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**Why Do We Compare the EU with
the USA All the Time?**



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Summary

Among the economic rivals of the European Union there is definitely a distinguished one, the United States of America. However, numerous other dimensions of the EU's economy, politics and society are paralleled with that of the US, and even the development of the integration is studied very often in comparison with the US. To answer the question why the USA is the number one comparison option for the EU, one needs to find the very beginning of this story, when the comparison has started.

During the decades the EEC, then the EC and recently the EU have made every effort to free itself from the shadows of the United States and become a global actor in its own right. With the continuous deepening and broadening of the integration the global role of the EU has been continuously increasing. As a result, at the beginning of the 21st century the most important rival and the most important partner of the European Union is the United States, with which the unified strength of the European countries may compete. The US is not only one of the partners, but it is a special partner for the EU from several aspects. First of all, it has been a military ally, which kind of relationship outstrips any other forms in foreign policy, even the deep economic integration among the member states of the EU itself. The relations of the two parties have deep historical and cultural roots.

In the light of the history overview, one may conclude that the comparison of the two actors is more than obvious. The US was there at the rise of the European integration, and also European powers assisted at the birth of the United States. Moreover, since they were the two determinant players in the so-called First World during the Cold War, they have, as a matter of course, always followed each other closely.

As for the relevance of comparing the EU with the US, we may undoubtedly assert that the latter is a kind of standard to which the development and even the final outcome of an integration process can be measured. It has frequently been stated before that there is no other deep economic integration in the world like the EU. At the same time, the observer could have seen the deep historical, economical and political connections to a federal state. In the light of the (until now) unrealized "United States of Europe", it is almost evident that the ground of comparison shall be the United States of America. On the one hand, the US may be the base of comparison economically as the most successful economic and monetary union. On the other hand, as a federal state, it may be a good base for comparison regarding political unification.

“To make a comparison,
one needs comparable data.
This is a problem.”
(Krugman 1991:57)

The European Union is a unique player in the world from all economic, legal and political points of view. It is neither an ordinary international organization nor a federal state but it holds features of both forms (Balázs 2002:28). The level of integration of its member states have reached since its foundation is unprecedented which makes the European Union one of the most interesting experimentation in international relations of our time. This distinctive nature has at least two consequences. First, its uniqueness makes the EU the subject of continuous world-wide curiosity and examination. Second, as a consequence of the large interest and efforts to understand the integration, the European Union is compared to other players of the global economic, legal and political system.

1) Comparing countries

To find the appropriate counterpart for the European Union is extremely difficult. It is fundamentally difficult to compare countries or regional integrations

with each other respectively but in this case we have a unique player without self-evident counterpart. Social scientists have always been comparing countries with each other. The countries are the default players of international relations, and comparing them has always been a tool to analyze and understand them. Countries can only be evaluated relative to each other. Henry Teune (1990:40), in his valuable review on comparing countries summarises that “what is learned as general principles or laws comes from the study of differences and variances. These differences are something to be explained, as J. S. Mill¹ over a century ago argued.” Thus the recipe is to address the difference and ask why. However, this task is far from being unambiguous. As Haughton (2007:2) notes, social scientists do not have the luxury to isolate individual factors and then re-run control-experiments to see if the result changes. As a consequence, demonstrating chains of causation is extremely difficult, if not impossible. Political leaders learn from the experiences of other countries, or least it is assumed so. Since the beginning of “Western writings” on social and human behaviour – let us start with Aristotle – it has been central to human change to answer the question of what one community can learn from the other. The problem is undoubtedly the

¹ John Stuart Mill: A System of Logic, 1843. Cited in Teune (1990:40)

complex contexts of countries (Teune 1990:58).

After WWII comparative social science researches considered the “country” as their starting points. In the US social science there were tensions between “area specialists”² and social scientists. The former blamed the latter that they knew little specific about anything and the latter blamed the former that they were only story tellers with little general relevance. Area specialist also argued that most of the countries were too different to be able to compare them fruitfully. This made social scientists to group countries based on dimensions that were considered to be theoretically significant. The 1960’s experienced an exponential growth in quantitative comparison of countries which also became easier because international organizations collected an increasing amount of data and computers turned more effective (Teune 1990:42–44).

The principle of country comparison is to find the appropriate counterpart. Different years and time periods have different meanings in different countries thus selecting countries and points in time should be theoretically justified (Teune 1990:45). Social scientists have to face with the traps of case selection bias as well. Generally selection bias oc-

curs when the non-random selection of cases results in inferences because the resulting sample is not statistically representative of the population (Collier 1995:462). When the sample is only two-member, the potential selection bias deriving from deliberate selection by the investigator is huge.

Most of social science researches remains micro, focusing on something within the country system: legislatures, constitutions, families, enterprises, religions, *etc.* Still, comparing countries is one kind of system comparison. Another problem is equivalence across systems. If we compare something across systems, the components and their properties need to be the “same” or at least indicate something equivalent. It is problematic because credible equivalence is difficult to create since its “meaning” is contextual. Furthermore large observational flexibility need to be used in order to enter the systems so that comparisons can me made (Teune 1990:53–54).

2) Comparing the EU

Being a unique player in the world economy and politics, it is all the most

² Area specialist has been *e.g.* the “oriental” experts, based on the idea is that this area possesses something common.

demanding to find the most appropriate counterpart of the EU. Shall we look for another economic integration or rather a state? The European Union has always possessed a so-called regional approach in its international relations, that is as a regional integration it has always been interested in establishing relationships with other integrations (Balázs

2002:31). Still, there is no other partly supranational integration like the EU.

The other possible counterpart for the EU is a single country. It is almost trivial to state that the largest three players of the global economy are the EU, the USA and Japan (and of course China is emerging). As a consequence, the main economic rivals of the EU are

Table 1
Share in world trade
(per cent)

	Share of national imports in world imports			Share of national exports in world imports		
	2000	2008	2009	2000	2008	2009
European Union	19.3	19.1	17.6	17.5	16.7	17.1
United States	26.4	17.9	16.8	17.4	11.2	11.8
Japan	8.0	6.3	:	10.7	6.8	:

Source: Eurostat 2010.

Table 2
Inward and outward foreign direct investment flows
(percentage of world total)

	2000	2008	2009
Japan	2.559569	6.637232	6.784699
United States	11.56845	17.13455	22.53184
European Union	65.95197	47.47927	35.28877

Source: Unctadstat 2010.

Table 3
Basic indicators of the EU, the USA and Japan

	Area (km ²)	Population (July 2010 est.)	Population density	GDP (official exchange rate) (2009 est.)	GDP (PPP) (2009 est.)	GDP per capita (PPP) (2009 est.)
Japan	377,915	127,078,679	336.26	\$5.068 tril- lion	\$4.15 trillion	\$32,700
USA	9,826,675	307,212,123	31.85	\$14.26 tril- lion	\$14.14 tril- lion	\$46,000
EU	4,324,782	492,387,344	113.85	\$16.24 tril- lion	\$14.43 tril- lion	\$32,500

Source: CIA World Factbook 2010.

the USA and Japan, *i.e.* two countries. *Table 1* and *Table 2* show some indicators that support this statement. However, looking through some basic indicators of the economic rivals (*Table 3*), one may raise some fundamental questions. How can we compare these three very different actors of the world economy? The EU is an integration of 27 European states, the USA is a federal republic of 50 states and Japan is a single constitutional monarchy. Can we compare an internal market of a single country of 127 million (Japan) with an internal market of an integration of 492 million (EU)? Or can we compare an internal market of a federal state of 307 million (USA) with an internal market of an integration of 492 million (EU)? To answer these questions we need to go into details.

3) EU vs. US

Among the economic rivals of the EU there is definitely an honoured one, the United States of America. Numerous dimensions of the EU's economy, politics and society are paralleled with that of the US, and even the development of the integration is studied very often in comparison with the US. Further on this study focuses on the comparison of the

EU and the USA. First I will try to find out why the USA is the number one comparison option for the EU, and second I examine whether it is a relevant comparison.

4) The beginning: the US and the birth of the European integration

To answer the question why the USA is the number one comparison option for the EU, we need to find the very beginning of this story when the comparison has started. Let us start at the birth of the European integration.

After WWII the US expected that the Allies would continue to cooperate after the war but this was a misconception. Another misconception was that the US overestimated the strength of its Western allies. The war destroyed the resources of France and the UK so much that they could not play their part in the American scenario. Their inability to be a military and security policy bridgehead of the West meant also for the US that it might lose its European influence and its presence might reduce to the American continent. The US took steps in form of the Truman Doctrine and the Marshall Plan to confirm its European presence. The Organisation of European

Economic Co-operation (OEEC) was established in 1948 to manage the Marshall Plan which finally concentrated only to the Western part of Europe. The OEEC might have been the basis of a European integration as well but it did not suit either the federalist or the functionalist integration ideas: it was apolitical and covered too wide range of issues. The OEEC played a key role in recognizing that the European economies are interdependent, and they either flourish or fall together. Finally the founders decided to establish new organisations – the European Coal and Steel Community (ECSC) and the European Economic Community (EEC) –, and the OEEC stopped being a European organization. The OEEC was transformed into the Organisation of Economic Co-operation and Development (OECD) with extended membership: countries committed to democracy and market economy from around the world. Since 1949 a further layer of the post-WWII US–Europe cooperation has been the North Atlantic Treaty Organization (NATO). All the six founders of the EEC was member of it. Beyond the Marshall Plan the NATO also had a favourable integration effect in Western Europe (Urwin 1994:13–20).

The European integration intentions met favourable reception in Washington even though the realization of the integration plans might have hurt

American interests as well. By the end of the 1940's Western European countries were able to focus on their integration debates which was owing to the United States. The US established the calm economic, political and security circumstances that were fundamental for the European integration (Urwin 1994:20–26). The ancestors of the European Union grew out from the post-WWII Western institutional system that was insisted by the United States (Balázs 2002:201). The European Coal and Steel Community and the European Economic Community were created as economic integrations of six countries aiming to counterbalance not only the dominant role of the Soviet Union but also that of the United States of America. The creation of the EEC appeared as a chance for the six to act apart from the US and make Western Europe more self-sufficient economically as well as politically (Urwin 1989:131–134).

The USA and the ECSC established diplomatic relations as early as 1953 when the first US Observers to the European Coal and Steel Community were nominated. The USA was the first country which accredited diplomatic representatives to the EEC in 1958. The ancestor of the European Union has been represented in the United States by a Delegation in Washington since 1954 (Facts and Figures 2010). The US foreign policy had to face confusing cir-

cumstances at the beginning: the United States had traditionally deep economic and other relations with the member states while the new actor, the integration gained important range of functions as well. The primary field of cooperation that emerged between the EEC (from 1965 European Communities, EC), and the US was foreign trade, what made the EEC in the eyes of the US administration not more than a “chamber of commerce”. This view has started to change when the promising program of a single market was launched with the Single European Act. Beyond the administrative level, the economic connections in the private sector were also established. The most significant were the unilateral capital flows: from the US to Western Europe. A second large wave of capital flows started with the program of the single market. The enlargements of the European Communities opened further European markets for the economic expansion while third countries, including the US, were crowded out. The clashes of economic interests, sometimes very hot debates have always characterised the relationship of the two – that is what Henry Kissinger³ called “troubled partnership” (Balázs 2002: 199–203).

³ Henry A. Kissinger (1965) *The Troubled Partnership: A Re-appraisal of the Atlantic Alliance*. New York, London, Toronto: McGraw-Hill for the Council on Foreign Relations. Cited in Balázs (2002:203).

The whole context of the EC–US relations has changed with the collapse of the Soviet Union and the fall of the Berlin Wall. The new transatlantic cooperation framework, the Transatlantic Declaration was adopted by the US and the EC in 1990, right after the German unification (Balázs 2002:205). It laid down the principles for greater EC–US cooperation and consultation in the fields of economy (liberalization, OECD, competition policy, *etc.*), education, science and culture and transnational challenges (Facts and Figures 2010). The New Transatlantic Agenda in 1995 was inspired by the treaty establishing the European Union.

During the decades the EEC, then the EC and recently the EU have made every effort to free itself from the shadows of the United States and become a global actor in its own right. With the continuous deepening and broadening of the integration the global role of the EU has been continuously increasing. The US administration encouraged the second and third pillar cooperation among the member states and the cooperation with the US as well. In this new framework the US started to treat the EU as an equal partner, as a sovereign international actor, even if the US has always made the EU feel that it was only a secondary actor, patched from derivative competences. This revaluation was, in the one hand, the recognition of the

integration development and, on the other hand, the USA started to see the EU as a potentially “better” partner who support US ambitions more effectively than single member states (Balázs 2002:206). In 1998 the Transatlantic Economic Partnership was established in which the EU and the US work together under the multilateral umbrella of the WTO. On bilateral basis its purpose is to tackle technical barriers to trade and also to stimulate further multilateral liberalization (Facts and Figures 2010). The development of this cooperation also highlights the limits of EU–US cooperation.

To sum up, at the beginning of the 21st century the most important rival and the most important partner of the European Union is the United States, with which the unified strength of European countries may compete. The US is not only one of the partners but it is a special partner for the EU from several aspects. First of all, it has been a military ally which kind of relationship outstrips any other forms in foreign policy, even the deep economic integration among the member states of the EU itself (Balázs 2002:199). The relations of the two parties have deep historical and cultural roots.

In the light of the history overview above, we may conclude that the comparison of the two actors is more than

obvious. The US was in at the rise of the European integration, and also European powers assisted at the birth of the United States. Since they were the two determinant players in the so-called First World during the Cold War, they have, as a matter of course, always followed each other closely.

5) Dimensions of comparisons

Our second question is whether it is relevant to compare the EU with the US. Undoubtedly the US is a kind of standard to which the development and even the final outcome of integration process is measured. As we have stated before there is no other deep economic integration in the world like the EU. At the same time we have seen the deep historical, economical and political connections to a federal state. In the light of the (until now) unrealized “United States of Europe” it is almost evident that the base of comparison shall be the United States of America. On the one hand, the US may be the base of comparison economically, as Wood and Yeşilada (2010:121) states “the United States represents the most successful economic and monetary union”. On the other hand, a federal state

(e.g. the USA) may be a good base for comparison regarding the political unification. In the following the typical examples of comparison are presented.

One of the early comparison is coming from *Bela Balassa* (1967:16-17) who examines the young common market of the European Economic Community beginning to take shape. As the author writes, when examining the “dynamic benefits of increased trade that are derived from economies of scale, longer production runs and increased specialisation”, a reference can be made to the extent of large-scale economies in the United States.

Paul Krugman (1991:75-83) bases his comparative European Communities–United States localization study on the observation that the “great regions” of the US (the Northeast, the Midwest, the South and the West) are comparable with the European “big four” (Germany, France, the United Kingdom and Italy). He concludes that the localization has gone much further in the US than in the EC for the simple reason that trade barriers exist in the EC. Suppose that the EC will look like the US: similar degree of localisation and specialisation – Krugman writes. Then he writes about the road during which the EC may reach the US degree, also considering the option when the EC converges to the

future state of the US and not to that of the present day.

Another “classic” of EC–US regional comparison is *Robert Barro and Xavier Sala-I-Martin* (1991) who examine whether poor countries or regions converge toward rich ones. They apply the same framework to patterns of convergence across 74 regions of EC countries (Germany, the United Kingdom, Italy, France, the Netherlands, Belgium and Denmark) and across the US states. They conclude that the process of convergence within EC countries is in many respects similar to that for the United States. The authors examine convergence patterns for economic growth to US states and EC regions, based on a growth equation that derives from the transition path of the neoclassical growth model for closed economies. In the Comments and Discussion section of the article some peer-scholars make remarks on the difficulties of comparison and drawing a parallel between the EC and the US. For example *William Nordhaus* (p. 177) finds it difficult to regard the slow recovery of the South following the Civil War and the rapid recovery of Western Europe after WWII as examples of the same growth process.

The study of *Diego Puga* (2002:385–386) deals with another repeatedly mentioned dimension of comparison: the labour market flexibility where the

US labour market is set as a benchmark for the free movement of persons. If we compare migration rates in the EU with those of the US, the latter will be higher. On the one hand, recent EU numbers are also low by historical standards when compared with that of the 1960s. On the other hand, migration across regions is small even within European countries. The reasons behind the different attitudes (*i.e.* different from the American) of labour market participants are debated. The most often blamed factors behind low mobility are language and cultural barriers. The former basically does not exist in the United States while the latter is almost negligible. As Puga highlights, culture cannot really explain low migration rates *within* European countries, and in the majority of cases there are no substantial internal language barriers. Additionally, it cannot explain the fall in migration rates since the 1960s either. Puga cites *Blanchard and Katz* (1992) who show that in the US labour market there is an adjustment process through regional migration: a region being successful in attracting firms is able to attract more workers as well. On the contrary, he cites *Decressin and Fatás* (1995) who state that in the EU the adjustment takes place mostly through participation decisions.

Mark Wynne and Jahyeong Koo (2000) publish a study in a further

typical field of comparison, the monetary integration. The authors document key differences and similarities between business cycles in the 15 EU countries and that of in the 12 Federal Reserve districts in the United States. To confirm the relevance of comparison, Wynne and Koo highlight that the most important features of the Economic and Monetary Union (EMU) are, on the one hand, the European Central Bank that determines the common monetary policy for the euro-area countries and, on the other hand, the common currency, the euro that has replaced the national currencies in the euro-area countries. This framework is not far from the way the monetary policy is made in the US. The Federal Reserve System was designed in 1913 to diffuse power of financial centres and harmonise policy decisions in different regions of the country. The authors also note that the analogy is imperfect because the members of the EU are sovereign states while the US states that form the 12 Federal Reserve districts do not have the same freedom in relation to the federal government.

Both the literature on fixed exchange rates and on the EMU has long traditions in looking to US experiences and practices of a monetary union because the US can be seen as having a system of fixed exchange rates between the currencies in the 12 Federal Reserve dis-

districts, issued by the 12 Federal Reserve Banks. They conclude that the average output volatility across the 12 Federal Reserve districts is almost identical to that of the 15 EU member states. In both the 12 Federal Reserve districts and the 15 EU member states employment proves to be less volatile than the output but in the USA the employment is much more volatile because the labour market is much more flexible as well.

The last field of comparison is fiscal policy. *Zsolt Darvas* (2010:4) considers the EU–US comparison useful in understanding fiscal federalism. As Darvas highlights, there are various forms of fiscal federation, not only that of the US, still, the US has always been the main point of reference. In this logical framework the European Union can also be seen as a form of fiscal federalism because some policy areas are largely centralised, especially the common agricultural policy and the regional development policy. The author concludes that there is no proof that the euro is not viable without a federalist fiscal architecture. Even though the US example clearly shows that a federalist architecture would have helped to handle the recent crisis of the euro area. There are a number of proposals about the redesign of the euro-area fiscal policy framework, but most probably the final outcome will not make the EU's fiscal framework more similar to that of

the US. Darvas (2010:12–13) argues that it is not necessarily a problem, if the EU policy makers can find effective solutions to issues like the challenges of EU level institutional set-up and cross-border banking issues.

6) Conclusions

The question in this paper is why we compare the EU with the US all the time. The question was raised because much of the studies compare the two without giving the reasons for it. The paper has aimed to find out why the USA is the number one comparison option for the EU. The answer was found in the history of political and economic relations of the two entities. Then I have examined whether this widely used comparison is relevant. I have cited several authors who confirm the relevance of comparison in their field of research. The typical reason behind the relevance is that the internal market and administration of the United States may be seen as the possible future form of the European Union.

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