

Scharrer, Hans-Eckart

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The Mixed Blessings of Enlargement

When the final obstacles to the three Scandinavian countries' and Austria's joining the European Union (EU) have been surmounted – and these include not only agreement on the size of the minority required to veto decisions but, above all, the approval of the populations in the acceding countries themselves – the EU will span a territory from the North Cape to Sicily with 372 million inhabitants and total a gross domestic product of six billion ECU.

What can the new members gain from their accession? From the beginning of this year, the European Economic Area (EEA) already affords the acceding countries free access to the (industrial) goods, services, labour and capital markets of the Community under comparable terms to those for EU members, though granting them less say in the future development of single market law. Full membership in economic terms, then, will provide them with “more” by allowing full participation in common foreign trade, agricultural, regional and social policy, the Community budget, and above all equal rights in decision-making.

Simply looking at this list causes doubts to arise as to whether this “more” of full membership necessarily is a gain in each individual case. By subjugating themselves to the Eurocentrist common trade policy of the Community, the new members will forfeit a competition policy parameter which they have so far wielded with skill to sustain the momentum and innovative power of their economies. It remains to be seen whether having a share in the greater negotiating strength of the EU will offset this loss. Taking part in the common agricultural policy will mean large sacrifices, at least for the farmers in three of the four countries (excepting Sweden), as, partly due to the local climate and soil quality, farming prices have been set well in excess of EU levels. It will not be easy to compensate the regional income and employment losses. In Norway this also applies to the surrendering of fishing quotas to fishermen from other EU member states.

Compensation can be provided to a limited degree by EC regional policy, which has now included support for regions with a low population density (under eight people per sq.km.) in its list of policy measures via the establishment of a new “Objective No. 6”. The key problem here will be to create new employment opportunities in regions that – unlike the Mediterranean countries – are not just located on the periphery of the Community but also on the periphery of the world economy. A major part of the compensation measures will, however, have to be paid for from national coffers. This is even more of a burden as the acceding countries, apart from Finland, will be “net payers” into the EU: Sweden and Austria each with an annual DM 1.5 billion, Norway with some DM 700 million. Measured against the small populations, these are sizable sums.

Apart from the foreign and security policy aspects, which make integration into the EU attractive particularly (though not solely) to Finland, it is the additional certainty in economic policy planning and the resultant, anticipated medium-term and long-term growth gains that speak in favour of full membership from the viewpoint of the acceding countries. The prospect of

full and irreversible participation in the great single European market ought indeed to spur businesses and economic policy-makers in the "young" member states to find new answers to the problems of structural adjustment. It is to be hoped that it will also provide innovative stimuli to the Community.

As the last few years have shown, size alone is no guarantor of efficiency. Between the 60s and 80s, the growth rate of real GDP in the EC more than halved from 4.8% to 2.3%, and has since remained below the US growth rate, despite the continuing per capita income gap. This performance is even worse if measured against employment: from 4.1% in the 70s, the unemployment rate leapt to 9.6% in the 80s; in the USA it "only" rose from 6.4% to 7.1% and has kept well under the EU figure since. On top of this, the international competitiveness of the Community in the field of technology has fallen. Its share of world exports of industrial goods has declined noticeably, with market share losses largest in "complex", technologically sophisticated products.

It would of course be mistaken to place the blame for the economic and economic policy shortcomings in the member states, which taken together make up the result for the Community, solely on the EC: in spite of increasing transfers of power to the Community, the member states act largely on their own in those policy areas which are decisive for locational quality and international competitiveness. Nevertheless, there is reason to suspect that the (southern) enlargement and the deepening of the Community has led, regardless of the "competition programme" Single Market, to growing Eurocentricity and a fortress mentality, increasing interventionism and thinking in terms of handouts, and hence to a paralysis of the forces for competition, to "Eurosclerosis" and the slowing-down of structural adjustment.

Let us hope that the new members, with their orientation towards the world economy and their pronounced individualism, will help to stem these adverse trends, impel the European Union towards more openness and competition (amongst economic policy ideas as well) and stimulate the forces for growth. They could, therefore, mean a bolstering of the "liberal" faction in the Council. Germany has a key role to play here: it will have, on the one hand, to advocate market policies, shoulder to shoulder with Great Britain, more forcefully than ever; on the other, it will have to cooperate closely with France to see to it that the Community does not split into two blocs – a protectionist and interventionist southern faction and a more market-friendly northern camp, which would stymie each other and thus impede the Community's future development.

Economically speaking, the accession of the Scandinavian countries ought to enhance conditions for growth in the whole of the northern region around the Baltic Sea. North Germany will leave its former peripheral status even further behind it, and the economic links between Scandinavia and Poland, the Baltic states and Russia should also provide these countries with new development impetuses. Given suitable political parameters, a new economic centre of gravity could emerge here in the medium and long term. Germany's presidency in the latter half of the year will provide an opportunity to test the EU's readiness to make constructive use of Scandinavia's Baltic ties.

After the virtual completion of the North-South integration (still pending: Malta, Cyprus, Turkey), efforts toward European unification will focus more in future on strengthening economic and political relations with eastern Europe. Hungary and Poland have already announced their intention to apply for membership of the EU. A possible interim stage on the road to full membership could be to allow these countries to enter the EEA. At the same time, a new discussion of goals and strategies regarding the future shape of the EU will already become pressing in the run-up to the treaty conference of 1996. This debate will have to take up the present taboo issue of partial membership, which cannot, however, be confined to involvement in the common foreign and security policies (which have little practical relevance).

With the current round of enlargement, the Community in its present institutional form appears to have reached its limits. Unfortunately, the economic and political challenges it faces pay no heed to those limits. What we need now are innovative ideas on integration.

Hans-Eckart Scharrer