The Economics of the European Union

Policy and Analysis

Third Edition

Edited by

Mike Artis and Frederick Nixson



Contents

List of	figures	ΧI		
List of	tables	XIII		
List. of	boxes	xv		
Abbreviations List of contributors				
List of contributors				
	Introduction Mike Artis and Frederick Nixson	1		
1	History and Institutions of the European Union Simon Bulmer	,3		
1.1	Introduction	. 3		
1.2	Economic integration in historical and political perspective	5		
1.3	Economic integration and its policy-making context	21		
1.4	The EU in the 21st century	26		
	Discussion questions Further reading Notes References	28 29 29 29		
.2	The European Economy Mike Artis and Nick Weaver	31		
2.1	Introduction	31		
2.2	Population	31		
2.3	National income and expenditure	32		
2.4	Economic growth	35		
2.5	Disaggregation of GDP	36		
2.6	Income inequality	38		
2.7	Labour market	40		
2.8	Trade	41		
2.9	Future entrants to the EU	43		
2.10	European Monetary Union	. 46		
	Discussion questions Further reading	50 50		

	The Economic Analysis of Preferential Trading Areas Lynden Moore	52
3.	1 Introduction ,	52
3.	2 Partial equilibrium analysis of tariffs	53
3.	3 Applications of the theory	58
з.	4 A simplified exposition of the general equilibrium theory of customs unions	62
3.	5 The concept of economies of scale	68
3.	6 Conclusions	77
	Discussion questions	78
	Notes	78
	References	7.8
	4 The Enlargement Roy Gardner	81
4.	1 Introduction	81
4.	2 The economic theory of clubs	82
4.	3 Candidates for EU membership	85
4.	4 Why does income matter to membership?	8,7
4.	.s Budget challenges to the enlargement	89
4	.6 Economic integration challenges to the enlargement: even more variable geome	etry 91
4	.7 Conclusion	93
4	.8 Postscript: the Nice summit	94
	Discussion questions	. 95
	Further reading References	.95 .96
	References	
	5. The Common Agricultural Policy David Colman	97
5	.1 Introduction	97
5	.2 The original system of CAP	98
5	.3 The pressures for CAP reform	101
5	.4 The start of the reform process: the introduction of supply control mechanisms	108
5	.5 The MacSharry reform package	111
5	.6 Agenda 2000 reforms	118
5	7.7 EU enlargement	119
5	.8 Summary and outlook	120
	Discussion questions	121
	Further reading Notes	122 122
	References	123

6 Competition Policy Stephen Martin	125
6.1 Introduction	, 125
6.2 Article 81	126
6.3 Article 82	1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1. 1
6.4 Merger control	135
6.5 State aid	137
6.6 Conclusion	138
Discussion questions Further reading Notes References	138 138 139 141
7 Science and Technology Policy Peter Stubbs	143
7.1 Introduction	143
7.2 Reasons for the support of science and technology	· 144
7.3 National policies for science and technology	146
7.4 The development of EU science and technology po	licy 153
7.5 The SEA of 1987	161
7.6 Evaluations of policy effectiveness	163
7.7 Technology, industrial and trade policies: tensions	and contradictions 169
7.8 Summary and conclusions	174
Discussion questions Further reading References	175 176 176
8 Regional Policy Gabriele Tondl	180
8.1 The development of EU regional policy	180
8.2 The cohesion problem	189
8.3 EU regional policy in the cohesion countries/Object	tive 1 areas 192
8.4 EU regional policy programmes: financial framewo implementation	ork, policy priorities, and
8.5 Problem areas and the outlook for the future of EU	Fregional policy 206
Discussion questions Further reading Notes	207 207 208

viii CONTENTS

9 Environmental Policy David Pearce	213
9.1 Introduction	213
9.2 The principles of environmental policy	216
9.3 Cost-benefit analysis in the EU	223
9.4 The precautionary principle	226
9.5 Market-based instruments	228
9.6 Climate change	231
9.7 Sustainable development	235
Discussion questions Further reading Note , , , , , , , , , , , , , , , , , , ,	237 238 238 238
10 Social Policy David Purdy	240
10.1 Introduction	240
10.2 The study of social policy	241
10.3 Types of welfare regime	248
10.4 Social policy in the EU	255
10.5 Globalization, monetary union and welfare reform	262
Discussion questions References	267 267
11 Developments in Trade and Trade Policy Lynden Moore	271
11.1 Introduction	. 271
11.2 The EC customs union	273
11.3 Conformity with GATT provisions	273
11.4 Harmonization in trade between member states	276
11.5 The Single European Act (SEA) of 1986	277
11.6 Uruguay Round 1986–94	279
11.7 The EU's preferential agreements	284
11.8 Conclusion	283
Discussion questions Notes References	281 281 281

	European Monetary Union Mike Artis and Robin Bladen-Hovell	290
12.1	The birth of the Euro-area	290
12.2	The economics of monetary union	293
12.3	The Maastricht criteria	296
12.4	The Exchange Rate Mechanism (ERM)	297
12.5	The constitution of the European Central Bank (ECB)	301
12.6	The first years of a European monetary policy	302
12.7	The 'Outs' and the 'Pre-ins'	309
1,2.8	Conclusions	310
	Discussion questions Further reading Notes Acknowledgements References	311 311 311 312 312
13	Fiscal Policy in EMU Hedwig Ongena and Bernhard Winkler	314
13.1	Introduction	31;4
13.2	Theoretical background	3,15
13.3	Institutional framework	327
13.4	Policy debates	335
13.5	Conclusions and outlook	346
	Discussion questions	347
	Further reading .	347
	Notes Acknowledgements	348 348
	References	348
14	Europe's Unemployment Problems Giuseppe Bertola	353
14.1	Introduction	353
14.2	Employment and unemployment	357
14.3	Distributions and flows	365
14.4	Policy and attitudes towards unemployment	371
14.5	s Unemployment and EMU	375
	Discussion questions	381
	Further reading	381
	References	382

15 Foreign Aid and External Assistance Frederick Nixson	383
15.1 Introduction	, ; ; 383
15.2 Foreign aid and development	385
1.5.3 EU development policy	387
15.4 The ODA record of EU member states	387
15.5 The Europe–ACP relationship	395
15.6 The Cotonou Agreement, 2000	
15.7 Conclusions	401
Discussion questions	403
Further reading	403
Notes ¹	403
References	404
Appendix	405
Index	·