
FRBSF WEEKLY LETTER

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EU + Austria + Finland + Sweden + ?

By January 1, 1995, the European Union (EU) hopes to have increased its membership from twelve to sixteen countries by adding Austria, Finland, Norway, and Sweden. By mid-November, voters in three of the four countries—Austria, Finland and Sweden—have approved EU entry. In late November, Norway will vote, although passage in that country is still considered uncertain. This *Letter* will discuss some of the general issues and expectations arising from the efforts to expand the EU, with a focus on the Austrian decision earlier this year.

A little history

Beginning with the Treaty of Rome in 1957, the European Economic Community (EEC) began a process that led to the adoption of standards designed to implement the "four freedoms"—the freedom of movement for labor, capital, goods, and services. The four freedoms continued as the cornerstone of the development of the "single European market," instituted on January 1, 1993. The EU, which came into being with ratification of the Maastricht Treaty on European Union on November 1, 1993, took the EEC even further. It was designed to be an "... institutional framework for forging unity and cooperation among the peoples and nations of Europe. . ." by the EEC's twelve member nations: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain and the United Kingdom. It created European citizenship and constructed a three-part framework to guide the Union. The first part is a detailed plan for economic and monetary union, as well as an extension of EU authority in such policy areas as the environment, education, and research and technology; in addition, it renamed the EEC to the European Community (EC). The second part provides the authority for a common foreign and security policy for the EU, an important change for the "neutral" applicants. The third is constituted of policies for justice and domestic affairs.

The EU is both a huge market and a major international force, with almost 350 million people and a GDP over \$6.8 trillion; compared to the

U.S., the EU has almost 95 million more residents and a level of GDP that is almost \$1 trillion larger; compared to the four applicant nations *combined*, the contrast is even greater, for their total population is about 26 million and their aggregate GDP is only around 7 percent of the EU's GDP. With a 20 percent share of world trade, the EU is a key competitor in the world economy and a major trading partner for all four applicant nations.

Expansion process

This spring, Austria, Finland, Norway, and Sweden completed arduous negotiations on the terms of their entry into the EU. Austria, Sweden, and Finland gained concessions for their agricultural sectors and on the size of their net financial contributions to the EU. Fishing rights proved to be a key part of the negotiations with Norway, which sought to protect its important fishing resources. In Austria, the environmental impacts of transit policy and EU truck traffic through that nation's Alpine passes were important issues.

As the negotiations continued, the four nations took another important step in the direction of becoming EU members. On January 1, 1994, they joined with Iceland and Liechtenstein and the twelve EU members to form the European Economic Area (EEA), a free-trade area for industrial products.

For Austria, Finland, Sweden, and Norway, membership in the EEA is a gateway to EU entry. It is part of the process of legislating and implementing single market reforms and EU standards, including rules to promote competition, company law, consumer protection, environmental policy, research and development, education, social policy and mutual recognition of professional qualifications.

The EEA nations will "... share the EU's single market legislation implementing the removal of all physical, technical, and fiscal barriers to trade." For Austria, this step is expected to provide more than half of the benefits associated with EU membership.

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The applicants

The four candidates for entry into the EU in 1995 are all relatively small nations, ranging from Norway with 4.2 million residents to Sweden with 8.5 million inhabitants. All are relatively wealthy nations, with per capita GDPs that were near or above the EU average of approximately \$16,400 in 1991. Austria, with a population of 8 million, had the highest per capita GDP of the four nations—about \$17,300.

These four countries are attractive as new members because they are relatively prosperous nations and would be net financial contributors to the EC structural funds used to “. . . stimulate investment and create jobs in less developed regions. . .” of the EU. The structural funds work like transfer payments within the EU to help offset adjustment costs incurred by sectors or geographic regions of an economy that are hurt by EU entry. The funds also provide a mechanism for transfers that are used to help member nations that are less well-off with funding for infrastructure and capital projects.

While membership of the three Nordic states would add the bulk of the Scandinavian block to the EU, Austria brings a key Central European location and important transportation corridors within the EU. Despite its relatively small size (at nearly 84,000 square kilometers, it is slightly smaller than the state of Maine), Austria's mostly mountainous lands are bordered by eight countries, including EC powers Germany to the north and Italy to the south. Austria's environmentally sensitive Brenner Pass is an especially important north-south gateway through the Alps because it connects the key northern and southern EU markets. It has become even more critical to the movement of EU goods through the Alps because of developments in Switzerland: In 1992, the Swiss rejected EEA membership, which blocked its entry into the EU; and in 1994, they passed a referendum—reflecting concerns about adverse traffic and environmental impacts—that phases out commercial truck traffic across the country by 2002.

Austria's rail and highway infrastructure also provides a key transportation link to the east. It gives the EU direct access to four emerging-market nations in the former eastern bloc that are often mentioned as potential EU members: The Czech Republic, Hungary, Slovakia, and Slovenia. Austria's favorable geographical location and historical ties with these nations give it an opportunity

to play an important role as a “bridge” for trade and investment between these lands and the EU.

Election hurdles

Ratification of the four entry agreements set the stage for the last hurdle before EU membership: Each country needed voter approval in a national referendum before year-end 1994. Voter approval is not a given. Norwegian voters previously rejected EC membership in 1972, and Swiss voters effectively blocked EU entry in 1992 by rejecting membership in the EEA.

On June 12, 1994 Austria was the first of the four candidate nations to vote. With 81 percent of the electorate participating, the voters surprised most observers with a 66 percent plurality in favor of joining the EU. Approval was considered crucial to the success of this round of EU expansion; many observers felt that a rejection by Austria would have slowed the EU expansion process after months of preparation and might have cast a pall over the elections in the three Nordic nations.

The EU's success in Austria was further bolstered by the elections in Finland and Sweden. On October 16, 1994 voters in Finland approved EU entry with an affirmative vote of 57 percent. Although the Swedish referendum was much closer, only 52 percent of the electorate supported EU entry, Swedish approval is expected to boost the likelihood that Norwegian voters will vote for entry in a close election on November 28, 1994.

EU support

Several issues have played a key role in the election debates in all four countries. Clearly, economic issues arising from membership were important in each case. In Austria, proponents led by the federal government cited the overall economic benefits of the gains from trade from “full and free access” to the EU market. Environmental issues also have been heavily debated, since the candidate nations tend to have stronger environmental policies and programs than the EU. The impact of EU membership on selected industries, especially agriculture, was a matter of common concern. Debate also has arisen over the issue of neutrality, since Austria, Finland, and Sweden have all been neutral nations.

Austrian EU supporters maintained that membership would lead to an overall net benefit for Austria's consumers as competition brought about lower prices for goods and services. Com-

petition from the EU was expected to lower the cost of agricultural products and processed foods, to reduce prices on goods and services that had been protected from external competition, and to accelerate the "breakdown of the quasi-monopolies in the public sector."

Furthermore, they argued that entry would stimulate foreign investment. Austrian industry also expected to benefit from gaining access to the huge EU market on the same terms as producers in other EU nations. For nations with a small domestic market, like Austria and the three Nordic states, access to the EU market is important. In Austria's case, approximately two-thirds of its imports and exports are already with EU members.

Proponents generally were satisfied with the transit agreement negotiated with the EU and accepted the argument that environmental problems that defy national solutions could be addressed effectively by the EU at the multinational level. EU advocates also pointed to concessions in the entry agreement that would help to minimize the hardships faced by the agricultural community after entry.

Opposition

Opponents raised a number of issues about the potential downside costs of EU entry, including worries about the ability to influence the EU bureaucracy and the loss of control over immigration policies. Environmental issues and agricultural policies played especially prominent roles in the debate.

Environmental groups voiced their concerns about differences in environmental policies between Austria and the EU, because Austria, like the Scandinavian applicants, has adopted relatively strong environmental standards compared to the EU. They argued that membership could result in a deterioration of environmental standards and living conditions because these standards run the risk of being declared "barriers to trade" that would be prohibited by the EU. Opponents also cited the EU's relatively slow adoption of environmental standards because of the need to build a consensus among members and the

resistance of poorer countries to stronger environmental protection.

Concern about the agricultural sector focused on the impact on Austria's small farmers, a group that traditionally has been protected by governmental policy. Despite that protection, this sector has suffered a gradual decline. Opponents expressed the concern that even with concessions and support from the EU, many Austrian farmers, like their Nordic counterparts, will face increasing competition from EU nations with more productive lands. That competition will likely drive marginal domestic producers out of business.

Decision time

The role of neutrality in the post-Cold War era also became a topic of debate because membership in the European Union commits members to a common defense policy. Austria, Finland, and Sweden were "neutral" during the Cold War era, remaining outside of the traditional European military alliances. However, membership includes adoption of community-wide policies on security that likely would make it difficult for members to maintain their neutrality while participating fully in the EU.

Finally, the issue of "independence" versus "membership" was important. Advocates of membership argued that it would allow these smaller nations to participate in the EU decisionmaking process and influence EU policy. Opponents expressed the opinion that Austria would lose control over important domestic decisions without gaining a significant say in EU policy.



When the debates concluded and the voting began, Austrian, Finnish, and Swedish voters chose to take the final step to European Union membership, and they will become full members on January 1, 1995. Norwegian voters must decide in the coming weeks whether to follow suit.

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