THE DIFFERENTIATION OF GROWTH POLICIES AT THE EU LEVEL

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1.Introduction

The founding members of the EEC were a homogenous group of countries in economic development terms. The economic architecture of the EU is based on one-size-fits-all (OSFA) framework. European single market (ESM) and Economic and Monetary Union (EMU) are two most important institution of the kind. The Treaty of Rome was signed in 1957 and established the European Economic Community (EEC). The Treaty of the EEC refers to the ever-closer union of the peoples of Europe (Dinan, 1999). It contains a formulation of a common market with the free movement of goods, persons, services and capital. A customs union was established and the Commission was established. The Western Europe at that time was divided on the issue of the economic and political integration of Europe. The countries of the EEC emphasised political integration, while the UK was in favour of economic integration based on free trade. There are reasons to argue that European integration has been driven in the last five decades by political factors (peace and security, freedom, democracy and co-operation among the nations); while the goals were always political the means were predominantly economic (Baldwin and Wyplosz, 2004, p. 26). There currently seems to be an opinion that the EU has fulfilled its political goals and that it should now turn to economic goals and bring them to the forefront. Such was the aim of the 'Lisbon Agenda for growth and employment' (European Council 2000; 2005b). The question regarding the nature of the EU has been present throughout all this time. There are two strands of European integration: federalism and inter-governmentalism. The EU is in its nature a union of independent nations, and inter-governmentalism is a major strand of European integration. The EU is not a state; the European Commission is not a government. EU is "union of independent sov-

ereign nations, which decided to get together to pursue their own interest and common good"[1]. The nature (or definition) of the EU as a union is essential for economic considerations of the EU.

The "one size fits all" (OSFA) is a building block of the economic architecture. Consecutive enlargements from 1973 to 2007 have increased the diversity of member countries of the EU. The OSFA on one side and increased diversity of member countries on the other side opens a need for reconsideration of OSFA principle at the EU level and the differentiation of growth policies at the EU level. At the same time, the member states have to face the asymmetric effects of the OSFA on individual national economies. They have to react and to adapt to such situation.

After introductory section, the article deals in second section with the consecutive enlargements and points to the growing diversity seen among EU member countries. The third section looks at the development groupings in the EU and growth policies at the EU level. Conclusions are presented in the last section.

2. With Enlargements Toward Heterogeneous Union

2. 1. Consecutive enlargements

The founding members of the EEC were all developed countries and quite a homogenous group of countries: Belgium, France, Germany, Italy, Netherlands, Luxembourg. Their average GNP per capita in 1957 was then 64 percent of the US level (Maddison, 2003).

First big enlargement of the EC (1973-1995): the Northern or EFTA enlargement

Enlargements of the EEC started with UK joining in 1973. With this act the first big enlargement of the EEC started. Part of this first big enlargement was an Anglo-Saxon enlargement involving the UK (1973), Ireland (1973), and Denmark (1973). The second wave was a Northern enlargement with Finland (1995), Sweden (1995), and Austria (1995). With the completion of this enlargement, a group of the 12 most developed EU member countries was formed. This is the core group of developed countries in the EU. They form a development club (Senjur, 2007). A single European market was a natural response to such situation.

Second big enlargement (1982-2004): the Southern enlargement

The southern enlargement started with Greece (1982), continued with Spain and Portugal (1986) and concluded with Cyprus (2004) and Malta (2004). The southern enlargement was important for two reasons. The EEC had a political mission of bringing and stabilising democracy in these countries. Spain, Portugal and Greece used to be prone to military and totalitarian regimes. The accession of these countries to the EEC was believed to bring stability to their democracies. A second feature of this enlargement was that the EEC had thereby enlarged itself with middle-income countries. This was a reason for differentiating between core and peripheral countries in the EEC. The cohesion countries were: Spain, Portugal, Greece and Ireland. In many studies a clear distinction is drawn between the core countries of the EU and the periphery (Vickers 2001, p. 292). The periphery faces asymmetrical shocks in relation to the core. The consequence of this situation was the structural and cohesion policy of the EEC as a form of solidarity among countries within the EEC. Both of these functions of enlargement (e.g. stabilizing democracy and cohesion) were present in a more enhanced form by the next, Eastern, enlargement.

Third big enlargement (1990-2007): the Eastern enlargement

The third big enlargement of the EEC started with unification of Germany, which brought the former German Democratic Republic into the EU in 1990. This enlargement marks the enlargement of the EU towards Eastern Europe and encompasses former socialist countries. The first wave of this enlargement came in 2004-07 and involved ten former socialist countries: in 2004 Czech Rep., Estonia, Latvia, Lithuania, Hungary, Poland, Slovak Rep., Slovenia, and in 2007 Bulgaria and Romania. In the next ten years it is expected that a second wave of Eastern enlargement might be concluded. This wave will include the so-called countries of the Western Balkans. The political mission of EU enlargement might then come to end. With the Eastern enlargement the EU has taken on a strong group of lower-middle-income (or less developed) countries. As a result, the situation in the EU has changed fundamentally. Up until this enlargement, the EU was predominantly a club of rich and developed countries that were able to take care of the few poorer countries within the EU with a structural and cohesion policy. Since 2004-07 the cohesion and development policy has become an open question.

2.2. The trade-off between the size and the heterogeneity of the union

Further enlargements of the EU might confront the EU with the concept of the 'equilibrium' union size that results from a trade-off between the benefits of size and the cost of heterogeneity (Alesina and Spolaore, 2003, p. 6). If this issue is not tackled it may face a 'disintegration syndrome' known from the history of European countries. Six developed countries established the European Community. Mostly developed countries were included in the first enlargements. Greece, Portugal, Spain and Ireland were exceptions. They were developed at the middle level and were in no way the less developed countries of Europe. These four countries comprised some kind of periphery of the EEC. They did not have an important role in decision-making. Developed countries set the tune and course of the EU's development. In this sense, the EU was progressively oriented. The care was taken for middle developed member countries through structural and cohesion policies based on the solidarity principle. With the latest enlargement in 2004-07, and with any enlargements up to 2013, the political (voting) power of member countries with below-average income per capita will increase. The political stage in the EU might change fundamentally. It may lead to a 'Yugoslav syndrome', where the redistribution of income became a major economic concern. The quest of low-income countries for the redistribution of income inside the EU, whereby developed countries would pay the bill, might alienate developed countries and they may lose interest in any further integration of the EU.

For the EU to prosper it is essential that the interests of the core group countries dominate the EU agenda because this is an agenda for innovation-and-knowledge-driven growth and employment. Such an orientation for the EU is in an important aspect also in the interests of low-income EU countries. So far, the EU has still not found a solution for how to serve the interests of high-income countries and to serve the need for the faster development of low-income countries at the same time. The 'Yugoslav syndrome', which might lead to disintegration, should be dealt with even before the very beginning. One possible solution to avoid such a situation before it arises is to follow a principle whereby all countries are responsible for their own economic development and that no member country should rely substantially on resources from the EU budget. This would mean that the EU should be a framework and not a provider of resources in a substantial amount for the growth of national economies.

3. Development Groupings in the EU and Growth Policies at the EU Level

3.1. Two or three development groups in the EU

The six founding member states of the EEC were all developed countries with similar development levels. The EEC's enlargement to encompass the EFTA countries was still an enlargement with developed countries. The Mediterranean enlargement brought in European Community countries, which were middle-income countries in comparison to the core countries. The eastern enlargement brought into the EU less developed countries. By terms of income per capita there are three groups of countries in the EU.

A division of countries into groups could be based on regional and historical groupings. In this case we can distinguish: Central-Western Europe (Germany, France, the Netherlands, Belgium, Austria, Luxembourg), North-Western Europe (UK, Ireland, Denmark, Sweden, Finland), South-Western Europe (Italy, Spain, Portugal, Greece, Malta, Cyprus), Central-Eastern Europe (Poland, Czech Republic, Slovakia, Hungary, Slovenia, Estonia, Latvia, Lithuania), and South-Eastern Europe (Romania, Bulgaria, Croatia, Macedonia). Such a division has an advantage because it reflects different socio-economic models in Europe (Sapir, 2004).

Table 1: Regional groups of EU countries, indexes of GDP per capita

Groups of countries	1960	1980	2000
USA	153	129	138
Central-Western Europe	100	100	100
North-Western Europe	99	90	104
South-Western Europe	50	68	74
Central-Eastern Europe*	53	46	40
South-Eastern Europe**	32	35	23

Source: Maddison, 2003.

Note: * for 1960 and 1980 data for Hungary, Poland, and Czechoslovakia only; ** for 1960 and 1980 data for Bulgaria and Romania only.

CWE: Austria, Belgium, France, Germany, Netherlands, (Luxembourg); NWE: Denmark, Finland, Ireland, Sweden, UK; SWE: Greece, Italy, Portugal, Spain, (Cyprus, Malta); CEE: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia; SEE: Bulgaria, Romania, Croatia, Macedonia.

Table 1 indicates that in period 1960-2000 the countries of CWE and NWE were converging, that the countries of SWE were catching up, and that the countries of CEE and SEE had not converged. There is a growing diversity due to consecutive enlargements taking place.

With the latest enlargement in 2004-07 the diversity of the development levels of member states has increased to such a degree that it may be necessary to broaden the concept of the groups of countries from two to three groups from the point of view of the developmental problems they are facing. It is suggested to distinguish between three groups of member states from the aspect of their development levels: the core (or Lisbon) group, the intermediate group, and the cohesion group. The core group (12) includes member countries whose GDP per capita in PPS is above the EU-27 average. These are Belgium, Denmark, Germany, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Finland, Sweden, and the United Kingdom. This group has a combined population of some 320 million and an index of an average income per person of around 117 (in PPS, EU25=100, year 2002). The intermediate group includes member countries with a GDP per capita in PPS larger than 75% (threshold) and below the EU-27 average. Members (6) of this group are Spain, Cyprus, Greece, Slovenia, Malta and Portugal. There is a population of some 65 million in this group and it has an index of income per capita of around 80 (EU25=100, PPS, year 2002). The new cohesion group (7+2) includes countries with a GDP per capita in PPS of less than the 75% threshold. Members of this group are Czech Republic, Hungary, Slovakia, Estonia, Lithuania, Latvia and Poland, and Bulgaria and Romania. The index of average income per capita is around 45 percent of the EU-27 average; there are about 100 million people in this group.

Future enlargements involving Western Balkan countries might require a regrouping of second and third abovementioned groups. A new third group would be a group of less developed countries (or lower-middle-income countries) among the member states. We may call this group a developing group. Such a development would further broaden the diversity of development levels within the EU. Members of this group could be Romania, Bulgaria, Macedonia and so on. This group of countries would not need cohesion policies. They would need a development policy supported at the EU level. In the future, we may therefore expect three groups of countries to exist inside the EU. There will be a core group of developed countries, a cohesion group of upper-middle-income countries which is catching up, and a developing group of less developed (or lower-middle-income) countries which should grow faster. Such differences in development level must have repercussions for growth policy at the EU level and at the national levels.

3.2. Diversity of member states' development goals

The growth issues of the first development club differ from the development issues of the third development group. Growth of the first development club is innovation-based (Porter, 1990) and endogenous. The factors of growth here are innovations, research and development, higher education and entrepreneurship. The core or Lisbon group of the EU is defined in comparison to the USA (European Council, 2000; Kok, 2004). The benchmark for this group is the USA. The aim is to catch up with the USA and eventually to overtake it. The third development group consists of a group of countries which are low-middle-income (less developed) countries. The developmental aim of these countries is development and to catch up with the average of the EU-27. The growth of this group of countries is factors-and investment-based, mostly involving cheap labour, investment and low technology. The inflow of FDI is essential. They imitate and transfer factors of growth from other countries. Their growth is therefore based on exogenous factors. The accession of this group of countries to the EU means for them an attachment to a large pool from which they can pump in available and transferable factors of growth. The intermediate group of countries would compare itself with the core group as a development aim. It is not guaranteed that all countries of this group will be able to catch up with the core countries (Senjur, 2007).

So far, the EEC or the EU has been following the interests of the core group of countries. The policies have been adjusted to suit the interests of this group. Since the group was quite homogeneous, the 'one size fits all' policies were appropriate. Later, when the second cohesion group was established the 'one size fits all' policy was appropriate along with the remedial measures of structural and cohesion polices. With the appearance of the third group the diversity has become so large that one may openly question whether 'one size fits all' policies are appropriate and whether the corrective measures of structural and cohesion policies can in fact remedy the situation. With the recent enlargement a situation has arisen which requires the differentiation of measures at the EU level according to the separate needs of the different country groups.

3.3. Common policies at the EU level to promote economic growth

At the beginning the European Community believed that common economic policies are needed in so called strategic sectors: coal and steel (European Coal and Steel Community– ECSC), energy (European Atomic Energy Community-EAEC), and agriculture (Common Agricultural Policy – CAP). The era of 'strategic' sectors has gone. The steel and coal issue has van-

ished from EU attention. Energy sector might get greater attention in the future. Agricultural policy needs radical reform; process of re-nationalization might get additional support. The question is whether the EU should have any kind of common industrial policy at all. The first attempt to introduce an industrial policy in the EEC dates back to 1970. The European Commission's "Memorandum on Industrial Policy' (The Collona Report) aimed to shape the structure of the EU industry and to set priorities for a common action. Later more reports on the topic were followed. The most recent is 'Industrial Policy in an Enlarged Europe' in 2002. The divergence in industrial policy philosophies among the major member countries and a lack of funds has prevented the EU from playing a more influential role in this area.

The European Commission has so far not tackled the question of differentiating its growth policies. The document "Strategic Objectives 2005-2009" describes the aims for the next five years and puts in first place prosperity and in second commitment to solidarity in order to strengthen the cohesion of the enlarged Union. We can read from this a policy of complementarity between progress and solidarity, which is known to be a characteristic of the European model of development. However, an indication regarding the differentiation of growth policies at the EU level does not follow. The Sapir Report (2004) is more specific about this. It sets out an agenda for a growing Europe. It maintains that the agenda for a growing Europe is to achieve two strategic economic goals for the period up to 2010: (1) creating the most competitive and dynamic knowledge-based economy; and (2) rapidly raising the living standards in the new member states.

Following the two strategic economic goals at the EU level (European Commission, 2005a), we can derive three sets of policies to promote economic development in the EU.

1) Agenda for growth and employment: The Lisbon strategy can be regarded as a framework for policies promoting growth leading towards the most competitive and dynamic knowledge-based economy. Using taxonomy of stages of development (Porter, 1990) we could argue that the Lisbon strategy is a policy framework for innovation-driven economies in the EU. As an approximation, we would say that the core group countries are at this stage of development.

2) Program *for cohesion and development*: The Sapir Report recommends that the EU's convergence policy should concentrate on low-income countries. Convergence funds allocated to low-income countries should focus on two areas (Sapir 2004, p. 7): (a) institution building; and (b) investment in

human and physical capital. The beneficiary countries should be free to decide how to allocate resources across different national projects following the subsidiarity principle. We may add to this proposal that the convergence policy may not be sufficient in the new circumstances. The policy of convergence should be complemented with a policy of development. The resources and services of the European Development Fund (EDF) may also be needed within the EU.

3) P*olicies for restructuring in integration*: The Sapir Report recommends a third set of policies besides policies for growth and convergence. The Report recommends EU restructuring support for workers who lose their jobs and need support to retrain, relocate or start new enterprises. Some restructuring efforts should also be devoted to the agricultural sector. One could add to this the support for building trans-european infrastructure and networks and projects that enhance integration tendencies in the EU. The integration processes have to be deliberately supported due to the inherent disintegration forces of such a large and diversified union.

4. Conclusion

Accession to the EU and adoption of the euro changes the macroeconomics of the new member country. Monetary policy is not available, fiscal policy is limited. Dynamics of the growth may be hampered due to agglomeration effect and due to lower price competitiveness.

"One size fits all" fundamentals of the economic architecture of the EU are based on the neoclassical economic theory. They form some kind of "Brussels consensus" not unlike the "Washington consensus". Although the Europe has rewarding experience with the Keynesian economic policies, there is no place for Keynesian economic considerations in the economic architecture of the EU. This may turn out as a disadvantage in time of greater economic recession or in the case of shocks emanating from the global economy.

Economic growth is a responsibility of national governments. The EU should be a framework and not a provider of resources in substantial amounts for the growth of national economies. The EU has so far pursued policies, which were targeted but still available for all member countries. Due to consecutive enlargements, the EU has become very diversified. As a result, it will have to differentiate its growth policy according to the development levels of the member countries. A 'one fits all' policy will no longer suffice. It seems entirely feasible that in the future there will be two growth programs. The first program would involve some kind of "EU agenda for growth and employ-

ment”. The second program would, for example, be an “EU program for cohesion and development” aimed at fostering the faster growth of less developed EU member countries.

Notes

[1] Tony Blair: ‘’Superpower – not Superstate?’’, Speech in Warshaw, October 2000.

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