

European Economic Policy

Topic 1. The origins, evolution and contemporary state of EU Economic Policy



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- Europe is still recovering from the deepest crisis since the Great Depression.
- Economic and financial policies pursued in the EU are partially to blame.
- But it is also clear EU policy is unprepared in other fields, seen in the refugee crisis, the “Brexit”...
- How did we get here? What went wrong?
- Were we right to delegate so many fields of national economic policy to the EU?
- What can we learn from the crisis?
- Is EU policy of good enough quality? How do we know?
- What do EU citizens think?
- What new thinking on economic policy needs doing?

EU and Economic Policy: The Context II

- The EU is aware of contemporary challenges to its policy making.
- Did EU economic policy embrace too much neoclassical economics and all its assumptions? → There is some turn to Behavioural Economics/ Socio Economic in Brussels.
- Was EU policy damaged by “too many cooks”? Too much bureaucracy?
- In this course we attempt to answer all these questions.
- We also evaluate the latest attempts by the EU to improve policy quality, for example, its bringing in of Behavioural Economics or its REFIT project:
http://ec.europa.eu/smart-regulation/refit/index_en.htm.

Organization of the Class

I. The origins, evolution and contemporary state of EU Economic Policy:

- A. The Foundations for Policy: Some basic indicators on the EU.
- B. Explaining the roots and evolution of economic policy in the EU.

THE FOUNDATIONS FOR EU POLICY: SOME BASIC INDICATORS



Source: http://europa.eu/about-eu/countries/index_en.htm

Estados miembros de la UE (año de entrada)

[Austria](#) (1995)
[Bélgica](#) (1958)
[Bulgaria](#) (2007)
[Croacia](#) (2013)
[Chipre](#) (2004)
[Rep. Checa](#) (2004)
[Dinamarca](#) (1973)
[Estonia](#) (2004)
[Finlandia](#) (1995)
[Francia](#) (1958)
[Alemania](#) (1958)
[Grecia](#) (1981)
[Hungría](#) (2004)
[Irlanda](#) (1973)
[Italia](#) (1952)
[Letonia](#) (2004)
[Lituania](#) (2004)
[Luxemburgo](#) (1958)
[Malta](#) (2004)
[Holanda](#) (1952)
[Polonia](#) (2004)
[Portugal](#) (1986)
[Rumanía](#) (2007)
[Eslovaquia](#) (2004)
[Eslovenia](#) (2004)
[España](#) (1986)
[Suecia](#) (1995)
[Reino Unido](#) (1973)

Países en proceso de acceso

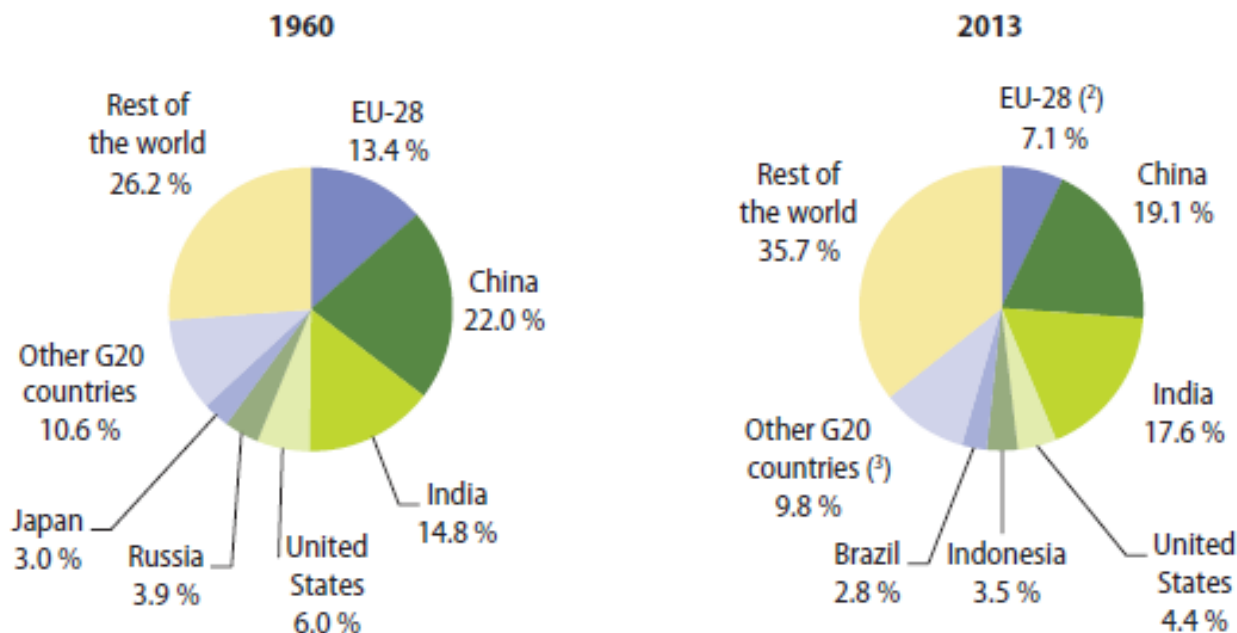
Países candidatos

[Albania](#)
[Montenegro](#)
[Serbia](#)
[Macedonia](#)
[Turquía](#)

Países potencialmente candidatos

[Bosnia -Herzegovina](#)
[Kosovo](#)

Share of World Population, 1960 and 2013 (%)



(1) Shares do not always sum to 100 % due to rounding. Annual averages (mid-year estimates).

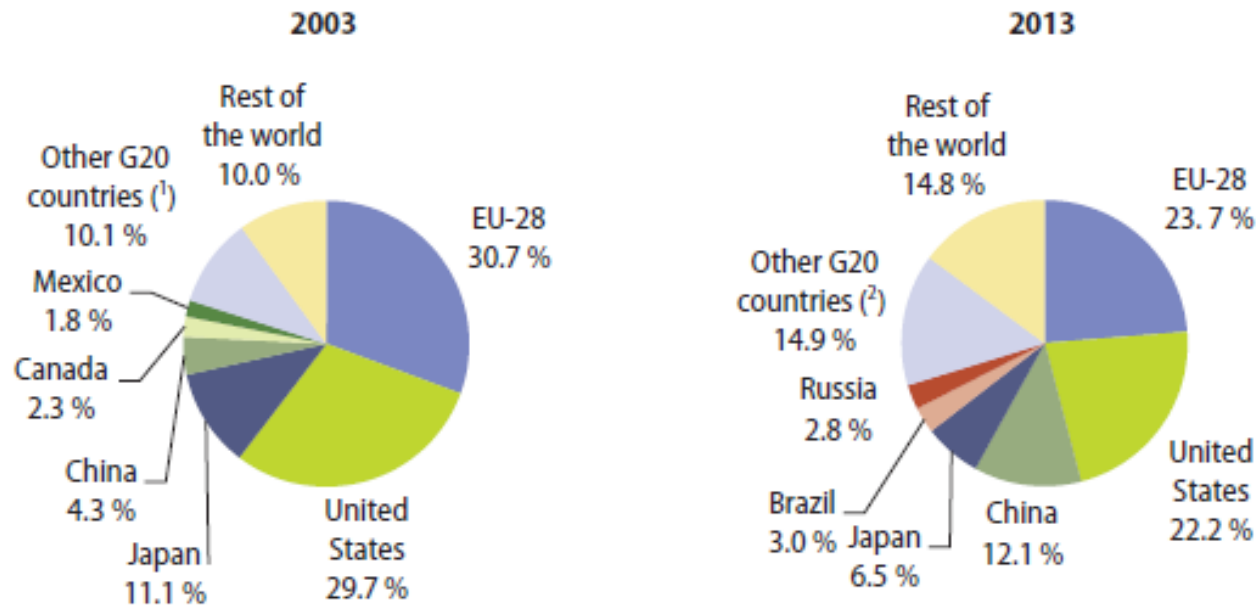
(2) Provisional.

(3) Australia: provisional.

Source: Eurostat (online data code: [demo_gind](#)) and the World Bank (Health Nutrition and Population Statistics)

Source: EUROSTAT (2015): The EU in the world.

Share of World GDP, 2003 and 2013 (%)



⁽¹⁾ Brazil, India, Australia, South Korea, Indonesia, Russia, Turkey, Saudi Arabia, Argentina and South Africa.

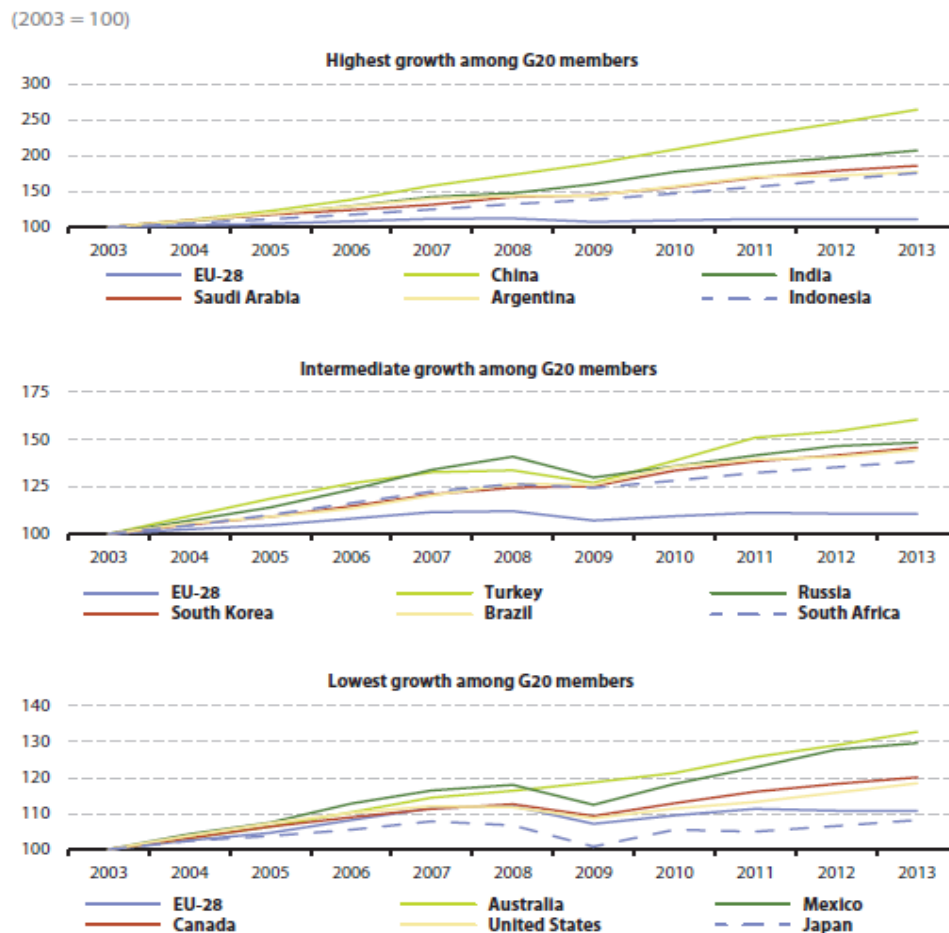
⁽²⁾ India, Canada, Australia, Mexico, South Korea, Indonesia, Turkey, Saudi Arabia, Argentina and South Africa.

Source: Eurostat (online data code: [nama_10_gdp](#)) and the United Nations Statistics Division (National Accounts Main Aggregates Database)

Note: Relative shares based on current price series in euros.

Source: EUROSTAT (2015): The EU in the world.

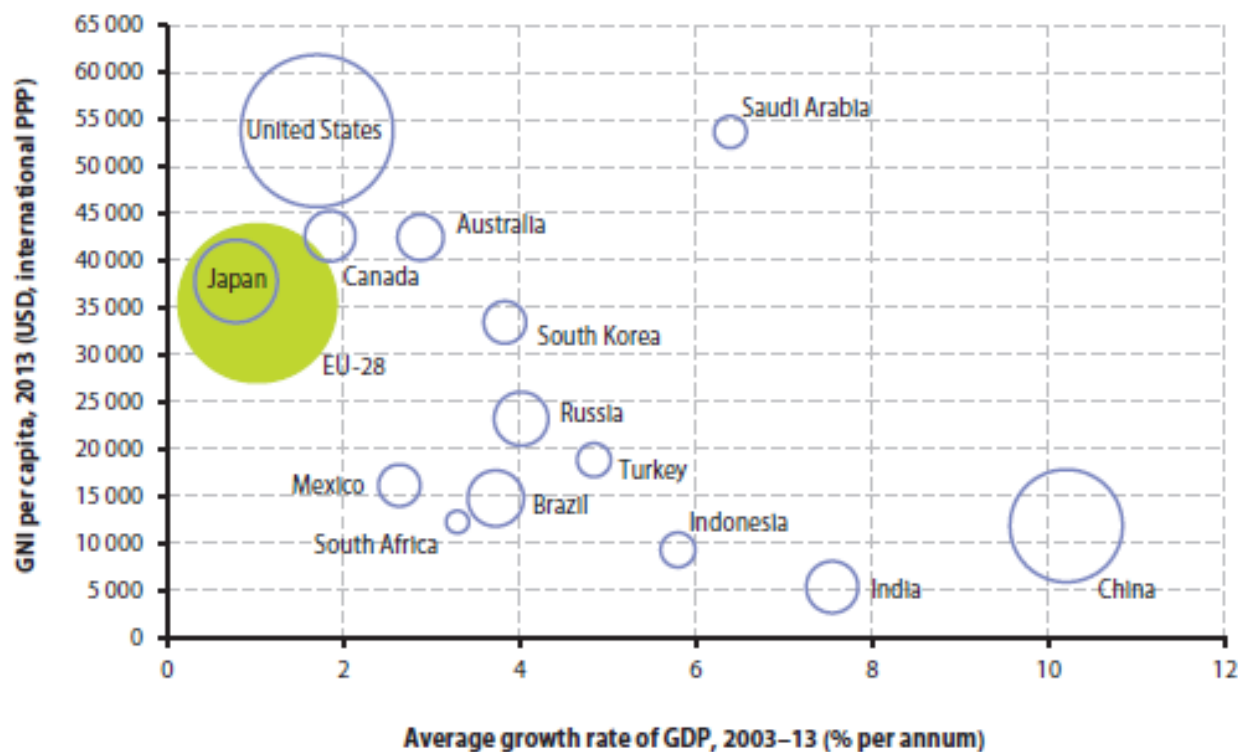
GDP at constant (2005) prices, 2003-13



(*) Note the differences in the range of the y-axes between the different parts of the figure. The EU-28 series is shown in all three parts of the figure for the purpose of comparison. Data for the EU-28 are based on chain linked volumes with index 2005 = 100. Data for all other countries are based on 2005 constant prices.

Source: EUROSTAT (2015): The EU in the world.

Growth rate of constant price GDP and GNI per inhabitant, 2003-13 and 2013



(*) Argentina: not available. GNI per inhabitant is presented in United States dollars using purchasing power parity (PPP) rates for 2013. The relative size of each bubble reflects the value of GDP in current prices for 2013.

Reading note: the EU-28's 10-year annual average growth rate of GDP between 2003 and 2013 was 1.0 % (shown on the horizontal axis), while its GNI per inhabitant in 2013 was 35 500 (shown on the vertical axis). The overall size of the EU-28 economy (GDP in current prices) was EUR 13.5 trillion in 2013 (represented by the size of the large green circle).

Source: EUROSTAT (2015): The EU in the world.

Population and population density, 1960, 1985 and 2013

Table 1.1: Population and population density, 1960, 1985 and 2013

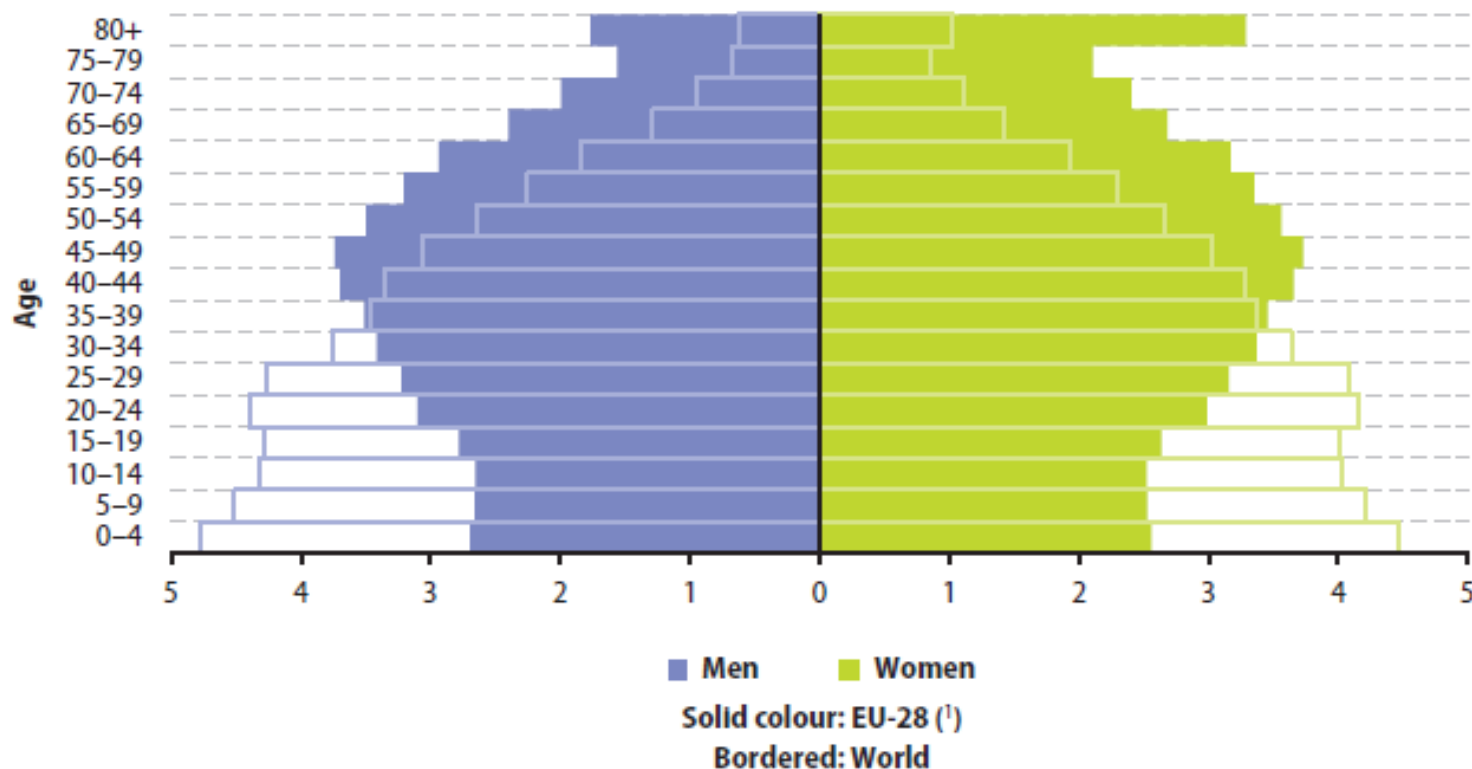
	Population — mid-year estimates (millions)			Population density (inhabitants per km ²) ⁽²⁾		
	1960	1985	2013	1960	1985	2013
EU-28 ⁽¹⁾	408.4	468.9	506.0	102.8	118.0	116.2
Argentina	20.6	30.3	41.4	7.4	10.9	14.9
Australia	10.3	15.8	23.1	1.3	2.0	3.0
Brazil	72.8	136.2	200.4	8.5	16.0	23.5
Canada	17.9	25.9	35.2	1.8	2.6	3.5
China	667.1	1 051.0	1 357.4	69.5	109.5	141.4
India	449.6	781.7	1 252.1	136.8	237.8	380.9
Indonesia	88.7	162.5	249.9	46.4	85.0	130.8
Japan	92.5	120.8	127.3	244.8	319.6	336.9
Mexico	38.7	77.9	122.3	19.7	39.6	62.3
Russia	119.9	143.9	143.5	7.0	8.4	8.4
Saudi Arabia	4.1	13.3	28.8	1.9	6.2	13.4
South Africa	17.4	31.3	53.0	14.3	25.7	43.5
South Korea	25.0	40.8	50.2	252.0	411.1	501.4
Turkey	27.6	49.2	74.9	35.2	62.8	95.6
United States	180.7	237.9	316.1	18.8	24.7	32.2
World	3 036.4	4 839.8	7 124.5	22.6	36.1	53.1

⁽¹⁾ 1960 and 1985 population and population density: excluding French overseas departments and territories.

⁽²⁾ G20 members (other than EU-28): 1961 data for land area used instead of 1960; 2012 data for land area used instead of 2013.

Source: EUROSTAT (2015): The EU in the world.

Age pyramids, 2013 (% of total population)



(¹) Data for 1 January 2013.

Source: EUROSTAT (2015): The EU in the world.

Analysis of household consumption expenditure

(% of total household consumption expenditure)

	Food & non-alcoholic beverages	Alcoholic beverages, tobacco	Clothing & footwear	Housing, water, electricity, gas & other fuels	Furnishings, household equipment etc.	Health	Transport	Communications	Recreation & culture	Education	Restaurants & hotels	Miscellaneous goods & services
EU-28 ^(*)	12.4	4.1	5.0	24.7	5.5	3.8	12.8	2.6	8.8	1.1	8.2	11.1
Argentina	:	:	:	:	:	:	:	:	:	:	:	:
Australia	10.0	3.5	3.2	23.8	4.2	6.2	10.8	2.4	10.0	4.4	6.6	15.1
Brazil	:	:	:	:	:	:	:	:	:	:	:	:
Canada	9.4	3.5	4.1	24.7	5.5	4.4	15.5	2.5	8.5	1.6	7.0	13.4
China ^(*)	36.2		10.9	8.9	6.7	6.4	14.7			12.2		3.9
India	29.9	3.2	7.5	13.2	3.9	3.7	15.9	1.1	1.5	1.3	2.6	16.1
Indonesia	50.7		2.1	20.2	:	3.4	:	:	:	4.0	:	:
Japan	13.7	2.6	3.4	25.3	3.9	4.6	11.8	3.0	9.2	2.2	6.5	13.8
Mexico	23.4	2.6	3.0	20.4	5.3	4.1	19.0	3.5	4.6	1.5	4.0	8.6
Russia	30.7	8.3	9.2	10.3	5.0	3.7	12.5	4.7	5.2	1.1	3.4	6.0
Saudi Arabia	17.9	0.5	5.6	21.2	7.3	1.7	9.1	6.3	2.8	2.5	5.3	19.7
South Africa	26.2		5.2	15.6	6.6	9.6	16.3		3.8	3.1	2.4	11.1
South Korea	13.6	2.1	5.2	16.5	3.3	6.6	12.0	4.3	7.8	6.7	8.2	13.8
Turkey	24.8		4.9	18.2	7.4	2.9	20.2		3.7	1.3	6.7	9.8
United States	6.8	2.1	3.4	18.7	4.2	20.9	10.2	2.4	8.9	2.4	6.4	13.5

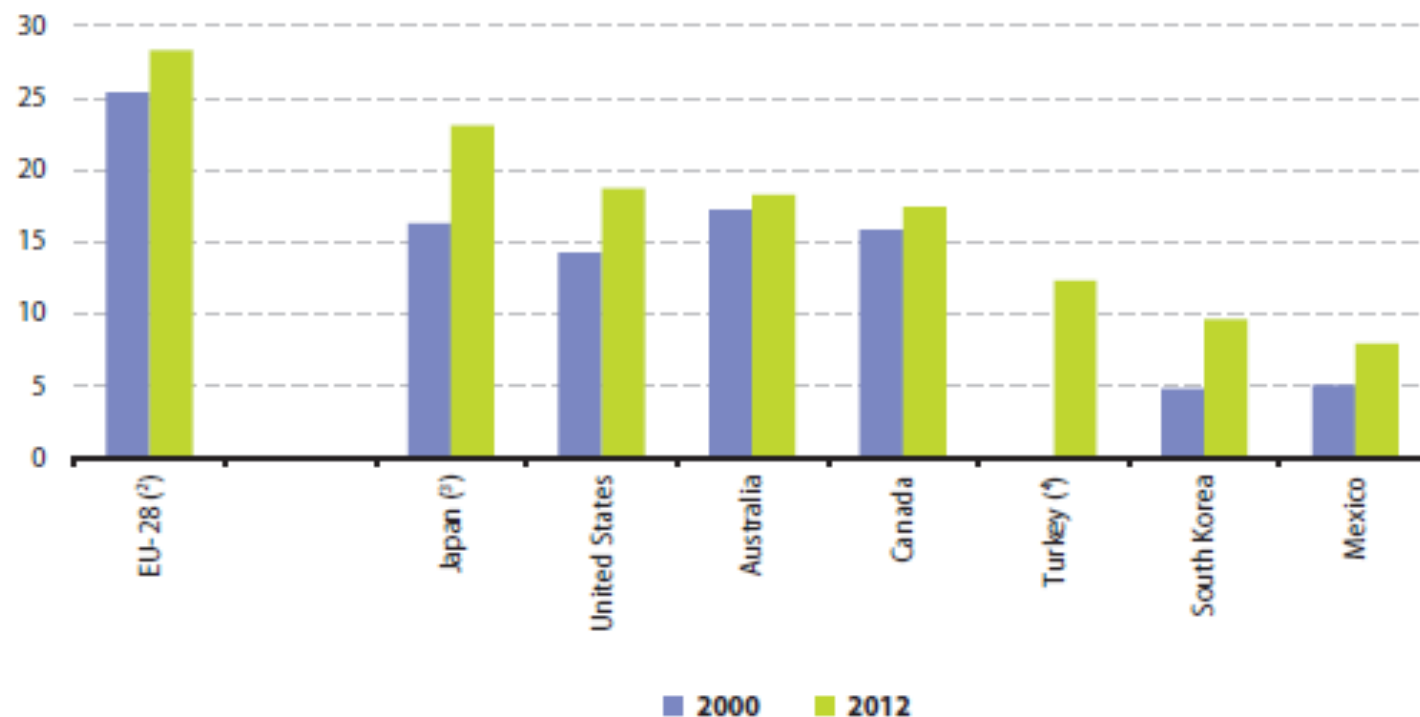
(*) EU-28, Canada, Indonesia, Saudi Arabia, South Africa and Turkey: 2013. Australia, China, Japan, Mexico, South Korea and the United States: 2012. India and Russia: 2011. Australia, Canada, Mexico and the United States: based on 2008 SNA. EU-28: based on ESA 2010.

(*) Excluding Croatia and Romania.

(*) Urban households only.

Source: EUROSTAT (2015): The EU in the world.

Public expenditure on social protection benefits, 2000 and 2012 (% of GDP)



(1) Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia and South Africa: not available.

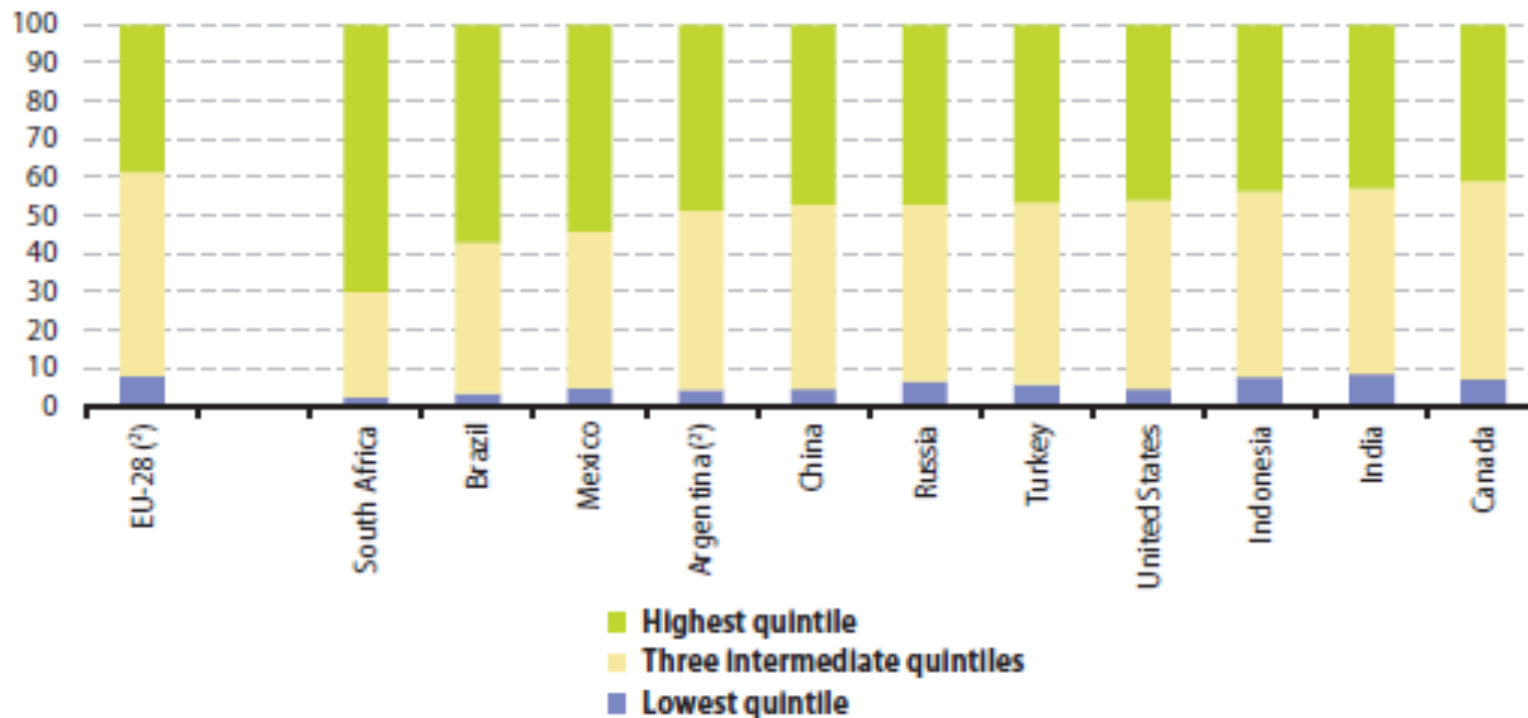
(2) 2000: EU-25. 2012: provisional.

(3) Data for 2011 instead of 2012.

(4) 2000: not available.

Source: EUROSTAT (2015): The EU in the world.

Income quintile shares (%)



(?) EU-28: 2013. Brazil and Mexico: 2012. Argentina, South Africa and Turkey: 2011. Canada, China, India, Indonesia and the United States: 2010. Russia: 2009. Australia, Japan, Saudi Arabia and South Korea: not available.
(?) Urban areas only.

Source: EUROSTAT (2015): The EU in the world.

Trade in goods, 2011 (EUR billion)

Figure 9.2: Trade in goods, 2011
(EUR billion)

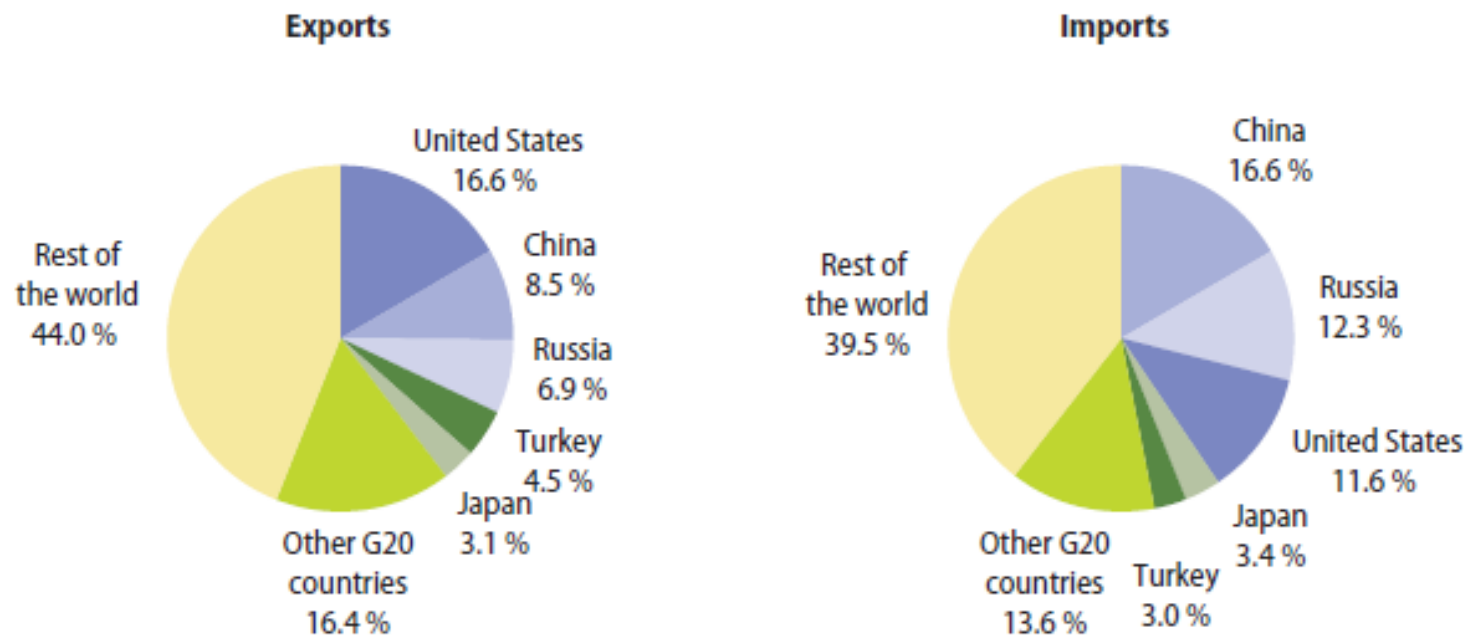


(¹) Extra-EU flows.

Source: EUROSTAT (2015): The EU in the world.

Share of G20 trading partners for EU-28 exports and imports of goods, 2013

(% share of extra-EU-28 exports and imports)



Source: EUROSTAT (2015): The EU in the world.

European Union



Recipient of the 2012 Nobel Peace Prize®



EXPLAINING THE ROOTS OF ECONOMIC POLICY IN THE EU

- To fully understand the challenges of economic policy in the EU today, we need to comprehend fully the nature of the EU.
- History shows the prime motivation for establishing what is today the EU was political: **peace**.
- Economics was key, but secondary.
- Influenced by Adam Smith: “the division of labour is limited by the extent of the market”.
- While previous attempts failed, 1945 was the key year for the EU.
- Immediate post-war period: establishment of the major international organizations (IMF, World Bank, Gatt... and EU).

- But *how* was this cooperation to be designed?
- In this period, different views on the form integration should take came to a head: **UK** and “**The Six**”.
- First attempt at regional integration in 1947 - **Economic Commission for Europe (ECE)** - UN (*universality/multilateralism*).
- But **Organization for European Economic Cooperation (OEEC)** was born in 1948 (*club/unilateralism*) – “economic NATO”.
- Then **North Atlantic Treaty Organization (NATO)** in 1949.
- [Council of Europe](#) founded in 1949.

- Post-war European reconstruction: supported by the US.
- **Marshall Aid** – twin objectives – political bloc vis-a-vis the Soviet Union *and* open markets for the US and its firms.
- OEEC selected as the agency to manage aid distribution.
- OEEC *themselves* members would manage aid distribution: why?
- OEEC method: “confrontation” ; OECD “peer review”.
- Design of OEEC: **supranational** or **intergovernmental**?

- Next step towards integration: creation of **European Coal and Steel Community** in (ECSC) 1951 with "The Six".
- *Economic* solution to a *political* problem (control of primary material for war achieved through a common market).
- Key actors: **Jean Monnet** (plan) and **Robert Schuman** (implementor).
- French security and German “respectability” ensured.
- ECSC largely supranational logic (federal).

- UK refused to join (Atlee: “utterly undemocratic and responsible to nobody”).
- Dynamic of early integration: economic policies help resolve political ones; some political policies, such as establishing a European Defence Army, failed.
- Henceforth, an agreement was taken to push through economic policies, leaving political integration to follow – later – “through the back door”.
- After negotiations, the **European Economic Community (EEC)** and **Euratom** Treaties were signed in 1957.
- [Treaty establishing the European Economic Community, EEC Treaty - original text \(non-consolidated version\)](#).

- By 1958, there are 3 institutions: ECSC; EEC and Euratom.
- The **EEC Treaty** calls for:
 1. Removal of all barriers to free trade.
 2. Formation of common policies, particularly, agriculture and transport.
 3. Coordination of MS policies and balance of payments.
 4. Creation of a European Social Fund to improve standard of living and employment.
 5. Establishment of the European Investment Bank to facilitate integration through finance of projects of common interest to MS.
 6. To establish a common external trade policy, Generalized System of Preferences, etc. ***A twelve year period was granted.***

- Three treaties merged for simplicity to the European Community (EC) – **Treaty of Brussels** or “**Merger Treaty**” in 1965.
- **Late 1960s-1972: much progress.**
- **1969:** agreement on Common Agricultural Policy (CAP), budgetary changes, economic and monetary union and enlargement.
- **1970:** agreement on Common Fisheries Project, industry, science and research policies.
- **1973:** first enlargement: UK, Denmark and Ireland join.
- **1974:** european Council founded – to enhance participation of national leaders.



- **1980s:** EC seems out of step with **changing realities...**
- Lack of a foreign policy.
- Lack of common position at end of Cold War.
- Recession, industrial change, higher unemployment, slower growth (eurosclerosis).
- Accession of Greece (1981), Spain and Portugal (1986) made MS less “coherent”.
- Constraints of European budget (less than 1% of EC GDP).
- Internal divisions compounded by exterior pressures.



- **Single European Act (SEA) 1987.**
- Although the Treaty of Rome eliminated barriers, trade is still not flowing freely. Aim: to create a “true” **Single Market** by 1992 with free movement of goods, services, capital and labour: “four freedoms”.
- But policies go beyond: environment, health and safety at work, R&D, cohesion, and economic and monetary policy.
- Institutional reform: the Council will adopt Qualified Majority Vote (QMV) in some fields. European Parliament would share some decisions.

- Thus, EC inward-looking at internal change.
- Unprepared for external changes.
- The Cold War ends: soviet bloc collapses.
- Germany reunites. EC not ready for this! Many new candidate MS!

- **Treaty on the EU/Maastricht Treaty.**
- Signed 1992/implemented 1993.
- Done in a hurry (referendum).
- Perception of the political élite pushing voters to follow behind.
- To prepare for monetary union, political union, establishes EU, more decision-making by Parliament.
- Austria, Finland and Sweden join in 1995.



- **Amsterdam Treaty.**
- Very quickly after TEU, signed 1997/implemented 1999.
- To reform EU institutions in preparation for enlargement (simplification).
- Advances in social and foreign policy.
- A “flexible” approach to integration? Further developed in the Nice Treaty.
Eg. Annex: UK rejected social policy. “Opt-outs”.
- Clarified the “**Subsidiarity principle**” (given fears of a “superstate” and “democratic deficit”).
- The EURO introduced in 11 countries in 1999.

- **Nice Treaty – 2000.**
- Complex and “lousy”?
- Focus: enlargement of 12-15 new MS.
- More QMV.
- Limit number of Commissioners.
- Ireland rejected but rest of MS accepted.

- 10 new MS join the EU between 2004 and 2007.
- The “**Failed Constitution**”.
- The perception was, again, that this had been pushed through by the political élite.
- Rejected by France and the Netherlands but ratified by many MS.
- Eventually, transformed into the **Treaty of Lisbon**, signed 2007 and ratified 2009.
- This [Treaty](#) governs the EU today.



Significance of the Treaty of Lisbon

1. Single, simplified EU Treaty.
2. Creates post of president of the European Council serving for 30 months, renewable once, not 6-monthly rotations.
3. Creates post of EU foreign policy chief (High Representative of the Union for Foreign Affairs and Security Policy).
4. More policy on defence.
5. More power to the European Parliament.
6. Helps national parliaments protect themselves from EU law.

Significance of the Treaty of Lisbon

7. Abolishes national veto in immigration and asylum policy.
8. Retains national veto on tax, defence and foreign policy.
9. Introduces new “Double Majority” voting system - 15 MS
65% of population.
10. Increases power of the Eurogroups.
11. EU Charter of Fundamental Rights (strike, etc.).
12. Reduces size of the commission (to 2/3 of MS rotation)...
but there are still 28.
13. More seats in the European Parliament for small MS.

BASIC REFERENCES

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- Europa (2016): [Official website of the EU](#).
- Eurostat (2015): «*The EU in the world 2015. A portrait*». Eurostat statistical books.