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EU Single Market

The Evolution of the European Single Market

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<p>The purpose of this study paper was to define what is the EU Single Market in theory, how it began and to compare it with the current reality. Problems achieving political objectives in the 1990s. Also, what it has turned into today i.e. the EU's enlargements 2004 and 2007 to 27. Demographics and what kind of economic convergence takes place in new member states.</p> <p>The methodology used in this study was qualitative. They consisted of both source books and newspaper articles, and the internet news agencies e.g. Financial Times, Telegraph, and web sources of the European Commission.</p> <p>The results revealed that the Union has many issues and failures. It is also clear that stability is difficult to maintain as many factors influence the situation of the Union e.g. different economies of the member states in the South and North, convergence issues. GDP is not a perfect measurement to see what is going on because even if the GDP is high it may not mean that a state is wealthy.</p> <p>The conclusion of the study was that the EU is a political union. Its enlargement is hard to understand as the criteria used to assess eligibility of a state are very subjective. The contemporary issues with such member states as Latvia, Greece, Ireland, Spain and Estonia joining Euro currency as an example of success while other states struggle make the EU look very political union rather than economic one.</p>	
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1. INTRODUCTION

There are many commons in the new member states that advocate the EU's existence as a better place to live and develop and also believe in the better future of their home countries once they have joined the Union. Not many know the short history of the European Single Market, how came to exist and why. Estonia has just joined the euro currency as an example of a success in the same time with the ongoing problems with Greece, Spain, Portugal, Ireland, and Italy. Is this rational in terms of economics? Has situation really improved since the Euro currency had been introduced and replaced the national currencies, is every EU member is a member of the Euro? Not every, but why not? Why the United Kingdom of Great Britain and Sweden are not using the Euro currency? Why Denmark keeps its krona units. Is the EU single market an economic or a political establishment? These questions and issues will be looked at closer in the following chapters. I'd also like to point out on the problem of immigration and cultural differences between the member states and obstacles for those who try to move within the EU. There is a price that the EU has to pay for its political endeavor, it comes partly at the expense of the economy, increased bureaucracy, and partly by homogenization of the nationals.

Certainly there are limitations if there is one currency which does not fit all economies of the Union. The currency that ignores various needs of different national economies has an effect. Painful austerity measures have been imposed on those states that happened to have unsustainable economies. Several states, particularly the new countries of Eastern Europe, managed to keep their unemployment lower because of outward migration to the Western Europe and elsewhere.

In this thesis I will try to highlight the issues within the EU single market. When the newly joined members will become as developed as the ones, which were first, the initiators of the EU project? Many people raise questions as to further development of the EU, will it work? The evolution of the European Single Market moves towards more centralized organization. This is believed to be good by some politicians and raises a lot of questions regarding its existence in the present form, to say nothing about its plans for future enlargement making it relevant subject to study.

The biggest obstacles for the EU's further integration, for both economic and political, are the national differences between EU's regions with languages and national laws as main barriers. I am looking at the contradictions and conflicts between the EU as an economic project and as a political project.

2. RESEARCH BASIS

The EU's sustainability is a very contemporary subject because of the increased discussion of its existence and the future. There is an uncertainty among the commons that has made their lives very different to what it was for example 10 years ago and since the single currency creation. There is a need to research the EU at present and look in the past to be able to see what the European Union is. Is it solely a trading bloc or a political union? Can it really manage the 27 countries fairly and enlarge farther? The European Single Market has been evolving since its creation due to its economic growth, and the growth pulled a demand for a labor force that led many people believe in equal opportunities for work and equality among peoples forever. The Europe has been changing because of the massive changes in the economies of the EU. The contributing factors were the economic development, integration and immigration.

2.1 Purpose of the study and methodology

The purpose of the study is to explain and identify what is the EU and how it developed to the present day by analyzing and reviewing relevant literature. Also, trying to explain that the EU is political rather than economic union today. The aim of this study is to give an objective perspective on what the EU Single Market is, what it has evolved to become, how it operates, why it exists, and what happens within the Union today. This encompasses research on the methodology, criteria, and process of integration of the nation states. Also it will be explain referring to other sources why it does not work and possible future activities.

The research is mainly qualitative. The intention of the research results is to provide a different point of view from mainstream political organizations.

2.2 Research Problem

The research problem is to shed light on the existing problems in the EU by analyzing relevant materials i.e. books, websites, newspapers, etc. In the research I'll describe problems of Latvia, one of the former Soviet republic, struggling to cope with its economic challenge. Also tell about my own experiences and my acquaintances about the Europe. The conclusions will show whether the EU will be the EU that we know today if it carries on in the same way.

2.3 Literature review

The literature, which I have used in my research, can be divided into four categories. The first category of sources is the European Commission, the World Bank and Eurostat which provides us with an official information. The second category of sources consists of publications of organizations such as the European Network of Economic Policy Research Institutes (ENEPRI), Berlin Institute for population and development. These organizations mainly analyze the information and may be considered as objective sources. The Third part consists of well-known publications from respected sources such as the Global Political Economy (John Ravenhill, 2004), P, Bagus. (2010), The tragedy of the Euro, Michael Hudson (Latvia no austerity success), Estonia, the New EU economy (2006). Hans Werner-Sinn on Spigel online. Many of the above listed sources may seem biased and despite this they justify their arguments by referring to solid facts. The last group consists of the mainstream media sources such as the Financial Times, The New York times, Guardian UK, Telegraph UK, The Independent UK. This last category is considered to be relatively biased towards authors' opinions.

The literature found limited to about mainly last 10 years. The latter may be justified by events of the recent years. The information on the Eurozone crisis is worth paying attention. The study focuses on qualitative material about economics and politics, as well as points of view of other credible experts. The collection of the information was made with a critical point of view.

A lot of criticism towards the activities of the EU had risen in recent years. After the last two expansions of the EU and beginning of the Euro crisis, it became easier and more popular to criticize the Union. Based on the information found I discuss issues concerning the bureaucracy, demographics, migration within and without the EU, convergence of newly admitted states, financial crisis and political union which began as a liberal single market. For instance the European Union and ECB's objectives are to achieve growth, stability, convergence and in the same time events take place that rather contribute to quite different outcomes. Since the creation of the Euro the southern states with relatively weaker economies are not able to devalue their money if they need. Therefore they are forced to borrow to sustain their national economies. In the same time the exporting economies of the north develop and export their goods and services to southern states. This contradicts the EU's official goals of the economic convergence.

Some literature mentioned above might be partly subjective because of preferences of the authors. Generally speaking I admit not always being objective, the reason why is that the topic researched is very influenced by political views. In spite of that I shall try to describe various sides of the Euro project.

2.4 Research structure

In the beginning of this research it familiarizes reader with the development of the EU European Single Market and process that contributed to it. In addition to theory the research enables the reader to compare theory with practice.

In the first chapter I shall determine the legal and ideological basis of the EU Single Market from the historical point of view. Chronologically I shall go through the events that contributed to the evolution of the single market. In the second chapter the physical indicators will be looked at, i.e. demographics and economics. In the chapter three the critic is discussed that focuses mainly on the events of recent years. The last chapter is the conclusion based on the findings of the research.

3. POLITICAL STATUS OF THE EUROPEAN SINGLE MARKET

The history of the European Union may be considered to begin from the Treaty of Rome. Also before this there were some treaties (Coal and Steel community 1951) that included some features of the Treaty of Rome, but have not been approved within the European scale.

According to the Treaty of Rome 1957 the signatories declare that:

"- Determined to lay the foundations of an ever closer union among the peoples of Europe, resolved to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe; affirming as the essential objective of their efforts the constant improvements of the living and working conditions of their peoples; - recognizing that the removal of existing obstacles calls for concerted action in order to guarantee steady expansion, balanced trade and fair competition; - anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less-favored regions; - desiring to contribute, by means of a common commercial policy, to the progressive abolition of restrictions on international trade;- intending to confirm the solidarity which binds Europe and the overseas countries and desiring to ensure the development of their prosperity, in accordance with the principles of the Charter of the United Nations; - resolved by thus pooling their resources to preserve and strengthen peace and liberty, and calling upon the other peoples of Europe who share their ideal to join in their efforts...". (Treaty of Rome 1957)

In order to realize these objectives, the treaty establishes institutions and decision-making mechanisms, which make it possible to express both national interests and a Community vision. The institutional balance is based on a triangle consisting of the Council, the Commission and the European Parliament, all three of which are called upon to work together. The Council prepares the standards, the Commission drafts the proposals and the Parliament plays an advisory role. Another body is also involved in the decision-making procedure in an advisory capacity, namely the Economic and Social Committee. The Commission, an independent college of the governments of the Member States; appointed by common agreement, represents the common interest. It has a monopoly on initiating legislation and proposes Community acts to the Council of Ministers. As guardian of the treaties, it monitors the implementation of the treaties and secondary law. In this connection it has a wide assortment of measures to police the Member States and the business community. In the framework of its mission the Commission has the executive power to implement Community policies. (Europa.eu/legislation)

The next big step was the SEA (European Single Act 1986), which was to realize the intentions of the Treaty of Rome that had not been yet completed by the midst of the 80s. The main aspects of the treaty were the removal of non-tariff barriers and free movement of labor and capital by the beginning of 1993.

In regard to physical barriers created by customs formalities and control, this included the simplification of administrative checks and their movement away from borders, the elimination of all internal frontiers and controls on people and capital as well as on good and services.

In relation to technical barriers such as different technical specifications of products, it was intended to harmonize regulations or, failing this, to have mutual recognition of each other's standards; to remove exchange controls; and to establish the equivalence of qualifications.

Under the heading of fiscal barriers came the much more difficult to achieve goal of the harmonization of taxation rates and systems, especially in the fields of indirect and corporation taxes. There was also uncertainty over the degree to which harmonization could give way to mutual recognition in the completion of the single market. (Howells & Bain 2005, 447)

The following treaties (Maastricht Treaty, Treaty of Amsterdam, Treaty of Nice, and Lisbon treaty) were aimed at reformation of the European institutions and legislative bodies in order to prepare to expand and accept new member states, consolidate the former treaties as well as providing more power to the EU establishments. Also the Maastricht implied new common currency establishment that has become a reality in most of the countries of the EU by the end of the 1990s.

Therefore a conclusion can be drawn from the above-mentioned points, the Treaty of Rome included almost all ideological aims of its drawers. The following treaties that were ratified after initial treaty of Rome, which focused on more technical issues of the implementation of the ideology of the Treaty of Rome. Realization of the ideas that were embedded in the Treaty of Rome has been changing since the ratification of the European Single Act 1986 until now.

Since the time the Treaty of Rome had been signed the development was accompanied by including new member states. Initial treaty of Rome included Belgium, France, Italy, Luxembourg, the Netherlands and the West Germany. Then in 1973 Ireland, Denmark, and the UK joined the EEC. Greece in 1981 later on in 1986 Portugal and Spain, and 1992 the European Union is born. EU enlargement included Austria, Sweden and Finland in 1995. Ten more countries joined the EU in 2004 which are Poland, Estonia, Latvia, Lithuania, Slovakia, Czech Republic, Slovenia, Hungary, Cyprus, and Malta, and the last expansion took place in 2007 which included also Bulgaria and Romania As the result of these activities the EU Single Market has taken its present form.
(European Commission)

4. IMMIGRATION AND DEMOGRAPHICS

4.1 Demographics

Market and people are interdependent of one another therefore we decided to include such factors as demographics and immigration along with more traditional economic factors. In appendix 2 there are three demographic pyramids that depict composition of population for years 1950, 1985, 2005. Since the European market embraces the majority of the European states and demographic differences between European countries are not so large we consider that results are applicable to the European Union. In the diagrams shown in the appendix 2 one can clearly see the post war baby boom and consequent birth decline. Those two factors indicate that European labour force has been in a good condition to the present days. Nowadays the situation deteriorates due to low birth rate during the last decades.

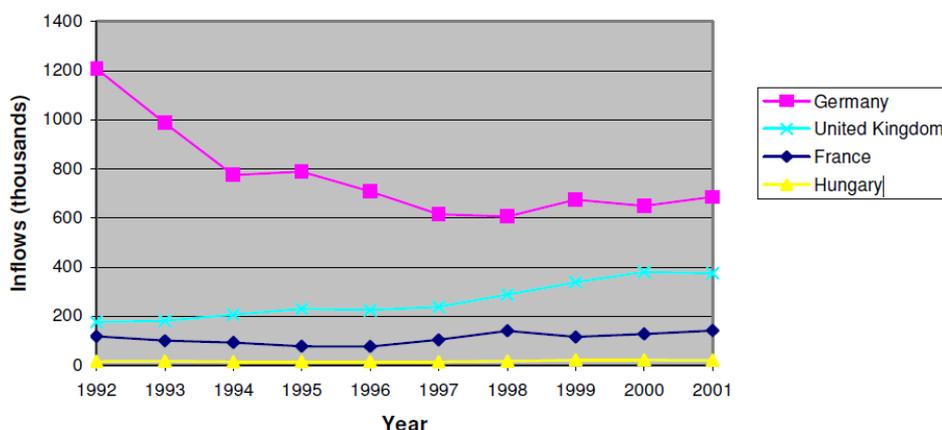
4.2 Earlier migration to Europe

Labour shortages after the World War II created demand for additional work force in Western Europe, which caused immigration. A growing difference in living standards between the Western European countries and the surrounding countries caused continues flow of migrants into the West of Europe. For last few decades influx of migrants into the countries of the EU was also due to a decline in native work force especially in unskilled categories of the economy (Because of difficulty of finding working force among the native workforce). Even though highly educated immigrants are quite beneficial to the receiving economies quantitatively are not numerous.

More established host countries such as France, Germany, the United Kingdom (UK), Benelux countries, Austria, Switzerland, Sweden and Denmark, had been net immigration countries since at least the 1960s. Despite a decline in migration after recruitment stops in 1973-4, immigration flows have been continuous, for the most part taking the form of family reunion, refugee flows and labor migration. Most have experienced particularly high levels of immigration since the 1990s.

Austria, France, Germany, the Netherlands, Switzerland, the UK and Nordic countries are all examples of this trend. A notable exception is Germany, which has seen a decrease in flows since the early 1990s, although this can be attributed to the exceptionally high levels of influx in the early 1990s. A second category of European countries became net receiving countries in the 1980s, in large part because of growing economic prosperity (Ireland, Spain, Portugal, Greece, Finland), as well as a redirection of migration flows following the introduction of more restrictive policies in north European receiving countries. These 'old new' immigration countries have also experienced increased migration since the 1990s, with recent inflows of labour migrants to Ireland, Italy and Portugal being particularly pronounced. (GCIM.ORG)

Diagramm 1: Comparison of inflows of foreign population in selected European countries, 1992 - 2001
(source: OECD 2004)



After 1989, former socialist countries on the EU's eastern borders became important transit countries for migrants attempting to enter more prosperous west European host countries. This pattern has persisted in the case of EU candidate countries and associated states in Southeast Europe.

But for most of the countries that recently joined the EU, economic growth and political stability have rendered them countries of destination in their own right. Cyprus, Hungary, the Czech Republic, Slovakia and Slovenia all now have positive net migration. While absolute numbers of family-related and protection-seeking migration have remained roughly the same since 1999, the number of labour immigrants and their share of total flows had increased substantially (OECD 2004). The national composition of recent flows varies for each European host country. Significant flows since 1990 include Turkish and Moroccan nationals in EU-15 countries, as well as protection seekers from former Yugoslav countries, Iraq and Iran. In 2001, the following source countries featured significantly in flows to European states: Moroccans in Belgium; Iraqis and Afghans in Denmark; Russians in Finland; Moroccans and Algerians in France; Poles and Turks in Germany; Romanians and Ukrainians in Hungary; Albanians, Romanians and Moroccans in Italy; Angolans and Cape Verde nationals in Portugal; Iraqis in Sweden; and Indians in the UK (OECD 2004). (GCIM.ORG)

4.3 Present Immigration and the EU

After the EU enlargements in 2004 and 2007 the influx of migrants took place within the EU single market particularly from the new member states such as Poland, Hungary, Slovakia, Czech Republic and the Baltic states, this phenomena first of all increased the population in the old EU countries, overwhelming majority of the new comers filled the shortages of unskilled vacancies.

According to the European Commission, Immigration in the EU27 in 2006 40% of immigrants who settled in the EU27 were citizens of EU27 Member States.

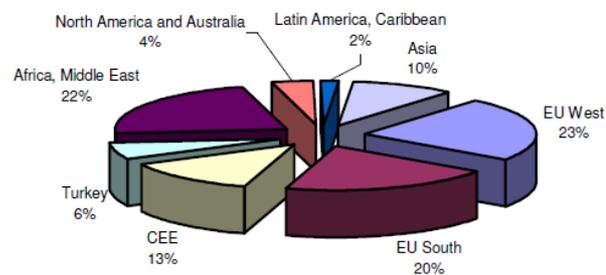
In 2006, about three million foreign immigrants settled in a country in the EU27. These immigrants can be divided into two groups based on their citizenship: citizens of EU27 Member states (1.2 million persons) and non-EU27 citizens (1.8 million). The remaining 60% of foreign immigrants were almost equally divided between citizens of countries in Europe outside the EU27, Asia, America and Africa, with each accounting for about 15%. (GCIM.ORG)

In 2006, the largest foreign immigrant groups in the EU27 were citizens of Poland (about 290 000 persons), Romania (about 230 000), Morocco (about 140 000), the United Kingdom, Ukraine and China (each about 100 000) and Germany (about 90 000). In 2006, the largest number of foreign immigrants was recorded in Spain (803 000 persons), Germany (558 500) and the United Kingdom (451 700), who together received 60% of all foreign immigrants in the EU27.

When compared with the population in the Member State of destination, the highest rate of foreign immigration in the EU27 was recorded in Luxembourg (28.8 foreign immigrants per 1 000 inhabitants), followed by Ireland (19.6), Cyprus (18.7), Spain (18.1) and Austria (10.3), compared with the EU27 average of 6.2 foreign immigrants per 1 000 inhabitants. Rates were 1 foreign immigrant per 1 000 inhabitants or less in Poland, Romania, Lithuania and Latvia. (GCIM.ORG)

Figure 1. EU-15 immigrant populace

Diagramm 3: Immigration population in the EU-15 by origin
(source: Münz and Fassmann, 2004)



The Global commission states that All European states are now net immigration countries. (GCIM.ORG)

See also the appendix 2 for details on internal migration within the EU 27

4.4 Recent Trends

One important factor is policy changes in European host countries. Possibilities for legal migration remain limited. Most wanted labour immigrants are especially highly qualified professionals and they literally no difficulty to migrate and in search of work. The developed economies cannot provide work for all those who are willing to take it. Contributing factors are the workplace shortages in some sectors of economy. This contributes to the trend of irregular entry, stay and employment. In addition, the continued restriction of access to asylum systems further contributes to the channeling of migration and refugee flows into irregular migration. A second set of factors influencing migration flows over the past 15 years has been the changed relationship between the EU and its neighbours to the East and South.

For a start, the removal of restrictions on travel for nationals of the former eastern bloc countries opened up multiple channels for regular mobility: intra-company transfers, possibilities for study and temporary labour migration programmes. (GCIM.ORG)

One important shift is the observed increase in short-term, circular migration, often as a household strategy for supplementing the income of families at home. A second is the increase in irregular migration, which can take the form of illegal entry or overstay, often organized by smugglers or people traffickers. There have been some attempts to estimate the scale of the phenomenon. The EU, for example, suggested a figure of 500,000 irregular migrants entering EU states annually. Estimates of stocks of irregular migrants in European countries put the number in Italy at 800,000, Germany 500,000, France 300,000, and the UK 200,000 – although such figures are should clearly be treated with caution (Djajic 2001). (GCIM.ORG)

5. TRADE AND ECONOMICS

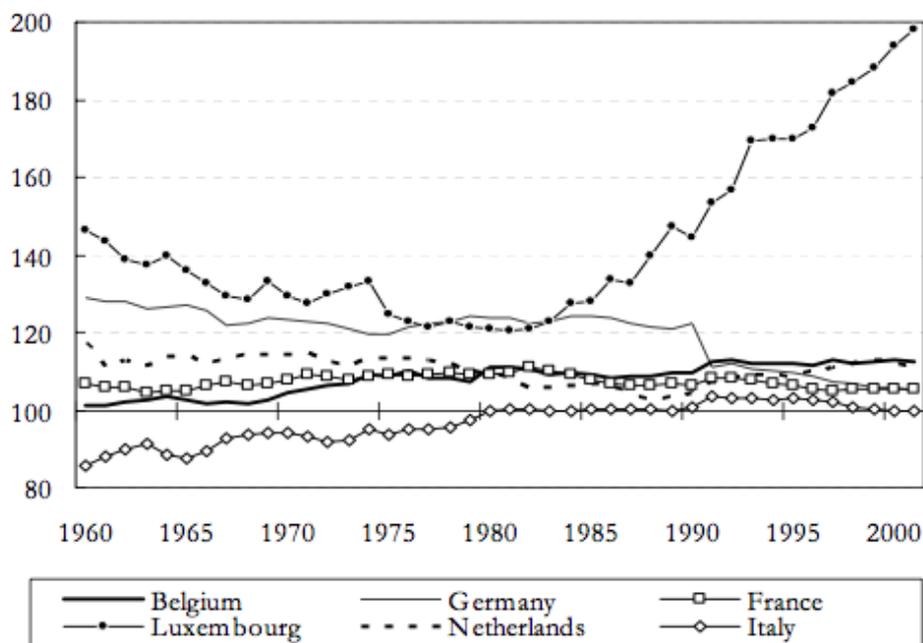
In the following section the emphasis will be put on short economic development in the European Economic Community.

It seems that a positive impact took place on countries' GDP growth after joining EEC. Also it seems that there has been some economic convergence between countries that created the EEC, which turned into European Single Market and consequently became the European Union including 27 countries. Finally I point out positive effects of removal of trade barriers on intra-regional trade. As soon as the barriers disappeared trade increased and accelerated.

5.1 Economic development in the countries of the European Single Market

The creation of the European Single Market in its early stages was mainly successful, the economic difference between initial members states decreased and they began to converge, for more details see figure 2. The economic growth of the initial member states increased after joining the European Single Market. See table 1 medium term growth performance.

Figure 2 GDP per capita convergence towards the EU 15 level (6=100) in the original six EEC countries.



Source: The European Network of Economic Policy Research Institutes (ENEPRI 2004)

After the establishment of the EEC, which included 6 member states, the community began to expand including more countries. Many of the new members were relatively less developed in relation to others. Poorer countries are often short of capital and know-how. Foreign direct investment (FDI) from wealthier and more advanced countries may be an important source for the development and employment increase. As convergence proceeds, the formerly poor countries will need to take the next step and become innovators themselves, and in general we may expect the speed of convergence to eventually slow down.

Faster growth of course presumes that poorer nations are capable of learning and adopting new and more efficient technologies and production processes. Also, there has to exist a well-functioning (or at least a working) legal, administrative and physical infrastructure and a stable

enough macroeconomic and political environment. (ENEPRI 2004)

The catching-up countries of the EU, such as Ireland, Greece, Portugal and Spain, have on average all converged but at different speeds and at partly different times. A question that arises is how the accession countries have fared during the 1990s relative to the experience of the current EU countries. (ENEPRI 2004)

Table 1. Medium-term growth performance and accession to the EC/EU

Countries	Year of accession	Real GDP growth rates (5-year averages)		
		Before accession	After accession	Absolute change
Belgium		2.92	3.18	0.27
France		3.84	3.83	-0.01
Italy		4.83	6.29	1.47
Netherlands		5.48	2.04	-3.44
Luxembourg		2.89	1.11	-1.78
<i>Initial members</i>	1958	3.99	3.29	-0.7
United Kingdom		2.47	1.98	-0.49
Denmark		3.33	0.97	-2.36
Ireland		4.11	3.17	-0.94
<i>1st enlargement</i>	1973	3.76	2.87	-0.89
Greece		2.61	-0.62	-3.23
<i>2nd enlargement</i>	1981	2.61	-0.62	-3.23
Spain		0.47	4.14	3.67
Portugal		0.37	5.79	5.42
<i>3rd enlargement</i>	1986	0.42	4.97	4.55
Austria		1.61	2.11	0.50
Finland		-2.31	4.31	6.62
Sweden		-0.7	2.81	3.51
<i>4th enlargement</i>	1995	-0.47	3.08	3.55
<i>5th enlargement</i>	2004	3.02	?	?

Source: (Estonia, the New EU economy 2006, 2)

According to Table 1 the positive average effects for all the 14 countries were considered an increase of 0.66 per cent. Serious simplifications were made when computing. Firstly, it is difficult to make sharp estimates of what their economic performance might have been if those countries

did not the European Single Market. Clearly, that economic growth of the European states was affected also with other factors such as the world economic environment. Because of the simplifications we cannot be completely sure about the conclusions drawn on this basis.

The growth increase by 0.66 per cent together with uncertainty stated above is not a significant. Therefore we may conclude that accession to EU alone will not guarantee a mid-term improvement in growth performance. (Estonia, the New EU economy 2006, 2)

Table 2. Relative per capita GDP of the cohesion countries in 1960-2005 vis-à-vis EU average level (EU12=100 until 1990 and EU15=100 afterwards)

	1960	1973	1985	1990	1995	2000	2005
Ireland	61	59	65	69	90	115	121
Spain	60	79	73	78	79	83	89
Greece	39	57	57	53	65	68	76
Portugal	39	56	52	56	66	70	70
Four countries-average	50	63	62	64	75	83	89

Source: (Estonia, the New EU economy 2006, 2)

The growth experience of Ireland, Spain, Portugal and Greece is of serious interest. Irish 5-year average growth after accession in 1973 was almost 1 per cent and Greece's growth after 1981 3.2 per cent lower than before joining the EU. This can be attributed to the oil price shocks of 1973 and 1979. Spain and Portugal, however, experienced respectively a 3.6 per cent and 5.6 per cent increase in average growth rates after joining the EU. Moreover Ireland grew very rapidly after 1990, thanks partly to EU structural funds. Table 3 produces the necessary data for analyzing the convergence of the income levels of these countries to the EU average level. Several conclusions may be drawn on the basis of this information.

Firstly, it shows clearly that, until 1990, the convergence process of these countries with the EU average level was very weak. Secondly, it describes how much the paths of convergence of these

countries have diverged. On one side is Ireland with its extremely rapid convergence with the EU and on the other are Spain, Greece and Portugal with a slower convergence process. (Estonia, the New EU economy 2006, 2)

Table 3. Speed of convergence (years) to reach full EU income level

Countries	GDP per capita from EU-15	Growth forecast for 2004*	Years until 100 per cent of EU level		
			Using long-run growth rate		
			2004 growth rate forecast	2004 rate plus extra 1%	2004 rate plus extra 2%
Slovenia	72	3.2	42	19	12
Czech R.	61	3.3	56	27	18
Hungary	53	3.2	82	36	24
Slovakia	52	4.5	32	22	17
Poland	41	4	58	36	26
<i>Estonia</i>	46	5.2	29	21	17
Lithuania	41	6	26	20	17
Latvia	35	6	42	30	24
Romania	26	5	54	39	31
Bulgaria	33	5	44	32	25
EU-15	100	2.4			

Source: Estonia, the New EU economy 2006

The results in the table 4 depend on the choice of the forecast growth rates. Hence one has to use certain expectations about the potential growth bonus from joining the EU. There are several examples of modeling the potential impact of joining on the speed of economic growth in transition countries. For example Breuss concluded that, considering all possible integration effects involved in the enlargement using the Oxford World Macroeconomic Model, Hungary and Poland will increase their real GDP by nearly 1 per cent yearly during 2001-2010. The Czech Republic will gain somewhat less – about 0.5 – 0.8 per cent per year. It is relatively similar to the results reached by some other authors, who concluded that annual extra growth after joining the EU may be within the range of 0.6 – 1.2 per cent annually. (Estonia, the New EU economy 2006, 2)

The data provided above in tables 3 and 4 show that after some countries had joined the EU their economic indicators move closer to a convergence. In spite of that there are concerns pertaining to the causes of these processes. The examples of some countries (especially after 2008 in cases of Spain, Greece, Ireland, Portugal, etc.) show that the development and convergence of the economies did not necessarily have solid basis.

5.1.1 Reunified Germany

In 1989 the Berlin Wall fell. In the 1990 an agreement was signed on the reunification of Germany that entered into force in the same year. Exchange rate of the Deutschmark and the Ostmark were one to one. Political unification occurred on October 3, 1990, bringing the eastern states of Berlin, Brandenburg, Mecklenburg–Western Pomerania, Saxony, Saxony-Anhalt, and Thuringia into the Federal Republic of Germany. After the reunification the social welfare state of the eastern Germany began to collapse. This collapse was softened by introducing of the western social welfare system and by active labour market programs (training programs, etc.). And a very rapid privatization followed. (Michael C. Burda and Jennifer Hunt)

The Western Germany had to begin from a scratch and recovered dramatically after the World War II, and this phenomenon lead many peoples believe that similar will occur in the eastern Germany after the fall of the Berlin Wall. Also when a country in a transition process it must do a lot to increase living standards, in 1995 the Federal Statistics stopped reporting disaggregated expenditure by region, the move is believed to politically motivated. The only data available since then are indirect estimates generated by research institutes and state statistical offices the article states. (Michael C. Burda and Jennifer Hunt)

There are two more aspects one needs to take into account, the convergence of wages and production. After the unification, the integration of the German labour markets took place followed by increase in nominal and real wages in the east, and by 1996 eastern wages reached three-quarters of the western levels and since then they have not increased in relative terms and indeed have actually fallen a bit since 1997. Furthermore this increase was not observed in any of the other transition economies, even in the Czech Republic, whose initial conditions were quite similar to those in East Germany (Michael C. Burda and Jennifer Hunt)

Labor productivity, grew rapidly throughout the period from less than 45 percent of the western

level in 1991 to 73 percent in 2000. The wide disparity in productivity performance in the first years after reunification (documented by Burda and Michael Funke) suggests that firms were far from their efficient production frontiers and could not achieve the same efficiency gains without layoffs. Still, employment reductions as high as 80 to 90 percent at some firms show that labor-intensive production was not in the cards. These unemployed, most of them entitled to generous social benefits, are a major source of massive financial transfers from west to east.

The reunification of the Germanys came at high cost, over the period of 1990 – 2000, total financial transfers from the western Germany were over DM 1,5 trillion. The east was failing persistently to produce enough to sustain itself and this means that more transfers were needed from the west.

It should be emphasized, however, that these transfers, both public and private, have not gone merely to support eastern German consumption. East Germany was a threadbare economy in 1989, using obsolete technologies and machines that were past their productive prime. A number of posthumous analyses have argued that its collapse was accelerated by misguided investment policies starting in the 1970s. Early back-of-the-envelope calculations forecast a need of roughly \$50 billion to \$100 billion a year to rebuild the capital stock and these estimates have been validated. (Michael C. Burda and Jennifer Hunt)

The massive price of the reunification can be extrapolated in case of newly joined countries of the Eastern bloc. Keeping in mind such an extrapolation one can clearly see that bringing the levels of economic development of the post communist states even to the level of Eastern Germany may cost several trillion (If not tens of trillions) of Euros.

5.1.2 Reliability of GDP

GDP (Gross Domestic Product). The total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports. (investorwords.com)

It is important to differentiate Gross Domestic Product (GDP) from Gross National Product (GNP). GDP includes only goods and services produced within the geographic boundaries of a country,

regardless of the producer's nationality. GNP does not include goods and services produced by foreign producers, but do include goods and services produced by a country's firms operating in foreign countries. (Investorwords.com)

Therefore, GDP focuses on economic activity within a certain area. The GNP measures the ownership of the output. Economic success as measured by GDP can be misleading because much of the profit is taken away from a country's economy (after taxes paid), if a business belongs to a foreign owner.

According to the Report by the Commission on the Measurement of Economic Performance and Social Progress In a world of globalization, there may be large differences between the income of a country's citizens and measures of domestic production, but the former is clearly more relevant for measuring the well-being of citizens. We shall argue later that the household sector is particularly relevant for our considerations, and for households the income perspective is much more appropriate than measures of production. Some of the income generated by residents is sent abroad, and some residents receive income from abroad. These flows are captured by net national disposable income, a standard variable in national accounts. While the profits are included in GDP, they do not enhance the spending power of the country's citizens. For a poor developing country to be told that its GDP has gone up may be of little relevance. It wants to know whether its citizens are better-off, and national income measures are more relevant to this question than GDP. Moreover, the prices of imports evolve very differently from the prices of exports, and these changes in relative prices have to be taken into account in assessing living standards. (Stiglitz, J. E., Sen, A. and Fitoussi, J. 2008)

5.2 Intra-Regional Trade

Removal of various trade barriers has a positive effect on intra-regional trade. According to some researches trade among EU states was 65 per cent above the level that would otherwise have been expected in the absence of the regional trade agreement.

Table 4. Changes in the share-regional trade in selected RTAs, 1970-2001

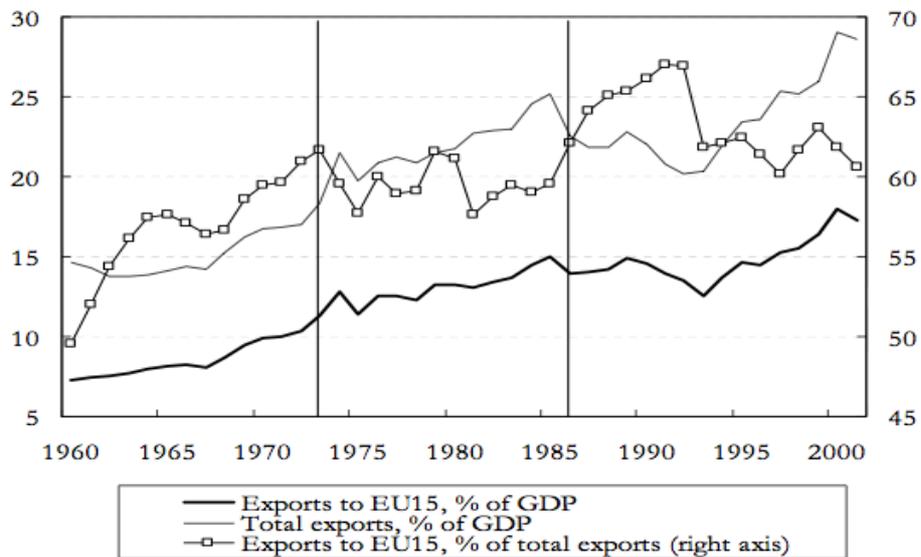
	1970	1980	1985	1990	1995	2000	2001
EU (1957)	59,5	60,8	59,2	65,9	62,4	62,1	61,2
NAFTA (1994)	36,0	33,6	43,9	41,9	46,2	55,7	54,8
CACM (1961)	26,0	24,4	14,4	15,4	21,7	13,7	15,0
Adrean Group(1988)	1,8	3,8	3,2	4,2	12,2	8,8	11,2
CARICOM (1973)	4,2	5,3	6,3	8,1	12,1	14,6	13,4
MERCOSUR (1991)	9,4	11,6	5,5	8,9	20,3	20,7	20,8
ECOWAS (1975)	2,9	9,6	5,1	8,0	9,0	9,6	9,8
SADC (1992)	4,2	0,4	1,4	3,1	10,6	11,9	10,9
ASEAN/AFTA (1992)	22,4	17,4	18,6	19,0	24,6	23,0	10,9
GCC (1981)	4,6	3,0	4,9	8,0	6,8	5,0	5,1

Note: Figures in parenthesis refer to year in which the RTA came into force
(John Ravenhill. 2004 Global Political Economy)

From this table we can clearly see positive effects in many economic zones after implementation of the free trade agreements. Furthermore one needs to point out on the especial high shares of the intra-regional trade within the EU in comparison with other trading blocs. This may be explained that a size of a separately taken European state is not very significant, from which follows that for an effective cooperation among the European states may be useful to remove several trade barriers to help increase movement of goods and services to make the trade more efficient.
(Ravenhill 2004, 5)

Exports from the EU15 area is shown in Figure 9. In the beginning, indeed starting from 1958, the share of intra-EU15 exports grew very rapidly. This growth has largely to do with the forming of the EEC by the six original member countries. This ratio continued to grow until 1973, which means that growth in the share of intra-EU15 exports ended at the same time as convergence came to a halt.

Figure 3. Exports from the EU 15 area.



Source: The European Network of Economic Policy Research Institutes (ENEPRI 2004)

5.3 Oil Crisis 1973 and 1979

Events of the October War in 1973 between the Israel and Coalition states lead by Egypt provoked the OAPEC to impose oil embargo on the USA and increasing prices by 70% to America's Western European allies. After the OPEC announced about the embargo, the industrial democracies that got used to cheap oil imports were shocked resulting in stagflation.

In 1979 the Iranian Revolution caused another decrease in oil production from Iran which resulted panics and increase of prices. Because of speculation the oil prices were higher than they could have normally been for several years. (buyandhold.com)

5.4 Monetary Union Developments

One of the main aspects of the Maastricht treaty 1992 was to create EMU (Economic and Monetary Union) which culminated the creation of the single market. The Treaty provides for the establishment of a single currency in three successive stages:

- the first stage, which liberalizes the movement of capital, began on 1 January 1990;
- the second stage began on 1 January 1994 and provides for convergence of the Member States' economic policies;
- the third stage should begin by the latest on 1 January 1999 with the creation of a single currency and the establishment of a Central European Bank (CEB).

Monetary policy is based on the European System of Central Banks (ESCB), consisting of the CEB and the national central banks. These institutions are independent of the national and Community political authorities. (European Commission)

When an agreement was reached concerning the number of members of monetary union, progress towards the full establishment of the monetary union commenced. The European Central Bank (ECB) and the European System of Central Banks (ESCB) were established on 1 June 1998 and in September agreement was reached with Denmark and Greece, two of the countries were not in the first wave of single currency membership, over the formation of a replacement of the old ERM (European Exchange Rate Mechanism) for the new (ERM II). Under this agreement Denmark agreed to keep its currency within a band of 2,25% around its central rate with the euro. Greece, on the other hand, stuck with the existing 15 % band. Sweden and the UK chose not to be a part of ERM II, which meant that their currencies would float against the euro when it was established. The euro was formally established on 1 January 1999 and trading in the currency commenced on 4 January. Although the euro was fully established currency from that date, euro notes and coins were not issued until 1 January 2002. Before that date, national currencies remained in use throughout the euro area. (P.Howells K.Bain 2005, 6)

Recently the following EU member states became the Euro currency users: Slovenia, Slovakia, Malta, Cyprus, and Estonia. Montenegro and Kosovo are using the Euro as their medium of exchange as well as other unique territories such as Andorra, Monaco, San Marino, Vatican and other minor territories.

5.4.1 Floating Exchange rates

Freely, or independently, floating rates. In the 1970s, the US dollar was cut loose from the gold standard and, in effect, allowed to "float" in response to supply and demand caused by international trade and international investing activities. According to IMF (International Monetary Fund), about 42 countries currently operate under system of floating exchange rates, whereby currency prices are allowed to seek their own levels, with only modest central bank intervention to smooth out extreme exchange. About 31 currencies have freely and independently floating exchange rates including the US dollar, the Euro, pound, and yen. (Brigham, E., & Daves, R., 2010 ,27)

5.5 The problems of the 1990s

In 1992 everything seemed to be well with EMS (European Monetary System) to meet deadlines of the Treaty on European Union in order to form EMU (European Monetary Union) by the end of 1999 at the latest. By September 1992 two major currencies (sterling and lira) were forced out of the ERM (European Exchange Rate Mechanism) while three others (the peseta, the escudo and the punt) had devalued. Three more currencies (the French franc, the Danish crone and the Belgian franc) remained under severe pressure. In August 1993, the allowable band around central rates widened +/- 15 per cent to preserve the central rate of the French franc. Almost inevitably, both economic and political factors caused the crisis. Part of the problem was that by 1992 exchange rates were out of line without adjustment of central rates. Although inflation rates had converged to some point, the differences that remained meant that some countries turned to be

uncompetitive at the existing exchange rates. The UK's increase of the interest rates to deal with deficits was political, while the country was in economic recession and had a deficit of balance of payments. The economic problems and the exchange rates issues had raised concerns in regards to the speed of economic integration of the EU. At the Maastricht conference the Britain had been given the right to opt out of the membership of the single currency. That period of exchange rate turmoil created a doubt concerning both the prospects of the monetary union and the states that were likely to qualify to join it. Also it was clear that many EU members would have difficulties in meeting the convergence conditions laid down at Maastricht. And due to recession of the 1990s in the European economies the budget deficits went beyond 3 per cent of GDP limit. (Howells, F. & Bian, K., 2002, 22)

5.6 The European Stability mechanism

In December 2010, the European Council agreed to the creation of a permanent crisis mechanism, the ESM. It will replace the EFSM as a permanent intergovernmental institution. Its objective is to provide loans to the Euro Area Member States and may exceptionally intervene in debt primary markets. Financial assistance to Euro Area countries will be under strict conditionality and includes private sector involvement in accordance with IMF practices, namely case by case analysis of debt sustainability, collective action clauses for all new Euro Area government bonds after June 2013, and preferred creditors status, junior only to IMF loans (EFSF Newsletter, January 2011).

The Treaty on the ESM was signed by the 17 euro Member States in July 2011. It should become effective in 2013² after ratification by national Parliaments. (European Parliament)

6. CRITICS

The EU faced a lot of criticism since its inception. Many don't like the bureaucracy of the EU's legislative bodies, which cause harm to business and in the same time makes decision-making processes cumbersome. Transformation of the economic union into political one gradually deprives democratically elected governments of their power to make decisions within the EU by turning the member states into administrative units. Political bodies of the EU are criticized for being undemocratic and not transparent. Meanwhile when many believe the EU has turned into a political project, others criticize that it is too weak politically. Especially after the eastern European countries joined the EU in 2004 and 2007 the Union became too heterogeneous. Euro launched in 1999 is regarded as one of the EU's greatest achievements. Despite this the Euro has always been a matter of concern and particularly since the beginning of the financial crisis in 2008 in Europe.

6.1 Bureaucracy in the EU

EU bureaucrats outnumber British army two to one, say campaigners. A study released by the Open Europe think tank in 2008, which wants to control the influence and scale of the EU, has found that 170,000 people now work for EU institutions. The group claimed that the difficulty of finding out how many officials worked in Brussels showed a lack of transparency and left the EU open to "influence from lobbyists" Open Europe said the figure is nearly six times more than the 32,000 Brussels bureaucrats which EU bosses have traditionally claimed are needed to run the EU. The figure included nearly 45,000 people on 1,000 "expert groups", which advise on legislation, such as the Lifts Directive Working Group, the Mineral Water Expert Group and the Expert Group on Flavourings. Open Europe discovered another 7,900 people employed on 247 "Comitology Committees", which help to implement legislation, as well as 10,000 people running EU missions overseas. (Telegraph.co.uk)

6.2 Hans-Werner Sinn

There are people with working knowledge of economics such as Mr. Hans-Werner Sinn, a German economist, who talks more from the point of view of economics rather than politics. And according to him the Euro does not work as it is supposed to work. There are a couple of points he makes in his recent article he gives an example of an economic theory called the "bottomless pit". Mr. Sinn appears to be against the rescue of the Euro.

This summer 2012 Mr. Sinn was sharply critical of what he called a "bottomless pit," and he spoke of "false therapy" and a "machinery of asset destruction" and accused the European community of nations of employing instruments that are doing precisely the opposite of what they are intended to achieve. (Spigel online International)

He is trying to explain the what it the European Financial Stability Facility (EFSF) to the ESM are simply, not so much in accordance with the way it is seen today, I believe he focuses on solely economics without politics. He also points out that Germany turned into a "bazaar economy." Another argument is that policies coming from Bruxelles are not effective and inappropriate in Germany. Even when Angela Merkel agreed to a European banking union recently in Bruxelles, the professor signed a letter along with over 200 other economists warning about the risks which were not properly calculated, and later much smaller group of economists disagreed with Doctor Sinn.

Maybe he is not right but then why there are so many news that have been under similar headlines regarding the financial crises? Since 2008 and onwards there are more facts coming up concerning the nature of the crises, I don't know how to describe the whole picture but certainly there is something interesting on this phase of the evolution of the European Single Market. (Spigel online International)

6.3 Another hopeless EU bureaucracy

It's supposed to be the crowning achievement of the decades-long dream that is European integration: Last December, the European Union inaugurated its European External Action Service (EEAS). Intended to implement the Common Foreign and Security Policy of the European suprastructure, the EEAS hopes to recruit some 5,400 civil servants and operate with an annual budget of over \$4 billion. With a secretariat in Brussels and EU embassies around the world, the EEAS would resemble the foreign ministry of a sovereign state and allow for "the progressive framing of a common defense policy that might lead to a common defense." That's the theory anyway. (weekly standard)

6.4 Is it a sin to criticize EU bureaucracy?

Now I hold no brief for Commissioner Verheugen who would, in any case, not thank me for my support. If he is confusing personal and professional relationships, he may indeed be behaving improperly though no more so than the hundreds of MEPs who pretend that their wives are working for them so as to keep them on the payroll.

What I find far more interesting is the provenance of these stories which, by their nature, can only have come from the Commission in Brussels. It is almost as though Mr Verheugen is being used as a warning to other Commissioners. Don't come in here with any silly ideas about streamlining the bureaucracy or reducing the EU's power, or look what'll happen. (Telegraph.co.uk)

6.5 Europe can do better

The EU is routinely held responsible for a sizeable share of the administrative burdens affecting businesses in Member States.

In general, between a third and half of the total administrative burdens on businesses in Member States are said to derive from EU regulation. This puts a significant strain on the perceived benefits of the EU as seen from a business perspective. (European Commission, secretariat-general)

6.6 Political Union

Even the President José Manuel Barroso himself admits that the Greek government had never fulfilled the Maastricht rule of sixty percent debt of the GDP, nor had it, starting in 1991, fulfilled the 3% deficit limit. Only balance sheet cosmetics, like leaving out military spending or hospital debts made Greece formally fulfill the limit for a single year.

"We must never forget that Europe is first and foremost a political project, even if it has been developed on the basis of economic co-operation. But the market does not play the central role. Our common values do: peace, respect for human dignity, freedom, justice and solidarity."
(European Commission)

6.7 Euro crisis and its causes

The political reasons for establishment of the single currency were a further integration of the European Union. The main economic purpose of the Euro currency was to provide a stable currency for the Southern High Inflation countries. Because of both political and economic reasons a blind eye was turned, in case of some countries, on the admission criteria of the Eurozone. Since the creation of the Euro the interest rates in weaker economies of the Eurozone has converged to a level of stronger countries e.g. Germany. The interest rates were lowered for two main reasons. First, the inflationary expectations have fallen. Second, the risk premium in rates was reduced. In the wealthier states the effect was rather opposite because of weaker economies were accepted.

The stronger economies were supposed to help the weaker ones in case of any difficulty on the path towards a convergence. After the Southern states joined the Euro their currencies got stronger. Therefore they could afford more imports and increase living standards which rather difficult to achieve if they kept their weaker national currency. On the side of the richer states the effect was opposite. Weaker currency and stronger financial sectors and made them more competitive (Inside and outside of Europe). The profits gains from the exports that were accumulated in the richer states were used to finance the weaker countries. The above-described phenomenon created a misbalance in the Eurozone. The countries that initially had a low purchasing power start to consume more due to a cheaper import. The money was borrowed from abroad. Eventually the weaker countries turned into debtors. They were unable to return their debts because of lower competitiveness. The EU's politics was aimed on continuation of the trend in order to sustain the created economic model. Due to above mentioned aspects a further accumulation of misbalances occurred. During the present financial crisis it became difficult to maintain these disproportions. (Bagus. P., Tragedy of the Euro 2010, 10)

I illustrate the consequences of the strategy shown below in case of Greece and Latvia.

6.8 Greece

At the end of 2009, the new government in Greece announced that its deficits would be at a record 12,7 percent. On December 1st, finance ministers of the EMU agreed on harsher action with regard to the Greek government. The interest rates that Greece had to pay on its debts had started to increase in the fall of 2009 and began troubling the markets. On January 12, 2010 the ECB cast doubt on the deficit data provided by the Greek government. On the same day, Greece announced a reduction of its deficit of €10,6 billion. The reduction came from tax increases (€7 billion) and spending cuts (€ 3,6 billion). The deficit was to be reduced from 12,7% to 8,7% of the GDP. On March 3rd, 2010, Papandreou agreed to the demanded extra €4,8 billion, or two percent, deficit cuts. On March 15, finance ministers from the Euro states met to discuss a possible bailout of the Greek government. On April 23rd the Greek government was forced to activate the bailout package of €45 billion.

It was obvious that the €45 billion bailout of Greece would not be sufficient to avert its default. On May 2nd, Euro-region ministers agreed to an even greater bailout of loans totaling €110 billion at a rate of around five percent. (Tragedy of the Euro 2010, 10)

6.9 Latvia no Austerity Success

Latvia's one year of solid economic growth since its economy plunged by 25 per cent in 2008-10 is billed as a success. Then, unemployment soared above 20 per cent as the shutdown of foreign capital inflows left Latvia with a deep current-account deficit. To meet the Eurozone criteria it cut public sector wages by 30 per cent, driving down overall wage levels and consumption to match its low labour productivity. The doctrine was that this shock therapy and poverty would soon restore prosperity. Finding no acceptable alternative, much of the labour force has elected to emigrate. This is a major factor holding down its unemployment rate. Demographers estimate that 200,000 have left in the past decade – nearly 10 per cent of the population – at an accelerating rate that reflects the austerity being inflicted. What enabled Latvia to survive the crisis were EU and IMF bailouts some protection from bond traders. Latvia's problem was mostly private sector debt, especially mortgage debt, which is secured not only by property but by the personal liability of entire families of joint signatories. (Michael Hudson 2012)

The republic of Latvia used to be an industrialized country during the soviet era, manufacturing vehicles, electronics and goods most of which were meant for export to other soviet republics. The demand, which existed in those times, was because of a totally different economic community. Since 2004 Latvia joined the EU, that phenomenon made many people that I know from Latvia very happy, certainly they believed in a better and easier future, but it does not happen overnight, there is no fairy tale in life. Also the remaining nationalism and society division will stay for long to my opinion, as all capitals Riga looks better developed than other regions, which currently experience hardship of unemployment.

Balance of trade 1994-2009 (in million €)

After the Greek bailout leaders of Italy and France maintained that a new rescue fund to bail out more countries would be necessary. The final agreement, the so-called "emergency parachute," provided loans of up to € 750 billion for troubled governments. (Bagus, P., Tragedy of the Euro 2010, 10)

7.1 Ireland

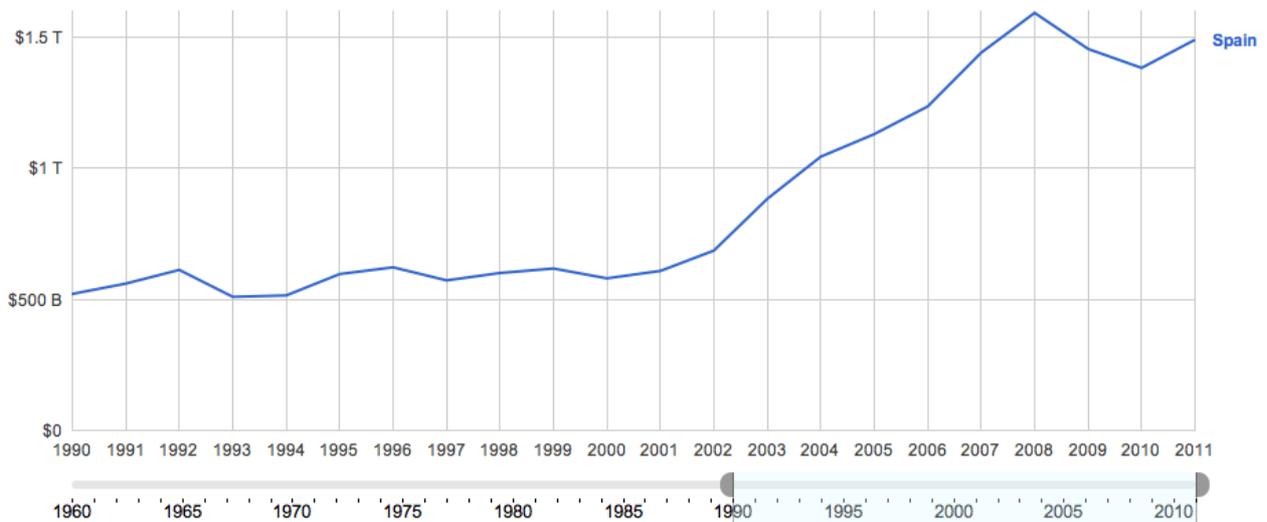
In September 2010 Financial Times newspaper published an article on Ireland's debt crisis. Irish lender's losses put at €30 billion. Ireland chose a complicated method of its bank rescue, also some bureaucratic procedures by the competition and state aid officials in Brussels has added to government frustrations. Anglo Irish was a niche lender that concentrated on property sector with a large single-client exposures, it's thought that the bank's top 10 borrowers accounted more than 50 per cent of its loans. But it was the relative size of its troubled balance sheet – at 50 per cent of the Irish economy at the outset of the crisis – that has spooked the markets. The option of shutting it down was not available.

I think it also worth mentioning the Irish situation, the country needed money to save its financial sector at a cost of € 50 billion, it more than a third of Ireland's national income in 2009 according to the Financial Times in September 2010. Moreover country's prime minister introduces austerity packages because the cost of clearing up the bust left by the country's property-fuelled boom. The rescue costs for the Allied-Irish Banks represented a staggering 21 per cent of Irish GDP, more than the entire bill for sorting the Japanese banking crisis of 1997 and almost twice the cost of the Finnish crisis in the early 1990s. The country has already injected about €32.6bn into banks and building societies.

7.2 Spain's building boom and bust

Spain's long-running love affair with cutting-edge architecture has come to a dramatic end as high-profile projects from the world's greatest architects fall foul of recession and a countrywide building bust. A Spanish housing bubble burst last year bringing construction to a grinding halt. Up to two months recently finished homes have yet to be sold and the value of building land has fallen down dramatically in many areas. Madrid's Campus of Justice is another project that is coming to a halt. The campus is no longer a top priority and resources must go to other sectors of economy according to Mr. Alfons Cuenca, deputy head of the Madrid regional government's justice department. That does not mean it isn't going ahead, but that the construction works will slow. . Some estimates suggest the excess stock of new built homes will not be sold off until 2012. House prices are predicted to fall by up to 30%. (Guardian.co.uk)

Figure 5. Spain's GDP 1990-2010



Data from World Bank Last updated Jul 13, 2012

GDP at purchaser's prices is the sum of gross value added by all resident producers in the

economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for

GDP are converted from domestic currencies using single year official exchange rates. (World bank)

It seems that the Span's economy was growing since 2000 but now the whole country requests more and more money from the EU in a form of bailouts.

And now in the end of this summer 2012, Catalonia is requesting an emergency €5 billion from Spain's central government as the region struggles to refinance its debts. The government of Catalonia, which has debts of €42 billion and manages an economy as large as Portugal's, on Tuesday said it would request the aid from Spain's regional bailout fund. The region has been locked out of capital markets and will become the second of Spain's 17 autonomous regions to formally request aid from a €18 billion government rescue fund. (Financial Times)

According to Investopedia a situation in which a business, individual or government offers money to a failing business in order to prevent the consequences that arise from a business's downfall.

Bailouts have traditionally occurred in industries or businesses that may be perceived as no longer being viable, or are just sustaining huge losses. The economy would be unable to sustain such a huge jump in unemployment if the business folded (Investopedia.com)

It is also worth mentioning recent development regarding sanctions on Iran. According to New York Times recent article, on July 1, 2012 The EU made a decision to impose an oil embargo on Iran to pursue the republic to stop its uranium enrichment program. The European Union took about 18 per cent of Iran's oil exports in 2011, Italy, Spain, and France were largest buyers. Saudi Arabia promised to compensate the shortages caused by recent oil embargo.

Also the liquidity and solvency crisis of individual EU member states that in the course of 2011 has developed into a full-fledged Eurozone crisis and is now calling into question the multi-level political system and institutional structures of the EU as a whole cannot be regarded as a one-off accident befalling a stable structure. (Björn Hacker, 2011)

8. VALIDITY AND RELIABILITY OF THE STUDY

When reliability of this study is due to evaluation the following points must be taken into account. First the research results are likely to be different if it would be redone as well as the most relevant material was analyzed. Secondly, new materials are being published continuously that bring new perspectives to the researched issues. If the research were done next year I am sure there would be more information available. Additionally, the EU is evolving and changing all the time reshaping the European continent. It would certainly be interesting to conduct further research on that change.

9. CONCLUSION

9.1 EU today

During its history the present EU went from being just a common market including six countries to becoming a giant consisting of 27 nation states with free market economy trying to represent a political entity. After the creation of the EU single market the union shifted to a more politically centralized ways of integration. Nowadays the EU experiencing financial difficulties and this raises gloomy perspectives regarding its future in the present form.

Free movement of labour within the EU brings questions from both national and international points of view. From international point of view, national and language barriers create many difficulties. Because of above-mentioned barriers immigrants either fill low-skilled vacancies, for which shortage of local willing to take them, or the high-skilled vacancies, for which is not enough

of the locals. Concerning the vacancies that are at the very core of a society are almost impenetrable that results in certain alienation from social life of a host country. From national point of view one may see that in many countries e.g. Baltic states, occurs a demographic catastrophe. A large part of young and work force have left their states. It seems like the EU makes itself look like the US, Canada, Australia the countries that were created by immigrants from Europe and elsewhere but the European countries have traditions and cultures that are old and which makes it difficult for new comers to integrate. The Europe has become more culturally diverse than it was, particularly the older members. . But how many more peoples can the EU receive? It is a very difficult question to answer but certainly one can see that labor becoming saturated in low-skilled categories. According to the Independent news paper in 2011 there were 239,000 people from the eight Eastern European countries - the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia - almost 60 times the 4,000 workers from these countries who were in such jobs in 2002. Well, seems like the UK has run out of low-skilled vacancies, According to Eurostat, the unemployment rate increases EU (27) from September 2011 9.8 percent to June 2012 10.4 percent.

Taking into account recent news headlines the unemployment is expected to grow. Most affected states are Spain 24.8 percent (June 2012), Greece 23.1 percent (May 2012), Ireland 14.8 percent (June 2012), Latvia 15.3 per cent (march 2012), Lithuania 13,7 per cent (June 2012), and Portugal 15,4 per cent (June 2012). Maybe solidarity can help the commons in these states, and then rapid convergence to keep the Union's objectives on even keel. EU citizens are free to move within the EU, but where would they go and what would they do?

EU includes right now 27 members that have 27 or even more different cultures. How can one invent a constitution that fits all the 27 cultures without series of various convergence activities? The ways that the convergence activities may be implemented raises concerns looking at what direction it goes after the Maastricht Treaty. Also member states have huge difference in national economies. According to the European commission official web site it has plans to even further enlargement. Taking more nations with more cultures adds my opinion even more complexities.

9.2 Politics

After the EU single market was established the Union began to gain more political features. The European Union has so far been a success achieving its goals despite the economic difficulties in the southern Europe. Free movement of peoples within Union's borders became possible, equality of EU's citizens, common citizenship, etc. It also expanded itself fast, since 2004 the EU almost doubled its size, 27 nations. How rapid convergence should take place in order to bring the new member to a better level? The east Germany is still experiencing difficulties with employment, the reason why it had a growth is because of the west Germany that was rich and political will to unite the divided nation. How the EU is supposed to help the newly joined members which need a lot of FDI to develop and modernize their obsolete industries? The Union continues to send a lot of money to bailout Greece, Spain, Ireland, and it looks like more and more bailout money needed across the EU. However the European Union undertakes such responsibilities because of a political character of its nature.

The political nature of the European Union supported by a relative subjectivity of the accession criteria (Copenhagen Criteria). The Maastricht criteria which estimates the readiness of country for the Euro currency was not fulfilled by some countries. Stability And Growth Pact requires member states to keep their budget deficits to keep a deficit to GDP ration of 3% and debt to GDP ration of 60%, (European Commission) is not fulfilled by many countries according to Eurostat.

9.3 Probable future of the EU

According to Industrial Policies in Developing Countries: History and Perspectives report by Michele Di Maio we conclude that selective protectionism is necessary to facilitate development of national industries beginning from a scratch. Japan, South Korea, Taiwan are very good examples of that strategy. One may notice that less developed countries of the EU e.g. Greece, Spain, Portugal, Ireland as well as the new European member states have never had neither strong manufacturing industries nor financial ones in comparison with the UK, Germany and France. In a free market

environment creation of national industries as well as financial ones is difficult.

It can be concluded that the peripheral states may be employed mainly as sub-contractors in industries brought by wealthier states as a result of foreign direct investment (FDI). Therefore in the EU one may observe that wealthier states will lead and the peripheral will follow making economic convergence rather difficult.

The greatest concern of the European Union is the euro crisis, which endangers its whole existence. This crisis does seem to have a beautiful solution. In the mainstream media one can see many possible outcomes such exit of some states from the Eurozone, currency injections for lowering debts via inflation, etc. We suppose that the future of the European Union will depend on politicization of the Union itself and if EU's leaders will to save it. In terms of economics it would be either some states exiting the Eurozone or the Eurozone's collapse. So it is easier to save it by rather a political will. The creation of the EFSF and ESM looks to me like the EU will continue to carry on evolving, let's remember about the problems of the 1990s and ERM. The Euro was established despite the problems.

Solidarity, human rights, equality, worker rights, and other concepts are at the core of the EU. It is perhaps interesting to see the further evolution of the Union. Even though the European Union intends to enlarge towards the Balkans and Turkey, at present it is unlikely to realize the plans. In case of Turkey it would be especially problematic because one needs a lot of cultural convergence. According to European Commission Turkey is a candidate to join the EU since 1963 it is expected that time to join is not soon yet. Issues Turkey faces are mainly political and cultural. If Turkey joins the EU it may make more sense to regard the European Union as a Euro-Asian Union. Moreover, the further integration of the EU may entail a social reconstruction of national identities.

There always be better countries in the EU, in other words with higher living standards and infrastructure as well as offering many more opportunities than others thus making people migrate seeking better life.

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TERMINOLOGY

Bailout

Bailouts have traditionally occurred in industries or businesses that may be perceived as no longer being viable, or are just sustaining huge losses. (Investopedia.com)

Convergence (Economics)

A process in which economies of different countries become more similar to each other. Economic convergence exists when two or more economies tend to reach a similar level of development and wealth. (cambridge.org)

ECB (European Central Bank)

The ECB is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power and thus price stability in the euro area. The euro area comprises the 17 European Union countries that have introduced the euro since 1999. (ecb.int)

EEC (European Economic Community)

The EEC Treaty, signed in Rome in 1957, brings together France, Germany, Italy and the Benelux countries in a community whose aim is to achieve integration via trade with a view to economic expansion. (Europa.eu)

(ECSC) European Coal and Steel Community

Treaty was signed in Paris in 1951 and brought France, Germany, Italy and the Benelux countries together in a Community with the aim of organizing free movement of coal and steel and free access to sources of production. In addition to this, a common High Authority supervised the market, respect for competition rules and price transparency. (Europa.eu)

European Single Market

A market that consists of many countries and within which goods, capital and currencies can move freely across borders with no tariffs or restrictions. The European Union is the European Single Market.

Euro currency

The euro is the single currency shared by (currently) 17 of the European Union's Member States, which together make up the euro area. (Europa.eu)

EU

The EU is a unique economic and political partnership between 27 European countries. (Europa.eu)

European Financial Stability Mechanism

This mechanism provides financial assistance to EU Member States in financial difficulties. The EFSM essentially reproduces for the EU 27 the basic mechanics of the existing Balance of Payments Regulation for non-euro area Member States. Under EFSM, the Commission is allowed to borrow up to a total of € 60 billion in financial markets on behalf of the Union under an implicit EU budget guarantee. (Europa.eu)

European Stability Mechanism

Permanent crisis mechanism, the ESM. It will replace the EFSM as a permanent intergovernmental institution. Its objective is to provide loans to the Euro Area Member States and may exceptionally intervene in debt primary markets. (Europa.eu)

Eurostat

Eurostat is the European Statistical System. Its responsibilities are to provide statistical information to the institutions of the European Union (EU) and to promote the harmonization of statistical methods across its member states and candidates for accession. (Eurostat.europa.eu)

FDI (Foreign Direct Investment)

An investment made by a company or entity based in one country, into a company or entity based in another country. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. An example of foreign direct investment would be an American company taking a majority stake in a company in China. Another example would be a Canadian company setting up a joint venture to develop a mineral deposit in Chile. (Investopedia.com)

GDP

The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

GDP is commonly used as an indicator of the economic health of a country, as well as to gauge a country's standard of living. (Investopedia.com)

GNP

GNP is a measure of a country's economic performance, or what its citizens produced (i.e. goods and services) and whether they produced these items within its borders. (Investopedia.com)

Non-tariff barriers

A form of restrictive trade where barriers to trade are set up and take a form other than a tariff. Nontariff barriers include quotas, levies, embargoes, sanctions and other restrictions, and are frequently used by large and developed economies. (Investopedia.com)

Treaty of Rome

Signed in 1957 which initiated the European Economic Community (EEC, later the EC and EU: see European Union, establishing a common market in a variety of products between member states. The Community was seen by its signatories (the Benelux countries, France, West Germany, and Italy) as complementing the success of the European Coal and Steel Community, created by the same countries in 1952. (Answers.com)

Treaty of Amsterdam

Signed in 1997. It changed the operation of the Council of the European Union, absorbed the Schengen Convention and increased the role of the EU in home affairs. It pushed forward the model of a supranational European Union at the expense of intergovernmental co-operation. (civitas.org.uk)

Treaty of Nice

Signed in 2001 but came into force in 2003. It was an amendment to the Maastricht Treaty (The treaty of the EU) The treaty had reformed the EU structure for its expansion eastward.

Treaty of Lisbon

Treaty of Lisbon was signed in 2007. The Treaty confirmed the power of the EU to act in areas such as human rights, judicial and foreign policy, and re-emphasized the idea that every citizen of a member state is also an EU citizen. (civitas.org.uk)

Tariff barriers

A tariff designed to make imports more expensive than domestically produced products. That is, a tariff barrier is a tax imposed upon imports to protect local industries and companies. (Thefreedictionary.com)

Maastricht Treaty

Signed in Maastricht on 7 February 1992. The Treaty on European Union (TEU) represents a new stage in European integration since it opens the way to political integration. It creates a European Union consisting of three pillars: the European Communities, Common Foreign and Security Policy (CFSP), and police and judicial cooperation in criminal matters (JHA). The Treaty introduces the concept of European citizenship, reinforces the powers of the European Parliament and launches economic and monetary union (EMU). Besides, the EEC becomes the European Community (EC). (Europa.eu)

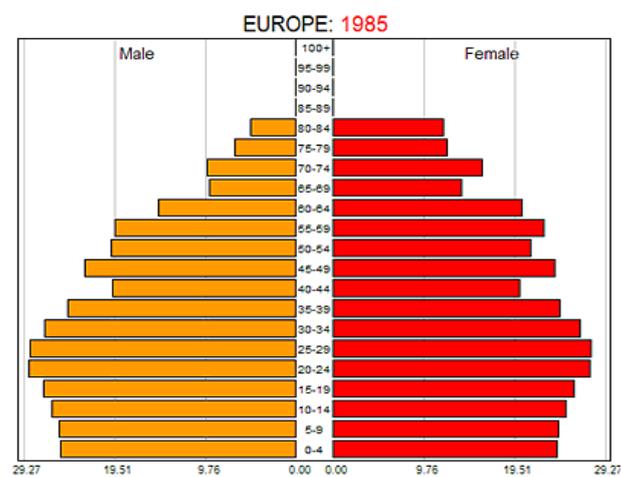
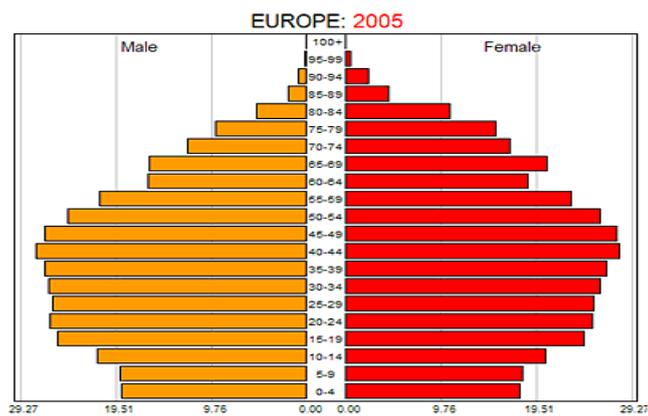
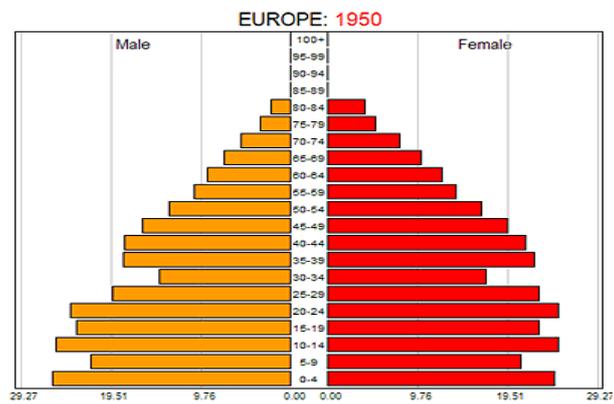
The European Single Act 1986

The Single European Act (SEA) revises the Treaties of Rome in order to add new momentum to European integration and to complete the internal market. It amends the rules governing the operation of the European institutions and expands Community powers, notably in the field of research and development, the environment and common foreign policy. (Europa.eu)

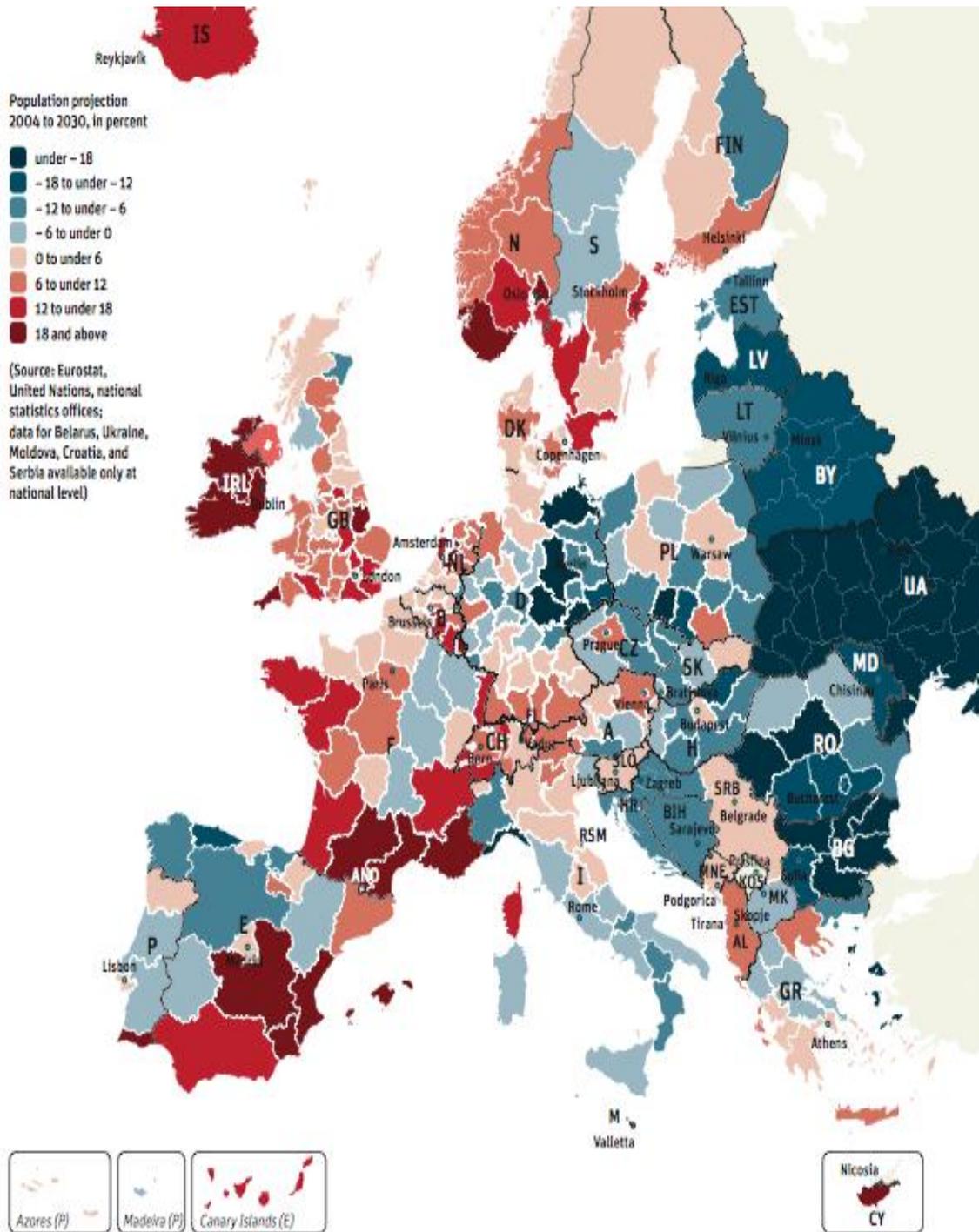
Word Bank

An international organization dedicated to providing financing, advice and research to developing nations to aid their economic advancement. (Investopedia.com)

Demographics of Europe 1950-1985



Population projections 2004 to 2013



Candidate countries

