

SECOND
REVISED EDITION

THE NEW EUROPEAN ECONOMY

THE POLITICS AND ECONOMICS
OF INTEGRATION



LOUKAS TSOUKALIS

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of Integration

Second Revised Edition

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To Marta

Preface to the Second Edition

When the writing for the first edition of this book was completed in January 1991, accompanied by a strong sigh of relief, I had not expected that I would be going back to it a year later in order to prepare the second, revised edition. The book was well received, public interest in European integration was as high as ever, and the pace of events indeed breathtaking. It is for those reasons, I presume, that Oxford University Press came up with the idea of an early second edition of the book in paperback form. Some updating would be desirable, it was suggested; but this could be, perhaps, limited to a few interventions, especially in the concluding chapter. I welcomed the idea, even though I realized at the time that revision would entail more than the updating of figures here and there and incorporating recent events in the conclusions. I had not, however, anticipated the scale of the enterprise involved, which became increasingly clear once I started working on individual chapters.

There is so much that has happened in a very short period of time: the Maastricht treaty; important new legislation in the context of the internal market programme; new far-reaching agreements between the Twelve and several other European countries, which have not, however, eliminated the issue of further enlargement from the top of the agenda; the continuing effects of German unification and the breakdown of the old political and economic order in Eastern Europe; not to mention autonomous developments in the market-place, which have had a significant impact on the nature and shape of the new European economy. This second edition contains a substantial revision of several chapters, and most notably those on social policy, economic and monetary union, regional and external policies. Most of the data used in the first edition have been brought up-to-date, and this is also true of all tables and figures. The main arguments and the ideas developed in the book have hardly changed, although minor adaptations have been made in response to new developments and theoretical insights.

Writing on regional integration and the European economic

system in general is becoming an almost impossible task, and this was strongly felt by the author in the preparation of the second edition. Gone are those 'happy' days when a book on this subject was quite manageable; and how comfortable for the author when the book remained more or less up-to-date for several years. Nowadays, superficiality is a very high risk for anybody who still resists the temptation of narrow specialization. On the other hand, writing in times of rapid change and trying to identify the main line of direction and the links between apparently unconnected events and policies may be very challenging and exciting, but also extremely risky. It is again up to the reader to pronounce judgement on the final product.

I should like to express my thanks to all those who have contributed to this second edition with their comments and suggestions. I am particularly grateful to my assistant at the College of Europe, Outi Jääskeläinen, for her research assistance and for the excellent work she has done with respect to the preparation of tables and graphs. Thanks are also due to Niall Bohan for his research assistance, and to John Watson for compiling the index. As always, all remaining errors are entirely mine.

L.T.

June 1992

Preface to the First Edition

The urge to write a general book on the European economy has grown slowly over the years, nourished by many lectures delivered to different audiences, research and writing on a variety of issues in the field of regional integration, and periodic entries into the real world of decision-making.

Having worked in the past in several areas of European political economy, a term which has become once again fashionable after having been banished for many years from the vocabulary of respectable economics, I decided to embark upon a much more ambitious exercise, namely a book which would try to capture the shape of the emerging regional economic system in Europe. This meant going against the general trend of specialization largely forced upon any social scientist by the growing complexity of issues and the sometimes embarrassing wealth of data available. The continuous expansion and 'deepening' of regional integration in Western Europe already justifies the use of the term 'European economy' or 'European economic system' which is qualitatively different from the set of highly interdependent national economies which we have known for some time.

Trying to figure the shape of this new economic animal has been a challenging task which required a certain degree of familiarization with many different sectors and areas of economic policy, not to mention the often conflicting interests and perceptions of the major actors involved. It also required a dangerous kind of navigation between the Scylla of overgeneralization and grand theorizing on the one hand, and the Charybdis of narrow empiricism on the other. It has been, indeed, a challenging task and sometimes also highly frustrating because of the mountains of material which had to be digested and the obstinate refusal of the real world to stay still. I have learned a great deal in the process. It is now up to the reader to decide whether this exercise has been at all worthwhile.

I would not have dared to embark on this project had I not lectured on various aspects of the subject both inside and outside

Europe. My lecture course at the College of Europe in Bruges formed the basis from which I started. Successive *Promotions* of students from all over Europe provided me in Bruges with the inspiration and the stimulus to develop my ideas and to think 'European'. Oxford offered a different kind of testing-ground for those ideas: a very international outlook, a critical and slightly detached approach to European integration, and, most importantly, its very high standards. Both places have had a strong influence on my ideas and method of work.

This book started being written in Bruges and Oxford, and it has been completed in Athens where I have returned recently, dare I say a more mature person, after many years of absence, to live and work at home. Europe is a relatively small place, intra-European frontiers are rapidly disappearing, and national loyalties are no longer incompatible with a strong sense of belonging to this new Europe. Having lived and worked in different countries has helped me to acquire a different perspective on issues European. This will be, perhaps, considered as an asset by the reader of a book which does not treat economics as only a positive science and in which different interests and perceptions are deemed to play a decisive role in the economic process. I have made a deliberate effort not to view the various issues discussed in this book from a particular national angle. Needless to say, the views expressed in it are not necessarily those of any institution with which I have been or I am presently associated; although I hope that this disclaimer should be absolutely superfluous for anybody who cares to read more than a few pages of this book. This should not, however, be interpreted as a rejection of value judgements. I am sure there are plenty of them in this book and I have certainly not tried to hide them behind a thick cloak of positivism. To be fair to the reader, I have tried as much as possible to back statements with empirical evidence while also presenting, as dispassionately as humanly possible, the alternative points of view.

This book is based on the experience and knowledge I have accumulated during the many years I have been studying and working in this field. I have learned from many people and sometimes I may not have done sufficient justice to their ideas. I am particularly grateful to my students who have taught me a great deal, while also helping me to clarify my own thinking. I shall name only a few people whose assistance has been much

appreciated in the preparation of this book. Most of all, my assistant at the College of Europe, Niall Bohan, who has done much of the statistical work and has also helped a great deal with documentation. I should also like to thank Declan Costello, Mads Kieler, Jean-Yves Muylle, and Kristin Schreiber who have provided me with valuable research assistance; and Eric de Souza who offered a helping hand whenever I got lost in the modern world of computers. Several people have read drafts of individual chapters. I am especially grateful to Helen Wallace, and also to Andrea Boltho, Anthony Kastrissianakis, and John Morley. I should like to acknowledge the financial support I have received from the Nuffield Foundation which helped to pay for some of the costs of research assistance. Last but not least, I am grateful to my former colleagues at Oxford for the mental challenge with which they provided me for years and also for their tolerance during my frequent periods of absence in other parts of the world, to my colleagues in Bruges for an exciting and truly European environment, and to my new colleagues in Athens for the warmth of their welcome; my new environment still waits to be discovered.

This book is addressed to the interested observer and active participant of the European economy in the making. It is, of course, also addressed to the student of European and international economics who hopefully does not believe that economics takes place in a political vacuum. It assumes regular reading of the quality press and some prior knowledge of economic theory, although special effort has been made to avoid the use of technical jargon whenever this was not absolutely necessary. It has a strong policy orientation, although it does not always refrain from raising some more 'academic' issues (part of the inevitable *déformation professionnelle*). It is meant as a contribution, small though it may be, to the debate about the nature and future development of the European economy, without shying away from some of the wider political ramifications of the economic issues involved.

L.T.

January 1991

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List of Abbreviations

ACP	Africa-Caribbean-Pacific
AFNOR	Association Française de Normalisation
BRITE	Basic Research in Industrial Technologies for Europe
BSI	British Standards Institution
CAP	Common Agricultural Policy
CCP	Common Commercial Policy
CEN	Centre Européen de Normalisation
CENELEC	Centre Européen de Normalisation Électrotechnique
CET	Common External Tariff
CIS	Commonwealth of Independent States
CMEA	Council of Mutual Economic Assistance
CSCE	Conference on Security and Cooperation in Europe
DIN	Deutsches Institut für Normung
DM	Deutschmark
EAEC	European Atomic Energy Community
EAGGF	European Agricultural Guidance and Guarantee Fund
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECOFIN	Council of Economic and Finance Ministers
ECSC	European Coal and Steel Community
ECB	European Central Bank
ECU	European Currency Unit
EDC	European Defence Community
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EIB	European Investment Bank
EMCF	European Monetary Cooperation Fund
EMI	European Monetary Institute

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EMS	European Monetary System
EMU	Economic and Monetary Union
EOTC	European Organisation of Testing and Certification
EPC	European Political Cooperation
EPU	European Payments Union
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESC	Economic and Social Committee
ESCB	European System of Central Banks
ESF	European Social Fund
ESPRIT	European Strategic Programme for Research and Development in Information Technology
ETSI	European Telecommunications Standards Institute
ETUC	European Trade Union Confederation
EUREKA	European Research Co-ordinating Agency
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Co-operation Council
GDP	Gross Domestic Product
GFCF	gross fixed capital formation
GNP	Gross National Product
GSP	Generalized Scheme of Preferences
HDTV	high-definition television
ILO	International Labour Organisation
IMF	International Monetary Fund
IMP	Integrated Mediterranean Programme
JESSI	Joint European Submicron Silicon Initiative
LTA	Long-Term Arrangement
MCA	monetary compensatory amount
MEP	Member of the European Parliament
METS	minimum efficient technical scale
MFA	Multifibre Arrangement
MFN	Most Favoured Nation
NAFTA	North Atlantic Free Trade Agreement
NATO	North Atlantic Treaty Organisation
NCI	New Community Instrument

NIC	newly industrializing country
NIEO	New International Economic Order
NTB	non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OJ	Official Journal
OPEC	Organisation of Petroleum Exporting Countries
PHARE	Pologne, Hongrie assistance pour la restructuration économique
PPS	purchasing power standard
PSE	Producer Subsidy Equivalent
RACE	Research in Advanced Communications for Europe
SAD	Single Administrative Document
SDI	Strategic Defence Initiative
SEA	Single European Act
SME	small and medium enterprises
UNICE	Union des Confédérations de l'Industrie et des Employeurs d'Europe
VAT	value added tax
VER	voluntary export restraint
WEU	Western European Union

1. Introduction

This book is about the process of integration in Western Europe and the gradual emergence of a new regional economic entity. It concentrates mainly, although not exclusively, on the latest phase of this process of integration which started around the mid-1980s and has been closely associated with the establishment of the European internal market. It attempts to identify some of the distinguishing features of the new European economy and the main outstanding issues as governments prepare for the next phase of integration leading to economic and monetary union (EMU).

After a long period of stagnation, during which early federalist and functionalist hopes built around the three European Communities—the European Coal and Steel Community (ECSC), the European Economic Community (EEC), and the European Atomic Energy Community (EAEC)—seemed to have been buried under the resurgence of nationalism, economic recession, and the inertia of common institutions, things started moving again in the second half of the 1980s; and at a very rapid pace indeed. Thus, in the course of only a few years, the economic and political climate in Western Europe was radically transformed.

In the early and mid-1980s, terms such as ‘Euro-pessimism’ and ‘Euro-sclerosis’¹ were meant to describe the functioning of European economies and their prospects in the context of international competition. And then the picture suddenly became brighter: regional integration picked up a much faster pace, the European Community (EC)² occupied again the centre of the stage, while most macroeconomic variables registered a dramatic and sustained improvement. Thus, the economic

¹ This term was first introduced by Herbert Giersch, a German economist. It referred to the apparent rigidities in European labour and product markets.

² This is the term used for the three above-mentioned Communities.