

# Contents

<i>List of figures</i>	page ix
<i>List of tables</i>	xiii
<i>List of boxes</i>	xv

---

## **Part I The economics of the European Union**

1	<b>Old Europe, new Europe: the role of the European Union</b>	3
	An overview of the recent enlargement of the European Union, with special attention to the implications for the budget of the European Union and the issues that face the economies of Europe.	
2	<b>A dispute over origins: the European view versus the American perspective</b>	22
	A historical reprise of the strategic considerations of both Europe and the United States that led to the creation of the European Economic Community in 1958 with US support.	
3	<b>The customs union and the diversion of trade</b>	41
	A theoretical and empirical exposition of the role played by the customs union in the expansion of trade within Europe and with the rest of the world.	
4	<b>The Common Agricultural Policy and reforms: feeding Europe and then some</b>	64
	A theoretical and empirical analysis of the motivations, operation, and consequences of the EU's Common Agricultural Policy and the recent attempts at reform and dealing with WTO disputes.	

5	<b>The euro: the ultimate currency reform?</b>	94
	The origins and travails of the move to a common currency within the EU and its resolution of the trilemma of open economies by ceding monetary independence to the European Central Bank.	
6	<b>The European Central Bank in action</b>	115
	Describes the two pillars of the Bank's policy and analyzes its operation of monetary policy with the problems of "one size fits all" for inflation in the individual countries.	
7	<b>The single market: from eliminating non-tariff barriers to enforcing competition</b>	128
	Describes the motivation of the Single European Act and its evolution into anti-trust powers and subsidy surveillance exercised by the Commission.	
8	<b>The single market in labor: from refugees to Schengen</b>	143
	Why labor mobility remains difficult within Europe but how labor markets have been reformed within some countries. The long-run problem of aging populations and resistance to immigration pressures.	
9	<b>The single market in capital: from Bretton Woods to Maastricht</b>	158
	The limits of capital controls contrasted with the difficulties of promoting capital mobility within the EU and the challenges of capital exports outside the EU.	
10	<b>The EU inside and out: regional policy and development aid</b>	171
	Contrasts the political motivations and results for the EU's "inside" development strategy with its "outside" development strategies and how each has evolved.	
11	<b>The EU: the other economic superpower?</b>	186
	Contrasts the two superpowers in terms of four key economic policy goals – growth, employment, inflation, and external balance – with the implications for differences in approaches to globalization pressures.	



19	<b>The newcomers: building institutions</b>	374
	Compares the Washington consensus strategies for transition economies with the Copenhagen criteria, concluding that the EU's accession strategies were valuable for the ten accession countries of 2004 to create their new institutions.	
20	<b>The future members: customs union as substitute or stage one for the EU</b>	400
	Examines the peculiar case of Turkey in light of the experiments with customs unions and institutional reforms of the European economies. Highlights the issues remaining for Bulgaria and Romania and the challenges facing Belarus and Ukraine.	
	<i>Suggestions for further reading</i>	418
	<i>Index</i>	430

# Figures

1.1	EU expenditures by category, 1958–2004	<i>page</i> 12
1.2	Growth of the EU budget by category, 1958–2004	12
1.3	Composition of EU revenues, 1971–2005	14
1.4	Growth of the EU’s “own resources,” 1971–2005	14
1.5	EU spending and resources by member state, 1998	16
1.6	EU-15, pre-2004 arrangements	18
1.7	Weights of votes in Council and GDP for EU-25	18
1.8	Political and population weights, EU-25	19
2.1	Dollar shortage, 1945–50	25
2.2a	EEC trade, 1928–58	29
2.2b	Growth of imports, EEC-6, 1928–58	30
2.2c	Growth of exports, EEC-6, 1928–58	30
3.1	France with bilateral trade	44
3.2	France with quantity restrictions	46
3.3	France with tariff	47
3.4	France and common external tariff	49
3.5	France, Germany, and economies of scale	55
3.6a	Rise of intra-EU trade, large countries	57
3.6b	Rise of intra-EU trade, small, rich countries	58
3.6c	Rise of intra-EU trade, small, poor countries	58
3.6d	Rise of intra-EU trade, three EFTA countries	59
3.6e	Rise of EU trade, three outside countries	59
4.1	Price supports, import deficit	69
4.2	Price supports, export surplus	71
4.3	Price supports, export subsidies	72
4.4	Direct aid to farmers, import deficit	74
4.5	Direct payments, export surplus	75
5.1a	The first six exchange rates on the dollar, 1950–2005	96
5.1b	The second six exchange rates on the dollar, 1950–2005	98
5.2	Leading to the euro, 1960–2005	104

5.3	Long-term interest rates, “Euroland,” 1960–2005	112
6.1	US dollar/euro, 1993–2005	116
6.2	Annual quarter-on-quarter GDP growth rates compared, euro-area and United States, 1993–2004	117
6.3	Annual quarter-on-quarter inflation rates compared, euro-area and United States, 1993–2004	118
6.4	Interest rates compared, euro-area and United States, 1993–2004	118
6.5	HICP rates compared in the euro-area, 1993–2004	122
6.6	ECB interest rates, 1999–2005	125
8.1a	Separate labor markets	144
8.1b	Integrated labor markets	145
8.2	Euro-area: labor force development, 1970–2006	151
8.3	Euro-area: unemployment, 1970–2006	152
8.4a	Effects of migrants on skilled labor	155
8.4b	Effects of migrants on unskilled labor	156
9.1a	Separate capital markets	160
9.1b	Integrated capital markets	161
9.2	Investment and growth during the golden age, 1960–73	162
9.3	Convergence in the golden age, 1960–73	163
9.4	Net capital flows compared: United States, United Kingdom, and eurozone	169
10.1	The regional diversity of the European Union, 2002	172
10.2	The eligibility of EU regions for structural funds, 2002	178
11.1	Gross domestic product, United States and EU-15, 1960–2005	191
11.2	Per capita output, United States and EU-15, 1960–2005	192
11.3	Euro-area and US inflation, 1962–2005	193
11.4	Unemployment rates, United States and EU-15, 1960–2005	193
11.5	Convergence, United States and EU-15, 1960–73	195
11.6	Convergence, United States and EU-15, 1974–85	195
11.7	Convergence, United States and EU-15, 1986–2004	196
12.1	Germany: policy results, 1960–2005	205
12.2	Germany: government performance, 1960–2005	206
12.3	Germany: inflation versus unemployment, 1960–2006	225
12.4	Germany: foreign sector, 1968–2005	227
13.1	France: policy results, 1960–2005	234
13.2	France: government performance, 1960–2005	234
13.3	France: inflation versus unemployment, 1964–2005	251
13.4	France: foreign sector, 1964–2005	252
14.1	United Kingdom: policy results, 1960–2005	263

14.2	United Kingdom: government performance, 1960–2005	266
14.3	GDP levels compared, 1960–2005	273
14.4	GDP per capita compared, 1960–2005	273
14.5	United Kingdom: inflation versus unemployment, 1960–2005	287
14.6	United Kingdom: foreign sector, 1960–2005	288
15.1	Italy: policy results, 1960–2005	297
15.2	Italy: government performance, 1960–2005	297
15.3	Italy: inflation versus unemployment, 1960–2005	311
15.4	Italy: foreign sector, 1960–2005	311
16.1	GDP per capita compared, 1960–2005	316
16.2	Openness compared, 1960–2005	316
16.3	Unemployment rates compared, 1960–2005	323
16.4	Inflation rates compared, 1960–2005	324
17.1	Exchange rates compared, 1960–2005	330
17.2	GDP per capita compared, 1960–2005	332
17.3	Openness compared, 1960–2005	333
17.4	Inflation rates compared, 1960–2005	339
17.5	Unemployment rates compared, 1960–2005	343
17.6	Growth rates compared, 1960–2005	345
18.1	GDP per capita compared, 1960–2005	350
18.2	Openness compared, 1960–2005	353
18.3	Inflation rates compared, 1960–2005	357
18.4	Greece: inflation versus unemployment, 1961–2005	358
18.5	Unemployment rates compared, 1960–2005	360
18.6	Spain's pattern of trade, 1947–57	364
18.7	Growth rates compared, 1960–2005	366
19.1	GDP in transition, CEE-5, 1989–2005	378
19.2	Inflation in transition, CEE-5, 1991–2005	380
19.3	Unemployment in transition, CEE-5, 1989–2005	382
19.4	GDP in transition, Baltic-3, 1989–2005	385
19.5	Inflation in transition, Baltic-3, 1991–2005	386
19.6	Unemployment in transition, Baltic-3, 1989–2005	389
19.7a	Euro/Visegrad-4 currencies, 1996–2005	396
19.7b	ERM II currencies, 1996–2005	396
19.8a	Current account balances, CEE-5, 1990–2005	398
19.8b	Current account balances, Baltic-3, 1990–2004	398
20.1	GDP in transition, Bulgaria and Romania, 1989–2005	403
20.2a	Inflation in transition, Bulgaria and Romania, pre-1998 scale, 1989–2005	403

20.2b	Inflation in transition, Bulgaria and Romania, post-1998 scale, 1989–2005	404
20.3	Unemployment in transition, Bulgaria and Romania, 1989–2005	405
20.4	Current account deficits, Bulgaria and Romania, 1990–2005	408
20.5	Turkey: policy results, 1960–2005	412
20.6	Turkey: foreign sector, 1960–2005	414



# Tables

2.1	Increasing gold payments with the European Payments Union	<i>page</i> 28
2.2	Cumulative positions of member countries, 1950–8	32
2.3	Total bilateral positions within the EPU, 1950–8	32
2.4	Growth of steel trade of ECSC members	37
2.5	Agricultural products, total export and import values in 1961 at base year (1989–91) prices	39
4.1	Where agricultural subsidies end up	79
4.2	Producer subsidy equivalents compared	80
4.3	Measures of agricultural policy inefficiency, 1986/7	82
4.4	Welfare effects of the CAP by country, 1980	83
4.5	Self-sufficiency ratios in various foodstuffs for the EEC and its members, 1970–4, 1985, and 1999	84
4.6	National agricultural subsidies within the European Union	87
5.1	Dates and size of EMS realignments	101
7.1	How to tax McDonald's French fries	134
7.2	Excise duty and VAT per liter of beer	137
12.1	Germany: basic facts	202
12.2	German unemployment, national definition	226
13.1	France: basic facts	231
13.2	Destination of French exports, 1952–84	241
14.1	United Kingdom: basic facts	256
15.1	Italy: basic facts	292
16.1	Small open countries: basic facts	314
17.1	Scandinavia: basic facts	329
18.1	Latecomers: basic facts	349
18.2	Payments to and receipts from the European Union	369
18.3	Economic effects of the Structural and Cohesion Funds	370

---

19.1	Newcomers: basic facts	375
19.2	Comparison of accession countries with Maastricht criteria, 2004	393
19.3	Comparison of prices and productivity in accession countries with euro-12 average, 2003	395
20.1	Future members: basic facts	401

# Boxes

4.1	The MacSharry reforms	<i>page 77</i>
9.1	Summary of the Committee of Wise Men's recommendations	166
10.1	The evolution of the Cotonou Agreement	180
10.2	The Millennium Development Goals (and targets for 2015)	183