



One European Market

Challenges of Economic Integration

POL 134: IR IN WESTERN EUROPE

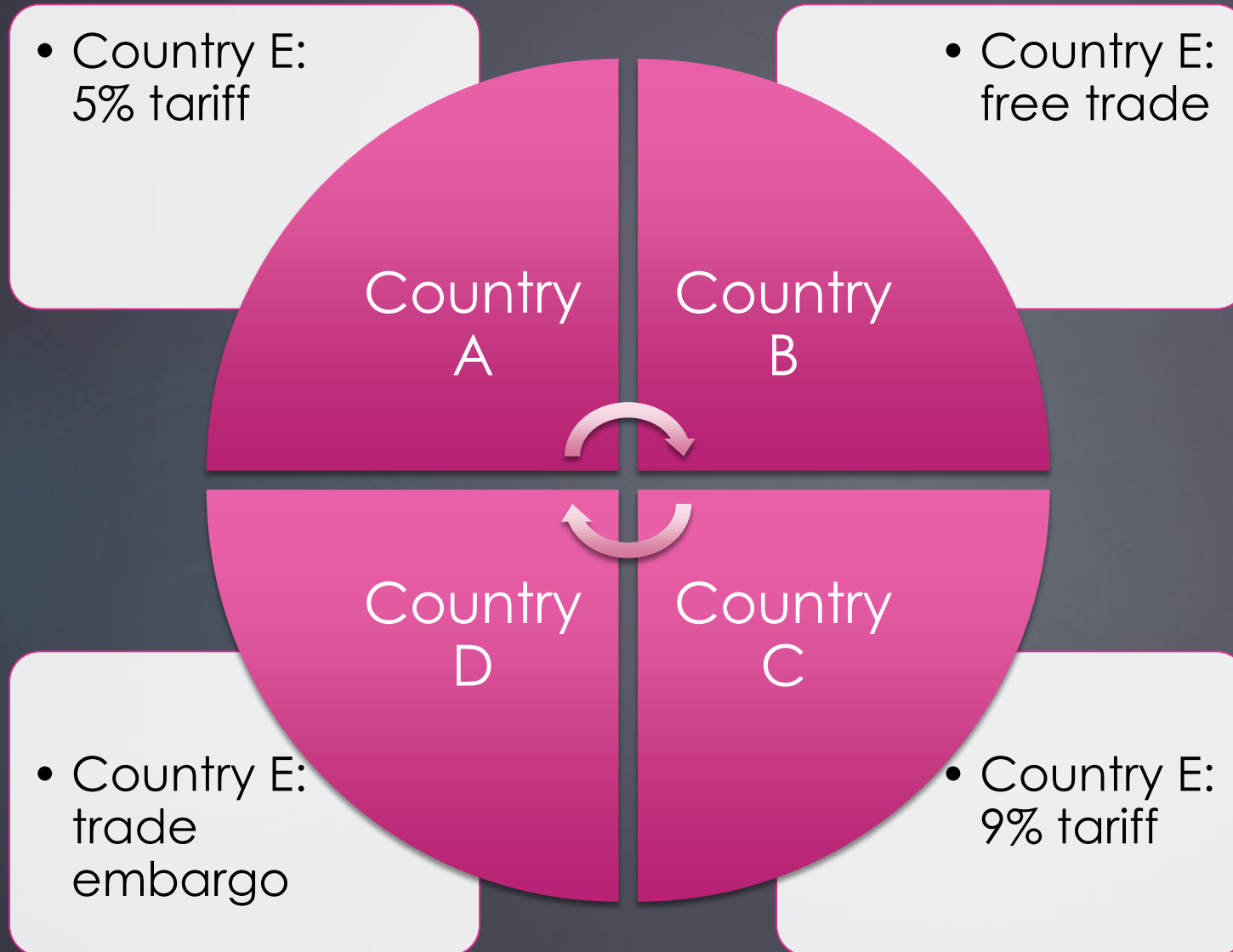
T.W. Taylor, UC Davis

Economics is the only field in which two people can share the Nobel Prize for saying opposing things.

I. Creating a single market

- ▶ EEC began common market
- ▶ Customs union and its effects
 - Trade creation between members
 - (see following figures)
 - Trade diversion with non-members
 - (see following figures)

FREE TRADE AGREEMENT

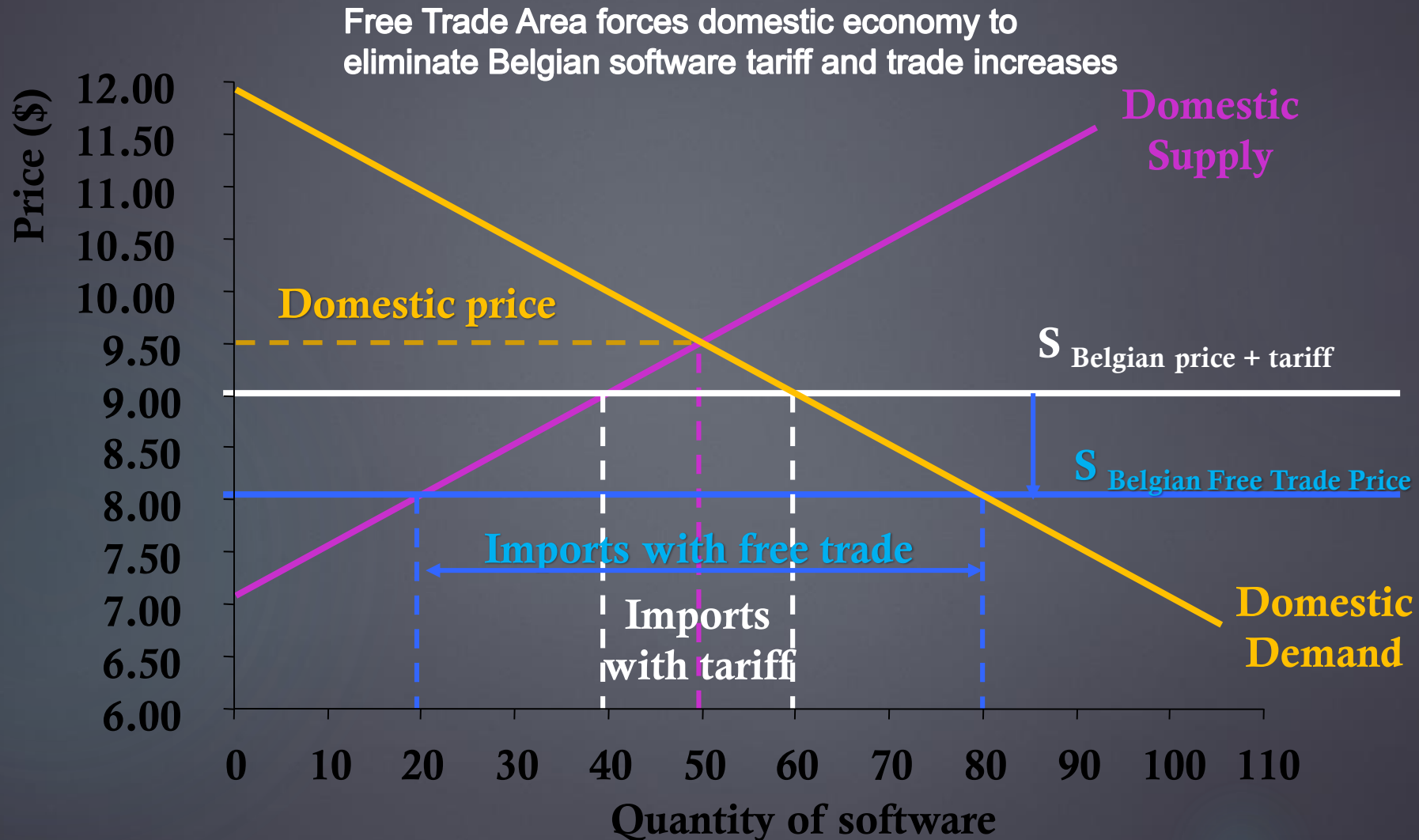


Member countries (A, B, C, D) have different trade regulations on car imports from Country E.

Trade Creation from Free Trade Area

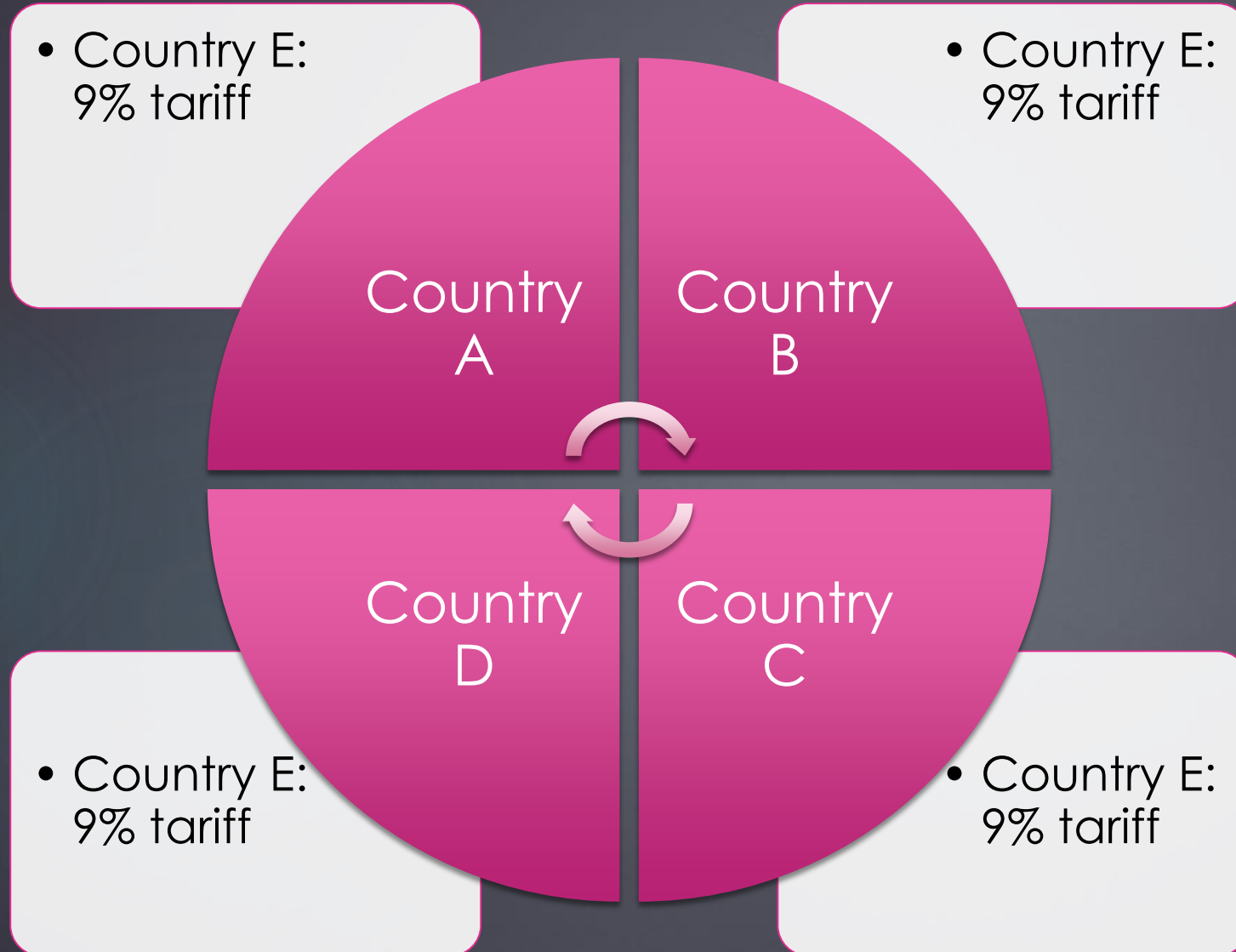
Eliminated Tariff

4



CUSTOMS UNION

5

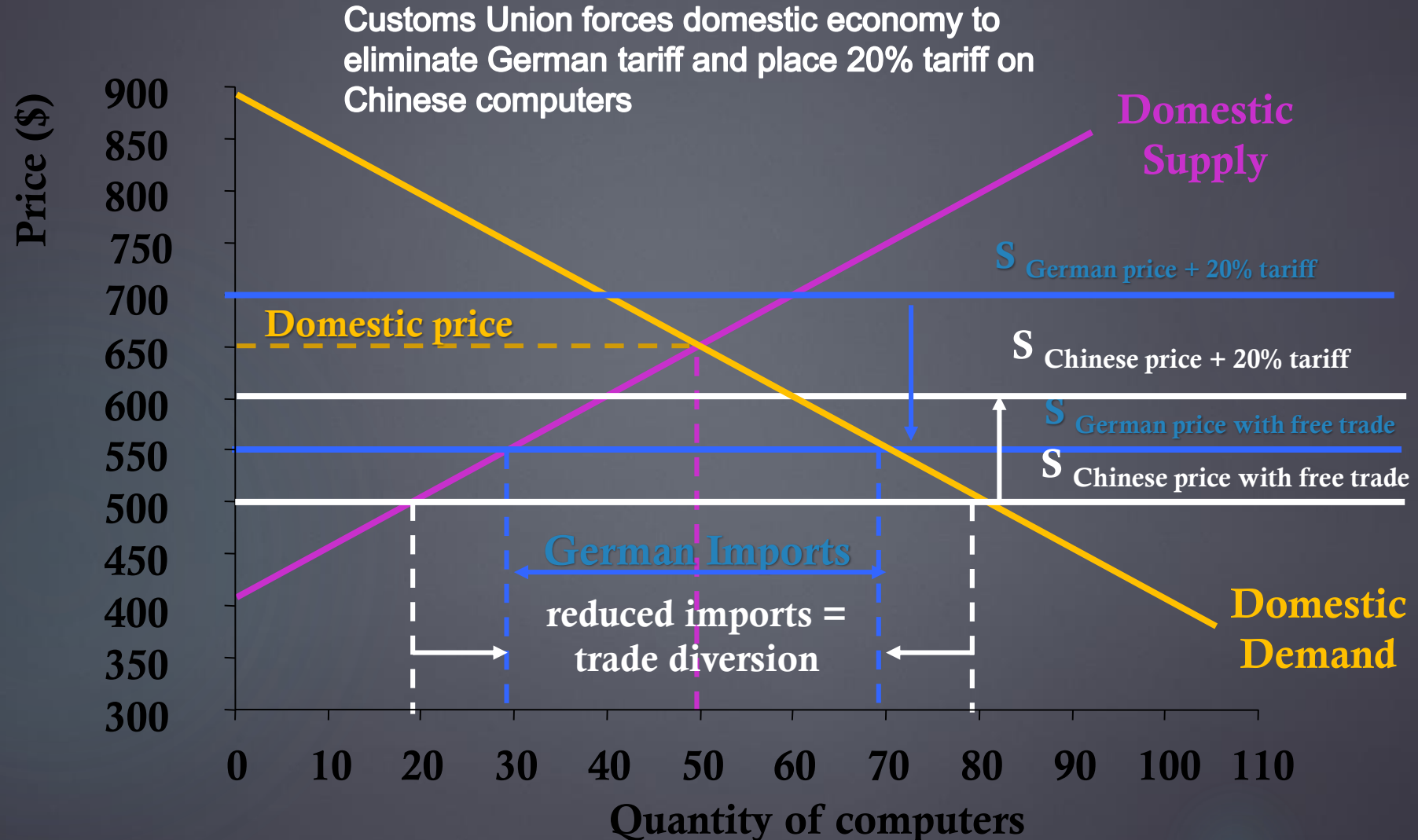


Member countries (A, B, C, D) have common 9% tariff on car imports from Country E.

Trade Diversion from Customs Union

Common Tariff

6

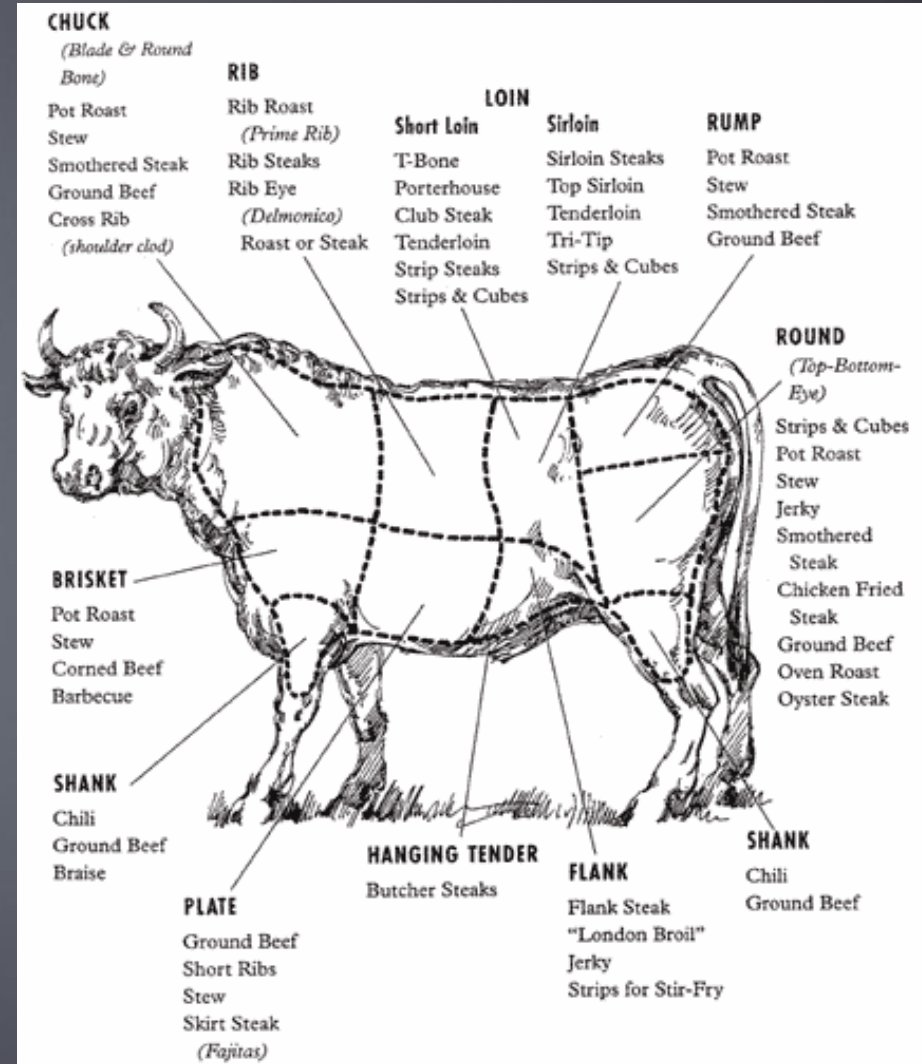


Creating a single market

- ▶ Single market requires lowering *all* barriers
 - 1992: eliminate non-tariff barriers (NTBs)
 - Examples of NTBs
 - licensing requirements; safety standards
- ▶ Distributional effects and responses to trade liberalization
 - political responses vary



Administrative obstacles
e.g. distribution licensing



Health and safety standards
e.g. EU ban on hormone beef

II. The Eurozone

- ▶ Reasons for single currency
- ▶ Convergence criteria must be met to join Euro
 - (see handout)
- ▶ Single currency → single monetary policy (European Central Bank)
- ▶ Monetary policy:
 - *Definition*: changes to money supply to meet macroeconomic goals
 - Money supply changed through interest rates
 - ↑ interest rate, ↓ money supply
 - ↓ interest rate, ↑ money supply
- ▶ Problem → one policy with varied economic needs
 - States apt to turn to fiscal policy

The Euro Zone

- EU members in the euro zone
- EU members not in the euro zone



Euro Members

Note: Latvia joined Euro in 2014

UK and the Euro

Discussion Activity

- ▶ The UK has often been slow to enter into integration
- ▶ but oftentimes has integrated with Europe because the costs of remaining on the outside were too high
- ▶ **Do you believe the UK should adopt the Euro?**
 - Will joining provide the greatest long-term benefits?
- ▶ Discuss with 2-3 students
 - In your discussions, be sure to reference concepts just presented
 - e.g. convergence criteria, monetary policy, trade, currency stability, etc.

III. Economic integration explained

- ▶ Supranational explanations
 - Spillover: economic union needed after common market was freed
 - Role of Commission
- ▶ Intergovernmental explanations
 - States wanted to “tie their hands” from domestic political factors
- ▶ International pressures
 - Independence from USD