

The Economics of Europe and the European Union

LARRY NEAL

2007, Cambridge University Press, Cambridge, Great Britain, pp. 440

Book review by LUKA ŠIKIĆ*

* Received: November 1, 2010

Accepted: November 29, 2010

In his book *The Economics of Europe and the European Union* Larry Neal analyzes economic and political issues regarding the path of development of the European Union (EU). Neal regards economic issues as having a stronger impact than politics, the first thus dictating the dynamics of the latter in EU development. The economic success of EU depends on the efficacy of common markets, improving specialization, strengthening competition, technology spillovers, productivity growth and the advancement of living standards. On the other hand, political success depends on the intensity and even the possibility of the trajectory of national sovereignty towards the federal and common.

Neal is inspired with institutional path of European development. European convergence is, Neal argues, the sum of successive institutional arrangements that are mutually interconnected and influenced by historical conditions of the moment. The Marshall Plan, the European Payments Union, the European Coal and Steel Community, European Economic Community, European Atomic Energy Community, and European Monetary Union all fit as structural elements of EU. Neal writes in the paradigmatic tradition of Douglas C. North's institutional economics. It would seem as if path dependency were the author's main guide. Neal never loses sight of the higher perspective. The rules of the game, often imposed by global economic and political conditions are more often submitted to than dictated, on the part of Europe. Including development economics, international economics, public policy analysis and harmonization policy, cross impact of politics and economy, Neal's book thematically fits best in economics and politics history. The author also uses lots of neoclassical tools in his analysis so the reader will find many convenient cross graphics from the international trade theory toolbox in discussions about European trade patterns, labor force migrations, customs and tariff policy and finally, financial and capital flows.

The book is characterized by a clear and firm structure, divided into two in terms of content: economics of EU and individual national economies. This kind of structure becomes a very intuitive guide in thinking about the structural problems of the European project. Neal is asking if there exists a firm basis to build a supranational European construction with such heterogeneous parts. He gives no direct answer but, through sentences formed as questions, shows his skepticism and circumvents the imputation of value attitudes.

In the first part of the book Neal discusses the supranational economic policy issues of EU, each framed in an individual chapter. Hence, we can see chapters on: the motivation of the common EU project, common customs politics, agrarian politics, trade policy, common currency, central banking issues, regional politics, common labor and capital market and finally the role of the EU on the global stage. The author is coherent in content and chronological reasoning. Although mutually connected, all chapters can be logically comprehended as single topics also, with any reference to the overall subject of the work.

The second part elaborates issues on individual national economies and regional economic units, each divided into: review introduction, short macroeconomic history, in-depth comparative analysis of historical and economic matters in order of chronological importance and finally, an overview. Because of that kind of structuring, the book is readable on introductory level but can also be analyzed more in detail if there is a topic of particular interest. Therefore, the second part consists of separate chapters of minutely analysis of the biggest European economies: Germany, France, Great Britain and Italy. Afterwards come chapters on small open economies, Scandinavian countries, late coming accession countries and finally, potential accession countries. The author seems to have used size and economic development as criteria in this systematization. The model proposed becomes a suggestive and useful concept in a forming hierarchy of importance of each economic area in its segment-whole relation.

In the chapter about Germany, the author places stress on the importance that the country has for the economic future of EU. Encumbered with history, Germany gives, according to Neal, the major impetus for European development. Hence, the whole Europe was politically willing to bear the high economic costs from unifying and building up the eastern part of the country after the fall of the totalitarian regime. Building institutions in united Germany, Neal underlines, necessitates political and economic changes of the institutional framework in the whole of the EU. Political will for such concessions always found the most resistance in neighboring France, which by 2005, had taken its stance as the strongest promoter of European project and yet when rebuffed on the common constitution referendum, put the very idea of the EU in question. Neal sees some economic slowdown problems, related with ever higher unemployment, as background reasons. Consequently, labor market issues turn France inwards, away from the EU. On the other hand, Great Britain has symbolically been an island for EU. Always demanding special and preferred treatment, Great Britain succeeded in getting it more often than not. After its initial role in brokering Marshall Aid from the United States to Europe, Great Britain has been gravitating more towards US; embroiled in its post-colonial legacy, the country has been detached from European economic and political stream. Strategically investing in oil refining capacities in the North Sea, Great Britain successfully managed the oil shocks of the 1970s, thus avoiding the economic necessity of joining EU. When oil prices tumbled in the 1980s, Great Britain was left short of additional revenues and finally it detected real reasons for making stronger strides towards European markets. Neal gives the last chapter about large economies to Italy. That country is characterized by lots of state involvement in its economic life, both formal and informal. Frequent changes of political coalitions say most about Italian conditions. The biggest issue probably remains the high level of public debt, lack of fiscal discipline and considerable imbalances in development between north and south.

Other EU countries are accorded less attention. The triangle of Belgium-Netherlands-Luxembourg and Austria and Switzerland are framed in the small open eco-

nomies chapter. As a major development factor in future economic progress, Neal points to their connection with German economy and their ability successful to cope with globalization trends. When discussing the Scandinavian countries, the author underlines their high-technology orientation and their having benefited from the computer revolution of the last decades. Neal refers to Finland's Nokia and Swedish Ericsson as exemplars. The high living standard in those countries comes through the special pattern of state capitalism economy, making social rights the foremost economic issue. Neal casts doubt on that kind of model to give promptly enough answers and remain sustainable regarding fast changing global economic trends. The accessions of Greece, Ireland, Spain and Portugal serve as important lessons to further EU enlargement. Those countries were pre-accession relatively poor compared to the existing EU members and had to pass through major institutional changes. Neal concludes that these countries reaped significant benefits from membership, though not all the countries of this group had equal dynamics of economic growth and development.

To date dynamics of EU enlargement has shown that it isn't a closed and exclusive club. Regardless of that, it is essential to know that last accession countries are ones with relatively poorer economic and institutional conditions. Hence, EU project is ever more in a clinch between the rising conservatism of existing members with respect to further enlargement and the necessity to embrace new members. The capability of the EU to accept new members stands as major question of its future and seems bit odd that Neal gave so little attention to that issue. Thinking of the EU in perspective can be found just in the discussion about the underdevelopment of the last accession countries and potential members, the strained European budget and finally the accession of Turkey. Because of relative size according to the economic and population criterion, that country is, Neal argues, institutionally and culturally too big for a Union worn out by the recent enlargements.

The European Union is a project of the future. Owing to the continent's long and tempestuous history, it is fair to doubt whether this kind of project can succeed. In the fifty years after the Second World War, the idea of united Europe made its greatest progress. That doesn't mean that path was simple and easy, having a certain end. Lots of questions remain open. Neal avoids direct answers, giving us a mainly analytical book without concrete recommendations. It is clear and easy written, functionally structured, with the occasional theoretical inquiries handled temperately, making the book accessible to a wider public.