

# THE ENLARGEMENT

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## I. Introduction

The history of the European Union (EU) is a history of enlargement. The EU has grown continuously from the original 6 signatories of the Treaty of Rome to the current 15 members, with another 13 countries in various stages of negotiation for accession. The current projected enlargement is unprecedented, both in terms of the number of accession candidates and in their level of economic development.

EU enlargement entails many aspects—political, military and security, and judicial, as well as economic. In this paper, we restrict attention to the economics of EU enlargement. This is not to say the other aspects aren't important—they obviously are, especially to the architects of the enlargement at the European Commission. But to maintain focus on the economics, we only allude to the other aspects when their economic content warrants inclusion.

To anticipate our conclusions, we will argue that the EU is a club that provides benefits to its members, on whom it also imposes costs. Like any club, the EU has an optimal size, which is finite. The marginal benefits of adding the last member to the club just outweigh the marginal cost of adding that member. Applying this logic to the enlargement, we find that enlargement to 28 members may never occur, and if it does occur, such enlargement will take much longer than the political elites of the EU are currently willing to admit. Moreover, a corollary of our argument will be that current membership may not be eternal—today's EU may already be too large a club, where a restive member such as Austria is concerned.

## II. The Economic Theory of Clubs

Clubs produce goods and services for their members which are intermediate between private goods and public goods. The defining characteristics of clubs are excludability (like a private good) and nonrivalry (like a public good). [For a thorough discussion of the economic theory of clubs, see Cornes and Sandler, 1996; for a brief application to EU Enlargement, see Gros and Steinherr, 1995]. The EU obviously satisfies excludability—all non-members are excluded from membership. Nonrival may be a little harder to see. Here are 3 examples of goods and services produced by the EU which are nonrival in consumption by the members:

- equal rights of membership. Every member has the same rights of membership, and these rights do not impinge on each other.
- equal access to the free trade area, customs union and single market. Every member gets access to these three major creations of the EU, and that access is equal and nonrival.
- Equal right to participate in the monetary union. Every member who is willing and able to participate in the monetary union may have the euro as its currency and enjoy the services of the European Central Bank.

These rights entitle the members to considerable benefits. For instance, the free trade area and customs union alone generate an extra 5% of GDP each year to the members (see Chapter 3 for why this is so). That 5% of bonus GDP works out to roughly 1000 euros for every inhabitant of the EU, annually.

Besides benefits of membership, there are also costs. The following are cost categories that apply to each member:

- Maintain a substantial representation at EU installations, starting with Brussels. This human resource cost prevents postage-stamp countries like Monaco from belonging to the EU.
- Contribute to the EU budget. This includes automatic surrender of customs duties, a mandated value-added tax, a share of which is turned over to the EU, and supplemental payments as needed to balance the EU budget (see chapter 13).
- Surrender of national economic policy to the supranational EU level. Trade policy, agricultural policy, monetary policy (if in the monetary union), and industrial policy are all examples of policies surrendered by members to the EU.

So the EU satisfies the defining characteristics of a club.

Let's abstract for a minute from the diversity of EU members and potential members, and suppose that every country in Europe is exactly alike. This allows us to portray graphically the benefits and costs generated by a club, solely in terms of the number of members (see Figure 1). In figure 1, the number of members (each identical to the rest) is portrayed on the horizontal axis. Marginal benefit and marginal cost of an additional member to each of the existing members are measured on the vertical axis. The assumption that all the members are alike is what allows us to measure marginal benefit and marginal cost on a single axis. If every member were different, then we would need a separate axis for marginal benefit and marginal cost for each member. We will return to this assumption below.

Notice that marginal benefit decreases as the number of club members increases. This makes sense—the club begins to get crowded, the more members it has. The first members of the club are the most valuable; they bring the highest marginal benefit by joining. Later members are not so valuable. Notice also that marginal cost increases as

the number of club members increases. This again makes sense. Just coordinating the activities of an additional member, together with those of existing members, drives the cost of an additional member up.

It pays to expand the club size as long as marginal benefit exceeds marginal cost—the existing club members will have an even better club, and the new member will also benefit from belonging. In Figure 1, we highlight 3 club sizes: 10, 20 and 25. At size 10, the club is too small—marginal benefit greatly exceeds marginal cost. Every one of the 10 members would benefit from adding an additional member. At size 25, the club is too large—marginal cost exceeds marginal benefit, and the club should reduce its membership. At size 20, the club is just right—the last member added just passed the marginal benefit/marginal cost test for being an economically justifiable addition to the club.

Of course, every member of the EU differs in many important respects, size of economy (as measured by GDP), population (the basis for the large/small distinction in the EU) and per capita GDP (the basis for the rich/poor distinction in the EU) among them. Germany has the largest economy and largest population, but is only average in per capita GDP, while Luxembourg has the smallest economy and population, but the highest per capita GDP. And the different members have different costs and benefits associated with enlargement. Germany seeks to restore historic commercial links in Eastern Europe, which is much less of a concern to France. Both the UK and Germany welcome enlargement for what it will do to the CAP (see below), which is quite contrary to the position of France. So a model assuming identical members has to be taken with more than a grain of salt.

Nevertheless, despite the abstraction from detail of this simple model, it is still able to explain three basic facts we observe about EU enlargement. First, due to declining marginal benefit and increasing marginal cost, the biggest gains accrue to the first members—which is precisely the experience of the original 6 members who form the core of today's EU. Second, as long as the EU is too small, no member will want to leave. If an EU with 15 members is too small, then those 15 members will surely want to stay in the EU. Third, if an EU with 15 members is too small, then current non-members will want to join—up to the optimal size of 20. And this in a nutshell is the economic rationale for the enlargement.

This simple model is also powerful enough to explain two facts of EU history. First, no member after accession to the EU has subsequently tried to leave—and especially no core member. Second, the only members of the EU that have had second thoughts about membership—most recently, Austria--have been later accessions. For such members, the marginal benefit/marginal cost margin is rather narrow, and membership may not seem such a good deal. Indeed, in the latest polls, a majority of Austrians have rethought EU membership and favor leaving the Union, although economists almost uniformly agree that such a move would be detrimental to Austria economically.

This simple model also allows us a prediction. If the EU should ever get too large, beyond its optimal size, then we should expect to see members leave. The last to join are the most likely candidates to be the first to leave.

Of course the members of the EU are not identical, so one must be cautious in laying too great a store in a model like that of Figure 1. Nevertheless, the lessons of Figure 1 carry over to higher dimensions, for instance when one considers marginal benefit and marginal cost to be functions not just of number of members, but of a vector of numbers of different kinds of members. The simplest such extension, from number of members to number of members as categorized by large/small (in terms of population) and wealth, looks like the following:

- Number of large/rich members (4)
- Number of small/rich members (8)
- Number of large/poor members (1)
- Number of small/poor members (2)

Table 1. Current Membership Distribution

	Rich	Poor
Large	UK France Italy Germany	Spain
Small	Belgium Luxembourg Netherlands Ireland Denmark Sweden Finland Austria	Portugal Greece

Table 1 portrays the current membership in matrix form. The EU is primarily a club of rich members (12/15), and the dynamic benefits of membership are such that the current poor members project to become rich, at current growth rates, within a generation.

We now turn to the candidates for membership, where we see a very different picture.

### III. Candidates for EU Membership

According to the Treaty of Maastricht, “Any European state may apply to become a Member of the Union.” (Article O) Although “European state” is not defined in the treaty, one workable definition is membership in the Council of Europe, with 54

members. Take away the 15 current members of EU, and you still have 39 candidates. Take away 5 postage stamp countries (Andorra, Liechtenstein, San Marino, Monaco, and Vatican City), you still have 34. Take away 3 more members of EFTA (Switzerland, Norway, Iceland) and you have 31. We should note that voters in Switzerland and Norway have voted down membership in the EU (twice in the case of Norway), so they are unlikely to join the ranks of candidate members any time soon. For the voters of Norway, and if a referendum were ever to be held, Iceland, opposition to the Common Fisheries Policy of the EU was a major reason to vote No. The voters of Switzerland share many of the same concerns regarding EU membership as do the voters in neighboring Austria.

Of those 31, 13 have applied for membership and their applications have been accepted. Applications are addressed to the European Commission, which then decides whether to accept or reject the application, in the context of the co-decision procedure. In the case of Morocco, the Commission twice rejected an application; in the case of Turkey, the Commission has had before it an application since 1962, which it only recently activated.

Table 2 lists the 13 candidates, by their vector of member types:

- Number of large/rich candidates (0)
- Number of small/rich candidates (0)
- Number of large/poor candidates (2)
- Number of small/poor candidates (11)

Table 2. Candidate members, EU

	rich	poor
large	(no entry)	Turkey Poland
small	(no entry)	Romania Bulgaria Slovakia Czech Republic Malta Cyprus Slovenia Estonia Latvia Lithuania Hungary

Two things stand out immediately; all the candidates are poor (13/13), and almost all are small (11/13). Should all 13 be admitted to membership, the EU would become a club of

predominantly small countries (21/28), a majority of whose members are poor (16/28)—in other words, a very different club from at present.

This drastic difference has been pointed to with increasing frequency by the architects of EU, most notably Jacques Delors, 2-term President of the European Commission (1985-1995), who presided over both the single market and the run-up to the Treaty of Maastricht. In an interview with *Le Monde*, he expressed considerable caution about enlargement, noting it was wrong to think that what had worked in enlarging “from six to nine and then to 12 is a good method for expanding to 27 or 32.” [*Financial Times* 20 Jan 00]. Delors went on to say that the expansion to the East was overly ambitious. Similar sentiments are routinely expressed by the political elites in the other large, rich countries, whose club the EU has traditionally been, along with their smaller but mostly rich neighbors. Interestingly, it was Delors who also presided over the Euro Summit in Essen, Germany, in 1995, at which the 6 “front runners” among the candidates were invited to observe. These 6 candidates—Czech Republic, Hungary, Poland, Estonia, and Cyprus—whose applications were accepted by the European Commission prior to 1998, often act as a group in public, even though the official position of the Commission is that all negotiations between the EU and candidates are on a strictly bilateral basis.

It is not just the qualitative difference of rich versus poor, but even more so the quantitative difference of just how poor the new candidates for membership are, that shows how the EU club could change (see Table 3).

Table 3. GDP per capita in Candidate Countries and in the EU (1996)  
In Purchasing Power Parity units, to the nearest thousand

Country	euros/person
EU	19,000
Cyprus, Czech Republic, Malta, Slovenia	10,000
Hungary, Poland, Slovakia	6,000-7,000
Bulgaria, Estonia, Latvia, Lithuania, Romania Turkey	3,000-4,000

Source: “Enlarging the European Union,” European Commission, 1998.

It is clear from the table that the candidate countries fall into three types, by per capita GDP. The high income type has per capita GDP of 10,000 euros—a bit over half the EU average. The middle income type has per capita GDP in the range 6,000-7,000—roughly one third the EU average. The low income type has per capita GDP in the range 3,000-4,000, roughly one-sixth the EU average.

These numbers are somewhat abstract—they translate into poor, poorer, and poorest. To give them a wider context, consider the following thought experiment. Let the current members of the EU grow at an average rate of 2% per year indefinitely; the candidate members, twice as fast, on average 4% per year indefinitely. Then it takes almost 40 years for the high income type like Czech Republic to catch up with the EU average; while it takes the low income type like Turkey a century to catch up with the EU average. In other words, even under very optimistic growth scenarios, these income differences can be expected to persist a very long time.

#### IV. Why Does Income Matter to Membership?

There is nothing in the rules that says only rich countries may apply for EU membership. Indeed, four times in the past a poor country has been admitted—-Ireland in 1973, Greece in 1984, Spain and Portugal in 1986. Ireland, by growing faster than the EU average, has just succeeded in leaving the ranks of the poor countries, a felicitous outcome which is testimony to the potential benefits of EU membership.

What the rules (since the Copenhagen European Summit of 1993) do require of candidates to be eligible for memberships are the following:

- a functioning market economy
- a democratic political system
- acceptance of the acquis communautaire

And the thing about income is, the more of it a country has, the more likely that country is to satisfy these 3 eligibility criteria.

Consider first a functioning market economy. Although there is no theorem of mathematical economics to this effect, it is a strong empirical regularity that all rich countries are erected on a functioning market economy. This would seem to be a necessary, although not sufficient, condition for being a rich country. Ten of the candidates are in transition to a functioning market economy, after having been incorporated for various lengths of time in the Soviet colonial empire (the exceptions are Cyprus, Malta, and Turkey). These Central and East European countries have a long way to go to satisfy criterion 1. The European Commission gives annual progress reports to each candidate; you can find the 1999 report cards on the Internet at [http://europa.eu.int/comm/enlargement/report\\_10\\_99/intro/index.htm](http://europa.eu.int/comm/enlargement/report_10_99/intro/index.htm). For instance, Czech Republic was rated as having made no progress in 1999 over 1998, in achieving a functioning market economy. When the richest of the transition countries is having trouble reaching this criterion, you can suspect so are the rest.

Next consider a democratic political system. Again, the transition countries have overthrown Soviet-dominated one-party states and replaced them with multi-party democratic systems. However, these replacement systems all display what we shall call the “Austrian problem.” Namely, they contain parties on the far right (nationalist) or far left (former communist, renamed) which are guaranteed to offend member state sensitivities, just as Austria’s inclusion of such a party in its coalition government led to an EU crisis in February, 2000. The Austrian problem, if anything, gets worse the further east one goes in Europe. This consideration is one of the main reasons the marginal cost of membership curve is rising. The more severe is the Austrian problem, the steeper is the rise in the marginal cost of membership.

Not just the ten transition countries have a problem with membership criterion 2. So do the three southern countries. Turkey has had 3 military governments the past 20 years, and remains a powder keg of Islamic fundamentalism clashing with Attaturk’s modernism for domination. Cyprus remains partitioned along the ceasefire lines of the 1974 war between Greece and Turkey; no democracy currently functions across the entire island. Malta is easily the most stable of these 3. However, with its 200,000 inhabitants, barely half the size of Luxembourg, the EU will barely notice whether Malta joins or not.

Finally, consider the acceptance of the acquis communautaire, the some 80,000 pages of EU legislation all new (and existing) members are required to apply, implement, and enforce. Here it definitely pays to be rich, just to afford the lawyers required to wade through all this legislation. A significant part of this legislation deals with environmental rules and regulations. If the 10 transition candidates alone were to implement this legislation fully upon accession, the annual cost to them would be on the order of magnitude of 100 billion euros---roughly equal to the entire EU budget for a year. Clearly, that won’t happen anytime soon—and particularly in poor countries where environmental concerns get a low priority compared to food and shelter. See (Jovanovic, 1999) for a longer discussion of this point.

If the 3 accession requirements are strictly applied, then none of the 13 candidates enters the EU in the next five years. At the same time, the EU is publicly committed to an accession event no later than 2005. Clearly, something has to give here. What will likely take place is the accession of up to 3 transition countries (with Poland, Estonia, and Slovenia being best bets) and one Mediterranean country (Cyprus) before the end of 2005, following the model of 1986, when Spain and Portugal entered. Both the latter were given long transition periods to reach EU levels of compliance with the acquis; the transition accession states will similarly be given even longer transition periods to reach EU levels of compliance.

## V. Budget Challenges to the Enlargement

In 1947, the USSR and its Eastern European satellites were invited to participate in the Marshall Plan. The USSR rejected its invitation; in Molotov’s words, the Marshall Plan was nothing but “dollar imperialism.” But the Czechoslovak, Polish, and Hungarian

delegations were ready to sign on in Paris, when they were called to heel by Stalin, and hurriedly boarded flights to Moscow. [Gardner, 2000]

Thus, it is only historical justice, half a century delayed, when the EU offers a fractional Marshall Plan to its candidates for accession. The budget commitments, hammered out at the Berlin Summit of 1999, are as follows (see Table 4):

Table 4: EU Enlargement, Budget Commitments (in billions of euros)

Year	pre-accession aid	available for new member countries
2000	3.1	0
2001	3.1	0
2002	3.1	4.1
2003	3.1	6.7
2004	3.1	8.9
2005	3.1	11.4
2006	3.1	14.2

source: Financial Times 27/28.03.99, "Twenty-hour talk marathon ends in compromise"

Notice that the EU Budget provides for an accession event as early as 2002, as part of the Agenda 2000. It now appears exceedingly unlikely that any accession event will take place by then. However, an accession event no later than 2006 is a practical certainty, given the pressure from the budget to spend the money and get some results.

Pre-accession aid, available to all candidate members, is intended to defray the costs of preparing to comply with the acquis communautaire. This number is fixed annually throughout the period 2000-2006. It represents a lower bound to aid available for the enlargement. Relative to an EU budget of 100 billion euros, pre-accession aid is a commitment of 3%. Since that EU budget is itself about 1% of EU GDP, one can that the smallest EU budget for enlargement is  $(3\%)(1\%) = 0.03\%$  of EU GDP. To put that number in Marshall Plan perspective, the Marshall Plan represented about 0.5% of USA GDP per year. Thus, at a minimum, the EU is offering in terms of sacrifice a 1/16 Marsahll Plan to its accession candidates.

Besides pre-accession aid, there is a variable category, compromising aid available to new members, accession candidates who have been accepted for membership. This category begins with 4.1 billion euros, and rises continuously to a peak of 14.2 billion euros in 2006. Of course, if no new members are admitted by that date, then these funds are not spent. In the event of maximum spending,  $3.1 + 14.2 = 17.3$  billion euros, the EU is offering in terms of sacrifice a 1/3 Marshall Plan to its new members and candidate members. Considering that the candidates are not recovering from the ashes of World

War, as were the original Marshall Plan recipients, this order of magnitude of sacrifice seems not inappropriate.

These sums represent only the tip of the iceberg of the budget challenge the enlargement poses to the EU. Even at maximum spending, the enlargement category of the EU budget still ranks third behind spending on agriculture and structural operations. All the accession candidates have larger agricultural sectors than the EU average. The two big candidates, Poland and Turkey, have over 25% of employment in agriculture, compared to the EU average of 5%. If current agricultural programs are left in place to apply to new members, then EU spending on this category grows between 50% and 100%, depending on developments within agriculture in the accession states.

Indeed, the implications of this possibility have not been lost on either current members or on candidate members. The former, especially Germany (the largest net contributor to the budget) and the UK, are pushing hard for reform of the CAP prior to enlargement. France, at the same time, is pushing hard for retention of the CAP in roughly its current form. In response, the 6 front-runners have all issued statements rejecting long transition periods and demanding full payment of current agricultural subsidies.

Structural operations are aimed exclusively at poor countries and poor regions. As we have seen, all the candidates are poor. Hence, they become targets of EU structural spending. Even a small enlargement, restricted to the front-runners, still raises structural spending by 50% at current rates. Needless to say, current beneficiaries of structural spending, chiefly Spain, are keen to defend their sums received against possible diversion to new members.

Considering that agricultural subsidies and structural operations account for  $\frac{3}{4}$  of the EU budget, a 50% increase in spending here means a 37.5% increase in spending overall. Add to that another 17% increase in spending on enlargement from Table 4, and one gets a number around 55%---a hefty increase in EU spending at a time when most of the members are practicing fiscal discipline as part of their commitment to monetary union.

The budget challenge the enlargement poses to the existing members, in particular an increase in the EU budget of more than 50% solely to enlargement, is fully consistent with the economy theory of clubs. This reflects increasing marginal cost of membership. This cost increase will surely slow the pace of enlargement, compared to the quite optimistic projections of Agenda 2000. Whether the cost increase is enough to doom the enlargement is another matter. Economic calculations are by design narrow, compared to the large political calculations that also find expression in the enlargement.

## VI. Economic Integration Challenges to the Enlargement: Even More Variable Geometry

When the EU was a tightknit club of 6 or 9 or even 12 members, the principle of unity of action was sacrosanct. Every member entered the customs union, or the single market, at

the same time. Every member, even members such as Denmark, which had no intention of joining the monetary union, had to ratify the Treaty of Maastricht before any member could join that union.

Now that the monetary union has been launched, with a significant majority of but not all members, the EU enters a new style of economic integration: variable geometry. The EU no longer presents a single geometric object, but several such objects, whose variations add to the complexity of getting EU business done. As regards the variable geometry of the monetary union, there are three such objects:

- members of the euro zone (11)
- members of ERM II (2)
- members with floating exchange rates (2)

Enlargement promises to make this variable geometry even more variable. For example, if Estonia and Bulgaria, both of which have currency boards, join EU and maintain their currency boards, then one immediately has a fourth object:

- members with currency boards (2)
- 

If one were to ask, when will every member of EU belong to the monetary union, even without enlargement the answer must be “A long time.” With enlargement to 28 members, the answer almost surely is “Many years hence.”

We might say that variable geometry exists to accommodate otherwise insuperable problems faced by the EU. The UK, Denmark, and Sweden do not wish to join the monetary union. If the principle of unified action were in place, then no monetary union could exist without participation by all the members. Thus, variable geometry allows a monetary union to exist with just a subset of the members. This is not the only such example: tax harmonization is another, and financial services regulation is a third. In the New Economy of Europe, we can expect to see variable geometry more as the rule than the exception in EU policy structures.

Given that the candidate members are poor, the 4 freedoms of the Single Market, and particularly Freedom of Labor, pose significant challenges to enlargement. Currently, any citizen of any EU country may work in any member country—the principle of establishment. Admitting poor countries with considerable unemployment (the average unemployment in the candidate countries is somewhat above that of the EU) and low wages opens the single market in labor to a potentially large in-migration of labor. According to the theory of economic integration [Molle, 1997], labor which is free to migrate moves from low wage to high wage areas, other things being equal. Just to take one example, consider a large front-runner like Poland. This means 10 million potential low-wage migrants, particularly out of Polish agriculture. Even more worrisome, a porous eastern border of Poland opens the EU to ever larger migration from further east—Belarus, Russia, Ukraine. Fears of such migration have led the EU to require visa regimes for potential border members like Poland with these countries.

It is worth pointing out another, more optimistic view of labor migration. Labor migration from the poor countries already exists, much of it illegal. A better response is to prevent such illegal migration by making life better in the poor countries. And simply being on the road to EU membership promises to make life better, both in terms of direct EU pre-accession aid, as well as the ancillary growth effects that candidacy confers. For instance, being a candidate for EU membership is strongly correlated with investment climate (EBRD, 1999), and investment is a major driver of economic growth.

Large-scale labor migration will almost certainly destabilize fragile coalition governments within the EU. The specter of massive in-migration from eastern Europe to the current membership is already one of the factors driving political developments within Austria, and the growing popularity of nationalist parties throughout the EU. This is yet another reflection of increasing marginal cost of membership with increasing size—here, the cost being the cost on the part of existing members of adjusting to large migrant populations. If the accession candidates were rich, then wages in the candidates would be roughly on a par with those inside the EU. In that case, labor migration would not be predicted, and this would not be an issue. It is the fact that all the accession candidates are poor, and some of them quite so, that makes migration such a worrisome issue—so worrisome that the Commission has announced a phase-in period of indeterminate length during which the freedom of labor to move is suspended for workers in new member states. [For further discussion, see chapter 14]

The upshot of the phase-in period for labor mobility is yet another dimension of variable geometry, with regard to the single market:

- members with full access to the single market (15)
- new members with restricted access to the single market (up to 13)

The picture that emerges is of a larger EU, which has taken a large step backwards from hard-won integration gains, by adding a large number of new members who are anything but integrated into the EU. And this picture can hardly appeal to the political elite that launched the Enlargement in the first place.

This picture, together with the ongoing tension between the EU and Austria, has sparked a remarkable dialogue by members of the political elite within core states, especially Germany and France. Although the caution expressed by Jacques Delors, already mentioned above, might be dismissed as merely the words of a retiree, those of the German Foreign Minister or the President of France are not so easily dismissed. Both, during the year 2000, as pressure from candidates for accession builds, have called for a deepening of integration among the existing members, before any new members are admitted. In the already famous phrase of German Foreign Minister Joschka Fischer, the EU is to move from “confederacy to federation,” and this, prior to further enlargement that widens the EU at the expense of deepening. Fischer has repeated these words to the European Parliament, and other EU audiences. Moreover, the President of France,

Jacques Chirac, has endorsed them in a speech to the German Parliament in Berlin, and made them a cornerstone of the French Presidency of the EU, July-December 2000. The EU political elite which, in 1995, set in motion the Enlargement with the set of 6 front-runners, now faces the economic fundamentals, which hardly favor that enlargement—to say nothing of an even more ambitious enlargement of 13 candidates. If the EU indeed moves “from confederacy to federation” before further enlargement, then that enlargement is pushed further back in time, well beyond 2003, before the next accession event takes place.

## VII. Conclusion

Although the EU has historically grown in size, that growth should not be taken as inevitable. Like any club, the EU has an optimal size, and that size is finite. In the event that the EU has already grown too large, then one should expect to see one or more restive members, who would prefer to leave the EU rather than stay in. This is one interpretation, purely economic, of what is driving the unprecedented confrontation between the EU and Austria.

Even if the EU of 15 members is not too large, the margin between benefits of adding a new member and cost of adding a new member is not nearly as large in this Enlargement as it has been in previous enlargements. This narrower margin is expressed both in marginal benefit and marginal cost. On the marginal benefit side, adding new members who are mostly small and poor does not greatly increase the gains to economic integration to the existing members. The accession candidates have little buying power, and are at a considerable distance from the core members of EU. At the same time, buying power and closeness to core members are the biggest determinants of increased trade, which in turn is the major source of marginal benefits of membership. On the marginal cost side, the poverty of all the candidate members, relative to EU average per capita GDP, makes them harder to integrate economically. This also makes them costly to the EU budget—which goes up roughly 50% in the event of large-scale Enlargement. Yet another dimension on the cost side is the possibility of large-scale migration of labor to the rich parts of the EU, especially if large poor countries (like Poland and Turkey) which large, low-wage agricultural sectors.

The narrow margin between marginal benefit and marginal cost suggests that the EU is approaching its optimal size. It would be quite remarkable if that optimal size were 28 members. In a situation where the margin is narrow, then the risk of letting in too many new members becomes quite real. And the consequences of letting in too many members are hardly trivial. Those members will become restive—much more restive than Austria currently is---when they find that the costs of membership to them exceed the benefits.

In history, it is easy to see the hand of inevitability, even where no such inevitability existed, then or now. The creation of the EU, and its subsequent expansion, were not inevitable events. Although the theory of economic integration can explain why these were good things to happen, and why they have helped the affected populations enjoy

some of the highest average standards of living in the world, this does not mean that the EU can get ever larger. From the standpoint of the theory of clubs—of which today's EU is an outstanding example—an EU which is too large is an EU which is not optimal.

There are serious risks to a botched enlargement, risks which the EU political elite just now begins to take seriously. Although prediction is a risky business, it would seem a safe bet that any enlargement prior to the next edition of this book is a low-probability event.

#### VIII. Postscript: the Nice Summit

Just as we are about to go to press, the European Summit held in Nice, France, December 2000, brings new information and a somewhat clearer vision of the scale and pace of the Enlargement. After lengthy and sometimes tense debate, the EU made provisions for eventual voting weights on the reweighted European Council for all 12 candidates. The largest candidate, Poland, gets the same weight as Spain (27), 2 less than the 29 votes accorded to each of the 4 largest current members. Of course, these weights (indeed, all the outcomes of the Summit) have to be agreed by the member countries before they become official. The reweighting of the European Council sends a strong signal to the 12 candidates that they will eventually be admitted.

Although the Nice Summit did not make any official decisions as to date of next accession, it is widely regarded that the next accession will take place about January 1, 2004, 9 years to the day after the last wave of accession in 1995. Again, no official decision was made as to the identity of candidates that might accede on or about that date. However, based on the latest European Commission annual reports on the candidates, it is all but certain that Poland will be part of the next accession wave. The Summit raised the expectation in some quarters that not just Poland but all 6 of the first set of candidates might be admitted in 2004. Such a large accession remains unlikely.

In terms of the EU budget, the 2001-2006 budget commitments remain unchanged. This implies that if, as seems likely, Poland is admitted, then agricultural subsidies and structural/regional funds to all new members will fall below the levels to which existing members are accustomed. Once new members are present for budget talks, one can anticipate great debate over this discrepancy in the equal rights of membership. Such debate constitutes a marginal cost of membership for all involved. In a revealing twist, although structural/regional funds are henceforth to be decided by qualified majority rule, Spain, the only large poor member as of now, retains a veto on such funds until 2007.

Similarly, the question of access to the Single Market in labor by workers in newly admitted candidate countries was addressed. Such access will not be immediate, but phased in, starting no sooner than one year after accession. In another revealing twist, although visa regimes are henceforth to be decided by qualified majority rule, Germany, the member with the largest population of asylum seekers, retains a veto on such issues

until 2007. Germany is expected to press for stern visa regimes on the EU's new eastern border in its capacity as veto player.

Taken as a whole, the results of the Nice Summit point to a wider EU, with at least 16 and probably 18 members by 2004—even if this widening comes at the expense of further deepening of the EU. And the broad contours, as well as the finer details, of the Enlargement reveal the tensions we have pointed to in this article. Those tensions are real, and making the Enlargement a success will be no mean feat for the EU and its leaders.

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Figure 1. Optimal Club Size

