

Table of Contents

Introduction	1
<i>Paul J.J. Welfens, Richard Tilly and Michael Heise</i>	
A. The European Union 50 Years On: Some Comments on Its Early History	11
<i>Richard Tilly</i>	
A.1. Introduction	11
A.2. Historical Background and Economic Nationalism.....	11
A.3. Post-1945 European Economic Integration	13
A.3.1. “Monnetism” and the European Coal and Steel Community	13
A.3.2. The Role of West German Trade	15
A.3.3. Birth of the European Economic Community	18
A.3.4. The Legacy of Agricultural Protectionism.....	20
A.4. Conclusion.....	22
References	22
B. Global Shift – The European Union, the United States, and the Emergence of China.....	25
<i>Thomas Gries</i>	
B.1. Introduction	25
B.2. Population.....	27
B.3. Economic Activities	29
B.4. International Trade and Economic Integration	33
B.5. International Finance and Economic Integration.....	40
B.6. Summary and Conclusions	42
References	43
C. Growth and Competitiveness in Euro Area Economies	47
<i>Lucas Papademos</i>	
C.1. Introduction	47
C.2. Conditions and Policies for Higher Euro Area Growth.....	48
C.3. Output Growth Differentials in the Euro Area Countries.....	50
C.4. Competitiveness of the Euro Area Countries	52
C.5. Inflation and Cost Differentials Across the Euro Area Countries	53
C.6. Structural Reforms for Higher Growth and Improved Competitiveness	56
C.7. Conclusions	57
References	58

D. Financial Market Integration and Monetary Policy	59
<i>Hans-Helmut Kotz</i>	
D.1. Filling the Gaps in the Chain of Substitution	59
D.2. Integration of Financial Markets: Concepts and Indicators.....	60
D.3. Financial Markets Heterogeneity: Consequences for Monetary Policy	67
D.4. Pushing Back Limits to Arbitrage – Integration Through Markets	70
D.5. By Way of Concluding – Variety Is Manageable.....	72
References	73
E. Instability of the Eurozone? On Monetary Policy, House Prices and Structural Reforms	75
<i>Ansgar Belke and Daniel Gros</i>	
E.1. Introduction	75
E.2. Monetary Policy for a Slow Growth Economy and Structural Reforms in Europe	77
E.2.1. Monetary Policy as a Driver of Structural Reforms?	77
E.2.1.1. Structural Reforms and European Monetary Union – What Can We Learn from the Data?.....	78
E.2.1.2. Monetary Policy Autonomy and Structural Reforms: The Case of European Monetary Union	79
E.2.2. Main Pattern of Empirical Results and Stylized Facts.....	81
E.3. What Kind of Monetary Policy for a Slow Growth Economy?.....	82
E.3.1. Not Enough Loosening?	83
E.3.2. Between Two Pillars	84
E.3.3. What Happened to the Monetary Pillar?	85
E.3.4. The Costs of Ignoring the Monetary Pillar	87
E.4. The European Monetary Policy in a Large and Diversified Economic Zone	94
E.4.1. EMU's Coming Stress Test	94
E.4.1.1. EMU's Potential Breaking Points Resurface	95
E.4.1.2. A New Element: Intra-Area Divergences	96
E.4.1.3. Italy Moving Towards the Brink.....	97
E.4.1.4. Some More Formal Considerations: Instability in a Monetary Union?	98
E.4.2. The Stress Test in Action	100
E.5. Policy Conclusions	102
Appendix E.1	104
List of Abbreviations.....	104
Explanation for Table 1	105
References	105

F. Financial Markets and Global Integration.....	109
<i>David Dickinson</i>	
F.1. Introduction	109
F.2. Levels of Financial Integration.....	109
F.3. Benefits of Financial Integration	112
F.4. Financial Market Integration and Investor Behaviour	116
F.5. The Future for Financial Market Integration	119
References	121
G. Banking, Financial Market Dynamics and Growth in the EU Single Market.....	123
<i>Michael Heise</i>	
G.1. The Importance of Financial Markets to Economic Growth	123
G.2. The Euro and the Wholesale Market	124
G.3. Retail Markets Still Domestically Focused	125
G.4. Conclusion.....	126
References	127
H. Banking, Financial Market Structures and Growth in the EU Single Market.....	129
<i>Freddy van den Spiegel</i>	
H.1. Evolution of Financial Integration in the EU	129
H.2. Integration of Wholesale Markets	130
H.3. Integration of Retail Markets.....	131
H.4. Integration of Infrastructures	132
H.5. Institutional Integration	132
H.6. Integration of Prudential Supervision.....	134
H.7. Certain Conclusions	135
I. Information and Communication Technology: Dynamics, Integration and Economic Stability	137
<i>Paul J.J. Welfens</i>	
I.1. Introduction	137
I.2. Economic Development, Adjustment and Outsourcing	142
I.2.1. Traits of the ICT Sector and Economic Dynamics.....	142
I.2.2. Financial Markets and ICT.....	145
I.2.3. Growth, Competitiveness and Outsourcing Dynamics	147
I.2.4. ICT, Outsourcing and R&D	147
I.2.4.1. ICT Dynamics: Outsourcing and Insourcing	148
I.2.4.2. ICT and R&D.....	155
I.2.5. Regional Integration Dynamics.....	164
I.3. Economic Stability: ICT and FDI in a Modified Dornbusch Model.....	166
I.4. Challenges: Regulatory Policy and Life-Long Learning	171
Appendix I.1: Modified Dornbusch-Model (Welfens 2006)	178
References	179

J. The Role of Information and Communications Technology in Improving Productivity and Economic Growth in Europe: Empirical Evidence and an Industry View of Policy Challenges	183
<i>Axel Polz</i>	
J.1. Introduction	183
J.2. The Relevance of ICT for Productivity and Economic Growth	184
J.2.1. Empirical Evidence Concerning the Productivity and Growth Effects of ICT in the EU as Compared to the US	184
J.2.1.1. The Contribution of ICT Production to Productivity Growth	184
J.2.1.2. The Contribution of ICT Investment to Productivity and GDP Growth.....	186
J.2.1.3. The Contribution of ICT Use to Productivity Growth	187
J.2.2. Explaining the Empirical Evidence.....	189
J.3. Unleashing the Growth Potential of ICT in Europe: Policy Challenges and Recommendations from an Industry Perspective	190
J.3.1. The EU Level.....	191
J.3.1.1. Policy Challenges and Recommendations Related to the Creation of a Single European Information Space.....	192
J.3.1.2. Policy Challenges and Recommendations Related to Strengthening Innovation and Investment in ICT Research.....	193
J.3.1.3. Policy Challenges and Recommendations Related to Achieving eInclusion, Better Public Services, and Quality of Life	194
J.3.2. The Member-State-Level: The Case of Germany	195
J.3.2.1. A Brief Evaluation of the High-Tech Strategy from an Industry Perspective	195
J.3.2.2. Policy Challenges and Recommendations to Exploit the Potential of ICT in Germany: An Industry Perspective	196
J.3.3. ICT Meta Trends and Strategic Growth Areas.....	198
J.4. Conclusion.....	199
References	200

K. Growth, Jobs and Structural Reform in France.....	203
<i>Alain Chappert</i>	
K.1. GDP per Capita: Poor Apparent Performance, Complicated Contributions.....	203
K.2. Low Employment Levels: Reasons and Reforms Implemented or Needed	204
K.2.1. On the Supply Side	204
K.2.2. On the Demand Side	205
K.3. What About Productivity?.....	206
L. Growth, Jobs and Structural Reform in the Netherlands.....	209
<i>Kees van Paridon</i>	
L.1. On the Importance of Economic Policies	209
L.2. Structural Reform Progress: Some Basic Factors.....	210
L.3. Structural Reforms in the Netherlands	213
L.4. And What Happened with the Dutch Economy After 1983?	215
References	216
M. Growth, Jobs and Structural Reforms in Greece	219
<i>Daphne Nicolitsas</i>	
M.1. Introduction	219
M.2. A Broad Picture of Recent Economic Developments in Greece	219
M.3. Final Remark	225
References	225
N. Economic Catching-Up, Price Levels and Inflation Rates in Central and Eastern Europe	227
<i>Balázs Égert</i>	
N.1. Introduction	227
N.2. The Prices of Market-Based Services.....	229
N.3. The Prices of Regulated Services and Goods	231
N.4. Residential Property Prices.....	235
N.5. Market-Based Goods Prices	237
N.5.1. The Quality of Goods.....	238
N.5.2. Pricing-To-Market Practices	239
N.5.3. Limited Tradability, Local Tastes and the Importance of Local Inputs	239
N.5.4. Tax Systems	240
N.6. Inflation Differentials: Other Structural and Cyclical Factors	241
N.6.1. Economic Structures and Business Cycle Synchronization ..	241
N.6.2. External Factors: Oil Prices and the Exchange Rate	242
N.7. Conclusion.....	243
References	244

O. On the Value and Need for Revising the Economic Policy Framework in the Union.....	247
<i>Andrew Hughes Hallett</i>	
O.1. Introduction	247
O.2. Background	247
O.3. Structural Reforms	249
O.4. Greater Internal Coordination	250
O.5. Monetary Policy	251
O.6. Fiscal Policy and the Stability Pact	251
O.7. Does Enlargement Affect the Need for Coordination?.....	252
O.8. Fiscal Policy.....	253
O.9. Labour Market Policies and Structural Reform.....	254
References	255
P. An Alternative Route to Europe – An Alternative for Europe?.....	257
<i>Christian Müller</i>	
P.1. Perspectives for Switzerland and the EU (A Pamphlet).....	257
References	259
Q. Remarks on the Future Challenges of the European Union.....	261
<i>András Inotai</i>	
Q.1. Introduction	261
Q.2. Lacking but Wanted: Identity, Vision and Leadership.....	261
Q.3. The New External Framework of European Integration	263
Q.4. Three Levels of Reform Pressure.....	265
Q.5. Selected Areas of Challenges and Policy Imperatives	267
Q.6. Concluding Remarks	272
R. Applying a Comprehensive Neo-Schumpeterian Approach to Europe and Its Lisbon Agenda	275
<i>Horst Hanusch and Andreas Pyka</i>	
R.1. Introduction	275
R.2. The Economic Substrate of the Lisbon Agenda	276
R.3. Comprehensive Neo-Schumpeterian Economics	277
R.4. The Indicator Based 3-Pillar Approach.....	280
R.4.1. Data.....	281
R.4.2. The Indicators for the 3-Pillars	281
R.5. Pattern Detection: Similarities and Dissimilarities.....	282
R.6. Empirical Results	284
R.6.1. Country Pillar Groups 1996–2000	284
R.6.2. Similarity Patterns and Performance 1996–2000.....	286
R.6.3. Pattern Dynamics: A Temporal Comparison of 1996 to 2000 and 2001 to 2005 Pillars	289
R.7. Conclusions	294

Appendix R1: The Indicator-Based Pillar Model 2000	295
Appendix R2: The Indicator-Based Pillar Model 2005	297
Appendix R3: Country Abbreviations	298
References	298
S. Ageing and Economic Growth in Europe Assessing the Impact of Systemic Pension Reforms.....	301
<i>Werner Roeger</i>	
S.1. Introduction	301
S.2. The Model	302
S.3. Model Calibration.....	309
S.4. Standard Policy Experiments	311
S.5. EU Pension Scenarios	313
S.5.1. The Baseline Scenario: Letting the PAYG System in Place.....	314
S.5.2. Scenario 1: Debt Financing of Additional Pension Spending After 2005	315
S.5.3. Scenario 2: A Partial Move to a Funded System.....	316
S.6. Conclusions	317
References	318
T. The EU Emissions Trading System and Its Sustainability Impact on European Industry	319
<i>Raimund Bleischwitz and Katrin Fuhrmann</i>	
T.1. Introduction	319
T.2. The EU ETS: Political Background and the Mechanism	319
T.2.1. Main Characteristics of the EU ETS	321
T.2.1.1. Coverage and Duration	322
T.2.1.2. Allocation.....	323
T.2.2. Linkage	324
T.3. EU ETS: The Development	325
T.4. Impacts on Energy-Intensive Industries	330
T.4.1. The Cement Industry.....	332
T.4.2. The Steel Industry	332
T.4.3. The Aluminium Industry.....	333
T.5. Impacts Towards Sustainable Energy Supply Systems.....	334
T.6. Conclusions	336
References	337
U. Is a European Constitution for an Enlarged European Union Necessary? Some Thoughts Using Public Choice Analysis	341
<i>Friedrich Schneider</i>	
U.1. Introduction	341
U.2. Six Basic Elements of a Future European Constitution.....	342
U.3. The Design of European Legislation	344

U.4. The Subsidiarity and Federalism Principles as Safeguards Against Government Growth and Centralization Tendencies	346
U.4.1. The Subsidiarity Principle.....	346
U.4.2. Fiscal Federalism in a European Constitution.....	347
U.5. The Tax Base of the European Government	348
U.6. Institutions of Direct Democracy in a Future European Constitution.....	349
U.7. Conclusions	351
References	352
List of Figures	357
List of Tables	361
List of Contributors	363