

STRUCTURAL PROBLEMS IN THE EUROPEAN UNION

Introductory thoughts on the current situation

On the 7th April 1992 the European Council signed the Maastricht Treaty, the main aim of which was to expand sales markets within the European Union, by reducing barriers to trade. Furthermore, through better coordination of trade policies, the treaty hoped to further develop sales markets outside the European Union.

Particularly weaker countries, those left behind in terms of economic development, should be given the opportunity to make up for this deficit. This however, has not been the case, rather just the opposite: the discrepancies in production structure between the European core countries, such as Germany or Austria, and those countries further south, such as Italy and Spain, have remained. In Greece there has been a stagnation in economic development at lower level. Nowadays it is clear that this lack of convergence is a result of continued inflexibility in economic structures in weaker states, leading to them failing to increase their productivity. These developments, which were unforeseeable at the time of the foundation of the EU, present the biggest challenge to the survival of the monetary union.

For some time now, the European Union has been considering the best economic course to follow, particularly in regard to the weakest EU states. On the one hand, it seems that a frugal budgetary policy would be advisable, in order to reduce debt and enable growth-stimulating reforms, or at least to stabilize state budgets (Brussels). On the other hand, Rome recommends a more relaxed budgetary policy in order to stimulate the economy in these weaker states.

Experience shows that when barriers to trade are removed, allowing sales markets to expand, well established businesses flourish. It is these businesses which, through their established trading partners, are able to offer high quality products, in line with the market, in spite of continually changing selling conditions. Increased sales, turnover and liquidity enable them to operate strong pricing policies necessary to cover fix costs, incurred through research and development, and to remain competitive.

“For to everyone who has, will be given more...!” In economics we often speak of “internal colonialism”, meaning the politics of a country, or in this case a group of countries, in which highly productive and profit-yielding businesses are at an advantage over economically weaker businesses. The aforementioned quotation highlights the fact that the EU, through its global policies, does not allow for the need for differentiation in industrial policies. In other words, economically strong states have different requirements in regard to industrial policy compared to their weaker counterparts.

In order to strengthen productivity and growth in the weaker states specific economic reform is needed. The concrete measures required can only be effective if the individual needs of the states in question are taken into consideration.

May 2019

Manfred O. E. Hennies (10.09.1938–18.10.2019)
Kiel/Warder
Germany

Matti Raudjärv
Tallinn/Pirita-Kose and Pärnu
Estonia

P.S.: The paper above, this time really just a short article, was the last one written by respected Professor Emeritus Dr. rer. pol. Manfred Oskar Eitel Hennies. The undersigned had the honour of being his co-author, just like in many other occasions in the past when our joint papers and the book were published. Manfred's role was considerably more significant than that of the undersigned, however. It is still early to know whether more of such so-to-say Introductory Thoughts on the Current Situation would be published in our journal. If they will, unfortunately already without Manfred. But I believe that perhaps they will, after all, to commemorate the important author and supporter of our journal and also the active inspirer of many Värška conferences!
Wait and see!

11. November 2019

Respectfully,
Matti Raudjärv