

THE ECONOMICS of EUROPEAN INTEGRATION

Theory, Practice, Policy

FOURTH EDITION



Willem Molle

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THEORY, PRACTICE, POLICY
Fourth Edition

WILLEM MOLLE



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PART I
GENERAL ISSUES

1 Introduction

Objectives

Progressive integration has been one of the most characteristic aspects of economic development in the last few decades, worldwide and in Europe, where it has found expression notably in the European Union (EU). The EU has had a direct and profound influence on the economy of member states and third countries.

Much has been written about European economic integration. In the 1950s and 1960s, the discussion on economic integration was concentrated on international economic relations, as witness the specialised books on the subject from that period. In the 1970s and 1980s, the idea of economic integration quickly spread to the economics of the sectors of economic activity (agriculture, energy, manufacturing, services, transport) and to such aspects as market regulation, macro-economic equilibrium, monetary control, regional equilibrium or social welfare. At the end of the 1980s and during the 1990s, the issue of monetary integration was central to the discussion on European economic integration. In this field and in all the other fields mentioned, the body of specialised literature has grown very rapidly to become a real avalanche in recent years.

To students of the economic integration process per se this abundant specialist literature is inconvenient. Indeed, as economic integration touches ever more areas of society, more and more people are confronted by the bewildering complexity of the functioning of the EU. The past decades have witnessed the publication of a fairly large number of books that try to help readers by offering a systematic analysis. Many of them focus merely on the description of EU policies, often without a critical analysis of their economic rationale and effects. Others are merely theoretical in nature, favouring a mathematical treatment of the material. The present book differentiates itself from the other titles in that it aims to:

4 *The Economics of European Integration*

- select the most relevant aspects and developments;
- place the wide variety of issues in a robust conceptual structure;
- integrate theoretical developments with the results of empirical research and of policy analysis;
- explain the logic of the dynamic processes;
- describe the structural features of the European economy;
- highlight the response of private companies to changes in the regulatory environment;
- depict the 'historical' developments so as to give a sound basis for the understanding of the present situation and the likely future development;
- set the European developments in the light of global developments.

Three fundamental concepts

Integration

The expression 'economic integration' covers a variety of notions.¹ It may refer to the absorption of a company in a larger concern. It may have a spatial aspect, for instance if it refers to the integration of regional economies in a national one. In this book, the expression is always used with respect to international economic relations. The *definition* of integration that is used here is the gradual elimination of economic frontiers between independent states; as a result the economies of these states end up functioning as one entity.

Economic integration is not an *objective* in itself, but serves higher objectives, both of an economic and of a political nature.

- Economic welfare. The prosperity of all participating countries is enhanced by overcoming the inefficiencies of nationally segmented economies through specialisation of production and through cooperation in policy making, the two basic elements of economic integration.
- Peace. When countries become dependent upon each other as a result of economic integration this reduces the chance of armed conflicts between them.²
- Democracy. If participation in a group that brings benefits through integration is made conditional on the existence of a parliamentary form of democracy, it is less likely that attempts to overthrow this system of government in a member country will stand much chance of success.
- Human rights. In much the same way, the respect for human