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THE NEW EU MEMBER STATES – THE PLACE IN THE INTEGRATION ROAD OF THE EU ECONOMY

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Abstract

Fast expansion of European Union (hereafter – EU), which occurs in a quite short time just confirms, that EU as a formation of the member states helps them to reach additional positive economic effect.

The EU always meets new challenges for economic evolution as it is expanded both in geographical and integration point of view, and as it has uneven economic and social level of development, different demographic situation. One of the above-mentioned challenge - how to reach closer cohesion of economic development.

It is not easy to seek this, especially if you know how very different economies of EU member states are. For instance, the size of production of Germany which generates the largest part of EU economy is the same as twenty smallest member states all together. Obviously, the EU economic development mostly depends and will depend on the biggest countries' economic growth and that is because they will have influence on development of smaller member states.

In order to seek a closer cohesion between members states in the EU one of the measures are creation of structural funds. The question: do these instruments allow to reach the said aims?

According to the financial perspective for 2000-2006 approximately 90 pc of the whole EU support was accorded to EU-15; approximately 60 pc provided in financial perspective for 2007-2013. In this case emerge ambiguous situation: on the one part, insufficient concentration of EU financial support for less developed regions impede sustainable development, in the other part, citizens of the new member states get more financial support from EU budget than they pay for it.

It is important to underline, that EU financial support and participating in the common market has changed two main economic rates: GDP growth and inflation. The new member countries also should not forget abilities to absorb this structural support. In this regard the old member states dominate over the new ones. For that reason one of the future challenges for the new member states - to reach the same level.

Nevertheless, it is important to understand, that structural support is not the main reason of successful economic growth of the EU member states and EU itself. The common market is a main factor which promotes economic growth. That is why another challenge for the new member states - fully integrate their economies into European economic and monetary union.

EU is unique union of states, which gives particular benefit for the member states and worldwide performs a notably role. Therefore trying to analyze economic processes inside EU it is important to evaluate the main factors outside EU which make the largest influence.

To respond to changeable development processes of economy mostly suitable tools are the instruments of monetary and fiscal policies.

It should be noted that implementation of fiscal policy on the EU level is restricted. The EU budget must be always balanced and implemented without consideration of business cycles. The policy on taxation is harmonized only on indirect taxes. The instruments of direct taxes and expenditures of national budget let for the member states to compete with each other in EU, and it is to be expected that the new member states will use these measures.

The main centralized instrument to respond adequately into business cycles on the EU level is a monetary policy implemented by the European Central Bank. Nevertheless, not all the new member states have joined the euro zone. It gives them more flexibility in control their economy, but at the same time obliges to maintain stability of national currency.

Key words:

The European Union, economical development, structural support, the European Union budget, monetary politics.

Introduction

Ten states, among those is Lithuania, on the 1st of May 2004 became official members of the European Union. Today when being the citizen of the EU became the trivial appearance, only some people realise what would be if the situation would be different. But the economical depression forces to review the place of new member states in the European Union, also the extension and degree of experienced influence. When talking about membership in the EU and its economy, as usually are mentioned two sides: positive and negative. Relevant scientific researches in abroad were performed by Floyd D., Tyc V. 2008; Durance P., Godet M. 2007; Colson A., Corm M., Yeoh P. 2006; Harris P.R. 2004; Potts N. 2000; Roarty M.J. 1996. Many Lithuanian scientists were analysing the positive economical effect created by the European Union excluding the influence in regard of Lithuania. Among such scientists could be mentioned Galinienė B., Dikovič O. 2008; Jakaitienė A., Klyvienė V., Simanauskas L., Šidlauskas S., Kučinskienė M., Garuckas R., Klimašauskienė D. 2007; Melnikas B., 2007; Simanavičienė Ž., Kilijonienė A., Čiegis R. 2004. But among these opinions we will hardly find consistent scientific research of the European Union economy separating the limits of competency between member states and the Union applying the fundamental measures of economy regulation. The perspective of the European Union development in the face o the slowing economy is especially questioned today when the whole world after show up of the destructive financial crisis experiences cyclical economical depression. The fundamental instruments of economical regulation not all the time can adequately react to often volatile and both rapidly and in multiple ways functioning economical systems with many unknown figures, but at the same time these systems are almost the only units beneficial in stabilisation of situation.

From here arises the **purpose of the research** - to analyse the functioning space of the economical system of the European Union and new member states and its singularity, to determine connections, to merge the problems and to suggest the decision for them.

Three tasks were raised for the implementation of the purpose which will be consistently analysed:

- to estimate the economical weight and role of new member states in the European Union,
- to measure the benefit of the structural support, its importance and problematic,
- to analyse the measures of monetary and fiscal politics and their influence in the context of enlarged European Union emerging influence towards new member states.

In the article are analysed actual problems of the EU through the application of these research methods: discussing the opinions mentioned in the articles of foreign and Lithuanian scientists performing the analysis and the inspectional estimation of statistical information.

Cohesion Between Member States of European Union

The European Union was established by 6 states on the sixth decade, first of all establishing the European Community of coal and steel, and later the Community of European economical cooperation and European nuclear energy, recently the union unites 27 member states. The rapid development that has occurred during the conditionally short period of time simply proves that the European Union as formation of separate states helps member states to create extra positive result. The European Union after developing both by the geographical and integration view and having uneven level of economical and social development, different demographical situation experiences over and over new challenges of economical development. One of them is related to the question is how to reach the bigger cohesion of economical development and to safeguard its harmonious growth all across the European Union. Being aware that the extents of economies of the EU member states differ very much, this is not reachable easily. For example, the member state that creates the biggest part of collective economy inside the Union (Germany) actually matches the part of economy created by twenty smaller member states. [1] Therefore it can be inferred that the development of the EU will be deeply dependent on the economical development of several large member states which at the same time will deeply influence the economical development of the smaller member states.

It is worth to say that during the period of time between 2000 and 2007 the comparative part of the EU Gross Domestic Product, created by member states, has varied. This part which is created by the great member states, except Spain, has lowered, and the part which is created by the smaller member states has extended, and the part created by some states, for example Romania, has extended in more than one hundred percent.

The level of uneven development of the European Union indicates the fact that in 2006 six member states had 20 percent bigger GDP, that falls towards one inhabitant comparing to the average of the EU and in 11 countries it was more than 20 percent lower comparing to the average of the EU. By the comparison between the year of 2000 and 2006 it becomes obvious that in many cases (thirteen of fifteen) the member states, within which GDP that falls towards one inhabitant in 2000 was below the EU average, in 2006 have increased this part significantly. Also it is noticeable, although not so

1 Eurostat. European Economic Statistics. 2008.

distinctly, that there is happening the reverse process. The part of GDP in 2000 within ten among twelve countries, that falls toward one inhabitant was exceeding the EU average, and in 2006 such part was depressed. Here can be concluded, that all around the EU during the period from 2000 to 2006 was happening the clear process of convergence. [2]

Despite that GDP of the richest country Luxemburg that falls towards one inhabitant is more than 700 percent bigger comparing to the GDP of the poorest new member states Romania and Bulgaria. In regard of this reason the article No 158 of the European Community establishment agreement indicates: seeking for manifold harmonious development the Community develops and implements its activity which helps to strengthen its economical and social cohesion. The Community especially seeks to reduce the differences of regional development and backwardness of the regions or isles having the most inauspicious conditions, including rural localities. [3] For the achievement of the consolidated goals within the European Union are intended the exact measures motivating the more rapid cohesion of member states. Such measures are the financial support from the structural funds. However, does the implementation of measures helps to secure the intended goals?

The Distribution of Structural Support in European Union

During the period from 2000 to 2006 in the purpose of the financial perspective ES-15 member states (the old-timed and developed member states) were commissioned with 213 billion EUR and this is approximately 91 percent of the whole support intended for the EU regional politics, and the EU 10 member states (countries which have joined the EU in 2004) only with 22 billion EUR (approximately 9 percent). [4]

As mentioned by Galinienė B., Dikovič O. Grybauskaite D. (2008), Čiegis R. (2004), the support for another important sphere agriculture which for the long period of time was supported with the biggest part of the EU budget between old-timed and the new EU member states has also spread unevenly. The new EU member states just after four years after joining the EU have received half of support paid to the old-timed EU member states for this sector. Until 2007 these countries could add up to 30 percent of financial support redistributing the EU resources intended to develop the investment activity of rural development, but since 2007 this was forbidden to do. The hundred percent level of the EU support in regard of the Union old-timed countries agriculture the new member states will reach only in 2013, therefore their striving as possible faster to unify the support for all farmers of the EU is natural.

Accorting to Simanavičienė Ž., Kilijonienė A. (2004), there appears the double-barrelled situation: on the one part there is critical opinion in regard of the imperfect EU financial support concentration solving the problem of uneven regional development, on the other part it is noticeable that the citizens of new member states from the EU budget financial support get more comparing to what they pay in. [5]

During the period from 2007 to 2013 the citizens of new member states also receive more of the financial support comparing to the old-timed countries citizens. The truth is that their citizens are paying in more into the EU budget comparing to what they receive. Exception would be Luxemburg where the revenue for one inhabitant is even 16170 EUR and strongly segregates of general context. It is important to signify that both Lithuania and other new member states during the new financial period receive almost 3 times bigger EU support comparing to the period of time from 2004 to 2006.

But there should be mentioned, that the EU financial support and involvement in general market alternate two fundamental economical indexes which are GDP development and inflation. In 2000 the Lithuanian budget was 20 billion LTL and EU financial support during the period from 2007 to 2013, including support for the sector of agriculture and other measures, was 36 billion LTL. This is huge injection of resources into the economy of the country that motivates the economical shake-up, development and at the same time inflation. More precisely, member states where the part of the EU support that falls toward one inhabitant is bigger usually will have more rapid development of GDP, often the inflation too, comparing to the countries where the part of the support falling towards one inhabitant is less or negative. Therefore can be concluded, that in regard of inflation control successful use of support has negative influence.

There should be noted that many of new member states rapidly seeking to reach the level of the old-timed EU countries and applying the EU resources are fighting with much bigger inflation comparing to the old-timed member states. Therefore while explaining this phenomenon it is worth to pay attention that after new member states have joined the EU the prices of

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2 Eurostat. European Economic Statistics. 2008.

3 Consolidated versions of the Treaty on European Union and of the Treaty Establishing the European Community // Official Journal. – 2006, C 321 E

4 European Commission. Working for the regions. Luxembourg: Office for Official Publications of the European Communities. 2004.

5 European Committee under the Government of the Republic of Lithuania. The Material of Information Compain due to Lithuanian membership in to the European Union. // The Division of Public Relations / Vilnius. 2004.
Open Europe. Briefing note: European Communities (Finance) Bill. 2007.

goods in these countries and in the old-timed member states differentiated several times although obstructions for trade within the EU were liquidated. Therefore many new member states have experienced the principle of "merging dishes", which more or less has influenced the rates of inflation development. At any rate within many sectors across new member states were attained the prices of the average European level, for example, prices of clothing, petrol, food, therefore it would be possible to presume that after this factor will disappear eventually inflation will decrease.

But there appears the question what benefit this all brings to the inhabitants of the old-timed member states who in fact are financing investments in our countries? It looks like the answer would be unambiguous, but the essential positive economical influence to those countries and to their citizens would be involvement in the same general EU market. Since the very beginning of the Community establishment in series are developed domestic markets involving free movement of goods, facilities, persons and capital within the space of the EU, and the benefit is obvious: during the period from 1993 to 2006 as concern of domestic market within the EU were created 2 extra percents of GDP, were established 2.75 millions of new vacancies.[6] According to Harris (2004), Yeoh P. (2006), Jatulevičienė G., Kučinskienė M., Garuckas R. (2007), Potts N. (2000), Roarty M.J. (1996), Šeputienė J. (2007) it can be stated that looking to the lasting perspective the EU success will deeply depend on how after liquidation of physical barriers successful management of remaining technical and taxing obstructions, reduction of the monetary goods will interchange risk, or in other words the expansion of Euro zone, formation of equal competitive conditions in respect of all subjects of the domestic market. D. Klimašauskienė (2005) upraises actual problem of equal competitive conditions which are one of the most important conditions for the existence of general market. It is worth to mention that this is especially sensitive and shadow sector, therefore it is not enough to establish the legal basis safeguarding equal conditions to all. It is very important that the institutions of member states responsible for the maintenance of this field would be competent and would have adequate administrative powers.

But returning to the questions of the commissioned EU financial support, discussing its extent it is important not to forget abilities of member states to apply it. How efficiently member states, including Lithuania, will succeed to apply the money intended for investments and to reform economy which could be equal partner to the economies of other countries, will depend on their own.

6 European Commission. A European Single Market for All. 2007.

The Benefit and Problems of Structural Support for New Member States

According by Gryvauskaite D. (2008), in 2007 the old-timed member states, except Netherlands, have applied the resources of the EU structural funds much better comparing to new member states. Trying to explain this it can be stated that the cumulative longevous experience while implementing the projects of investments supported by the EU, possession of better administrative competencies have caused the higher level of resources application within old-timed countries.

As mentioned by Razauskas T. (2008) Jakaitienė A., Klyvienė V. Simanauskas L., Šidlauskas S. (2007), Maniokas K., Vilpišauskas R., Žeruolis D. Simanavičienė Ž., Kijolienė A. (2004), together with the problem of money amount application shouldn't be forgotten the question of their application efficiency. Recently such rate for the new member states would be hardly measured and it could be stated that only in the longer perspective will be possible to see countries rapidly reforming their economies and able to act properly under the circumstances of the international competition or countries lacking of such potential. The experience of the states which have joined the Union earlier can be already analyzed.

The essential question for the new member states should be "how more rapidly to reform or to adjust their economy which could act and be equal partner to the economies of the developed old-timed member states". Recently the structure of economies is pretty different.

In 2007 three facility sectors of ES - 27 have created the biggest surplus value: financial and business facilities - 28.2percent, other facilities involving public administration and defence, education, public health and other- 22.4 percent, trade, transport and link facilities 21.1 percent. These three sectors formed more than 70 percent of all GDP. Industry except the construction sector compounded 20.2 percent, construction - 6.3 and the smallest percent was compounded in the sector of agriculture, hunting, forestry and fishery - 1.9 percent.[7]

According to the "Eurostat" information, in 2006 the part of agriculture, hunting, forestry and fishery sector was comparatively the biggest in the poorest member states of the EU - Romania 8.8 percent, Bulgaria 8.5 percent, Lithuania 5.2 percent, Poland 4.3 percent. This can be explained by small productivity of the sector comparing to other ones. Differently from agriculture, hunting, forestry and fishery the direct connection between industry (except construction) and incomes can't be penetrated. There can be found countries the level of those is high enough and those incomes are below the average of the EU, for example Czech Republic (31.7 percent),

7 Eurostat. European Economic Statistics. 2008.

Slovakia (28.6 percent), Romania (27.5 percent), but there also are countries those level of incomes is pretty higher comparing to the average of the EU, and such countries are Germany (25.4 percent) and Ireland (25 percent). Three Baltic states have the biggest sectors of trade, transport and link facilities: Latvia- 34.2 percent, Lithuania- 31.1 percent and Estonia- 29.6 percent.

There can emerge the view that the successful development of the EU essentially depends on the application of the EU structural support or on the formation of equal competitive conditions within the domestic market of the EU. But while seeking to react to constantly changeable domestic economical space and adapting to the challenges of the international markets are implemented two fundamental theories- monetary and fiscal politics. Enlarging total expenses during the time of depressions and recessions the executive government can quicken the development of national product at the same time reducing unemployment. In the case of entire demand rapid growth, more precisely when in economics is reached absolute employment and prices start to grow the executive government, while limiting entire demand, can slow the rates of inflation. This is the proposition of the classical economical theory. But what new member states should do now when is experienced economical depression and the increase of entire expenses becomes more and more difficult because of hardly bridled budget defficiency?

The budget of the European Union and monetary politics

The substantiality of fiscal politics, otherwise budget politics, is through the alteration of entire expenses programs or through the standards of taxing to quicken or slow the growth of entire demand. This means that intending to control and influence the processes of economical development the executive government has actively to increase or decrease expenses, increase or decrease revenues or one and another at once. But it should be signified that the European Union doesn‘t perform such function. One of the main principles of the EU budget formation is that it always must be balanced. So, during the economical depression in the EU there‘s no opportunity to increase expenses through the established programs or to decrease them when appears the danger of economical overheat.

Differently from the national budget, revenues of the EU budget are chargeable mostly from the contributions of the member states and can’t exceed the intended legal limits- recently it is 1.31 percent in the case of assignation for liabilities of the general EU national revenues (hereafter- Gross National Product) and 1.24 percent in the case of the EU GNP assignations for payments. So at this time we can see that collecting revenues to the EU budget it is not intended directly to react to the economical periodicity and there appears bigger orientation towards the collection of revenues intended for implementation of the necessary EU programs independent of existing economical situation.

Naturally if the EU fiscal politics is not being implemented in centralization, then this prerogative belongs to member states and every member state estimating extents of the direct taxes increases or decreases its own economical competitive ability, motivates or slows the economical development, increases or decreases entire demand.

Considering the 93rd article of the European Communities it is intended to harmonize in the EU only the indirect taxes (substantially VAT and excises) because the indirect taxes can create obstacles for free movement of goods and for free offering of services within domestic market, also to distort the competitive conditions. Many directives and regulations were passed seeking to regulate this sector.[8]

Studying the differences of the main direct taxes in different member states can be gathered that in new member states the direct taxes are lower comparing to the old-timed member states.[9] In opinion of the representatives of member states, which are the donors of the EU budget, the direct taxes in the level of the EU should be harmonised as the indirect ones, also it would be difficult to estimate them positively in the aspect of economical regulation. Thus would be lost very important measure of fiscal politics that can flexibly influence the rate of economical development in every member state and to safeguard the EU regional competitive ability.

It is important to mention another measure of fiscal politics- management of the national budgets expenses. Motivating the economical development there should be offered the alternative to increase the budget expenses, but even on purpose to do so, it is not so simple. The criterions of the EU convergence do not allow to surpass the budget deficiency of member state more than 3 percent from GDP[10], and in countries which are close to this rate freedom of acting becomes limited. Even not considering this limiting factor country which experiences economical depression, having increasing inflation and budget deficiency in the international markets should be appreciated as more precarious. This means that seeking to motivate the increase of domestic entire demand should be adopted loans from the foreign markets with precarious interest rates common for precarious loans.

These facts allow the conclusion that countries experiencing variform economical problems have to overpass from consumption, which increases inflation, to efficient and rapidly dividend investment programs, able

8 European Commission. The EU’s Tax Policy. Towards a barrier-free area for citizens and businesses. 2006.

9 Eurostat. Taxation trends in the European Union. 2007.

10 European Central Bank. The Monetary policy of the ECB. 2004.

to decrease the budget deficiency and to prevent another economical malady- big unemployment.

As was already mentioned above another fundamental measure of economical management is monetary politics.

The monetary politics is implemented by the central banks seeking to safeguard the stability of prices which in most times is related with the establishment of basic interest rates and the amount of cash money in the market, what in the most cases influences currency rates. In the European Union such function is attributed to the central Eurobank.[11] Many member states seeking to establish the stability of prices do not have monetary politics or are applying it in restrained way, because either they are the members of Euro zone, either their national currency has interconnected with Euro (for example Lithuania). Agreeable with Dulkys A. (2008), Angeloni I., Flad M., Mongelli F.P. (2005), the big part of responsibility seeking to sustain not high and stable inflation falls to the central Eurobank. It is natural that the extent of basic interest rates directly influences the perspectives of economical development, therefore recently the central Eurobank, seeking for the economical motivation, reduces them.

After we have discussed the measures of fiscal and monetary politics applied by the EU we can't state that already are known all measures able actively influence the economical development in this region and to benefit while adapting the outside and inside factors. The EU is phenomenal structure of strong states with different cultures, different histories, different traditions, and even with different understanding about welfare that is being established. While analysing the perspectives of the future of the EU it should be better researched the processes of the EU decisions acceptance Floyd D., Reverte C (2008), Colson A., Corm M. (2006), the social politics Godet M., Durance P. (2006, 2007), Melnikas (2007, 2008) and cultural differences which sometimes make obstructions for the deeper and more rapid integration of member states divergent among other world regions with their variety and the potential of domestic market.

It is also natural that the European Union doesn't exist on its own separated from the rest of the world and is closely related with other regions by various connection systems: legal, financial, trading, IT, human resources and etc. It is noticeable that the world is not static, but rapidly intermittent in respect of these connections. Hence, all economical subjects are interdependent. It could be supposed that as deeper is the international integration, as stronger economical subjects are interdependent, and at the same time much more dependant on each other. Therefore while analysing different economical appearances inside the European Union can't be afforded the dissociation from occurrences behind its limits.

[11] European Central Bank. The Monetary policy of the ECB. 2004.

Conclusions

Recently both new member states and the European Union generally confront the cyclical economical depression. To react towards the processes of altering economical development is possible in the various ways, but most of all should be applicable monetary and fiscal measures.

In such situation it was important to highlight subjects mostly determining the economical rates in the EU and strongly the destiny of other countries. After analysis of distribution of GDP created by the EU among the countries is completed, there emerges the fact that 5 great states which create 75 percent of EU GDP play the substantial role in the development of the European Union. The development level of countries inside the union differs very much, therefore seeking for equivalent situation in the regions are implemented the measures of structural support. It is important to mention that the concentration of this support in the undeveloped regions is not sufficient, but in regard of new member states this is unquestioned financial support. In one or other way both for the new countries and for the old ones the biggest positive economical effect creates the involvement in general market.

It is possible to state that monetary politics managed by the central bank is the measure through which implementing institutions of government can manage the rapidity of the economical development growth, in such case the measure should assure that the economy of country would develop rapidly and safely, and the management of budget is the choice of development direction. It should be known that the perspective investments in the future usually provide multiple return. Therefore it is important that the new member states would successfully assimilate the European Union structural support orienting the economical structure towards the fields creating bigger additional value.

It should be mentioned that the EU fiscal politics is implemented in pretty restricted way, because its budget always must be balanced and pursued without consideration of cyclical fluctuations. But the comparison of statistical information has indicated that dependence between inflation and the EU financial support in member states is direct. There comprises contradictory situation when the new member states suffer from the regional backwardness and imperfectly reformed economy and infrastructure, at the same time are fighting with less ability to apply the EU resources and high inflation.

When managing the economical development in the EU level the influence of taxes regulation is also minimal. There are strivings in the EU level to harmonise indirect taxes which can angle the competitive conditions within the EU domestic market, but the direct taxes and the expenses of national budgets are those measures which can be applied as competitive element in competition between countries inside the Union and measure for inducement or slowing of national economies development.

The only centralised measure in the EU for the adequate response towards actual economical processes and future perspectives remains monetary politics applied by central Eurobank for management of basic interest rate. Should be appreciated that many new member states haven't accepted Euro and can't be fully involved in the European economical and monetary union, although this could be especially beneficial today trying to stabilise the economies of separate counties experiencing recession.

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