European Economic Policy

Topic 3. EU Economic Policy since Lisbon

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Introduction

- As we have seen, the roots of economic policy in the EU are connected to establishing peace firstly, and to the setting up of a single market, secondly:
  - Whilst direct progress in policy to advance EU *politics* failed, advances were made in the field of economics. *Politics would be achieved through the "back door".*

- The policy EU institutions can and cannot enact depends upon what is included in the *EU treaties*.

- Hence one useful way into understanding how economic policy has evolved in the EU is to examine the evolving content of the EU treaties.

- In this class, we analyse the most important treaties including:
  1. Treaty of Rome (1957).
  2. Single European Act (1986).
  3. Treaty of Maastricht (1992).
  4. Treaty of Amsterdam (1997).
  5. Treaty of Lisbon (2007).

Introduction

- An analysis of the original treaty texts is complex from the economic perspective due to their legal nature.
- Pelkmans (2006) conducted a useful economic analysis of the major EU treaties.
- Here, treaties are analysed as an "economic constitution" which include positive and negative elements of integration:
  - *E.g.: Lowering or elimination of tarriffs and other trade barriers.*
  - *E.g.: Creating fundamental rights and obligations of citizens.*
  - *E. g.: Establishing power of the state and its limits.*
- An economic constitution is "a framework of rules and principles for public economic functions" as well as "fundamental economic rights and obligations of citizens and firms".
- Much can be learnt about the evolution of economic Policy in the EU by systematic analysis of the treaties through the lenses of: objectives, instruments and economic principles.

Framework (I)

- **Following Pelkmans, treaties can be analysed according to the following <u>6 categories</u>:**

  1. **<u>General principles</u>:**
     - These are like a *general guide* to the direction of economic policy.
     - They are not always explicit. Indeed, this is sometimes highly advantageous (tacit meaning) making them flexible and open to interpretation (and future development). E.g.:
       - *During early stages of economic integration, when countries are organised very differently.*
       - *As the meaning is tacit, this can be clarified, expanded, shaped, in the future.*

Framework (II)

2. <u>Stages of Economic integration</u>:

- Each treaty can be analysed according to which "stage of economic integration" it reflects.

3. <u>Economic objectives</u>:

- Objectives may be economic, but also political, cultural and so forth.
- The means of achieving economic objectives is not always best done through the economic perspective. E.g.:
  - *Sometimes a roundabout way of achieving an objective is more feasible than a direct way for political or administrative reasons.*

Framework (III)

4. <u>Public economic functions</u>:

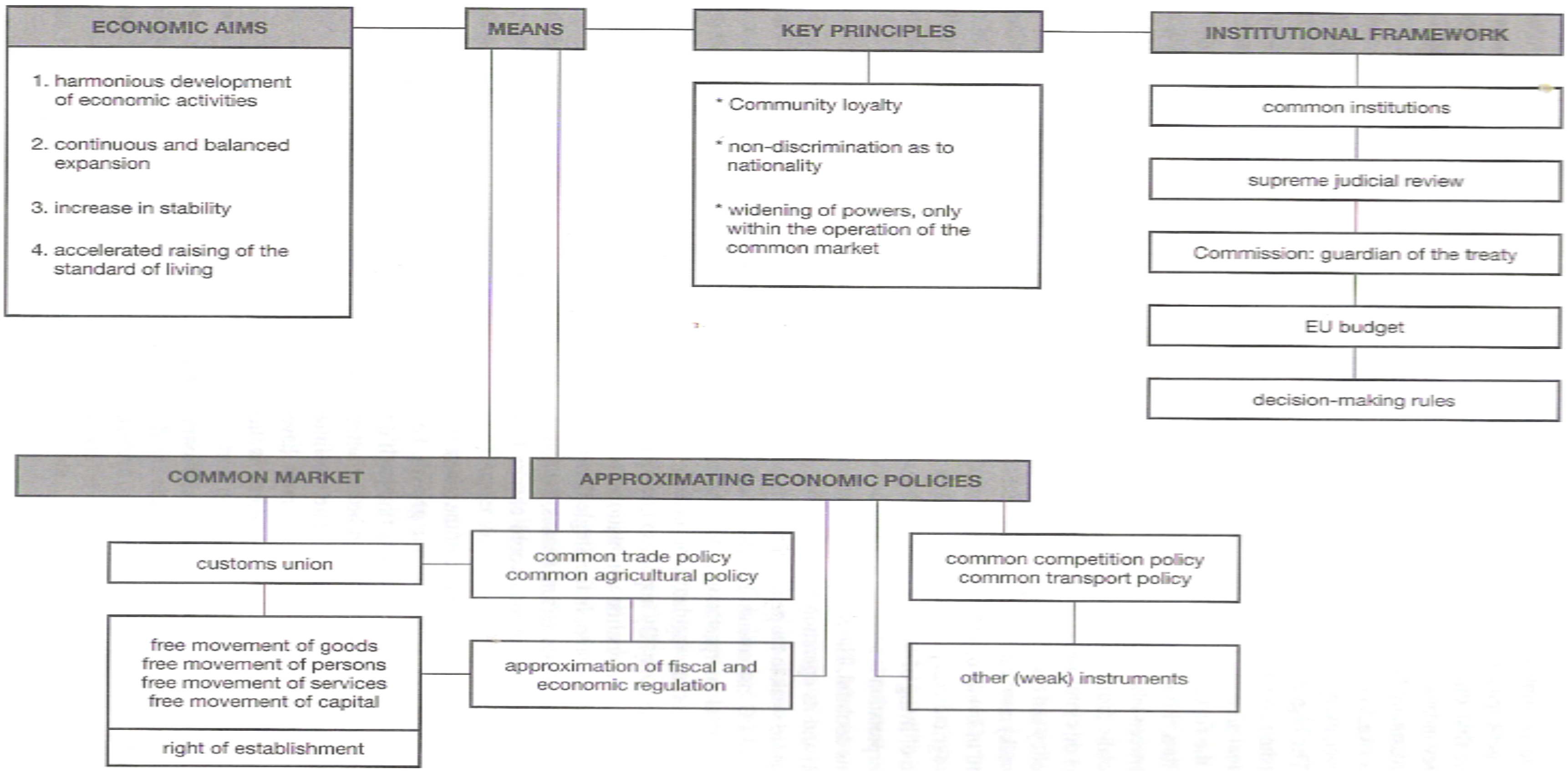
- Three main functions: *allocation* (market functioning: competition); *redistribución-financiación* (between regions, agents and factors of production) and *stabilization-growth-wellbeing* (aiming for low unemployment and inflation with growth).
- The functions of redistribution and stabilization are key in national policy as they have consequences for personal, institutional and firm income. Hence it is unlikely they will form part of a set of EU policy in its early days.

Framework (IV)

5. **<u>Economic power at the supranational level</u>:**
   - This can be expressed either in very explicit and rigid terms, or else in vague and flexible terms, so they can be adapted or easily changed in the future.

6. **<u>The Institutions and their functions</u>:**
   - Legislative, executive and judicial.

Economic structure of the Rome Treaty



Source: Pelkmans (2006).

Treaty of Rome (I)

- **Signed on 25 March 1957 (comes into being on 1 January 1958) by France, Italy, Germany, Belgium, the Netherlands and Luxembourg:**

1. <u>Economic objectives</u>:

- Somewhat ambigious. Continuous, harmonious and balanced economic growth. But there is no policy to promote GDP per capital convergence in nations or regions. The European Social Fund and the European investment Bank are limited ("weak instruments"). Until the 1970s, there are no regional policies. Only market mechanisms.
- Accelerated economic growth and wellbeing (life standards): What is the exact relation between these two? GDP or beyond?

Treaty of Rome (II)

2. **<u>Instruments</u>:**
   - The Common Market.
   - The convergence of economic policies.

Problems: there is not a clear definition of the single market.
Reference is made to four freedoms: “free circulation” of:
- Goods
- People.
- Services.
- Capital.

But we know little about how that will happen, nor the order (sequence) in which economic policies may converge.

This lack of sequencing was a major reason why the common market was delayed in practice.

When, how, who?

Common economic policy is often associated with “interest groups” (CAP, etc.).

Result: a great deal of discretion for national governments remains as regards “economic Policy”.

Treaty of Rome (III)

- There is some gap between the stated objectives and the instruments to fulfill them.
- The Treaty of Rome provides insufficient instruments to progress to a Single Market.
- Other social and macroeconomic instruments are limited, week or blocked (they would require harmonization of regulation, segurity, Health and so forth).
- In practice, the free circulation of services, people and capital does not progress significantly.

Resulta: A Customs Union for goods + CAP + competition policy for goods → CU+

Treaty of Rome: principles

1. Loyalty to the EEC. National governments must legislate in the spirit of the treaty.

2. No discrimination (nationality).

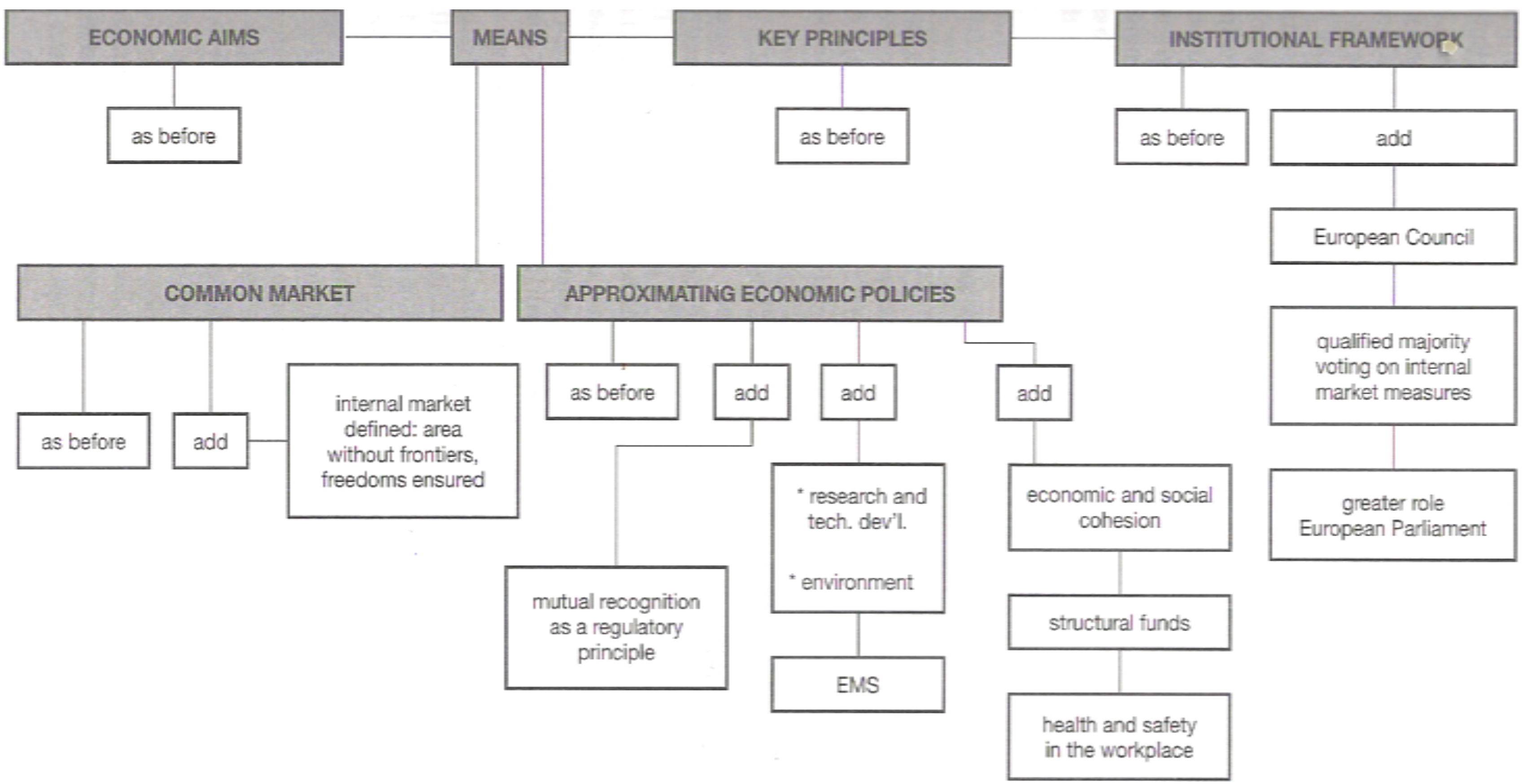
3. It is possible to increase Economic powers without changing the treaty. Decisions will be unanimous and fall in the competence of the Single Market.

4. The EEC will be based on *“rules, not money”*. The Commission becomes known as a *“liberalization”* or *“regulation machine”*. It's Budget is small.

Single European Act 1986

- Signed between 17 and 28 February 1986 (implemented as from 1 July 1987) by 12 members of the EC.
- Brought about a deeper integration in three ways:
  - Institutions.
  - Instruments.
  - Foreign policy.
- On the one hand, there are few changes as regards Economic fundamentals of the Treaty of Rome (objectives, instruments).
- But this is a treaty which reinforces institutions and instruments to fulfill the Single Market.
- Important changes:
  - The Single Market is finally defined.
  - Decisions taken by Qualified majority (on Single Market).
  - Includes social and economic cohesion.
  - Approximation in questions on security at work.
  - Mutual recognition as a basis for regulation.

Adding the Single European Act to the Rome Treaty



Source: Pelkmans (2006).

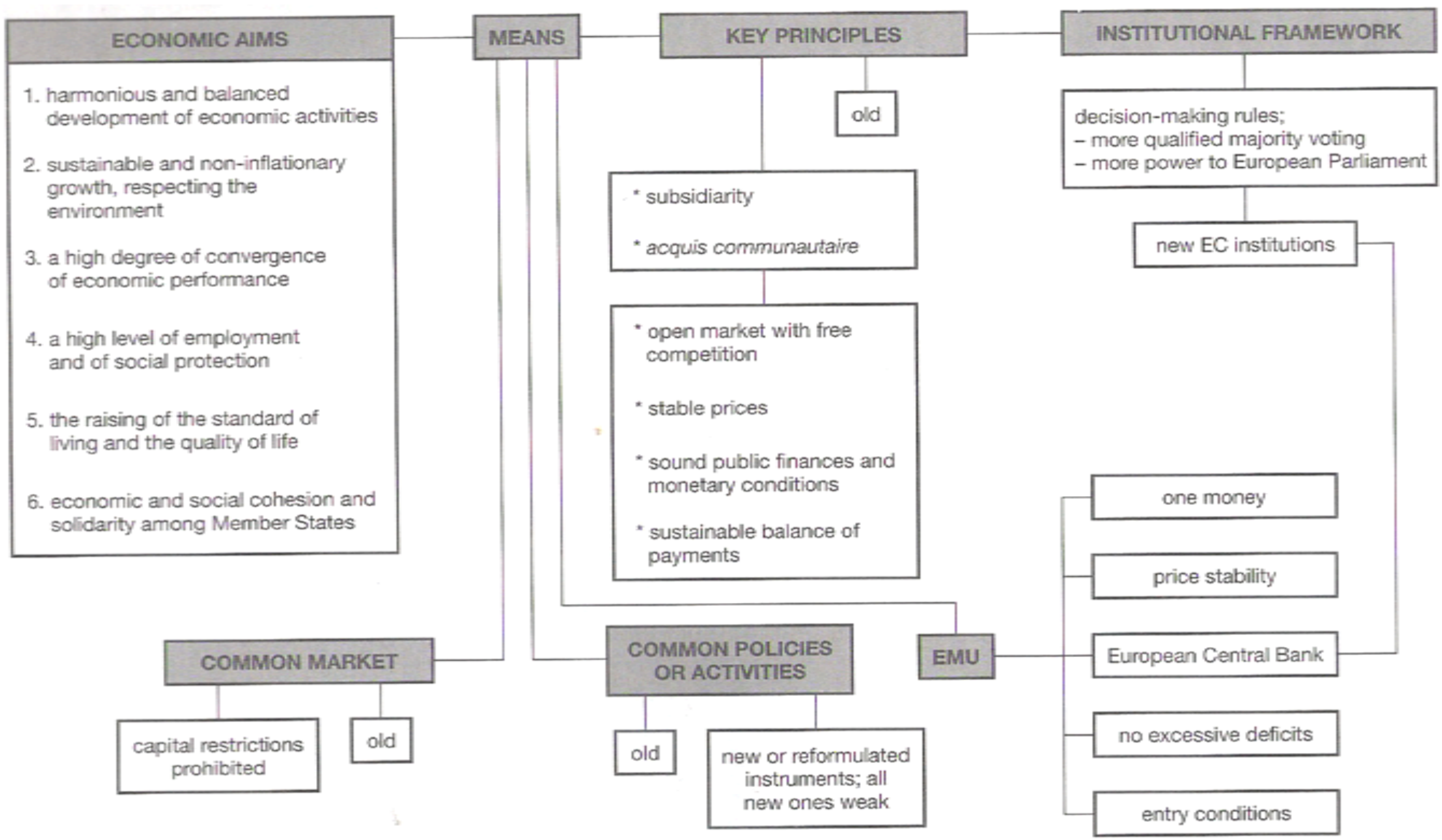
Single European Act 1986

- The decision of making decisions by QMV was very important and helped change behaviour.
- A clear defintion of the Single Market: an “area without internal frontiers where there is a free circulation of godos, services, people and capital”. This facilitated progress towards integration.
- Economic and social cohesion. Institutional reform ➔ structural funds.
- Increase in the budget (relative reduction of the CAP).

Treaty of Maastricht (1992)

- Signed on 7 February 1992 (comes into being on 1 November 1993) by 12 members of the EC.
- Again, extensión and deepening of integration.
- Reformulation of the objectives and Economic instruments.
- Objectives: these reflect a change brought about by the Economic integration process:
  - Social aspects: social Europe-solidarity.
  - Political aspects: political integration.
  - Sustainable development.
  - Quality of life.
- Common political instruments:
  - European Monetary Union.
  - The *"convergence"* of Economic policies is replaced by *"common economic policies"*.
  - Elimination of restrictions on capital flows.

Economic structure of the Maastricht Treaty



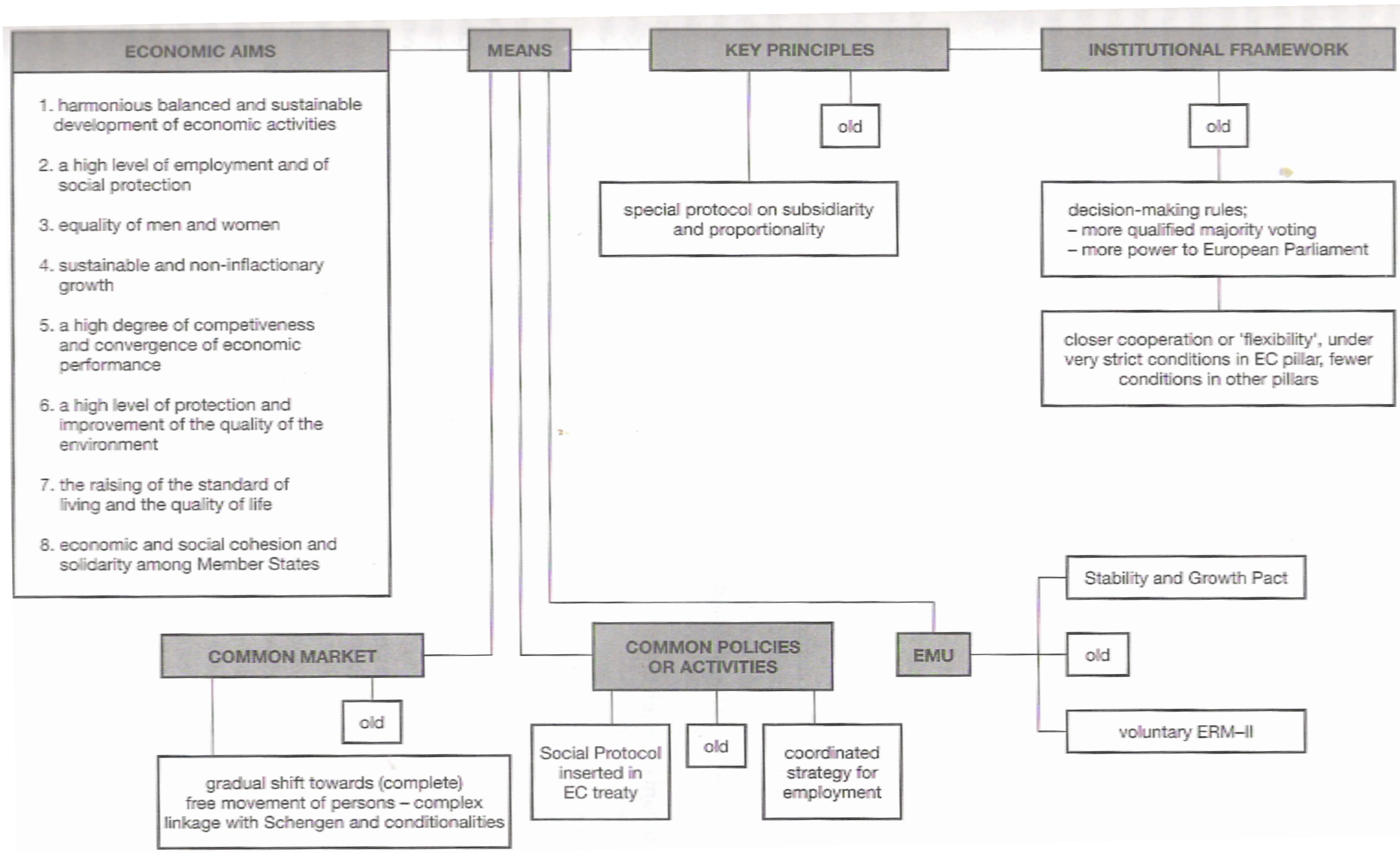
Source: Pelkmans (2006).

Main changes of Maastricht

- **<u>New principles added</u>:**
  - Price stability (inflation).
  - Solid public finances (public déficit and debt).
  - Balance of payments (interest rates).
  - "Subsidiarity principle" (at the beginning this was limited).
  - "*Acquis communautaire*" (gradual adoption of legislation, norms and national agreements).

- **<u>Common Economic policies of the EMU</u>:**
  - Central European Bank.
  - Common monetary Policy (inflation).
  - Political control of public deficit.
  - Conditions for accession (new MS).

Economic structure of the Amsterdam Treaty



Source: Pelkmans (2006).

Treaty of Amsterdam

- Signed on 2 October 1997 (comes into being on 1 May 1999) by 15 MS of the EU.

- Less important in E¡economic terms.

- **Social objectives:** although these appear different there are few real differences except for “gender equality”.

- **Instruments:** small changes.

- **Principles:** few changes.

Treaty of Lisbon (2007)

Economic aims

Better security
More voice for citizens
More democracy
Consolidate foreign affairs

Means

Common Market

As before plus
Consolidate 4 freedoms

Common policies

Citizens' Initiative
Exit mechanism
Charter of Fundamental Rights
Security and Defense Policy

Key principles

As before plus

More subsidiarity

Institutional framework

As before plus

Co-decision
Double majority voting
European Council
President
High Rep of Foreign Affairs
Foreign Service

Treaty of Lisbon

- Greater consistency has been reached between the objectives of the treaty and the policies and instruments.

- Policies expanded from a simple common market to one for goods to one for all four freedoms.

- This implied introducing policies for “positive integration”.

- Long-term trend in making the EU more democratic and legitimate (delimiting action based on rational and economic – cost/benefit – logic).

- Finally policy enters the political terrain (security, foreign affairs).

- A mature EU has been reached.