Foreword

The European Union has changed radically since its inception in 1958. Over the years, the Union has progressively enlarged from the original six (Belgium, France, Germany, Italy, Luxembourg and the Netherlands) to the current 25 member states. As a result, its population has grown from 170 million to 460 million and its land area has increased from 1.2 million to nearly 4 million square kilometres. By comparison, the population of the United States has grown from 180 million to 280 million and its land area has stood at 9.4 million square kilometres. At the same time, the Union has evolved from a mere free trade area to a Single Market, with half of its member countries currently sharing a single currency, the Euro, which is already the world's second most important reserve currency behind the US dollar.

The latest enlargement of the European Union, which took place on 1 May 2004, is far larger and more challenging than the previous enlargements, which occurred in the 1970s (Denmark, Ireland and the United Kingdom), the 1980s (Greece, Portugal and Spain) and the 1990s (Austria, Finland and Sweden).

The 2004 eastern enlargement (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) and southern enlargement (Cyprus and Malta) presents both similarities and differences when compared with the southern enlargement to Mediterranean countries in the 1980s. In terms of size (population, GDP) relative to the EU total of the time, the rounds are quite similar. However the income gap between the new member states and the current EU is much larger than the one between the Mediterranean countries and the then EU. The accession of ten more countries has also added a dimension of complexity and heterogeneity that was not present in the previous round. At that time, enlargement increased the number of members by one-third (from nine to 12), whereas in 2004 the EU membership increased by two-thirds (from 15 to 25).

Because of the gap in income, convergence between the new member states and the current EU members is more than ever the key to successful enlargement. Neither theory nor the experience of earlier enlargement convincingly supports a hypothesis of automatic convergence. Convergence occurs only in the presence of certain key growth factors and supporting policies. Identification of these factors and assessing the extent to which they are present in the new member states are necessary to answer the question whether they are well equipped for rapid and sustained growth. On the one hand, the new member states have relatively high levels of human capital. On the other hand, they have a legacy of old industrial investment, environmental damage and poor public administration to remedy.

The new member states are not only poorer than the old ones; they are also structurally different. Against this background, it may be assumed that their economic priorities can differ, not only from those in the old member states, but also among themselves. This poses a double challenge with respect to EU-wide macroeconomic policy: first, how to ensure the necessary degree of fiscal discipline and coordination in a grouping of 25 countries with quite diverse macroeconomic and structural characteristics; and, second, how eventually to conduct a single monetary policy in a currency area with increased economic heterogeneity.

The increasing heterogeneity of the EU poses another challenge. The model of governance of the EU was initially conceived for a Community, which was small and homogenous as regards level of economic development. Successive rounds of wider and deeper integration have made the task of economic governance more and more complex. Challenges are already apparent in a wide range of policy domains, ranging from regulatory policies to the macroeconomic field. They could trigger a hollowing out of the intermediate layers of governance based on commitment and coordination to the benefit of the two ‘corner solutions’ of delegation and member state autonomy, unless the EU is able to achieve significant efficiency gains in making coordination and cooperation work better.

The volume by Carlo Altomonte and Mario Nava provides an excellent and pertinent economic analysis of the many challenges that lie ahead for the conduct of economic policies within the enlarged European Union. My hope, and my conviction, is that by reading this volume the reader will also appreciate the huge economic opportunities that lie ahead for the enlarged Union as it adapts its economic policies to the new domestic and global environment.

André Sapir
Brussels