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Economic efficiency and growth in the EU enlargement

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Abstract

This paper deals with the effects of EMU enlargement (European Economic and Monetary Union) by evaluating the economic efficiency of growth policies of the 25 member countries. By using Data Envelopment Window Analysis the paper measures the policies adopted initiating economic growth of the 25 EU members for the time period of 1995–2005. Different factors reflecting countries' investment policies have been used in order to measure chronically countries' economic efficiency. The results reveal that the old 15 EU members have faced problems reforming their economic policies in order to cope with the EU enlargement which in turn had an impact on their economic efficiencies.

JEL classification: F15; F43

Keywords: Policy evaluation; Economic efficiency; European integration; Data envelopment analysis

1. Introduction

Recently the members of EU have been expanded from twenty-five to twenty-seven due to the entrance of Bulgaria and Romania. The EMU (European Economic and Monetary Union) enlargement therefore raises research questions regarding the economic advantages and risks associated with this enlargement especially for old member states.

According to Friedrich List (List, 1841, p. 142): economic integration has essentially taken place between nations that already have achieved a comparative advantage in increasing returns activities (manufacturing) or, alternatively, as colonialism. In addition Backhaus (2001) argues

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that the Central European states followed the same path of economic development and integration. According to Kregel, Matzner, and Grabber (1992) and King (2002) Central and Eastern European (CEE) countries were based on several policies in order to obtain immediate transition towards free market economy.

As a result the old EU members have redirected asymmetrically their trade flows towards the New Member States (Breuss, Fink, & Haiss, 2004). As such all the welfare gains from EU enlargement derive mainly by the trade creation between the EU members states (Herok & Lotze, 2000).

Therefore the new form of economic integration had a significant different structure from the classical colonial form. Most of the partners have significant differences in their levels of economic development and this asymmetric economic integration has opposed pressure to the fiscal policies of the old members to cope with their budget transfers to the New Members States. According to Nahuis (2004) due to the EU enlargement the asymmetric shocks induce industrial restructuring and political turmoil.

In that respect this paper primarily examines the effect of the policies adopted by the EU member states and their effect on economic efficiency. Moreover, it quantifies the economic gains/losses of EMU enlargement by measuring and comparing the economic efficiencies of all the twenty-five EU member states for the years 1995–2005 raising issues of dynamic determinations of economic development and growth.

2. Literature review

The Eastern European Countries experience (CEEC-10) of EU accession differs from the experience of Spain, Portugal and Ireland in many aspects. When comparing the Iberian countries with the CEEC we notice that the level of their development was significantly higher. Looking at the GDP per capita levels Portugal and Spain had the 53% and 70% respectively compared to the EU-12. However the CEEC countries have 33% of the EU-15 average in 1997. In addition the EU benefited from foreign direct investment (FDI) and trade flows induced by the Eastern European enlargement. But empirical research produces mixed results regarding the impact of FDI (Bellak, 2000).

According to several authors the EU enlargement is believed that it would benefit only the new members and not the old ones (Corado, 1995; Döhrn Milton, & Radmacher-Nottelmann, 2001; Gual & Martin, 1995). In addition Döhrn et al. (2001), report that due to the fact that Portugal exports are labor intensive thus Portugal will be one of the countries which will have significant economic losses. The labor costs in CEECs countries are considerably lower and this is a big threat for many members due to the increased competition. As Table 1 indicates only Slovenia has labor costs that are above Portuguese costs. All the other CEECs have twice as low labor costs compared to Portugal. Spain can also have the same problems with Portugal due to the decreasing

Table 1
Average values of hourly labour costs for EU15 countries.

Average hourly labor costs (EU-15 1998 = 100)						
Portugal	Spain	Ireland	CEECs-10	Slovenia	Poland	Bulgaria
39	72	95	15	46	17	6

Source: EUROSTAT, World Development Indicators (2000 edition).