

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Åslund and Marek Dąbrowski
Frontmatter
[More information](#)

EUROPE AFTER ENLARGEMENT

Where is Europe going? Prominent European economists here offer essays on five big challenges to the development of the European Union (EU), namely, the new European Constitution, European finances and the euro, the need to boost economic growth, competition in both new member states and countries further to the east, and the goal of forming a cooperative and productive relationship with countries on the European periphery. Charles Wyplosz argues that enlargement and deepening are not substitutes but complements. Georges de Ménil worries that the Constitution could lock in Europe with excessive social entitlements. Vito Tanzi questions the Keynesian foundation of the Growth and Stability Pact. Fabrizio Coricelli suggests that the standards of this pact are neither relevant nor sufficient for the new member states. Daniel Gros criticizes the minimal achievements within the Lisbon Agenda. Patrick Lenain records small but positive reforms of European labor markets. Yegor T. Gaidar warns that recovery growth in the East may be temporary. Anders Åslund claims that Russian and Ukrainian oligarchs differ little from U.S. “robber barons.” Susanne Milcher, Ben Slay, and Mark Collins discuss the EU’s European Neighbourhood Policy, and Johannes F. Linn and David Tiomkin ponder long-term economic integration in Eurasia.

Anders Åslund is a Senior Fellow and specialist on post-communist economic transformation, especially the Russian and Ukrainian economies, at the Peterson Institute for International Economics in Washington, D.C. From 1994 to 2005, he worked at the Carnegie Endowment for International Peace, first as a senior associate and later as Director of the Russian and Eurasian Program. Dr. Åslund is an adjunct professor at Georgetown University and has also served as an economic adviser to the Russian government from 1991 to 1994, to the Ukrainian government from 1994 to 1997, and to President Askar Akaev of the Kyrgyz Republic from 1998 to 2004. He is the author of six books, including *Building Capitalism: The Transformation of the Former Soviet Bloc* (Cambridge University Press, 2002), *How Russia Became a Market Economy* (1995), *Gorbachev’s Struggle for Economic Reform* (1989), and *Private Enterprise in Eastern Europe: The Non-Agricultural Private Sector in Poland and the GDR, 1945–83* (1985). In addition, he has edited eleven books, most recently, *Revolution in Orange*.

Marek Dąbrowski is a founder and Chairman of the Council of the Center for Social and Economic Research (CASE) in Warsaw, Poland. He also chairs the Supervisory Board of CASE Ukraine in Kiev and is a member of the Board of Trustees of the Institute for the Economy in Transition. Dr. Dąbrowski has actively participated in discussions on economic reforms in Poland since 1978. From September 1989 to September 1990 he was the First Deputy Finance Minister of Poland, and he later served as a Member of Parliament (1991–1993), as Chairman of the Governmental Council of Ownership Changes (1991–1996), and as a member of the Monetary Policy Council of the National Bank of Poland (1998–2004). Dr. Dąbrowski has been involved in policy advice, policy research, and training for the World Bank and UNDP and for sixteen European and Asian nations. He is an author or coauthor of numerous publications on the European Union and European Monetary Union.

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Aslund and Marek Dabrowski
Frontmatter
[More information](#)

Europe After Enlargement

Edited by

ANDERS ÅSLUND

Peterson Institute for International Economics
Washington, D.C.

MAREK DĄBROWSKI

Center for Social and Economic Research
Warsaw, Poland



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press
 978-0-521-87286-7 - Europe After Enlargement
 Edited by Anders Åslund and Marek Dąbrowski
 Frontmatter
[More information](#)

CAMBRIDGE UNIVERSITY PRESS
 Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
 32 Avenue of the Americas, New York, NY 10013-2473, USA
www.cambridge.org
 Information on this title: www.cambridge.org/9780521872867

© Cambridge University Press 2007

This publication is in copyright. Subject to statutory exception
 and to the provisions of relevant collective licensing agreements,
 no reproduction of any part may take place without
 the written permission of Cambridge University Press.

First published 2007

Printed in the United States of America

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging in Publication Data

Europe after enlargement / edited by Anders Åslund and Marek Dąbrowski.
 p. cm.

Includes bibliographical references and index.

ISBN 978-0-521-87286-7 (hardback)

1. European Union countries – Economic policy. 2. European Union countries –
 Social policy. 3. Monetary policy – European Union countries. 4. Constitutional history –
 European Union countries. 5. European Union countries – Foreign relations. 6. Europe –
 Economic integration. I. Åslund, Anders, 1952– II. Dąbrowski, Marek, 1951– III. Title.

HC240.E8117 2007

337.1'42 – dc22 2006023233

ISBN 978-0-521-87286-7 hardback

Cambridge University Press has no responsibility for
 the persistence or accuracy of URLs for external or
 third-party Internet Web sites referred to in this publication
 and does not guarantee that any content on such
 Web sites is, or will remain, accurate or appropriate.

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Aslund and Marek Dabrowski
Frontmatter
[More information](#)

Contents

<i>List of Charts, Tables, and Boxes</i>	<i>page</i> vii
<i>Contributors</i>	xi
<i>Acknowledgments</i>	xiii
Introduction	1
<i>Anders Åslund and Marek Dąbrowski</i>	
1 Has Europe Lost Its Heart?	6
<i>Charles Wyplosz</i>	
2 Economic Implications of the Social Provisions of the Stalled EU Constitution	29
<i>Georges de Ménil</i>	
3 Fiscal Policy and Fiscal Rules in the European Union	50
<i>Vito Tanzi</i>	
4 Design and Implementation of the Stability and Growth Pact: The Perspective of New Member States	65
<i>Fabrizio Coricelli</i>	
5 Perspectives on the Lisbon Strategy: How to Increase European Competitiveness	85
<i>Daniel Gros</i>	
6 Is Europe Reforming? Evidence from Cross-Country Structural Indicators	106
<i>Patrick Lenain</i>	
7 Recovery Growth as a Stage of Post-Socialist Transition	127
<i>Yegor T. Gaidar</i>	

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Aslund and Marek Dabrowski
Frontmatter
[More information](#)

vi	<i>Contents</i>	
8	Comparative Oligarchy: Russia, Ukraine, and the United States <i>Anders Åslund</i>	143
9	The Economic Rationale of the “European Neighbourhood Policy” <i>Susanne Milcher, Ben Slay, and Mark Collins</i>	165
10	Economic Integration of Eurasia: Opportunities and Challenges of Global Significance <i>Johannes F. Linn and David Tiomkin</i>	189
	<i>Index</i>	233

List of Charts, Tables, and Boxes

Charts

1.1 Support for a Common Defense and Security Policy Among the Member States of the European Union, 2004	<i>page</i> 12
1.2 Percentage of Citizens “Feeling National,” 2003	13
1.3 Passage Probabilities in the EU	17
1.4 National Perceptions of Benefits from EU Membership, 1983–2004	18
1.5 Preference for National Foreign Policy, 1989–2003	19
1.6 Actual and Desired Speeds of European Integration, 1995–2004	21
1.7 Actual and Desired Speeds of European Integration, 2005	22
2.1 Internet Usage and Employment Protection in OECD	35
4.1 Size of Government in New Member States, 2003	69
4.2 Growth in New EU Members, 1998–2004	71
4.3 Budget Deficits in New Member States, 1999–2004	71
4.4 Debt to GDP Ratios in 2003	72
4.5 Debt to M2 Ratios	73
4.6 Revenue Volatility, 1995–2004	74
5.1 Change in Demographic Potential GDP, 1980–2030	88
5.2 Demographic Bonus: Change in Labor Force to Total Population Ratio, 1980–2030	89
5.3 Lisbon: Employment Versus Productivity?	94
5.4 Productivity Growth and Employment Growth in Europe and the United States, 1995–2002	95
5.5 Growth Performance in Big, Small, and New EU Member States, 1998–2005	96
5.6 Budget Balances: Big, Small, and New EU Member States, 1995–2004	96

Cambridge University Press
 978-0-521-87286-7 - Europe After Enlargement
 Edited by Anders Aslund and Marek Dabrowski
 Frontmatter
[More information](#)

5.7	Public Debt Ratios Compared, 1994–2004	98
5.8	Investment and Government Savings, 1998–2004	101
6.1	Diverging Trends in Employment Rates, 1970–2004	108
6.2	Growth Has Become More Labor-Intensive, 1970–2004	109
6.3	Different Trends in Labor Use, 1970–2000	111
6.4	The Tax Wedge Declined for Low-Wage Earners from 1998 to 2004	113
6.5	Differences in Progressivity of the Tax Wedge Across Countries	114
6.6	The Implicit Tax on Continued Work Has Declined, 1998–2003	115
6.7	Employment Protection Legislation Has Not Changed, Except for Temporary Work, 1998–2003	117
6.8	Little Change in Income Replacement for Unemployed, 1999–2002	118
6.9	EU Hourly Labor Productivity Growth Has Fallen Below the U.S. Level, 1992–2004	119
6.10	Wide Disparity in Productivity Growth Rates Across Countries, 1998–2004	120
6.11	Product Market Regulation Has Become Less Stringent, 1998–2003	123
7.1	Dynamics of per Capita GDP in Central and Eastern European Countries and Baltic States, 1990–2002	128
7.2	Dynamics of per Capita GDP in the CIS States, 1990–2002	129
7.3	Dynamics of World Oil Prices	137
9.1	Comparison of GNI per Capita for EU-15, EU-8, the Russian Federation, Countries in the Western CIS, and Caucasus	171
9.2	GDP Growth for the EU-25, Western CIS, Caucasus Countries, and Russia, 2000–2004	172
9.3	Estimated Government Debt for the EU-8, Russian Federation, the Caucasus, and Western CIS Countries, 2004	173
9.4	Percentage of Exports to the EU-25 for EU Accession, Candidate, and the Western CIS Countries, Caucasus, and the Russian Federation, 2004	176
9.5	Cumulative FDI Inflows per Capita, 1989–2004	178
10.1	The Ancient Silk Road	191
10.2	Global Population Growth and Composition, 2004–2050	193
10.3	Energy Imports and Exports to and from Eurasian Countries, 2003	196
10.4	Major Global Oil Trade Movements as of 2004	197
10.5	Major Global Gas Trade Movements as of 2004	198

List of Charts, Tables, and Boxes ix

10.6	Energy Trade Within and Between Eurasian Regions, 1995–2003	199
10.7	Major Russian Oil and Gas Pipelines and Projects	200
10.8	Central Asian Republics’ Power Development and Trade Strategy	202
10.9	Eurasian Export Split by Trading Bloc, 2003	204
10.10	Growth in Exports of Goods and Services by Region, 1992–2002	205
10.11	Composition of Eurasian Trade, 2003	206
10.12	Regional Trade Agreements, Globally	208
10.13	Transit Links of Central Asian Republics with World Markets	209
10.14	Drug Flows in Central Asia	212
10.15	Eurasian Capital Flows	215
10.16	Global and Eurasian FDI Stocks in 2003	216
10.17	Growth of the FDI Stock by Region, 1995–2003	218
10.18	Migration Flows in Eurasia	221
10.19	Eurasian Internet Growth and Penetration, 2000–2005	223

Tables

1.1	Support for One Common Foreign Policy Among the Member States of the European Union, 2004	14
2.1	Overall Unemployment Rate, Selected Countries	34
2.2	EU Constitution: Part II, Title IV “Solidarity”	41
4.1	Correlation Between Cyclical Variations of Government Consumption and GDP, 1995–2003	78
5.1	Old-Age Dependency Projections for 2000, 2025, and 2050	87
5.2	Growth of GDP per Hour Worked in the EU and the United States, 1970–2002	91
5.3	Decomposing Aggregate Labor Productivity Growth in the Business Sector, 1979–2000	92
5.4	Large Versus Small Countries	97
6.1	Employment Rates by Groups of Workers, 1992–2010	109
6.2	Unemployment Rates in EU Countries, 1970s–2004	110
7.1	GDP Growth Rates in Post-Soviet States, 1996–2004	130
7.2	Index of the Real Exchange Rates of National Currencies to the U.S. Dollar in the Post-Soviet States at Year End	131
7.3	Growth Rates in Real Wages and Salaries in CIS Countries, 1996–2003	135

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Aslund and Marek Dabrowski
Frontmatter
[More information](#)

x	<i>List of Charts, Tables, and Boxes</i>	
7.4	Individual Parameters of Development of Russia, Brazil, Mexico, and Spain, Second Half of the Twentieth Century	139
	Boxes	
4.1	Stability and Growth Pact	66
4.2	A Medium-Term Framework with an Expenditure Rule	81
5.1	Key Points of the Stability and Growth Pact – Old and New	100
5.2	Services Directive	102

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Aslund and Marek Dabrowski
Frontmatter
[More information](#)

Contributors

Anders Åslund is a Senior Fellow at the Peterson Institute for International Economics and the chairman of the CASE Advisory Council. He is also adjunct professor at Georgetown University and former director of the Russian and Eurasian Program at the Carnegie Endowment for International Peace, Washington, D.C.

Mark Collins is an economist at the United Nations Development Program's Regional Center in Bratislava.

Fabrizio Coricelli is professor of economics at the University of Siena, Research Fellow at the Center for Economic Policy Research, London, and William Davidson Institute, University of Michigan. He was also an economic adviser to the European Commission from 2001 to 2002.

Marek Dąbrowski is the Chairman of the CASE Foundation Council and one of its founders. He is also Chairman of the Supervisory Board of CASE Ukraine in Kiev. He has worked as a consultant for the World Bank, UNDP, and other international organizations actively engaged in economic reforms in many post-communist countries.

Yegor T. Gaidar was deputy and acting Prime Minister in charge of economic policy in Russia from 1991 to 1994. At present, he is the director of the Institute for the Economy in Transition in Moscow.

Daniel Gros is the director of the Center for European Policy Studies in Brussels and an adviser to the European Union.

Patrick Lenain is Head of Division at the Organization for Economic Cooperation and Development. Prior to joining the OECD, he spent ten years with the International Monetary Fund. His last IMF post was senior resident representative in Ukraine.

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Aslund and Marek Dabrowski
Frontmatter
[More information](#)

Johannes F. Linn had a long career at the World Bank, ending as vice president for Europe and Central Asia. Currently, he is the executive director of the Wolfensohn Initiative at the Brookings Institution.

Georges de Ménil is professor of economics at the École de Hautes Etudes en Sciences Sociales, Paris, and a member of the governing board of Paris-Jourdan Sciences Économiques, a research center that he helped to found. He is also a visiting professor at New York University.

Susanne Milcher is a policy specialist for poverty reduction and economic development at the United Nations Development Program's Regional Center in Bratislava.

Ben Slay is the director of the United Nations Development Program's Regional Center in Bratislava. Formerly, he was an assistant professor in the Department of Economics at Middlebury College, Vermont.

Vito Tanzi is a senior consultant at the Inter-American Development Bank, Washington, D.C. He had a long and distinguished career at the International Monetary Fund, serving as the director of the fiscal affairs department for two decades. He has also served as under-secretary for economy and finance in the Italian government.

David Tiomkin is an MBA and Masters in Public Administration/International Development candidate at Harvard University.

Charles Wyplosz is a professor of international economics at the Graduate Institute of International Studies in Geneva, where he is director of the International Centre for Money and Banking Studies. He is also director of the International Macroeconomics Program at the Centre for Economic Policy Reform, London.

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Aslund and Marek Dabrowski
Frontmatter
[More information](#)

Acknowledgments

This volume presents the most interesting papers from the International CASE Conference on “Europe After the Enlargement” held in Warsaw on April 8–9, 2005. CASE, the Center for Social and Economic Research, is a Warsaw-based international think tank dealing with the problems of European integration, the global economy, and post-transition development. It has an extensive network of daughter and associated organizations in Central and Eastern Europe and the former Soviet Union, as well as close partnerships with many U.S. and Western European research organizations.¹

Three previous international CASE conferences concentrated on the problems of economic and political transition in the former Soviet bloc, plus some broader development issues, such as sources of economic growth, monetary and exchange rate regimes, tax reform, social and pension reforms, privatization, corporate governance, and migration.² In 2005, European integration and Europe’s economic and social future were the main conference topics. Seven thematic sessions and four keynote addresses involved 250 of the best economists and political scientists from more than thirty countries. Key international organizations were represented as well. The debate concentrated on long-term pan-European challenges rather than short-term problems of individual countries. This volume contains ten major contributions selected out of almost forty delivered during the conference.

We want to thank the conference sponsors for their generous support. The main sponsors of the conference were the World Bank, the United Nations

¹ Marek Dąbrowski is Chairman of the CASE Foundation Council. Anders Åslund is Chairman of the CASE Advisory Council.

² The first international CASE conference, “Economic Scenarios for Poland,” was held on January 18, 1997; the second conference, “Years After: Transition and Growth in Post-Communist Countries,” took place October 15–16, 1999; and the third, “Beyond Transition: Development Perspectives and Dilemmas,” was held April 12–13, 2002.

Cambridge University Press
978-0-521-87286-7 - Europe After Enlargement
Edited by Anders Åslund and Marek Dąbrowski
Frontmatter
[More information](#)

Development Program, and the Polish savings bank PKO BP SA. Support was also provided by the Konrad Adenauer Foundation, the Dutch Ministry of Foreign Affairs, the insurance company PZU SA, the National Depository of Securities of Poland, the pension fund “Skarbiec,” and the energy company STOEN RWE Group. We are also grateful to the organization team, including Agnieszka Paczynska, Wojciech Paczynski, Joanna Binienda, Anna Maciazek, and several other CASE people, who worked hard for almost one year to prepare this important event.

Both the authors and editors of this volume express their gratitude to conference participants who gave numerous valuable comments and remarks, which we have tried to incorporate. The editors also want to thank Matthew Gibson, Roman Ginzburg, and Julija Remeikaite for their excellent and diligent assistance in preparing the manuscript for this volume.

Anders Åslund would also like to express his gratitude to Adolf and Eva Lundin as well as Hans and Märta Rausing for their great and generous support of his work. He also wants to thank the Peterson Institute for International Economics for providing congenial conditions for completing this work.

April 2006

Anders Åslund and Marek Dąbrowski