a good understanding of European integration. It also seeks to serve economists who may or may not be familiar with many of the areas of European economic integration. As the field of economics has professionalized, with many scholars specializing further in a narrow aspect of economics, fewer and fewer economists have a good oversight over all aspects of European economic integration, even if they are familiar with one or more parts of it. Not only instructors encounter these issues; students and researchers often face the same problem, namely, where to find the leading edge work on an area. With fewer and fewer economists writing books, this subfield is particularly poorly serviced.

This book aims to address all three of these audiences by explaining the state of the field in various areas of European economic integration. As editors we have asked our contributors to spell out – to map – the field of their sub area. We asked them to review the scholarly literature in their sub area with a view to disseminating the research results and clarify the material to a wider audience. What lies before you is an attempt at offering a key text for all those readers who wish to find, in one volume, the state of the art research in European economic integration. We hope it will be a useful reference book for instructors and (lifelong) students alike!

Alfred Tovias and Amy Verdun, June 2011

## Acknowledgements

This book is the product of numerous years of cooperation. It was first conceived as part of a larger research project, the so-called Network of European Studies—'SENT' for short—coordinated by Professor Federiga Bindi of University Tor Vergata in Rome, who had obtained funding from various sources to support the project. The editors wish to acknowledge the wonderful support and assistance they have received from Federiga Bindi and her team, in particular Marco Amici and Sophie Arnac.

The SENT project received most of its funding from the European Commission (134461-LLP-1-2007-1-IT-ERASMUS-ENW) for a three year period starting on 1 October 2007 ending on 30 September 2010. SENT sought to 'map' the study of European integration in various countries and in different disciplines with a view to disseminating knowledge to various levels of students. The SENT project sought to map European integration studies in a number of disciplines: Cultural Studies, Economics, History, Law and Political Science, but also focus on other, more generic issues such as methodology and teaching of European integration and the role of film and media in the study of European integration.

Though the SENT project started already in 2007, the editors of this volume only joined the project in fall 2009—by taking on the leadership role over the 'economics' group. We had less time than the others, and thus needed to find additional support to reach the same finish line as the other team coordinators. As a group we were fortunate to receive additional funding from the Scuola Superiore Della Pubblica Amministrazione (the National School of Government) of the University Tor Vergata for which we are very grateful. These two funding sources enabled us to meet for the first time from 1-3 July 2010 in Rome, at a workshop in which first versions of the papers were presented. Also, after the end of the financial period of the Commission project funding, this book had not yet materialized. The book preparation benefitted from support from the Centre for Policy Studies (CEPS) in Brussels. Jacques Pelkmans hosted a workshop in December 2010 at CEPS in which the second revised versions of the papers were presented.

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# 1. Introduction

Amy Verdun and Alfred Tovias

European economic integration has formed part of the core of European integration more generally. Ever since the European Communities started, students of European integration have had an interest in understanding the fundamental mechanisms behind European integration. In university courses one saw an emergence of courses in European Politics, Law and Economic integration.

In early years European economic integration was taught as a course on its own that sought to address numerous field specific questions, such as: why European countries choose to integrate, that is to reduce trade barriers, create a common market amongst themselves, fix exchange rates or consider introducing a common or single currency, have a common agricultural policy, and develop a common external trade policy, to name just a few of the important questions.

Early scholars of European economic integration emphasized that European integration went through stages. Scholars like Tinbergen (1954), Balassa (1961), Corden (1972a; 1972b) Curzon Price (1974) and Machlup (1977) identified stages that started with a Free Trade Area, Customs Union through to a Common Market, a Monetary Union, a complete Economic Union and possibly a more deeply integrated Political Union (see also El-Agraa and Ardy 2011, chapter 2).

As time went by the idea that integration would necessarily have to pass through all these stages in sequence became discredited. The actual practice of integration in the European Union (EU) with new member states joining the EU in a big bang, but also with the checkered experiences of Association of Southeast Asian Nations (ASEAN) countries and the African Monetary Union suggesting that there could be different ways to achieve deeper integration. Despite the fact that the different stages, may not necessarily need to be followed in sequence the original insights about analytically identifying stages still remained useful.

What was noticeable was that the study of European economic integration was informed by the practice of European economic integration. That means that the focus of research was often on those areas in which there was observable integration.

In the 1950s European economic integration was achieved in some areas such as coal and steel and atomic energy. The European Economic Community, which started in the late 1950s, facilitated integration in many areas of market integration, in particular agriculture, transportation, and trade of goods within the Community and the creation of a common external commercial policy towards third countries.

In the 1960s the Customs Union was completed (1968) and the Common Agricultural Policy (CAP) was further established. In the monetary sphere initiatives were developed to create an Economic and Monetary Union (EMU) in the Community by 1980 (Commission of the European Communities 1970). The focus in the Community broadened up and became more focused on these areas.

In the 1970s the Community witnessed its first enlargement (Denmark, Ireland and the UK joined). The result was that regional policy became more important but also the understanding of the CAP changed because of UK membership. The latter country had not built up a system of price supports for farmers and was more accustomed to paying world prices (and receiving world prices) for agricultural products and deficiency

payments when needed. Regional policy was developed so as to ensure that the UK, among others, would be able to draw from the common budget funds for what it wanted to develop, namely areas in the UK that were lagging behind. Another theme that played an important role in the 1970s was the increasing positive and policy-shaping role by the European Court of Justice. Cases that served before the court by this time, on which the Court made important judgements took place in the 1960s and 1970s (van Gend en Loos 1963 and Costa vs ENEL 1964 and Cassis de Dijon, 1979). These court decisions paved the way for deeper market integration, a larger role for competition policy, and an expectation that integration through law and economics would be in the cards.

In the 1980s the tables had turned again. The British weekly business magazine *The Economist* published a tombstone on its front cover on the occasion of the 25<sup>th</sup> anniversary of the European Communities. The early years marked a period of eurosclerosis – few people believed that European integration could do much to jump start growth or cooperation. In the EC member states governments were increasingly reflecting on the question of ‘how much state intervention’ versus ‘how much should the market do’. This second half of the 1980s was to become the start of a paradigm shift whereby governments of West European countries would reflect on the need for more deregulation. The mid and late 1980s saw an increase in Euro-enthusiasm, and a focus on completing the single market by 31 December 1992 as a target date (Commission of the European Communities 1985; Emerson 1988). Competition policy became an increasingly larger area of study. Towards the end of the 1980s the EC member states had decided to integrate capital markets so that capital could float freely in the EC marking the potential start of EMU. Indeed in April 1989 the Delors Report was presented and in 1992 incorporated into the Treaty on European Union, making the aim to create an EMU in stages a clear objective (Committee for the Study of Economic and Monetary Union 1989, hereafter ‘Delors Report’).

In the 1990s, with the plan to create EMU by 1997 or 1999, it became increasingly clear that public finance needed to be reassessed (Emerson 1991). Pensions had not been considered much when policy makers and government officials realized that with EMU one needed to become more disciplined in the area of public finance. By the end of the decade the cost of public services, including the role of pensions (and cost of maintaining affordable pensions) had become part of the public discourse, thereby mainstreaming pensions studies. In this decade we also witness an increased interest in enlargement. After all, the EU prepared in 1990s and the early 2000s for the entry of up to 12 new member states. Eventually ten joined at once in 1 May 2004, followed by Bulgaria and Romania in 2007. More and more scholars are interested in how the differences among the 27 member states can be overcome, and to what extent one should worry about the stark differences among them. Of course adding so many new member states, many of which are relatively poor, in terms of per capita Gross Domestic Product (GDP) and have large agricultural sectors (compared to the old member states) leaving the EU in a situation that it simply must reform the CAP if it is to keep its budget under control. At this time one can also respond to the increasingly vocal critique that the CAP is no longer in line with the current thinking as it leads to oversupply, messing up the world prices for agricultural products due to dumping practices and the frequently heard concern as to why farmers would be the only special interest group to be receiving EU

income support in an environment in which state intervention is increasingly frowned upon.

In the 2000s the tables turn again. At this point the European Union realizes that it is likely facing a change in economic reality: the rise of countries such as Brazil, Russia, India and China (the so-called BRICs) whilst Europe is observing that many of the traditional jobs are no longer viable on European soil, particularly not in the older member states. This insight, coupled with the reflection on the concerns surrounding climate changes, leads the EU to put forward a new focus: the Lisbon Agenda. It was to get more people highly trained, employable, and ensure that the EU will become the most competitive economy within a decade. It was soon clear that the mantra was insufficient to secure that. When the EU assessed its achievements it realized it needed updating, and in the 20-20-20 doctrine the EU seeks to balance innovation and building the knowledge economy with an attempt to respond to the crash in the financial markets and the loss of competitiveness to the BRICs and other less developed countries globally. The EU also realized that the single market was not yet complete. It needed deeper integration in the financial sphere but also in the selling of services across borders. All these observations led to the EU's increased focus of attention on market integration (completing the single market for goods and services) and in particular in the area of financial integration.

What this brief overview of the process of European economic integration shows is that it has been a process that fuelled research in part because of the developments in European integration in practice. Yet, at any give time, students of European economic integration have been working on studying European integration issues even if for purely academic reasons – unrelated to any developments in the policy domain.

In this book various themes will be discussed. In the concluding chapter we will return to the lessons learnt from each of these case studies in various subfields.

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