The Economics of Europe

By the same author

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THE SOCIAL ACCOUNTS OF THE WELSH ECONOMY (ed.)
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CAPITAL FUNDS IN UNDERDEVELOPED COUNTRIES*
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REGIONAL POLICY AND THE ROLE OF BANKING
AN INTRODUCTION TO MICROECONOMICS
THE ECONOMICS OF DEVOLUTION (ed.)

The Economics of Europe

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Preface

A commercial advertisement appearing in 1988 described the European Community as 'six republics, five Kingdoms and one Grand Duchy separated by nine languages'. The description was not entirely serious but neither could it be described as entirely meaningless. To the outside observer the Community frequently presents itself as a complex, remote and not entirely credible organisation, inhabited by politicians and bureaucrats but having little bearing on the daily life of the ordinary citizen. Nowhere is this attitude of faint disbelief more widely held than in the United Kingdom. Yet the facts are that for those of us who dwell in Western Europe it is part of our lives and we, in turn, form part of it. Its structure, operation and objectives therefore have become matters deserving of systematic study throughout the educational system and beyond. This book is an attempt to provide a beginner's guide to that process.

In writing such a book there is one insoluble problem: what prior knowledge of what subject can safely be assumed in the reader? It is not a question of answering the question successfully: rather it is one of answering it wrongly to the least possible degree. Since I am primarily concerned with the economic aspects of the European Community, the problem essentially reduces to one of the extent to which the reader can be assumed to be familiar with the basic analytical concepts and constructs of economics. To assume no knowledge whatever would imply a need to indulge in a detailed explanation of almost every basic principle of economics; such a procedure would result in a book whose length would be exceeded only by the tedium it would induce in those to whom the interaction of demand and supply is not entirely a theological mystery. To assume graduate standing in economics, on the other hand, would lead to a work which would be totally unintelligible to the great majority of its potential readers. Compromising, then, I have assumed, roughly speaking, a prior knowledge of economics broadly comparable with that of a first-year university course or perhaps a good Advanced Level grade in the subject. Those better equipped in economics must exercise charity and bear with what will frequently seem an unduly simplified and elementary treatment of some quite sophisticated theoretical problems; those less well equipped may have to take

some of the theoretical propositions on trust and may, indeed, skip Part II altogether.

The book is written with an eye rather firmly fixed on the reader resident in, and concerned with, the United Kingdom. I hope nevertheless that it has not as a result become so introspective as to lose sight of the essentially supranational character of the Community. Residents of Northern Ireland will forgive me, I hope, for having frequently used the terms 'Britain' and 'British' as synonymous with the terms 'United Kingdom of Great Britain and Northern Ireland' and 'citizen of ...' in order to avoid both undue verbosity and the monotony of repetition. I have also tended to use the term 'European Community' in preference to the awkward but none the less legally correct expression 'European Communities'. Less defensibly, again in the interests of brevity and the avoidance of repetition, I have frequently used the word 'Europe' to refer to the Community where the context does not allow of misunderstanding; I have even used the term 'Mediterranean' to include Portugal. I trust these lapses in geographical accuracy will not irritate overmuch.

Finally, a word should be said about the frequent (and unavoidable) references to monetary magnitudes throughout the book. Since the magnitudes concerned normally involve more than one country they are usually expressed in terms of the European Currency Unit (ECU), despite the undoubted fact that no such currency unit existed prior to 1979. For years prior to 1979 national currency units have been converted into ECUs at their prevailing exchange rates and using the weights given to each currency in 1979 when the ECU was first created. Furthermore, to use contemporary monetary values for events stretching over thirty years would clearly result in figures of little comparative meaning. Unless stated otherwise, therefore, all monetary values have been converted into their equivalents at 1986 prices in order that a sum quoted for, say, 1960 can be compared meaningfully with the corresponding sum for 1980. (This has the convenient result that the sums quoted in ECUs may be taken as equivalent to the same sum in US dollars, a currency unit which still has more meaning than the ECU for most of us; the average rate of exchange of ECUs for dollars in 1986 was almost exactly one.) For similar reasons the national income figures used throughout are those based on the Commission's estimates of the comparative purchasing-powers of various currencies, rather than those based on current exchange rates. There are good arguments for using each of these bases of comparison, but for the purposes of this book I feel that exchange rate instability – especially that of the 1970s – renders national income comparisons based on current exchange rates seriously misleading. The Statistical Appendix contains the data necessary to convert values into current prices in dollars, based on prevailing exchange rates, should any reader feel a compulsive preference for such valuations.

List of Abbreviations

AASM	Associated African States and Malagasy
ACP	African, Caribbean and Pacific States
BENELUX	Belgium–Netherlands–Luxembourg Economic Union
BN.	Billion (10 ⁶)
BRITE	Basic research in industrial technologies for Europe
CAP	Common agricultural policy
CFP	Common fisheries policy
COREPER	Committee of Permanent Representatives
DG	Directorate-General
DM	Deutschemark
EC	European Communities
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDF	European Development Fund
EEC	European Economic Community
EEIG	European Economic Interest Grouping
EEZ	Exclusive Economic Zone
EFTA	European Free Trade Association
EIB	European Investment Bank
EMS	European Monetary System
ERDF	European Regional Development Fund
ESF	European Social Fund
ESPRIT	European strategic programme for research and development in information technology
EURATOM	European Atomic Energy Community
FECOM	European Monetary Co-operation Fund
FEOGA	European Agricultural Guidance and Guarantee Fund
FR	Franc
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product

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GSP	Generalised system of preferences
GWh	Gigawatt hour (10⁶ kilowatt hours)
IEA	International Energy Agency
IMF	International Monetary Fund
IMP	Integrated Mediterranean Programmes
JET	Joint European Torus
MCA	Monetary Compensatory Amount
MFA	Multifibre Arrangement
NATO	North Atlantic Treaty Organisation
NTB	Non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
OPEC	Organisation of Petroleum Exporting Countries
RACE	Research and development in advanced communication technologies for Europe
STABEX	System for the stabilisation of export earnings
SYSMIN	System for financing mining products
TAC	Total allowable catch
UK	United Kingdom of Great Britain and Northern Ireland
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
VAT	Value added tax
VER	Voluntary export restraint