

## ECONOMIC INTEGRATION AS BLESSING AND CURSE: ISSUES FOR THE TRANSITION ECONOMIES

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### ABSTRACT

The achievement of economic integration with wider Europe and, more ambitiously, the global economy is a priority among the Central and Eastern European Countries (CEEC). Its appeal is apparent if one understands the principles of market economics; some of its difficulties reflect the weaknesses of market-based allocation such as the greater risks to individuals. For a variety of reasons, nations and their economies are more adept at fostering mutually beneficial allocations of goods domestically, using resources available locally, than they are at achieving a similar level of economic cooperation internationally. Differences in resources, political systems and laws, and preferences and cultural norms complicate international economic integration in ways avoided within a country. However, expanding the universe of available transactions beyond the domestic economy to the continental or global economy has obvious appeal: expanding the buyer's choices or the seller's available customers simply expands the number of potential mutually beneficial transactions and the benefits to one or both sides of a transaction. Integrating institutions such as banking and transportation systems increases their efficiency: their benefits are available at lower cost. However, economic integration does not come easily. The current controversy over "globalization" provides evidence every day of some challenges that integration presents.

This paper examines the prospect of the economic integration of the CEEC into the European Union (EU) using the framework of market economics, considering integration's impact upon both conventional markets and "political markets" involving special interest groups. The CEEC will have winning and losing sectors as will the current members of the EU. However, the CEEC faces particular challenges of a low-technology trap and a "branch plant" economy, and the potential losing interests are eager to cultivate opposition. Rising concerns may be the basis for the falling popularity of EU accession in many CEE countries. Universities may play a particularly important role in determining the quality of the new members'

economies and the level of public understanding of the issues. For its part, the EU faces its own questions about the wisdom of granting accession which may be expensive and may threaten the political balance of the organization.

### INTRODUCTION

In the spirit of the marketplace, expansion of the European Union (EU) would seem to be mutually beneficial to both the EU and any membership applicant if both parties agree voluntarily to the transaction. However, once one looks beyond some obvious benefits to the parties such as expanded relatively free access to each other's markets, the appeal of expansion or membership, depending upon one's perspective, becomes less obvious. The discussion that follows examines both the advantages and disadvantages—the costs and the benefits—for the parties involved where one is the existing membership of the EU and the other is the applicant which currently would be a transition economy (TE) emerging over the last decade from years of socialism or socialist domination. Obviously, current applicants have varying characteristics so the discussion will consider a range of applicant effects. However, we shall tend to focus upon the core of the countries targeted for the "fifth widening", namely, the four Visegrad countries (Czech Republic, Poland, Hungary, and Slovakia), in choosing points to emphasize.

### KEY ELEMENTS OF ASSOCIATION AND SOME ADVANTAGES OF MEMBERSHIP

In general terms, accession to the EU requires that the applicant has embraced and adopted the market system of resource allocation, a stable democratic political system incorporating the rule of law and basic rights for all citizens (esp. minorities), and full responsibility for EU membership. The last requirement involves embracing a considerable body of EU legislation (the "*acquis communautaire*"), representing over 12,000 legislative acts.

Probably the dominant and most obvious effect of EU membership is external market expansion—

considerable potential benefits from greatly expanded free trade. Small, open economies are particularly likely to benefit from such expanded trade opportunities, especially on the production side through those firms that have either survived or arisen from the transition process and are export oriented. Consistent with the expansion of market-based allocation—which is built, in part, on the concept of consumer sovereignty—is the widespread benefit of lower prices to consumers resulting from more intense final goods competition. The anticipated exception to this is higher prices for agricultural goods (Nello and Smith, 1998: 43-4) which are covered under the EU's common agricultural policy (CAP) which tends to be more supportive—primarily through support prices and production quotas—of large-scale agriculture (because of its lower cost) than existing national policies of the potential entrants.

Interestingly, one non-exporting industry that is likely to thrive through membership is law enforcement (Inotai, 2000: 22). One strength of the socialist regimes was their ability to maintain public order, notwithstanding considerable corruption within the bureaucracy. Many observers would agree that such order involved regular violation of human rights and was by no means desirable. However, the relaxation of police powers during the transition has generally threatened public order to a greater extent than many would wish—one manifestation is the remarkable growth of crime in the Czech Republic (Pavlik, 2000: 123-4)—and EU membership will involve the adoption of stronger anti-crime measures. In addition, the use of EU standards of various sorts—for example, financial reporting—will reduce the opportunities for illegal behavior. In this vein, it is likely that stronger external defense will result from membership, at least for those countries not yet admitted into NATO. Because internal and external security and deference to the rule of law have such influence upon the risk of market transactions, strengthening this industry is particularly important for these economies.

The second obvious and sizeable benefit is access to EU structural payments, beyond payments from the CAP, for a variety of public investments such as infrastructure and environmental improvement and for subsidies to so-called nonsensitive industries (those other than steel, shipbuilding, synthetic fibers, auto, farming, and forestry (Gabrisch and Werner, 1999: 158) which represent less significant competition for industries in the EU. Such industrial subsidies might take a variety of forms such as payments for research and development, industry promotion, restructuring of state-owned enterprises about to be privatized, and accelerated depreciation for new investment. As with all

industrial subsidies, one must ask whether such payments simply cushion inefficient production, but they are defended at least as a temporary policy because of the need for accelerated development of CEE industry. If one believes that economic success requires adherence to the market model, or the EU's version of it, then these economies have considerable catching up to do, and they need temporary protection—in the form of such structural payments—to achieve it. One concern is that they will reinforce a “subsidy mentality” (Inotai, 2000: 25, 43) which socialism engendered and which will prolong or even stunt the development process. The response to this concern has been that these economies have fallen so far behind that, in the absence of subsidies—which should be carefully targeted—they will simply languish, not unlike many of the countries currently seeking forgiveness of international indebtedness.

For now, this program of net transfers (gross transfers – gross contributions) indicates a benefit—like lower prices to consumers—to another large, unorganized group in these countries, namely, taxpayers, just as it is cost to the taxpayers of the net contributing countries. Of course, estimates of the size of such transfers are speculative, but Bofinger provides a useful comparison of expected net transfers per capita to various TEs relative to their 1992 GNP per capita (1998: 282-3), a rough measure of income. Basing calculations on his estimates, one finds net transfer rates of 7.5-9.3 percent for the relatively prosperous Visegrad countries and much higher rates for poorer TEs (e.g., 35.7 percent for Romania). The targets of such transfers vary widely from physical infrastructure to education.

A second fundamental concern about the prospect of structural payments is their impact on current EU members either financing them (the net contributors which are usually Germany, France, Italy, the Netherlands, and the UK) or potentially threatened by them as net recipients competing for the same funds (the other ten EU members). This issue of the politics of the EU and the prospect of new members is addressed in the last section of the paper.

If the CEE countries do not join the EU, they may simply maintain their current relationships with non-EU nations (e.g., the customs union between the Czech Republic and Slovakia) as well as the EU (e.g., the European Free Trade Area arrangements that currently govern much of their trade with the EU). This leaves them as small countries with either artificially diversified domestic economies that can survive only because they are protected from foreign competition—a costly and probably unsustainable status in the absence of some domestic source of significant wealth (as in some small,

Middle Eastern countries)—or as countries producing according to their comparative advantages, dependent upon imports for much of domestic consumption, perceived as relatively risky targets for foreign direct investment (FDI), and subject to ongoing exchange rate risk.

### SOME CONCERNS

Against the benefits of access to larger markets and a side array of subsidies, one must weigh a number of possible to likely disadvantages.

Summers (1999) has observed that economic integration typically involves a tension among three competing goals of a nation: national sovereignty or the ability to follow policies that reflect the will of the nation's citizens; greater economic integration which generates the benefits of an international market-driven allocation of resources; and proper public economic management which reflects the government's potential ability to manage the economy better than market forces alone through, for example, tax-transfer policy and regulation. He characterizes the competition among these three goals as the "economic integration trilemma" (p. 10). This characterization provides a useful framework for organizing one's thoughts about the effects of greater European integration and will be applied at various points in the discussion that follows.

Trade theory provides the logic behind the benefits of greater economic integration. It predicts that international competition pushes an economy to specialize in producing and, with sufficient capacity, exporting those goods in which it has a comparative advantage. Market-driven trade patterns distorted by various trade restrictions such as tariffs, quotas, and non-tariff barriers (e.g., import content restrictions, prolonged border inspections) mean that the domestic economy produces too little low-cost output and too much high-cost output, which survives because of the protection from lower cost foreign competition.

Several arguments qualify the case for free trade. Two of the most compelling are, first, that at any time, a nation's ability to compete depends upon the level of development of its domestic industry. The "infant industry" argument holds that little or no experience in producing some good may mean that a country's industry simply has not had time to develop its expertise, especially for new products or those more efficiently produced with a new technology. In the spirit of the infant industry argument, one could argue that these economies are infant economies whose economic development has been retarded by emulating the

socialist model for decades. Second, the "strategic goods" argument reflects the risk of relying upon imports for goods considered essential to a nation's survival: military hardware is an obvious example, but one can imagine more surprising examples such as education (see below). These qualifications reflect a tension between economic integration and good public management of a national economy which may entail limits on completely free trade.

It is difficult to anticipate the comparative advantages of the CEE countries. Comparative advantage reflects a nation's relative efficiency in producing products, but little basis exists for knowing how efficient these economies can be. Their production requirements have been distorted for decades by the demands of the former Council for Mutual Economic Assistance (CMEA). For example, Lavigne (1999) concludes that, while industrialization in the TEs has fallen dramatically during the transition (p. 59), the Czech Republic and Poland are still overindustrialized as a legacy of CMEA requirements. While the TEs have been free of those demands for about a decade now, they have had limited opportunity to adopt and implement cost-reducing technologies or to test their competitive strengths in new markets, due at least in part to a lack of domestic or foreign direct investment. An anticipated benefit for these countries from EU membership is a considerable increase in FDI (Bofinger, 1998: 312; Inotai, 2000: 28-9) which would signal those sectors which sophisticated investors find relatively competitive. The acceptance of market principles and the adoption of various legal and commercial standards and a common currency that membership would entail—as well as the increased prospects for stability and sustained economic growth—would go far in satisfying investors' concerns about the future economic health of the region.

In addition to the internal security industry noted in the previous section, the sectors that seem poised to benefit from integration are, first, those private firms that have survived or arisen from the transition period. Export-oriented industries (e.g., machinery, transport equipment, and other manufactured goods) are particularly likely to benefit because they will not longer be subject to various EU trade sanctions (e.g., antidumping and countervailing duties) (Bofinger, 1998: 309). In the current marketplace, the TEs' competitive survival reflects in large part low labor costs since generally they do not have the latest technology or the global distribution network that would suggest a more promising future. A concern of CEE countries is that their comparative advantage lies in producing low-quality, low-technology products: they face "a growing

risk...[of] committing themselves to production processes yielding 'low quality' products" and correspondingly limited growth prospects: The consequences of such a development, if not reversed, should be clear: vertical product differentiation leads less developed countries to specialize primarily in goods with small shares of value added in total output. The income distribution that stems from such a division of labor is less favorable to the TEs, it tends to worsen in the context of what is likely to occur when they accede to the EU, and it furthermore hinders the process of catching up economically with the more developed EU members. If investment continues to be concentrated in low- to medium-level technologies, the TEs could find themselves in a technology-gap trap. Emerging therefrom could be very expensive indeed. It is therefore necessary to investigate how such a longer-term development could be forestalled by redirecting the course of structural change in the TEs and moving it onto a path leading to the desired convergence. (Gabrisch and Werner, 1999: 148)

A related concern arises about the domestic resources available to sustain the economy's ability to absorb new technology: to be competitive, these economies must both catch up technologically and provide an environment that remains capable of absorbing continuing changes in technology and developing new technology itself (*Ibid.*: 150). This requirement places demands primarily upon the current labor force and the education of the future labor force, especially at the tertiary level (see below).

This issue also suggests a concern about "branch plant" status which can trouble small, open economies that develop strong economic links with larger economies. A longstanding example from North America is the economic interdependence between Canada and the United States. The smaller country hopes, of course, to attract direct investment from its larger neighbor; and, if it provides an attractive investment environment, it will succeed. However, if the investments are simply branch plants, the host country will see increased investment and employment, but the profits will be repatriated to the home country where the capital is owned: "this points to the importance of nurturing ownership-specific advantages of firms by modulating domestic policy and strengthening the market environment in the TEs so that FDI flows become a two-way avenue" (Welfens, 1999: 176). Preferably, the small economy will become the home of companies and not simply the location of their satellite operations.

In the Canadian case, concern about FDI has focused upon the extent to which foreign owners

control the country's natural resources—especially nonrenewable resources—which represent a large part of its economic base. The result was the establishment of a Foreign Investment Review Agency (FIRA). Its approvals have historically been justified by an investment's employment and capital expenditure effects more than its enhancement of technology or domestic competition (Green, 1990: ), despite FIRA's interest in those two contributions. Residents of TE countries such as Poland and the Czech Republic also have concerns about the particular kinds of foreign investments that may develop such as unrestricted purchases of real estate by non-residents and non-citizens and investments from particular countries, especially Germany, often because of historic concerns. The TEs may also become increasingly concerned if large portions of core industries are owned and controlled externally—a concern related to the strategic industry issue raised above—but they must also be careful about discouraging FDI. This highlights the tension between preservation of national sovereignty and achievement of better economic performance.

The sectors most threatened by membership are import-competing industries (e.g., food and beverages) which lose greater country-specific protection, small-scale agriculture which is not cost effective (particularly important in Poland), national monopolies and state-owned enterprises, and the public sector. Because they depend upon the current relative economic independence of these economies, one expects that state-owned or -protected monopolies and oligopolies in energy, public utilities, finance (esp. banking) and insurance, rail, and aircraft will contract or disappear with accession (Tang, 2000: 5). These industries are often sources of national pride (e.g., a national airline) and may appear as exercises of national sovereignty; but, as industries, they are typically neither "infant" nor nationally strategic. Many of them will have difficulty surviving against larger, more efficient EU competitors.

It is difficult to know the effect of accession upon the size of each country's public sector. While national administration of EU policy will provide employment, the existing public sectors should shrink, first, because they are in part a legacy of the socialist era: it has been easier to reform the political system than the bureaucracy it employs. In addition, advantages of EU membership include consolidation of public sector activities at the continental rather than national level (e.g., monetary policy, customs, various regulatory activities such as competition policy) and public sector reform to increase transparency and financial accountability (Tang, 2000: 9). Resistance to this adjustment is one reason for continuing inefficiency in

the Portuguese economy, one of the EU's more recent additions (Macedo, 2000: 306-7).

Working against the trade opportunities coming from membership is the new (for new members) barrier of the EU's Common External Tariff (CET) which will raise costs for firms that have been using low-cost imports from outside the EU (e.g., Hungarian exporters in duty-free zones that have been using duty-free imports) and could complicate special arrangements such as the Czech-Slovak customs union if both countries do not enter at the same time (Tang, 2000: 4). Another likely cost-increasing effect of membership is the imposition of EU standards in a number of areas including production (e.g., labels, product content), health, workplace safety, and environmental quality (Inotai, 2000: 29).

### **THE EXCHANGE RATE PROBLEM**

Applicants for accession must have a stable exchange rate relative to the euro. In effect, these countries will lose exchange rate management as an instrument of economic policy since they will either adopt the euro or keep their exchange rate within a narrow range. One difficulty with this prospect is that pegging their currencies to the euro requires stable prices: if a country has significant inflation, then its currency will depreciate against the euro, creating difficulties in maintaining the peg. If the euro is adopted, then domestic prices will be rising more rapidly than external prices which would devastate the domestic market for tradable goods. Even if the applicant countries meet or come close to the Maastricht convergence criteria, their inflation rates may still be significant. However, the convergence criteria are not the same as the accession criteria and may not be imposed or enforced. The prospect of accession with significant domestic inflation is problematic.

The longer term issue is that loss of exchange rate management as a tool represents a concession to economic integration at the expense of public economic management. The country will no longer be able to manage its exchange rate in order to affect its balance of trade and the relative health of its exporting and importing sectors. Of course, this is part of the larger issue of the prospect that EU members will relegate their monetary policy to the European Monetary Union, a step whose implications (e.g., Garrett, 1998) have been highly publicized through the UK's policy debate over it.

### **ISSUES IN HIGHER EDUCATION**

In settings other than a university where one is addressing a relatively academic audience, it may seem surprising to single out the relationship of integration to higher education. Certainly, reading much of the literature, one finds remarkably little discussion of the topic. One theme that arises is that university-trained citizens of the TEs are relatively well-prepared for accession, at least in certain technical fields (Tang, 2000: 8). However, Inotai (2000: 41) predicts that integration will threaten "higher educated people with non-convertible knowledge (humanities, outdated engineering combined with no knowledge of foreign languages or basic computer skills)". Scholars in the humanities may take exception to that prediction: it will still be important to know a little history, literature, and philosophy even if one's country has joined the EU. Indeed, it may become even more important.

Beyond these narrow observations, a number of issues arise for tertiary education. The preceding discussion has identified two—education as a strategic industry and the role of education in enhancing the country's ability to join the ranks of industrialized, developed nations, particularly through its ability to absorb and develop new technology. Taking the second issue first, the preceding discussion has emphasized the importance of technology—ranging from computer science and other varieties of engineering to economics (Marks, 2000) and other behavioral sciences—in the rapid development of any new EU member. The grasp of new technology and the ability to build on it depends upon the education of the labor force, and it is obvious that tertiary education fills a need there.

Granting the importance of tertiary education says nothing about where that education will occur. One wonders whether the better way to equip the next generation for integration is to send them to the best universities, which probably means sending them to school in existing EU members or even farther afield, or to develop the universities of the new members. Is tertiary education a strategic industry that warrants protection? Does it matter whether a country has indigenous capability to train its labor force at the tertiary level, given the costs involved and the likely economies of scale, or should it import its highest levels of education from countries with a demonstrated comparative advantage? Given the low salaries currently paid to faculty in the TEs—typically the largest university budget item—the only way that their universities will become competitive is if they receive considerable subsidies to enhance their current offerings, and even then it will take years to build globally competitive institutions. Anecdotal evidence suggests that, if nothing else, importing tertiary education (by

sending students elsewhere for their training) increases the risk of “brain drain”. The development of “online universities” may eventually render this question moot, but online programs of sufficient quality will not develop rapidly enough to address the educational needs of the TEs, and it is reasonable to ask whether such a delivery system will ever be a significant substitute for traditional classrooms and mentoring.

Raising the question of the location of such education assumes that students are willing to “shop” for the best education which is a pre-condition for the beneficial effects anticipated. However, we cannot assume this: evidence from a recent study indicates that CEEC students are relatively reluctant to matriculate in foreign universities, perhaps because of the cost and a fear of losing recognition at home (Tesar, 1998). One can hope that accession will reduce or eliminate both of these concerns, at least for study within the EU.

A related issue is the possibility of comparative advantage in different kinds of education. For example, Germany may have established a comparative advantage in engineering education, but the Czech Republic may provide the best training in economics or management. Certainly within the EU, it may be unreasonable to anticipate that every country will provide every kind of academic and professional training indigenously. However, universities are peculiarly well suited to represent, explore, and expand national cultural and intellectual interests. Since universities are, by their nature, institutions least equipped to be businesslike, one can anticipate a clash between market forces and the institution of tertiary education.

As one reflects upon the interface between education and integration, numerous issues come to mind, ranging from the impact of membership on curriculum to the implications of serving an EU labor market rather than simply a national one (e.g., selecting the language of instruction). A related issue that warrants more immediate attention arises from the observation that citizens of both the EU and the TEs need an understanding of the integration process and its advantages and disadvantages. A significant threat to popular support for EU membership is the public lack of understanding of the economic benefits they can expect, especially if the more visible structural payments are reduced at incumbents’ insistence. Since a number of interest groups are threatened by the prospect of membership, they can hope to prey upon the ignorance of citizens to increase opposition to accession. The relationship between education and democracy is complex, but it is apparent that democracy cannot succeed without an educated populace (although identifying and providing the optimal level of education

is problematic), although we often tend to overlook education’s importance because of the subtlety of its effect. Since being democratic is one of the accession criteria, then it is necessary for voters to understand the choices they face.

## SOME ISSUES OF POLICY AND POLITICS

The aforementioned question of the appeal of the market system leads to a host of political issues raised by integration. The public choice literature illuminates many of these. Relying upon an assumption of fundamental competitiveness and resourcefulness, Olson’s (1982) theory of “the rise and decline of nations” suggests that economic performance hindered by policies favoring special interests—the results of rent-seeking behavior—will improve after events that fundamentally disturb or destroy the political institutions that dispensed such favors; two of his most compelling examples are postwar Germany and Japan. His theory would suggest that countries which have eliminated socialist domination of the economy would experience more rapid growth as market forces emerge. However, none of the transition economies have exhibited such performance yet, perhaps because of an absence of private property rights and “enterprise capital” (Bofinger, 1998: 321) which were not issues for Germany or Japan.

Olson’s theory does not specify the manner in which growth-promoting behavior emerges. The CEEC’s opportunity for integration provides an example of behavior which will either support or challenge the theory: most opinion sees integration as the policy that will streamline the new members’ economies. Rejection of integration leaves these economies excluded from the major trading blocks in the world and relegated to small-economy status.

The analysis of rent-seeking, with its focus upon economic gains and losses, suggests that those groups anticipating substantial benefits per capita from some policy (“concentrated benefits”) will tend to prevail over any opponents whose costs per capita are significantly smaller, especially if the gainers far outnumber the losers (“diffused costs”). Thus, drawing upon this “concentrated benefits/ diffused costs” (CB/DC) theory, one would expect that the groups mentioned earlier with the most at risk from trade liberalization from membership would be its most intense opponents because they would experience concentrated benefits from the failure of accession. Bofinger (1998: 309) cites the example of Hungarian producers who have exhibited intense interest in protection from imports during the last decade. Similarly, small farmers in Poland are

concerned about adoption of the common agricultural policy. Many national and local public officials are threatened by the prospect of accession and may be in a position to influence unduly the public's understanding of the prospects. The earlier discussion emphasized that the benefits of accession would most clearly fall upon all consumers and perhaps taxpayers so that failure of accession would impose diffused costs on these two diffuse national groups.

Public understanding is often assumed in examining the issue of integration; identifying the gainers and the losers and understanding their motivations are particularly important for monitoring rent-seeking behavior and avoiding its consequences. As suggested in the previous section, that understanding is predicated upon an effective educational system. The media have a complementary role to play in educating the public, clarifying the issues, and making the process more transparent (Tang, 2000: 11; Marks, 2000: 143); and, as with production in other markets, competition in the media market will increase the efficiency with which the public receives and processes information. One wonders whether the decreasing support for EU membership within the CEEC over the last decade reflects a better public understanding of its consequences or more effective publicity campaigns by its opponents.

It is also important to note that the bases for opposition may be less tangibly economic. For example, the earlier discussion of foreign investment highlighted concern about increased ownership and control of resources by foreigners as a result of capital market liberalization, sometimes largely for historic reasons. The accession criteria with their emphasis on market-based allocation and deference to the Union on fundamental policy issues may also raise legitimate philosophical concerns (e.g., Marks, 1998). Adoption of the market system is not an obvious choice for any CEE country. While the textbook model of the market economy has obvious advantages, the risks of market-based allocation and the significant adjustment of social norms that have bound these communities will deter some citizens from supporting membership. The Schengen rules may disturb countries such as Poland and Hungary which have large ethnic groups living outside their borders in what will remain non-EU countries (Tang, 2000: 11). Issues such as these based upon history and philosophy, which often emphasize the tension between national sovereignty and economic performance, may explain why those aforementioned specialists in the humanities are expected to feel threatened by accession!

## THE EU'S STAKE

Our focus has been the economic effects of accession upon potential EU members. Since accession need not be a zero- or negative-sum game, what is the EU's interest in accepting more members? Will accession be mutually beneficial? Space does not allow a thorough examination of these questions; most items in the bibliography cover them in depth. However, a few issues deserve mention here.

The EU's interest in expansion is motivated by its reasons for existence which are, most obviously, the gains from greatly expanded trade liberalization and, from its principle of subsidiarity, increased economic stability from more efficient monetary and currency management through a single central bank and a single currency. It is less obvious why extension of the EU's structural payments to the CEEC is in its interest, and indeed some analysts (e.g., Welfens, 1999) have concluded that some sort of modified membership plan is in order that reduces the level of financial support to the new members. However, an additional motivation is the desire to encourage and support democratic reform and EU-type market economies both ideologically and strategically. Thus, for reasons of regional security, the EU may be willing to provide financial support to these new members.

While one can accept the EU's interest in proceeding, the prospect of enlargement faces significant obstacles. Not surprisingly, the incumbents have not yet developed a European government that develops, operates, and enforces policies efficiently; they have considerable interest in internal reform (e.g., Brusi, 2000). In particular, they continue to face the challenge of withstanding the rent-seeking behavior of constituents such as agriculture and trade unions. One area of particular concern is the EU's voting mechanism. Currently, five incumbents are net contributors to the Union, and the rest are net beneficiaries. Neither the contributors nor the beneficiaries have an interest in placing a greater financial burden on the Union, and thus they are reluctant to take on more members that will probably be net beneficiaries for years to come. They have even greater concerns about the prospects of membership for countries beyond the Visegrad countries plus Slovenia. This suggests the issue of the manner in which enlargement should proceed: should countries be accepted one by one? Since the candidates are all relatively poor countries, then it may not be long before the "lobby of the poor" (Bofinger, 1998: 313) blocks further expansion. If candidates are accepted in groups, then how does one delineate the group, given that those

omitted from the first group stand much less chance of membership in the foreseeable future.

One fear is that expansion, and the resulting financial burden, will lead net contributing countries to withdraw which would threaten the EU's survival. One alternative is to give disproportionate power to the net

contributors so that the poor majority cannot exploit the rich minority. However, this offends many members' sense of democratic fairness; it is difficult to know what kind of compromise will protect the net contributors, leave the poorer members (including new ones) empowered, and preserve the Union.

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