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978-1-107-00796-3 - The European Union: Economics and Policies: Ninth edition

Ali M. El-Agraa

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The European Union has established itself as a leading text that provides readers from all disciplines with a sound understanding of the economics and policies of the EU. Its wealth of information, detail and analysis has ensured that previous editions have been read by a generation of students, researchers and policy-makers. It covers all major EU policy areas, as well as theories of economic integration, the theory of economic and monetary union (EMU), the measurement of the economic effects of European integration and the legal dimension of EU integration. It also includes an explanation and analysis of all recent developments affecting the EU, such as enlargement, the ratification of the Nice Treaty and the Convention for the Future of Europe. This edition has been thoroughly revised and updated and includes new resources to help students and teachers, including summaries, review questions, suggestions for essay titles and further reading lists.

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To Diana, Mark and Frances
and those who believe in and actively support
an ever closer unity for Europe

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Preface

The European Union (EU) is the most significant and influential of international economic integration (IEI) schemes. There are three reasons, the sum of which explains this significance:

1. Of the six EU founding states, (West) Germany, France and Italy were top ten world economies. Since then, two such economies have joined: the UK and Spain. Hence today the EU includes half of the world's top ten economies. The EU has also proved a magnet for new members: in addition to the founding member nations, known as the Original Six, there are now an additional twenty-one. The EU of twenty-seven continues to receive applications for membership; hence it is set to include practically the whole of Europe, and may go beyond the geographic area if Turkey succeeds in joining in 2015. No other scheme matches this economic size and diversity.
2. From a voluntary viewpoint, the EU is the oldest IEI scheme in operation; voluntary in the sense that countries are not coerced into joining, due to their being dominated by a foreign country or captured by war. This longevity is part of the EU's attraction.
3. Most vitally, the EU has the deepest scheme of IEI. It is almost a complete economic union: (a) it is practically a complete 'common market', where people, goods, services and capital move freely – the four freedoms; (b) sixteen of its twenty-seven member states have the same currency (euro), with the European Central Bank in charge of Eurozone monetary policy; (c) it has a system for monitoring and influencing fiscal policy – the Stability and Growth Pact; and (d) it has its own budget, financing a range of policies. Also, since the entry into force of the Treaty on European Union (TEU), popularly known as the Lisbon Treaty, on 1 December 2009, it has: (e) a single president of the European Council; and (f)

a foreign policy chief who controls a vast diplomatic corps, now being established.

That is why the EU is fascinating to study, and this book attempts to guide those who care about an 'ever closer union' for the people of Europe. But it is not confined to 'Europeans', since the EU offers lessons for all countries that try to learn from it or even emulate it. This is not to suggest that the EU is heaven – far from it; it has always had its serious problems, some bringing it close to complete collapse: witness the financial and economic crises it has been experiencing since 2007, which prompted many to speculate on the imminent demise of the euro. But this is inevitable, given the diversity of EU peoples and economies.

This book is unique, and in more ways than one. First, when the first edition was published in 1980 there was no such text on the market; there were a few books for the layperson and the expert, which were naturally limited in scope. Second, this is the only text that covers every single major EU policy, but is inevitably slanted towards the economic, given the way the EU has developed. Third, although I am personally responsible for ten chapters of the book and co-author of another eight, the rest of the chapters are contributed by leading authorities in their particular area of EU expertise, but I have edited their contributions in such a way as to make the book read as a consistent whole. Naturally, in doing so, I have tried my best not to make them lose their unique style.

The book, together with its website, offers comprehensive coverage of all the major EU policy areas. It is written in such a way that the theoretical aspects are covered in separate chapters, so that those not comfortable with theory, either because they are averse to it or simply do not want to be diverted by it, can go straight to their chosen delight.

The book is in seven parts:

Part I EU history, institutions and legal dimension

Chapter 2 A history of European integration and the evolution of the EU

Chapter 3 EU institutions

Chapter 4 The legal dimension in EU integration

Chapter 5 The European economy: bare essentials

The aim of this part of the book is to provide a general background to the EU. Chapter 2 gives a short account of the history of European integration and the development of the EU. Chapter 3 provides a general description of EU institutions and their functioning. Chapter 4 explores the legal dimension in EU integration. Chapter 5 is a general survey of the bare essentials of the EU economy, using mainly charts, with the full statistical tables available on the website; it covers the major economic indicators for the present EU twenty-seven member states (MSs), as well as those involved in imminent enlargements and, to enable comparison, also for the rest of those in the group of eight (G8, now G20).

Part II EU market integration: theory and practice

Chapter 6 The theory of economic integration

Chapter 7 The economics of the single market

Chapter 8 Factor mobility

Chapter 9 Measuring the impact of economic integration

Part II of this book is devoted to a discussion of the theoretical and practical aspects of EU market integration. Chapter 6 covers the theory of economic integration, providing an overall picture of the analysis of the economic implications of the creation of a single market on both the partner nations and the rest of the world. It is followed by a consideration of these aspects in terms of the EU's Single European Market (SEM) in Chapter 7, with Chapter 8 dealing entirely with the question of the free movement of capital, labour and enterprise within the EU. Chapter 9 then deals with the nature and problems of the measurement of the impact of the formation of the EU on trade, production and factor mobility.

Part III EU monetary integration

Chapter 10 The theory of monetary integration

Chapter 11 The development of EU economic and monetary integration

Chapter 12 The operation of EMU

Part III covers all aspects of that far-reaching and most

demanding element of integration, monetary unification, including the adoption of a single currency. The three chapters cover, respectively: the theoretical analysis of the gains and losses from economic and monetary union (EMU); the EU developments that have led to the present situation, where twelve of the fifteen pre-2004 EU member nations are using the euro as their only currency, and where all countries acceding after that are obliged to join them when deemed fit, with five of them already having done so; and the management of the euro by the European Central Bank (ECB) and how the euro is operated.

Part IV The single European market: policy integration

Chapter 13 Competition policy

Chapter 14 Industrial and competitiveness policy: the Lisbon Strategy

Chapter 15 Tax harmonization

Chapter 16 Transport policy

Chapter 17 Energy policy and energy markets

Chapter 18 Environmental policy

Part IV of the book covers areas that constitute the very foundations needed to facilitate a properly operating SEM. Hence it tackles in six chapters: competition rules; industrial and competitiveness policy; tax harmonization; transport policy; energy policy; and environmental policy. Industrial policy is included because variations in it would be tantamount to affording differing protection to national domestic industry. The absence of tax harmonization would have consequences equivalent to those of disparate industrial policies. Similar considerations apply to transport, energy and the environment. Of course, transport and energy are also dealt with as industries in their own right, as well as providers of social services, and the environment is treated in terms of tackling pollution and the consequent health benefits.

Part V EU budget and structural policies

Chapter 19 The general budget

Chapter 20 The Common Agricultural Policy

Chapter 21 The Common Fisheries Policy

Chapter 22 Regional policy

Chapter 23 Social policies: the employment dimension

Part V of this book covers all EU policies that address certain structural aspects of the EU economy and

society. The EU affords special treatment to those in the agricultural sector, fishing industry and depressed regions, as well as dealing with EU-wide social problems, especially unemployment, hence employment. These areas are not only financed by the EU general budget, but also claim the bulk of its general budgetary resources. Thus this part of the book begins with the chapter on the budget and follows on with chapters on each of the mentioned areas.

Part VI EU external relations

Chapter 24 External trade policy

Chapter 25 The EU and the developing world

Part VI of the book deals with the external relations of the EU. Chapter 24 covers EU trade relations with its major partners within the context of the Common Commercial Policy (CCP) run by the European Commission on behalf of all EU member nations. Chapter 25 tackles EU relations with the developing world, in terms of trade, aid and preferential trading arrangements.

Part VII The future of the EU

Chapter 26 The future of the EU

Part VII of the book is naturally concerned with the future of the EU: where it is heading. It examines the views of all those who play influential roles in the drive behind European integration and sets them against the vision of the founding fathers.

Finally, I would like to thank all those who have contributed to this book over the years, especially those who are still with me since its inception, and to welcome Professors Ian Barnes and Imelda Maher and Dr Miriam Manchin to my team. Thanks are also due to Chris Harrison, Publishing Director for the Social Sciences at Cambridge University Press, for his encouragement and support, and to all his production teams for their excellent work.

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October 2010

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Ali M. El-Agraa

Frontmatter

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A reader's guide

The book is written in such a way that pure theory and measurement techniques are confined to separate chapters. This means that the policy chapters should be accessible to all readers. However, it also means that those who seek a rigorous, yet brief, background on international economic integration can find it handily in the same book. Moreover, as my contributors will no doubt attest, my editing style has been to ensure that the book reads as a whole, not as a collection of independent articles, each contributed for its own sake. This has been ensured through thorough editing and consultation with the contributors, cross-referencing, allowing repetition only where absolutely necessary, logical sequencing and a setting which begins with an introductory chapter and finishes with one on the future of the EU. In the process, I have tried my best not to distract from any contributor's own writing style. Therefore the reader has a unique product which offers a truly single entity, yet is authored by several acknowledged authorities in the various fields.

As to the reader's guide, for those truly interested in the EU as a whole, you will of course have to read the entire book, if you really want to understand it as a most successful scheme of international economic integration, with aspirations going beyond that. However, those who are simply interested in the EU itself without the global context can skip Chapters 6, 9 and 10, since these are devoted to theoretical

and measurement considerations which pertain to all schemes. Those interested only in the EU policy areas can drop Chapters 2–6 and 9, although Chapter 2 is important for a proper understanding. Those interested only in the EU economic policies can drop Chapters 2–4 and 23 and, if not interested in the future of the EU, can also drop Chapter 26. Those interested only in EMU and the euro can confine themselves to Chapters 7, 8 and 10–12, but are advised to read Chapters 2 and 26 for a proper understanding; those interested in this area with an emphasis on the UK will find my book *The Euro and Britain: Implications of Moving into EMU* (2002) more appropriate. Also various combinations of chapters can be made, depending on what the user/reader has in mind – for example, those interested in a very basic understanding of the EU can use Chapters 2, 3, 5 and 26.

Finally, the entire book is written with those who want to pursue further study in mind. Thus, within every chapter the reader is referred to the most relevant research publications in the field and these are fully set out in the Bibliography at the end of the book. Nevertheless, there are also guides to further reading at the end of each chapter, but no guides to other texts, since it is not our task to supply them, especially when this book is a pioneer in its field and covers more than one field of study – it is not confined to economics.



Abbreviations

AAMS	Association of African and Malagasy States	BEP	biomolecular engineering programme
AAU	Arab-African Union	BEST	Business Environment Simplification Task Force
ACC	Arab Cooperation Council	BLEU	Belgium–Luxembourg Economic Union
ACM	Arab Common Market	BRAIN	basic research in adaptive intelligence and neurocomputing
ACP	African, Caribbean and Pacific countries party to the Lomé Convention (now the Cotonou Agreement)	BRIDGE	Biotechnological Research for Innovation, Development and Growth in Europe
ADAPT	Community initiative concerning the adaptation of the workforce to industrial change	BRITE/EURAM	basic research in industrial technologies for Europe/raw materials and advanced materials
AEC	African Economic Community	BSE	bovine spongiform encephalopathy
AIM	advanced informatics in medicine	BU	Benin Union
AL	Arab League	CAA	Civil Aviation Authority
ALADI	Association for Latin American Integration	CACM	Central American Common Market
ALTENER	specific actions to promote greater penetration of renewable energy sources	CADDIA	cooperation in automation of data and documentation for imports/exports and agriculture
AMU	Arab Maghreb Union	CAEU	Council for Arab Economic Unity
ANZCERTA	Australia and New Zealand Closer Economic Relations and Trade Agreement (also CER)	CAP	Common Agricultural Policy
ARION	programme of study visits for decision-makers in education	CARICOM	Caribbean Community
ASEAN	Association of South East Asian Nations	CARIFTA	Caribbean Free Trade Association
ASEM	Asia–Europe meeting	CCP	Common Commercial Policy
AU	African Union	CCT	Common Customs Tariff
BAP	biotechnology action programme	CEAO	Communauté Économique de l’Afrique de l’Ouest
BATNEEC	best available technology not entailing excessive cost	CEC	Commission of the European Communities
BC-NET	Business Cooperation Network	CEDB	component event data bank
BCR	Community Bureau of References	CEDEFOP	European Centre for Development of Vocational Training
BENELUX	Belgium, the Netherlands and Luxembourg Economic Union		

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CEEC	Countries of Central and Eastern Europe	CSF	Community support framework
CEEP	European Centre for Population Studies	CSTID	Committee for Scientific and Technical Information and Documentation
CEN	European Committee for Standardization	CTP	Common Transport Policy
CENELEC	European Committee for Electrotechnical Standardization	CTS	conformance testing services
CEP	common energy policy	CU	customs union
CEPGL	Economic Community of the Countries of the Great Lakes	DAC	Development Assistance Committee (OECD)
CER	closer economic relations	DDR	German Democratic Republic (now part of Germany)
CERN	European Organization for Nuclear Research	DELTA	developing European learning through technological advance
CET	common external tariff	DG IV	Directorate General Four
CFP	Common Fisheries Policy	DI	divergence indicator
CFSP	common foreign and security policy	DRIVE	dedicated road infrastructure for vehicle safety in Europe
CI	Community initiative	DV	dummy variable
CIS	Commonwealth of Independent States	EAC	East African Community
CM	Common Market	EAGGF	European Agricultural Guidance and Guarantee Fund
CMEA	Council for Mutual Economic Assistance	EBA	'Everything But Arms'
CN	combined nomenclature	EBRD	European Bank for Reconstruction and Development
CODEST	Committee for the European Development of Science and Technology	EC	European Community
COMECON	<i>see</i> CMEA	ECB	European Central Bank
COMETT	Community programme in education and training for technology	ECAA	European Common Aviation Area
CORDIS	Community research and development information service	ECHO	European Community Humanitarian Office
COREPER	Committee of Permanent Representatives	ECIP	European Community Investment Partners
CORINE	coordination of information on the environment in Europe	ECJ	European Court of Justice
COSINE	cooperation for open systems interconnection networking in Europe	ECLAIR	European collaborative linkage of agriculture and industry through research
COST	European cooperation on scientific and technical research	ECMT	European Conference of Ministers of Transport
CREST	Scientific and Technical Research Committee	ECOFIN	European Council of Ministers for Financial Affairs
CRS	computerized reservation system	ECOSOC	Economic and Social Committee (also ESC)
CSCE	Conference on Security and Cooperation in Europe	ECOWAS	Economic Community of West African States
		ECPE	European Centre of Public Enterprises
		ECSC	European Coal and Steel Community

ECU	European Currency Unit	EUROCONTROL	European organization for the safety of air navigation
EDC	European Defence Community		
EDF	European Development Fund	EURONET-DIANE	direct information access network for Europe
EDIFACT	electronic data interchange for administration, commerce and transport	EUROSTAT	statistical office of the EC/EU
		EVCA	European Venture Capital Association
EEA	European Economic Area		
EEC	European Economic Community	FADN	EEC farm accountancy data network
EEZ	Exclusive Economic Zone		
EFTA	European Free Trade Association	FAO	Food and Agriculture Organization of the United Nations
EGE	European Group on Ethics in Science and New Technologies	FAST	forecasting and assessment in the field of science and technology
EIB	European Investment Bank	FCO	Foreign and Commonwealth Office
EIF	European Investment Fund	FEER	Fundamental Equilibrium Exchange Rate
EMCF	European Monetary Cooperation Fund	FEOGA	European Agricultural Guidance and Guarantee Fund
EMF	European Monetary Fund	FIFG	Financial Instrument for Fisheries Guidance
EMI	European Monetary Institute	FLAIR	food-linked agro-industrial research
EMS	European Monetary System	FSAP	Financial Services Action Plan
EMU	European monetary union or economic and monetary union	FSU	Former Soviet Union
EP	European Parliament	FTA	free trade area
EPC	European political cooperation	GATS	General Agreement on Trade in Services
EPOCH	European programme on climatology and natural hazards	GATT	General Agreement on Tariffs and Trade (UN)
EQS	environmental quality standard	GCC	Gulf Cooperation Council
Erasmus	European Community action scheme for the mobility of university students	GDP	gross domestic product
ERDF	European Regional Development Fund	GFCM	General Fisheries Council for the Mediterranean
ERM	Exchange Rate Mechanism	GNI	gross national income
ESA	European Space Agency	GNP	gross national product
ESCB	European System of Central Banks	GSM	global system for mobile communication
ESF	European Social Fund	GSP	generalized system of preferences
ESI	electricity supply industry	HDTV	high-definition television
ESPRIT	European strategic programme for research and development in information technology	HELIOS	action programme to promote social and economic integration and an independent way of life for disabled people
ETUC	European Trade Union Confederation		
EU	European Union		
EUA	European Unit of Account		
Euratom	European Atomic Energy Commission	HS	Harmonized Commodity Description and Coding System
Eureka	European Research Coordinating Agency	IAEA	International Atomic Energy Agency (UN)
EURES	European Employment Services		

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IATA	International Air Transport Association	JOP	joint venture programme PHARE-TACIS
IBRD	International Bank for Reconstruction and Development (World Bank) (UN)	JOULE	joint opportunities for unconventional or long-term energy supply
ICES	International Council for the Exploration of the Seas	JRC	Joint Research Centre
ICONE	comparative index of national and European standards	KALEIDOSCOPE	programme to support artistic and cultural activities having a European dimension
IDA	International Development Association (UN)	LAFTA	Latin American Free Trade Area
IDB	Inter-American Development Bank	LDC	less-developed country
IDO	integrated development operation	LEDA	local employment development action programme
IEA	International Energy Agency (OECD)	LIFE	Financial Instrument for the Environment
IEM	internal energy market	M&A	mergers and acquisitions
IGC	intergovernmental conference	MAGP	multi-annual guidance programme
IIT	intra-industry trade	MARIE	mass transit rail initiative for Europe
ILO	International Labour Organization	MAST	marine science and technology
IMF	International Monetary Fund (UN)	MB	marginal benefit
IMP	integrated Mediterranean programme	MC	marginal cost
IMPACT	information market policy actions	MCA	monetary compensatory amount
INSIS	inter-institutional system of integrated services	MEDIA	measures to encourage the development of the audiovisual industry
INTERREG	Community initiative concerning border areas	MEP	Member of the European Parliament
IPR	intellectual property rights	MERCOSOR	Southern Cone Common Market
IRCC	International Radio Consultative Committee	MERM	multilateral exchange rate model
IRIS	network of demonstration projects on vocational training for women	MFA	Multifibre Arrangement (arrangement regarding international trade in textiles)
IRTE	integrated road transport environment	MFN	most favoured nation
ISIS	integrated standards information system	MFP	multi-annual framework programme
ISPA	instrument for structural policies for pre-accession	MFT	multilateral free trade
ITA	information technology agreement	MISEP	mutual information system on employment policies
ITER	international thermonuclear experimental reactor	MNE	multinational enterprise
JESSI	Joint European Submicron Silicon Initiative	MONITOR	research programme on strategic analysis, forecasting and assessment in research and technology
JET	Joint European Torus	MP	marginal productivity
JHA	judicial and home affairs	MRU	Mano River Union

MS	member state	OSCE	Organization for Security and Cooperation in Europe
NAFTA	North Atlantic Free Trade Agreement; New Zealand Australia Free Trade Area	OSI	open systems interconnection
NAIRU	non-accelerating inflation rate of unemployment	PAFTAD	Pacific Trade and Development Conference
NATO	North Atlantic Treaty Organization	PBEC	Pacific Basin Economic Council
NCB	National Central Bank	PECC	Pacific Economic Cooperation Conference
NCI	new Community instrument	PEDIP	programme to modernize Portuguese industry
NEAFC	North-East Atlantic Fisheries Commission	PETRA	action programme for the vocational training of young people and their preparation for adult and working life
NET	Next European Torus	PHARE	programme of community aid for Central and Eastern European countries
NETT	network for environmental technology transfer	PO	producer organization
NGO	non-governmental organization	POSEIDOM	programme of options specific to the remote and insular nature of the overseas departments
NIC	newly industrializing country	PPP	polluter pays principle
NIE	newly industrializing economy	PPP	purchasing power parity
NIEO	New International Economic Order	PTA	preferential trade area
NIESR	National Institute of Economic and Social Research	PTC	Pacific Telecommunications Conference
NiGEM	National Institute Global Econometric Model	PTT	Posts, Telegraphs and Telecommunications
NIS	Newly Independent States (of the former USSR)	QMV	qualified majority voting
NMS	new member states	RACE	research and development in advanced communication technologies for Europe
NOHA	Network on Humanitarian Assistance	RARE	réseaux associés pour la recherche européenne
NPCI	national programme of Community interest	R&TD	research and technological development
NPT	Treaty on Non-proliferation of Nuclear Weapons	RCD	Regional Cooperation for Development
NTB	non-tariff barrier	REGIS	Community initiative concerning the most remote regions
NTM	non-tariff measure	REIMEP	regular European interlaboratory measurements evaluation programme
NUTS	Nomenclature of Territorial Units for Statistics	RENAVAL	programme to assist the conversion of shipbuilding areas
OAPEC	Organization of Arab Petroleum Exporting Countries	REPAs	regional economic partnership agreements
OAU	Organization for African Unity		
OCTs	overseas countries and territories		
ODA	overseas development aid		
OECD	Organization for Economic Cooperation and Development		
OEEC	Organization for European Economic Cooperation		
OPEC	Organization of Petroleum Exporting Countries		

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RESIDER	programme to assist the conversion of steel areas		to advanced telecommunications services
RIA	regional impact assessment	STEP	science and technology for environmental protection
RoO	rules of origin		
RTA	regional trade agreement	SVER	structural vector autoregression
RTD	research and technological development	SYNERGY	multinational programme to promote international cooperation in the energy sector
SACU	Southern African Customs Union		
SAP	social action programme	SYSMIN	special financing facility for ACP and OCT mining products
SAST	strategic analysis in the field of science and technology	TAC	total allowable catch
SAVE	Specific Actions for Vigorous Energy Efficiency	TACIS	Technical Aid to the Commonwealth of Independent States
SCENT	system for a customs enforcement network	TARIC	integrated Community tariff
SCIENCE	plan to stimulate the international cooperation and interchange necessary for European researchers	TBT	WTO's agreement on technical barriers to trade
SDR	special drawing rights	TEDIS	trade electronic data interchange systems
SEA	Single European Act	TELEMAN	research and training programme on remote handling in nuclear hazardous and disordered environments
SEDOC	inter-state notification of job vacancies		
SEM	Single European Market	TEMPUS	trans-European cooperation scheme for higher education
SEM 2000	sound and efficient management		
SFOR	multinational stabilization force	TENs	trans-European networks
SLIM	simpler legislation for the internal market	TESS	modernization of the exchange of information between national social security institutions
SMEs	small and medium-sized enterprises	TEU	Treaty on European Union
SPD	single programme documents	TFEU	Treaty of the Functioning of the European Union
SPEAR	support programme for a European assessment of research	TRIPs	trade-related aspects of intellectual property rights
SPES	stimulation plan for economic science	TSEs	transmissible spongiform encephalopathies
SPRINT	strategic programme for innovation and technology transfer	t/t	terms of trade
SPS	WTO's agreement on the application of sanitary and phytosanitary measures	TUC	Trades Union Congress
		TVA	taxe à la valeur ajoutée
		UDEAC	Union Douanière et Économique de l'Afrique Centrale
STABEX	system for the stabilization of ACP and OCT export earnings	UEMOA	West African Economic and Monetary Union
STAR	Community programme for the development of certain less-favoured regions of the Community by improving access	UES	uniform emission standards
		UN	United Nations
		UNCLOS	United Nations Conference on the Law of the Sea

UNCTAD	United Nations Conference on Trade and Development	UTR	unilateral tariff reduction
UNECA	United Nations Economic Commission for Africa	VALOREN	Community programme for the development of certain less-favoured regions of the Community by exploiting endogenous energy potential
UNEP	United Nations Environment Programme	VALUE	programme for the dissemination and utilization of research results
UNESCO	United Nations Educational, Scientific and Cultural Organization	VAT	value added tax
UNHCR	United Nations High Commissioner for Refugees	VEIS	VAT information exchange system
UNICE	Union of Industries of the European Community	VER	voluntary export restraint
UNIDO	United Nations Industrial Development Organization	VSTF	very short-term financing facility
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East	WEU	Western European Union
URAA	Uruguay Round Agreement on Agriculture	WFC	World Food Council (UN)
URBAN	Community initiative for urban areas	WFP	World Food Programme (UN)
		WIPO	World Intellectual Property Organization (UN)
		WTO	World Trade Organization
		YES	'Youth for Europe' programme (youth exchange scheme)