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THE GLOBAL ECONOMIC CRISIS AND THE FUTURE OF EUROPEAN INTEGRATION

THE EUROPEAN UNION: GOOD IDEA-BAD REALIZATION?

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***Abstract**: Integration processes, both, in the world and in the Europe, have become indispensable, and smaller countries can not planning their future outside of these flows. However, the effort of functioning within a community can be successful only when the country improve its own economic position, and than, as a ''healthy cell'' became part of the community. To that extent the convergence criteria, i.e. adjustment of monetary policies are entirely justified. However, the application of criteria which are defined without taking into account specificity of potential member states, led to the creation of the veil, under which are covered the real problems, and remain unsolved. The purpose of this paper is to examine the justification for the selected criteria of convergence, and the consequences of their achievement / failure on the country itself, as well as on European Union as a whole.*

***Key words:** integration processes, European Union, the convergence criteria, potential candidates*

Introduction

Creating European Union was one of the most intensive and severe venture in order to attempt economic integration in Europe. Most of the European countries find own reasons to became a part of one bigger community, such as European Union. Some of them may be strengthening Europe compared to the USA and Japan, because no one of the countries is able to be adequate competitor. And the smaller one realized that they wouldn't have any future outward of Union. But, one of the crucial question is whether the European Union has met expectations of its member, or its only well-formulated on paper?

The aim of this work is to find out, in according to some relevant variable, was European Union really "promised land" for its members, and theirs citizens who have

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watched it so. The authors will use variables such as GDP per capita in countries before and after their accession to EU, unemployment, rate of inflation, interest rate, and try to find out influence of accession on this variables. Particular emphases will be put on two countries - Slovakia and Slovenia, both members of EU since 2004., and members of European Monetary Union since 2009. and 2007 respectively. Smaller one, Slovenia, first became a part of monetary union, two years before Slovakia, and in further line there will be talked about reflection of membership on their economic position.

Paper is structured as follows. Section 1 presents Europe unification, with reference to the criteria that has to be met for membership in European union. Sector 2 provides evolution of the variables describing position of countries before and after accession, with particular reference on two countries, Slovakia and Slovenia. Sector 3 concludes with summary of the results.

1. Unification of Europe Countries

Six the strongest counties-Belgium, France, Netherland, Italy, Luxemburg and Germany were initiators of creating intersectoral collaboration in early fifties, establishing European Community of Coal and Steel (ECCS) 1952. After a few years, were formed European Economic Community and Euratom, community similar to ECCS for civilian atomic energy. In the Table below is presented a chronology of European unification.

Table 1. Chronology of European unification

1951	The Paris agreement
1952	European Community of Coal and Steel
1957	The treaty of Rome, and creating European Economic Community
1973	European enlargement - Denmark, Ireland, United Kingdom became a part of European Economic Community
1981	Greece became a part of EEC
1986	Portugal and Spain also
1986	Unique European Act, foresees a single market
1992	Signed Treaty of Maastricht, Treaty of European Union, and planning adopting single currency-euro
1995	Australia, Finland and Sweden became a part of European Union
2002	Euro into circulation
2004	Largest European enlargement - 10 new countries became members of European Union - Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia
2007	Bulgaria and Romania became a member of European Union
2013	Croatia becomes 28th member of European Union

During 60th, were performed two comprehensive policy-Common Agricultural Policy and Custom Union. Post-war period, large shortage, led to strengthening of agricultural role in recovering devastated economies, which hired by up to 30% of total employees. However, this common agricultural policy was largely discussed, due to high costs and non-market character, which made food in union much expensive than at world market. Formatting of custom union has intensified trade among members, and affected development of theirs economies. After a few common policies within union, new big step in integration process were creating of common market, and free movement of goods, services, capital and labor force on whole territory. Common market improves quality of goods, lower process, better choice. This was followed by introduction of common currency, and adjustment of different economies.

All these integration processes have raised the issue of creating a supranational institutions and the power of national governments. The history of European integration reflects this tension between the role of supranational institutions and the power of national governments. The conflict is also mirrored by the two most influential political theories about European integration: functionalism and intergovernmentalism. The main problem is how to answer on question who is in charge of integration within Europe?

Intergovernmentalists believe that national governments are in charge, and that supranational institutions are tools of the national states, which use them to pursue their own goals. Moravcsik (1993, 1998), an influential proponent of this theory, believes that national governments have built European institutions to pursue the economic interests of their domestic constituencies. In this spirit, Moravcsik (2012) views the euro as an economic gamble, mostly reflecting the interests of powerful national producers. This interpretation fits within a broader literature emphasizing the link from domestic economic interests to national attitudes and policies towards European integration (for example, Frieden 1998.). Functionalism, one alternative theory, must less known among economist, has played a significant role in the ideology and practice of European integration and the creation of the euro.

Functionalists believe that European integration is not primarily driven by national governments and their voters, but mostly pushed by elites and interest groups that transcend national boundaries. They stress the role of supranational entrepreneurs and civil servants like Jean Monnet in the 1950s and Jacques Delors in the 1980s and 1990s. The theory is called “functionalism” because it is about the dynamic effects of transferring specific “functions” to supranational institutions: for example, regulation of coal and steel production to the European Coal and Steel Community or monetary policy to the European Central Bank. Although this integration starts in economic areas, integration in one area may well lead to further integration in many other areas, not only economic but also political (Haas 1958, 1964; Pierson 1996; Sandholtz and Stone Sweet 1998). Thus, while intergovernmentalists believe that European integration is rooted in the pursuit of national economic interests, functionalists believe that it is about economic integration as a path towards political integration (Spolaore, 2013).

The theory of functionalism was directly inspired by Jean Monnet’s strategy to delegate specific functions to supranational institutions in relatively narrow areas, mostly technical and economic, with the expectation that it would lead to more institutional integration in other areas over time. Functionalists believe that moving only some policy functions to the supranational level while leaving other functions at the national level creates pressure for more integration through positive and negative mechanisms. A positive mechanism would work through learning: as politicians and interest groups observe the benefits of integrating a few functions, they will want more. This idea is implicit in the Schuman Declaration, which stated that “Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements.” Another mechanism is assumed to work by changing people’s preferences: as groups cooperate on specific functions, barriers to communication and interaction will decline, which will bring an "endogenous" convergence of values and norms and a demand for more integration. This rather optimistic outlook was inspired by Deutsch's (1964) influential research on communication theory and political integration.

For the rest of the countries across the Europe, Union is the best solution and opportunity for development, as well as for all the rest countries that trying to be her part. What is a power of the European Union? It lies in economy of scope, available funds, market expansion, free movement of labor force, capital, commodities, trade integration. Trade is an area where costs of heterogeneity are offset by benefits from heterogeneity and large economies of scale. The removal of trade barriers was in the general interest of Europeans even though specific sectors and groups within each country benefited from protectionist policies. European supranational institutions provided a way to coordinate trade liberalization and to lock in the commitment not to raise barriers unilaterally when faced with domestic political pressure. In this respect, European integration was one of the earliest and most successful examples of regional arrangements set up to solve coordination problems and to provide credible commitments (Eichengreen 2006). Partial institutional integration in different areas also allowed "linkages" between issues and provision of credible side-payments to potential losers from commercial integration. For instance, the notoriously wasteful Common Agricultural Policy has been often explained as a political compromise between France and Germany: German manufacturers gained access to the French market, and German taxpayers helped subsidize French farmers.

But, on the other hand, did unification of Europe lad to loss of national identity, and is it possible and realistic expected that all citizens can operate in a unique manner, intended by its founders? Founders created the rules, the same rules can be changed and in order to achieve larger goals – whose goals? Are they objectives of the Union, or the strongest one? What has been achieved by reducing the convergence criteria, the use of creative accounting and commissioning of some countries to be members of the Union, although they did not meet all the criteria?

Criteria for Joining Eurozone

In 1992, the members of the European Community signed a Treaty on European Union at Maastricht, which reorganized European institutions and designed an Economic and Monetary Union (EMU), establishing the institutional foundations for the euro. Jacques Delors and his Committee for the Study of Economic and Monetary Union, also known as the "Delors Committee," played a crucial role, as documented in a detailed analysis of the negotiations leading to the economic and monetary union (Dyson and Featherstone 1999). The design and rationale for the European economic and monetary union, as laid out in official documents and studies (Committee for the Study of Economic and Monetary Union, 1989; Commission of the European Communities, 1990), was deeply influenced by the functionalist view of European integration (Sadeh and Verdun 2009, p. 283).

European Monetary Union is based on harmonization of monetary policies of member states, a unique central bank and a common reserve. All member states were required to meet certain conditions, for at least two years before joining the Union, at the time of joining the EU, but not after joining. The conditions that must be fulfilled before a country becomes a member of the EMU can be divided into two groups. The first group consists of changes in regulatory requirements and legislation that must comply with the regulations of the monetary union. The second group of criteria are economic criteria, which are known as convergence criteria, or the Maastricht criteria, and include:

- The inflation rate, as measured by the consumer price index, in the country that has access to the EMU should not exceed by more than 1.5 percentage points the average inflation rate of the three EU countries with the lowest inflation;
- The budget deficit must not exceed 3% of GDP in an EMU acceding country;
- Public debt should not be more than 60% of the GDP of the country that has access to the EMU;
- During the two years before the introduction of the single currency (the euro), the limits of the corridor of fluctuations of ± 15% must be respected, which provides ERM2, without devaluing the national currency relative to other currencies of EU countries;
- Long-term nominal interest rates during the year must not deviate by more than 2 percentage points compared to the three EU countries with the lowest interest rates (Lipinski, 2008).

The inflation rate no more than 1.5 percentage points above the average of the three countries with the lowest inflation rate in the EU is an attempt to compromise with the countries where inflation is a regular companion of economic dynamics. This level of inflation does not have to be low, as it primarily depends on the nature of the countries with the lowest inflation. These criteria are binding on the Eurozone countries, and recommendations for the EU countries, and all EU countries are included in the calculation. In this way, the conditions of the countries that want to join the EMU are determined by the state of the countries that are not its members. Limitation of budget deficit to less than 3% of the country joining the EMU, is the result of a compromise solution of politicians that the countries should still be allowed not so rigid solution in public spending, even though the deficit of 3% of GDP in developed countries is considered high. Indebtedness of almost all EU countries was caused by setting the threshold of 60% of GDP for public debt for a country joining the EMU, while it turned out that this debt ceiling for some countries was too low. Exchange rate fluctuations within a corridor of ± 15%, which is provided by ERM2, without devaluing the national currency relative to other currencies of EU countries, almost cannot be considered as a condition, because the borders are so widely set up so that there is almost no danger of their breaking. As with inflation, the long-term nominal interest rate (for which choice there is no exact economic justification), countries that are not members of the euro zone and the amount of their nominal interest rates are taken into account.

2. Compliance with the Criteria in Eurozone

As we suggested on the beginning of this paper, these criteria, with some deficiencies, could be a good way of making strong and competitive economy. But, whether they met in member states? And, what consequences their failure had on their economic position, and also in EMU?

There are so many differences between members of EU, in GDP per capita in PPS, difference between the most (Luxemburg) and least (Bulgaria) developed country is about

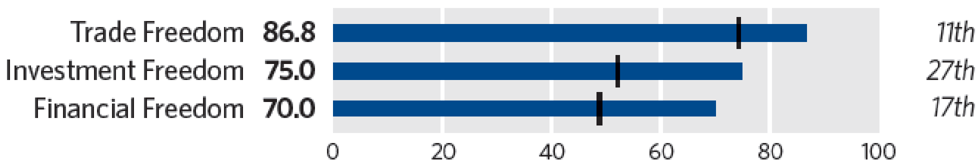
6.46 (considering average in the period that cover 15 years, from 1997. to 2011.), and never that difference has never been higher among EU members.

Eleven countries in Europe planed to join monetary union, but only three met all conditions of convergence: Finland, France and Luxemburg. Others have failed at least one. For example, Belgium and Italy had twice a high public debt exceeding permitted (120%). Some of the countries of the European Union, met the given criteria, but due to lack of political will are still remained outside of monetary union (United Kingdom, Sweden and Denmark).

Let's see how individual variables ranged in two selected countries, Slovakia and Slovenia, according to the years of their joining to European Union and European Monetary Union.

After **Slovakia** became independent in 1993,economic reforms helped to make its economy one of the most attractive in Europe throughout the 1990s. However, the pace of reform has since slowed significantly. Slovakia joined the European Union and NATO in 2004 and adopted the euro as its currency in 2009. The economy, a mix of agriculture and industry, has registered moderate and relatively stable growth despite the slowdown across the EU, and Slovakia has become one of the world's largest producers of automobiles per capita. Slovakia is ranked 20th out of 43 countries in the Europe region, and its overall score is higher than the world average.

Graph 1: Open market, Slovakia



Source: Heritage foundation, Slovakia

Trade policy is the same as that of other members of the European Union, with the common EU weighted average tariff rate standing at 1.6 percent and relatively few non-tariff barriers adding to the cost of trade. Foreign and domestic investment receive equal treatment, and full foreign ownership is permitted in most sectors. The financial system has undergone significant liberalization, and the banking sector remains relatively sound.

Table 2: Movement of observed variables from 1997-2011 in Slovakia

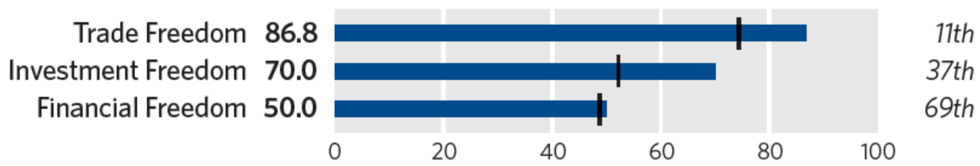
Slovakia	Average 1997-2003	**2004**	Average 2005-2008	**2009**	2010	2011
Inflation rate	7.77	**7.50**	3.225	**0.9**	0.7	4.10
Real interest rate	6.88	**3.04**	4.60			
Unemployment	17.38	**18.4**	12.68	**12.10**	14.5	13.6
Central government debt		**45.37**	36.71	**30.24**	38.24	46.56
Maastricht debt	46.25	**41.5**	30.55	**35.6**	42.15	
Wages	91.94	**87.7**	86.68	**84.1**	81.3	80.9
Cash surplus/deficit		**-3.18**	-2.60	**-2.03**	-7.35	-6.79

Source: World Data Bank, statistics, authors calculations

As we can see in table above, membership in EU, and than in monetary union for Slovakia was reflected in lower inflation after joining EU, and also after accessing monetary union, but in 2011, rate of inflation again reach high amount. Unemployment rate is also reduced, but unfortunately, wages too. Maastricht debt was within the permissible framework, but cash deficit reached a much larger amount after joining the monetary union.

Economy of **Slovenia** experienced solid growth until the 2008 global recession. Slovenia is a member of the International Monetary Fund, World Bank Group, European Bank for Reconstruction and Development, and 40 other international organizations. It joined the European Union and NATO in 2004, adopted the euro as its currency in 2007, and became a member of the Organization for Economic Co-operation and Development in 2010. Slovenia fell into its second recession in three years during the last quarter of 2011, but the economy has rebounded. Slovenia is ranked 34th out of 43 countries in the Europe region, and its overall score is still above the world average. Despite the challenging European economic environment, Slovenia appears to be accelerating the pace of structural reform. The proposed changes in the pension system are intended to ease the strain on the budget caused by a rapidly aging population.

Graph 2: Open market, Slovenia



Source: Heritage foundation, Slovenia

Same as in Slovakia, the trade-weighted average tariff rate is a low 1.6 percent, with some non-tariff barriers further increasing the cost of trade. Most sectors of the economy are open to foreign investment, but the overall investment regime lacks efficiency.

Table 3: Movement of observed variables from 1997-2011 in Slovenia

Slovenia	Average 1997-2003	**2004**	Average 2005-2006	**2007**	Average 2008-2011
Inflation rate	7.57	**3.7**	2.5	**3.8**	2.65
Real interest rate	7.22	**5.21**	5.62	**1.67**	2.67
Unemployment	6.79	**6.3**	6.25	**4.9**	6.45
Central government debt (Maastricht debt)	26.95	**27.3**	26.55	**23.1**	35.68
Wages	82.91	**84.4**	84.45	**83.6**	83.83
Cash surplus/deficit	-1.26	**-1.22**	-1.11	**0.15**	-3.71

Source: World Data Bank, statistics, authors calculations

Although according to the indicators shown in the table, showing their movement within the envisaged framework, Slovenia is still at 34 place from 43 countries in Europe region. Why is that? Government spending has risen to 50.9% of GDP. The budget deficit remains over 5% of GDP, and public debt now is over 45% of GDP. Rigid labor regulations continue to hamper dynamic employment growth. Inflation has been low, as well as cash deficit before joining monetary union.

For all other counties, Macedonia (21 regional rank), Albania (27), Montenegro (34), Serbia (37), Bosnia and Herzegovina (38), European union is strategic orientation, and expectation of improving own economic position. And can we find correlation between regional rank and future performance? Does it mean that Macedonia and Albania are closer to Slovakia, and the others to Slovenia and her performance, remains to be seen.

3. Conclusion

There is no doubt that rest of countries in Europe need to be part of European union. For them is better to improve main macroeconomic variables before accession, and become closer to European average, and to achieve convergence criteria. Completely different question is when will they become members, because European union is political community, and filled economic criteria are not only condition that must be met. And on the other hand, how will they handled with all challenges within union, depends on readiness to formatting policy according to principles which are created by having in mind different initial conditions and economies.

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EVROPSKA UNIJA-DOBRA ZAMISAO, LOŠA IMPLEMENTACIJA?

Rezime: *integracioni procesi, i u svetu kao i u Evropi, su postali apsolutno nezaobilazni i neophodni, a male zemlje ne mogu planirati svoju budućnost van tih procesa. Pa ipak, integracija se može pokazati uspešnom jedino ukoliko zemlja poboljša svoju ekonomsku poziciju, pa onda kao „zdrava ćelija“postane deo zajednice. U tom smislu su kriterijumi konvergencije, odnosno prilagođavanje monetarne politike potpuno opravdani. Međutim, primena kriterijuma koji su definisani bez uvažavanja specifičnosti potencijalnih zemalja članica, vodi stvaranju privida, pod kojim se skrivaju pravi problemi, koji ostaju nerešeni. Cilj ovog rada je ispitivanje opravdanosti odabranih kriterijuma konvergencije, kao i posledice njihovog ispunjenja, odnosno neispunjenja, po samu zemlju, odnosno Evropsku uniju kao celinu.*

Ključne reči: *proces integracije, Evropska unija, kriterijumi konvergencije, potencijalne zemlje članice*