Introduction: Common Markets and Common Currency: EU Integration and Its Outcomes

Bartholomew Paudyn and Kurt Hübner
In 2007, the process of European integration will celebrate its 50th anniversary. What started as an important but restricted political initiative of overall six European countries has evolved into a mighty and encompassing socio-political structure that defines Europe. Today, the EU consists of 25 member states, and more may come. The transformation from a political and economic scheme of cooperation of nation-states towards an entity with its own political, legal, social and economic structures, norms, procedures and rules did not happen without deep and sometimes disturbing crises. So far, however, it appears that nothing could really stop the enlarging and deepening of the EU.

The evolution of the EU was accompanied by the initiation and growth of the academic field of European Studies. The evolution of the EU and the launch of this new scholarly field went hand in hand. Whether the insights of the academic preoccupation with the EU have helped and structured the ways of European integration itself may be questionable. Yet there is no doubt that political actors were more than willing to use scholarly arguments for justifying their integration policies. Even though it seems that until today scholars do not agree whether the launch and then the evolution of the EU has been dominantly driven by (geo)political or by strict economic interests, it is obvious that economically grounded arguments serve best the needs of politicians by lending their actions some credibility.

Two basic propositions played a particular role in speeding up the processes of integration. There is, first, the argument that the substitution of a number of single national markets by a unified common market delivers a range of welfare benefits. The bigger the market, so the logic goes, the bigger the potential turnover, and the bigger the
expected economies of scale. Consumers as well as producers will benefit from lower prices and the higher productivity of a common market. Such a market will have a unified spatial price structures that in turn generate a level playing field for all actors. In real life, all those benefits do not come automatically. Markets need frameworks that usually are provided by non-market actors like the state or state-like institutions. Diawara discusses the designs of competition policies of the EU and of Canada and shows that the EU as a non-state is more successful in launching working competition rules than is the Canadian state. In practice, the agricultural sectors of the member states of the EU were transformed into a single common market. The paper by Viju/Nolan/Kerr gives a brief history of the Common Agricultural Policy (CAP) of the EU before it analyzes the price integration for selected agricultural products of a sample of member states. The results of the econometric study are somehow surprising as it is shown that only a subset of agricultural products shows significant price integration. More so, price integration between the countries under observation (Austria, Finland, and Sweden) is less pronounced than price integration with the biggest economy of the EU, namely Germany. The lack on coherent price integration refers to the still unfinished process of market integration in Europe.

This insight is supported by the paper of Ihor Soroka. He discusses the second basic insight that is used to legitimize and push European integration forward. The introduction of a common currency, so the argument runs, will increase price transparency, therefore strengthening price competition and will also drastically reduce transaction costs. Due to those benefits the cross-border trade between the members of a currency union will increase significantly. A broadly cited paper by Andrew Rose and
subsequent work along those lines have found positive trade effects on the case of a currency union of up to 300 per cent. Soroka’s analysis of the effects of the euro on trade between member states (1997-2000) using a standard gravity model, contradicts those results by showing that the positive trade effects of the European Monetary Union are (i) relatively small and (ii) evaporate in short time.

The EMU came with an institutional architecture that is mainly made by the Stability and Growth Pact (SGP). Much has been written on this pact in the last couple of years, mainly due to the fact that many rules and objectives have been seriously violated by member states. Paudyn takes on the asymmetric application of the SGP by introducing the concepts of risk and uncertainty as modes of governance. Reflecting the tension between the programmatic and operational dimensions of governing EMU, these modes translate into a new institutional capacity for its regulation. The audit quantifies this politics of risk and uncertainty. His contribution shows that the EMU introduced a new concept of governance that may have deep effects on the shape of governance of the EU as such. As the Eurozone will grow in time the need for an efficient, smooth and also stable mode of governance will increase. Whether this may lead to a change in the rules and practices of the SGP will have to be seen. One thing that we can be certain of, however, is that the work load for Europeanists will not diminish.