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The political economy of joining the European Union: Iceland's position at the beginning of the 21st century

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Preface

Political economy is a multidisciplinary subject drawing upon economics, business, political science, law, sociology and other related disciplines. Studies of political economy analyse options governments have to choose from in order to achieve economic ends. The term political economy appears for the first time in 1615, when Antoine de Montchrestien wrote "*Traicté de l'æconomie politique*" (Treaty of the Political Economy). Up until one century ago many academic institutions studied politics and economics in the same department. Eventually academic specialisation separated political science from economics. Contemporary political science focuses on political theory and practice, along with political behaviour, and modern economics has developed into an increasingly technical subject using mathematics and statistics to analyse and explain economic behaviour. Political economy may be considered as an interdisciplinary study, but perhaps it is better to look at it as a revival of an old discipline, which was made famous in 1776 when Adam Smith published "*An Inquiry into the Nature and Causes of the Wealth of Nations*", and more recently by Karl Marx with several volumes published in the late 19th century under the title "*Das Kapital. Kritik der politischen Oekonomie.*" (The Capital. A Critic of the Political Economy). The different views of many political economists show that political economy, as a human science, is often influenced by the opinions of its proponents. Political economy cannot be an exact science, but is a mixture of humanities and empirical sciences. In recent years there has been increased interest in the study of political economy in its broadest sense. This has included various studies where business, economics, politics and policy choices meet. Modern examples of studies of political economy include subjects as diverse as health, changing global order, college sports, hunger, monetary unions, market reforms and democratisation, to name but a few.

This study deals with the effects of European Union membership on Iceland. The European Union is a typical subject that crosses many individual disciplines. During the first seven years of this century the economy of Iceland was in an upswing. When the going is good, there is little need to look at alternative options and the Icelandic government had limited interest in European Union membership. However, all economic upswings end with a downturn. Luckily, most economic downturns are usually shorter and shallower than the upswings. In 2008 the unavoidable Icelandic downturn started, and not surprisingly, the discussion in Iceland

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about alternative economic options increased substantially. Currently, the Icelandic media regularly publish various political and economic statements for and against European Union membership.

We want to emphasize that this study is a general assessment of the long-term consequences of European Union membership. It is not intended a contemporary political paper. The European Union is a political dwarf in the international arena, but it is an economic superpower. Many Icelandic voices that were silent during the economic upswing are now asking if joining the European Union would be a good choice for Iceland. Let there be no doubt that joining the European Union is not a quick fix for all economic ailments, which can be seen by how it takes several years for new Union members in Eastern Europe and the Mediterranean to improve their economies. Many new member states are not yet in a position to fulfil the criteria to adopt the Euro as their currency, despite their intentions. Nevertheless, there is little doubt that many of the new members have or will benefit substantially from Union membership, which can be seen by surprisingly fast progress in many of those countries.

There are many opinions on various aspects of EU membership, but so far there have been very limited attempts to build a complete picture of the effects of Icelandic EU membership. This study gives a thorough survey of the main policies affected by moving from the current European Economic Area arrangement to full EU membership. It estimates the effects of the European Economic and Monetary Union and the effects of EU's Common Agricultural Policy (CAP) on Iceland, and shows that there are feasible political options for Iceland to safeguard fish stocks from EU's Common Fisheries Policy's (CFP) overexploitation.

The first part of this study describes the European Union, European Economic Area, European Free Trade Association, and Iceland. The chapters that follow go further and analyse the various aspects and arguments for and against Union membership. Many aspects of European Union membership have already been estimated, but in some cases previous studies have shown very divergent findings, e.g. on monetary unions or deadweight losses from agricultural support measures. In such cases, rather than adding just another new opinion, we show the trend, but often there is no known exact answer. Although the bottom line of this study is along the lines of a cost-benefit analysis, which includes identifying factors, analysing them and adding up the balance, we should point out that joining the European Union is in the end a political decision. Nobody can predict the future with 100% certainty, but decisions should always be made on the best available knowledge at the time. We

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sincerely hope that the different aspects presented in this study will help the reader make up his or her own mind on Icelandic accession to the European Union.
