

The Inefficiency of European Integration:
The Indeterminable Future of the European Union

The process of regional integration is one that has embraced the world throughout the twenty-first century. Whether it is to gain global power, improve terms of trade, or improve efficiency, countries all over the world have embarked on this process of regional integration. Currently, numerous regional integration associations exist with the purpose of benefiting their member nations. The North American Free Trade Agreement, Latin American Integration Association, Association of Southeast Asian Nations, Asia Pacific Economic Cooperation, Arab League, Economic Community of Western African States, and the European Union are just a few examples of these associations (McCormick 21). Of course, all of these associations persist within a varying set of rules and regulations, but all are aimed at improving member nations through the process of integration.

Many people deem this idea of regional integration to be the future of the political and economic world; believing that single countries are not large or powerful enough to survive in a world of such brutal competition, many theorize that these regional clusters will provide the security and collective power necessary to survive (Nagengast: University of Pittsburgh; lecture 6/25/02). This is the premise behind the European Union. After World War II, Europe was in shambles: countries were divided, families were broken, and economies were slumping. It was at this point when the European Union was formed. “For the first time in its history, almost the entire subcontinent was engaged in a voluntary exercise in integration that encouraged inhabitants to think and behave as Europeans rather than as members of smaller

cultural groups that just happened to inhabit the same landmass” (McCormick 33). Using this ideology as its foundation, the European Union was born.

As with any regional integration association, European Union member countries gained much for cooperation. This paper will later display the positive effects that the formation of the European Union had on member states even at the onset. Nevertheless, despite the positives that accompany the process of integration, numerous downsides and obstacles exist that prevent the European Union from reaching a stable state. This paper will explain the costs and benefits associated with the European Union and discuss the issue of European integration, analyzing the economic effects that it will have on Europe as well as the rest of the world. In the end, it will show that European integration creates a net loss for member nations.

I Integration: Definition and Motives

Before discussing the European integration and the European Union, it is important to establish a conceptual framework of the process integration as it relates to groups of countries. One of the most basic forms of integration is a free trade agreement in which member-states have no visible internal barriers to trade. In other words, countries participating in this agreement can trade freely amongst each other without facing tariffs. An example of this type of integration is the North American Free Trade Agreement (NAFTA) involving the United States, Canada, and Mexico. A free trade agreement is a loose agreement, not requiring surrender of national sovereignty. Nations that wish to integrate further than a free trade agreement might form a customs union. A customs union is a free trade agreement plus a common external tariff. Thus, in addition to having no internal tariff, members of a customs

union set a common external tariff as well. Further integration beyond a customs union is a single market. A single market has all the qualities of a customs union, no internal barriers to trade and a common external tariff, in addition to having no invisible internal barriers to trade. The purpose behind a single market is not only to eliminate the visible barriers to trade between countries (a customs union), but to abolish all invisible barriers as well. An example of an invisible barrier to trade would be differing quality regulations with the intent of limiting imports. In a single market, countries begin to surrender some national sovereignty in heed to a supranational body.

Following a single market, the next step towards deeper integration is a common market. The marginal difference between a common market and a single market is that the common market has the qualities of a single market, but its factors to production (such as labor and capital) are mobile. Thus, workers and money are able to move freely across member borders, facilitating economic interaction. Further along the process of integration, monetary union occurs when members of a common market adopt a common currency. Due to the complexity of a common currency with uncommon governments, monetary union requires a strong presence of a supranational body to monitor and control its currency. Finally, an economic union is the summation of all of these while further requiring members to agree upon a common economic policy; it is complete economic integration.

Now that the concept of integration is clear, it is important to establish the motives behind economic integration. The first and most obvious reason for economic integration is to decrease the possibility of wars. When countries are bound together by common bonds, they are in positions to reciprocally understand each other and work together to find a mutually beneficial outcome; thus, the possibility of engaging in military conflict is less

likely. To engage this idea further, economic integration between two nation states inherently requires bilateral political support and cooperation that exceeds common foreign diplomacy. This increased communication and activity intrinsically “raises the level of interaction and trust of the nations, increases the stake that countries have in their neighbor’s welfare, and improves countries access to their neighbor’s strategic resources” (Nagengast: University of Pittsburgh; lecture 6/25/02). In other words, economic integration creates a natural level of interdependence and an essential alliance. It is this interdependence that often defines allies; thus, creating this national interdependence through economic integration is a standard deterrent to war.

Besides avoiding military conflict, integration can lead to many economic benefits for participating countries. Competing individually, smaller nations are often unable to compete in the global economy due to sheer size. However, with a union of integrated economies, combined size and common policy can play a major role in gaining global trading power. Take the eighteenth-century American colonies as a prime example. The southern colonies were among the world’s largest cotton producers; however, without a common bond linking them together, the colonies competed against each other, lowering their profits. When the colonies united, however, common policy and combined production capability allowed these colonies to bargain for a much higher price. Therefore, integration provided these separate economies to increase their combined global presence, negotiating power, and terms of trade.

Moreover, with economic integration, free-market forces work with more proliferated effects. In other words, with a larger and more integrated economy, forces on price and quantity tend to draw the market equilibrium to a more efficient outcome. Primary contributors to this more efficient outcome include specialization, comparative advantage, and

increasing returns to scale. A primary reason for this effect is that increasing the size and deepening the integration of multiple economies logically hinders potential monopolistic and other size-related market imperfections (collusions, cartels, etc). This premise earns its validity through the basic fundamentals of game theory and prisoners' dilemma. Imagine an oligopoly. As long as the number of firms in this market remains relatively small, there is still a strong possibility of the firms being able to directly or indirectly engage in cooperative price setting. However, as the number of firms in this market rises, firms' individual incentive to cheat by setting a lower price than the group becomes exponentially greater. Finally, as the number of firms in the market approaches infinity, the probability of a firm cheating and setting a lower price nears certainty. Thus, free market forces behave more purely in an integrated and larger economy.

First, it is useful to delineate a few forms of government that have relevant correlations to the European Union. A confederation is simply the loose union of independent states. In this system, each member state maintains its national independence and sovereignty. Many have compared the makeup of the EU to the Articles of Confederation. Federalism, on the other hand, is defined by decentralized power with the federal government being limited in its power over some areas and having complete domain over others (Nagengast: University of Pittsburgh; lecture 6/25/02). However, a federal government's complete domain of power often rests in areas such as military and defense. As shown later, this issue causes numerous problems for the EU. Considering the sheer number and national history of each member state, federalism seems to be too lofty of a goal. Finally, supranationalism involves member countries giving up national sovereignty in heed of a common authority (Nagengast: University of Pittsburgh; lecture 6/25/03). This idea of

supranationalism is the future vision of the European Union. Ideally, member states would place a large portion of their national sovereignty in the hands of a higher European power in order to benefit the entire union.

II Historical Background of the European Union

Clearly remembering the Nazi invasion of Paris and unable to forget the terrors inflicted by Germany during the war, French society continued to possess an apparent anti-German sentiment into the 1950s. Further, communal European fear of Germany's industry and potential ability to remilitarize was obvious. It was, however, apparent that the collective future of Europe depended upon Germany's ability to rebuild itself. It was evident that monitored but unsuppressed growth in a cooperative environment would be the best solution for Europe as a whole; henceforth, the progress towards integration began. The first steps towards European Integration began with the Schuman Declaration between Germany and France, which stated that Europe would progressively unite through a series of steps as opposed to a radical present shift. The first such step towards integration occurred in 1951 with the Treaty of Paris, an agreement that led to the formation of the European Coal and Steel Community (ECSC) between Germany, France, Italy, and Benelux. Addressing the concerns that an isolated Germany might build its industry to a frightening level and attempting to amend the anti-German sentiment in France, the primary objective of the European Coal and Steel Community was to increase Franco-German cooperation. The ECSC ameliorated Franco-German resentment as it placed the French and German coal and steel industries beneath a common higher authority; further it allowed the countries to "reduce tariff barriers, abolish subsidies, fix prices and raise money by imposing levies on steel and

coal production” (McCormick 66). It was further implied that an additional goal of the ECSC was the long-run opportunity for political integration. Despite its poor initial public support, the success of the ECSC provided an optimistic outlook for this potential deeper integration in other areas (McCormick 14). Therefore, with the first cooperative process acclaiming definite success, the potential for future integration emerged.

In 1957, the Treaty of Rome expanded the idea of integration between France, Germany, Benelux and Italy by creating the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). The primary objective behind the Treaty of Rome was to establish a guideline structure for economic integration, outlining the timetable for a customs union, then a common market, and finally a single market. The Treaty of Rome involved a groundbreaking philosophical change in mindset in the sense that the vision for European economic integration was optimistic, long-term, and tangible. Following the Treaty of Rome, the structure needed for expansion came into place.

While the initial potential of European integration seemed exciting and eventually optimistic, it rested on the scale principle that more European countries would desire to enter the European Economic Community. While initial doubts caused many nations to opt out of the Treaty of Paris, the initial success of integration enticed other European nations to seek membership. The process of enlargement ensued in 1973, when the United Kingdom, Ireland, and Denmark joined the European Economic Community. Greece joined in 1981, while Spain and Portugal entered in 1987. Austria, Finland, and Sweden all enlisted in 1995. Although this process of enlargement involved many disagreements and frictions, its success must be interpreted in its outcome, a larger-encompassing EEC. Today, the following 15 countries make up the European Union: Austria, Belgium, Denmark, Finland, France,

Germany, Greece, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, and the United Kingdom (Europa: The European Union online – European Union Member States).

Towards the end of the initial expansionary push, EEC members gathered again to refine their goal for a single market by 1992 during the Single European Act of 1986 (Hix 3); they also changed the name of the union from the European Economic Community to simply the European Community (EC). Further, the Single European Act “created the single biggest market and trading unit in the world and gave the EC responsibility over policy areas such as the environment, research and development, and regional policy. Further it provided refined legal power to the Court of Justice, European Council and European Parliament and made equal economic and monetary union an EC objective” (McCormick 77). In other words, the European supranational body was growing in size and in power. By this time, EC member-states “had a combined population of 322 million citizens and accounted for just over one fifth of all world trade” (McCormick 74). While these figures seem to imply at least a partial success, the primary goal of integration was somewhat incomplete to this point. Recall that an initial goal of the EEC was to establish a customs union; however, to this point “barriers remained that limited the free movement of people and capital, including different national technical, health, and quality standards, and varying level of indirect taxation, such as [value added tax]” (McCormick 74). Many integration advocates believed that steps towards monetary union could help complete the progress already taken in forming the common market.

Before 1992, the idea of stabilizing exchange rates had emerged, most notably with the European Monetary System of 1979. The success of this policy spawned the possibility of

a single currency. The Maastricht Treaty of 1992 was the first formal agreement between members that planned a true monetary union. At Maastricht, European Community members agreed upon “the creation of the European Union, a label symbolizing the next stage in the process of European integration. Members established a timetable for the creation of a single European currency by January 1999 and expanded EU responsibility to include new areas such as consumer protection, public health policy, transport, education, and social policy. Further, the European police intelligence agency was initiated to combat organized crime and drug trafficking. European members also acquired additional rights including the right to live anywhere within the boundaries of the EU” (McCormick 80). Thus, the schedule for European currency unit (ecu) was set.

The next major benchmark occurred in 1997 with the Treaty of Amsterdam in which members deliberated further reform and expansion along with regulating boarder controls, employment issues, and other smaller matters. On January 1, 1999, the “euro” was introduced into 11 of the European Union members’ economies, and on January 1, 2002, it became the sole legal currency in those economies. Monetary union had been officially established, and the European Union ventured forth to likely its most difficult task step yet, economic union. Currently, the European Union is between a monetary union and an economic union.

III Problems with the EU: CAP

During the 1940s and 1950s, food shortages plagued European countries. Further, following World War II, this issue of food supply became an enormous concern, as countries feared the idea of being reliant on other nations to feed its citizens. Coupled with this concern

of food supply, living conditions of farmers were poor and markets were unstable. These unfavorable conditions made entry into the agricultural industry an unpopular occurrence. As the European integration began to progress, it became obvious that action had to be taken in agricultural reform.

Primarily, CAP consumed a large portion of the European Union's budget. Spending over half its annual budget on the non-productive sector of the EU's industry brought about tremendous scrutiny. To compound matters, most of budgetary spending went to subsidies and other direct payments. The fundamental financial burden of CAP rests in the following four expenses (The Common Agricultural Policy; pg. 7):

- Costs from intervention buying.
- Export refunds.
- Direct payments.
- Early retirement schemes.

The European Economic Community's response to this agricultural dilemma was addressed in the Common Agricultural Policy (CAP) outlined in the Treaty of Rome. The initial objectives of the common agricultural policy were as follows (The Common Agricultural Policy; pg. 4):

- Increase Agricultural Productivity.
- Ensure a fair standard of living for farmers.
- Secure a stable food supply.
- Stabilize agricultural markets.
- Provide stable food prices.

The Common Agricultural Policy, while disputed among member-states, initially solved the food shortage problem. Through government subsidies, direct food purchase, import protection, and price floors, the food supply in Europe began to increase dramatically as did the quality of living for European farmers. Agriculture soon became a profitable profession and attracted many Europeans to migrate to the countryside. Eventually, however, this migration to the agricultural industry created a problem of overproduction. Ironically, “at first, CAP was designed to meet production needs, [but] now it must cope with controlling production” (CAP reform – A policy for the future; pg. 1).

It is this issue of overproduction and its financial consequences that has caused heated debates within the EU. When overproduction occurs and the market becomes flooded, market forces cause prices to quickly drop. This problem of overcapacity in the market led to an essential prisoners’ dilemma in production. Farmers would be collectively better off if they decided to limit their production to a lower quantity, but the incentives to cheat cause all farmers to produce high quantities and flood the market. This flooding of the market leads to farmers receiving lower incomes and maintaining lower standards of living. Again, farmers face difficult working and living conditions.

Facing the issue of overproduction, the EU government spends an exorbitant amount of its budget on agricultural policy. In fact, 42% of the European Union’s budget is allocated to direct food purchase and storage, and the average subsidy of European farmers in 1995 was \$21,000 (McCormick 191). Overall, the European Union spends over half its annual budget on agricultural policy. Thus, while the European Union’s budget is consumed by dead weight loss in direct food purchase, it is unable to adequately fund new ideas that could be productive to European integration.

Because the scale of agricultural subsidy is production-quantity based, numerous problems arise. First, by providing an incentive for farmers to produce maximum output, severe environmental effects have emerged. Questionable farming methods include the use of harmful fertilizers and unsustainable production. These two occurrences not only affect the quality of food produced but also additionally impact the environment. Because the incentive for subsidy is quantity-based, quality of food is rarely taken under consideration. This effect yields grave social and health costs. In addition to EU aid in the agricultural industry being costly, its quantity-based incentives cause subsidy distribution to be unequal. Because marginal fixed costs decrease with scale and incentives are based on sheer quantity, larger farmers hold a distinct advantage in the market. In fact, in 1992, the richest 20% of European farmers received 80% of EU agricultural subsidies (Overman: CAP lecture).

An interesting result that stems from CAP's quantity-based subsidies is the fraud that emerges in the market. The European Union sends professional appraisal committees to estimate the annual output of each farm. Therefore, by presenting the impression that his farm has produced more than it actually has, a farmer can increase his government subsidies. Fraud of this nature is so prominent that farmers can hire professional consultants that can alter the perception of an individual farm's production capabilities. In fact, nearly all EU farmers inflate their production numbers in order to receive increased government subsidies (Overman; CAP lecture).

Before concluding the topic of agricultural policy, it is interesting to note the global implications of the European Union's overproduction of agriculture. A common method of dealing with food surplus is to export it. By doing this, the European Union is essentially flooding the market, inflicting a downward pressure on world prices and causing world

agricultural markets to become unstable. When the European Union exports large quantities of foodstuffs into the global market, it creates a positive supply shock, shifting the supply curve to the right. This supply shock is characterized by decreasing world prices, adversely affecting agricultural industries around the world.

Positive Supply Shock of EU Foodstuffs on World Market

In the graph, notice that the European Union's thrust of foodstuffs on the world market shifts the world supply curve of foodstuffs to the right. The intersection of the new supply curve and the demand curve creates the new equilibrium of price and quantity. The trust on the market has increased the quantity of foodstuffs available on the world market (quantity demanded moved to the right, as expected). Moreover, the world price of foodstuffs has decreased (price has moved from P_{world} to $P_{\text{world w/ shock}}$).

These problems concerning the Common Agricultural Policy present major

concerns for the future of European integration. Because agricultural policy consumes such a large portion of the EU budget, other potential programs that could further enhance European integration are overlooked. Further, countries that specialize in agriculture as opposed to other industries are unlikely to surrender their current subsidies due to the inherent instability of agricultural markets. Thus, while Common Agricultural Policy still exists, the EU has come to an essential standstill over the issue of its future. This disagreement over common economic policy directly refutes the idea of an economic union. This controversial issue will provide significant obstacles towards further economic integration in Europe.

IV Problems with the EU: Trade Inefficiencies

In addition to the Common Agricultural Policy, numerous trade inefficiencies exist that threaten the stability of European economic integration. Certainly, the process of integration does bring innate trade benefits to participating member states; however, the same process yields numerous consequences as well. This section will outline the efficiencies and inefficiencies of integration on trade in the European Union. In the end, this discussion will demonstrate that the advantages gained from economic integration, while undoubtedly apparent, do not outweigh the negatives associated with it.

Before examining these trade dynamics, it is first essential to revisit the basic structure of trade policy and trade barriers within the European Union. As discussed earlier, members of the European Union share no internal visible or invisible barriers to trade, common external barriers to trade, factor and asset mobility, and a common currency. Some of the most common barriers between member states consisted of physical barriers, fiscal barriers, and

technological barriers. Due to certain European-specific demographics and characteristics, the presence of these barriers presented intensified consequences for the European Union. Thus, the eradication of these barriers proved to be immensely beneficial to EU member states.

One type of internal barrier to trade is a physical one. Physical barriers are those that limit the movement of goods and capital between borders. Due to the close proximity and frequency of travel amongst European nation states, physical barriers are more costly and time consuming than such impediments would be in other nations that were more dispersed and isolated (McCormick 177). Tourism, which depends on the facility of travel amongst borders, generates significant revenue for European countries. In fact, 60% of world tourist trade occurs in Europe (McCormick 184). If physical barriers hindered tourists from traveling from country to country, the potential for lost tourist dollars would be substantial.

Second, the tourism industry also impacts the need to remove fiscal barriers. An example of a fiscal barrier is a volatile value added tax (VAT) that accompanies the purchase of many European goods. Studies have proved that tourists dislike the highly volatile VAT in various countries as it distorts the price of goods in different countries (McCormick 179). For example, if a consumer wishes to buy a good while traveling through Europe and no common VAT exists, it would be difficult to determine if the item was a bargain. A good might be cheaper because it is of lesser quality, or it might be less expensive because the VAT is lower in that specific country. This consumer uncertainty likely has a negative impact on tourist spending. A common VAT amongst countries helps alleviate this problem by placing the tax on goods at a fixed level, standardizing prices and easing consumer doubt. This type of fiscal barrier must be removed in order for Europe's economic integration to progress.

Lastly, the presence of technological barriers causes numerous problems for Europe's economic integration. Technological barriers emerge when countries have different quality standards (often due to technological capabilities) for certain goods. A visible example of a technological barrier is the American automobile in Japan. In the later part of the 20th century, Japan refused to import American automobiles due to its argument that they were poor in quality. In the European Union, the diverse assortment of countries provides a spectrum of industries and an inequality of wealth. This combination makes acceptance of all goods amongst every country in the European Union unlikely. For instance, since German beer is renowned as high quality, Germany refused to import beer from other countries within the European Union until those countries met German standards (McCormick 180). This type of unilateral barrier creates numerous obstacles along the path of integration.

Throughout its path of integration, the European Union has recognized these barriers as ones that were essential to eliminate. Today, EU member states act under numerous common economic policies that facilitate internal trade. Removal of internal trade barriers results in trade creation for member states involved in economic integration. By eradicating such barriers, markets operate in their most efficient capacities (within the limitations of the member countries), and market prices stabilize at their optimal equilibriums. (The appendage of "within the limitations of the member countries" is necessary because the integration process involves only a portion of the world economies. For markets truly to operate in their most efficient capacities, economic integration would have to involve every country in the world market). After the elimination of these trade barriers and with the creation of the single market, "the EU has become one of the world's two largest markets and intra EU trade has increased drastically" (McCormick 58). Elimination of these internal trade barriers brings a

market closer to its optimal equilibriums; hence producers and consumers gain their respective surpluses. The acquisitions of these consumer and producer surpluses are termed as trade creation. The following graph demonstrates trade creation:

Trade Creation

In the above graph, the two prices, P_{tariff} and $P_{\text{w/o tariff}}$, indicate the price of a good with internal barriers to trade and the price of a good without them, respectively. With internal trade barriers, countries often implement tariffs against imported goods. However, when countries enter into trade agreements, like the European Union has, these internal tariffs dissolve. The result of removing these tariffs is what is shown in the graph above. When the tariff is removed, the price of the good decreases from P_{tariff} to $P_{\text{w/o tariff}}$. The shaded region to the left represents the producer surplus (i.e. the additional quantity that the producer is willing to supply when the tariff is removed). The shaded region to the right represents the consumer

surplus (i.e. the additional amount that consumers are willing to purchase when the tariff is removed). These producer and consumer gains are the net benefits and gains from trade that result in the removal of tariffs.

In addition to having no internal barriers to trade, the European Union implements common external barriers. These external tariffs endow the member states to compete in a somewhat protected market. If a foreign producer desires to export a good into the European Union, the good is taxed at a fixed amount. This external tariff provides a distinct advantage for a domestic producer because it acts as a price crutch for a domestic good. In a free market, the most efficient producer is able to offer the lowest price and win market share. A tariff, however, raises the price that consumers must pay for an imported good and allows domestic producers to compete despite lacking the most efficient means of production. Thus, this common external tariff allows member states operate at an advantage internally within the EU. In other words, when trading within the European Union, member states, despite their efficiency, have a price advantage in comparison with world goods that receive a common tariff when imported into the EU.

While at first glance this common external tariff appears to benefit member states in the European Union, further examination proves that the tariff actually creates trade inefficiencies. If member states of the European Union are the most efficient producers of a good, common external tariffs are effective. The problem, however, arises when member states are *not* the most efficient producers of a good. For example, say France imports automobiles from two countries, Germany (EU member) and the United States (non-EU member). If Germany is more efficient at manufacturing cars than the United States is, the external tariff does no harm. However, if the United States is the more efficient producer of

automobiles, the external tariff that France imposes on the United States will have a negative impact on French consumers. If French consumers purchase American automobiles, the tariff causes a *price distortion* in the automobile market; further this increased price results in a consumer loss. It is also possible that the external tariff is large enough to increase the price of the superior American automobile above that of the German automobile. In this case, French consumers are sacrificing consumer loss and are purchasing a lesser quality good. This is known as trade diversion. Price distortion and trade diversion are two considerable consequences of common external tariffs. The graph below demonstrates depicts these effects.

Trade Diversion

In the graph above, trade diversion is created as French consumers purchase the German automobile as opposed to the American one. By creating a common external tariff and maintaining no internal tariff with Germany, France establishes a dead weight loss. By imposing the tariff solely on American automobiles, they become more expensive than German automobiles. Thus, instead of buying the cheaper American automobiles (without the tariff), the increase in the price of American automobiles with the addition of the tariff causes French consumers to purchase German automobiles. The shaded region to the left represents the producer loss, while the shaded region to the right represents the consumer loss.

This problem of trade diversion is compounded when the external tariff is coupled with an agreement that eradicates internal barriers between regional nations, like the structure of the European Union. In the example from above, if American automobiles are cheaper and more efficient than German automobiles, adding a tariff to each would still allow French citizens to purchase the American automobile at a cheaper price (just at a higher price than without the tariff). However, if Germany and France enter into a trade agreement and dissolve all internal tariffs, German automobiles now become cheaper than American automobiles (despite the American automobile supremacy). Thus, this tariff sacrifices the quality of goods that the French consumers can purchase for their money. While entering the trade agreement does recoup certain efficiency losses, it fails to salvage all of them. The example is illustrated in the following graph:

Trade Diversion Compounded

In the preceding graph, the problem of a common external tariff compounded with no internal tariff is shown. With a tariff on both goods, French consumers purchase American automobiles and pay the tariff. However, when the tariff on the German automobile is removed, French consumers purchase the lesser quality German automobile. While certainly some benefits are regained by removing the German tariff (notably the reduction in price), not all of the original loss can be recovered. The upper triangular regions that are shaded represent the original losses that are recovered when France removes its internal tariffs with Germany. The bottom triangular regions that are shaded represent the original loss from tariffs that cannot be recovered without dissolving barriers to trade with *all* countries. This is demonstrative of the European Union. It recovers some of the consumer loss that would occur by having a tariff on all imports, but it does not recover all losses that it creates by

imposing preferential trade agreements. In other words, the European Union only partially solves the problem that it fully creates.

Therefore, although there are some trade benefits to the European Union's economic integration, the trade inefficiencies created by the process result in a net loss for member states. The removal of internal trade barriers is a progressive step towards integration as it provides a confined forum for free trade. However, the common external tariff of the European Union leads to trade diversion that harms the member states overall. As a result of these factors the European Union's economic integration will face certain obstacles and resistance along its quest for economic integration.

V Problems with the EU: Inequality and Limitations

Before examining the problems of inequality and limitations, it is essential to observe the diversity of members in the EU. The membership of the European Union consists of both wealthy and poor nations. Nations such as Great Britain and Germany are extremely rich, while nations such as Spain and Greece are quite poor. Of course, this varied assortment of wealth is expected with such a large grouping of countries, but the degree of inequality that is present in the European Union is not. The few wealthy members of the EU account for a significant portion of its industry and revenue, while the poorer nations contribute a minimal amount. For example, of the 15 EU members, Germany, Great Britain, Italy and France make up over two-thirds the population and three-fourths the GNP of the EU (McCormick 51). This severe inequality presents certain problems that will be discussed in this section.

First, inequality of power hinders the potential of the European Union. In

forming the European Union, certainly some countries are likely to benefit more than others. Wealthier nations tend gain less than from equalitarian economic integration than do poorer ones. An example of this is Great Britain. Although Great Britain is a member of the European Union, it refuses to join monetary union due to the strength of the British currency (British Pound). By joining monetary policy, Great Britain would have to abide by EU monetary standards and would risk a net fiscal loss. In the eyes of Great Britain, the costs associated with joining monetary union outweigh the benefits from pursuing it. Aside from Great Britain, Germany is another example. A rise in the availability of labor leads to increased competition, simultaneously causing short-term job loss (McCormick 19). Because the German economy is already strong and functioning, Germany is hesitant to allow a large influx of labor into the market, as that would put numerous employed Germans out of work. Cheap labor from periphery countries such as Italy and Spain would jeopardize the German labor market. In these two examples of Great Britain and Germany, it is obvious that wealthy nations have reasons to hesitate joining the EU. In order to cope with this problem of hesitation, the European Union grants unequal access to power in order to give wealthier nations a larger incentive to join (Hix 189). The theory behind this power grant is that the more powerful nations will be able to prevent certain actions that would endanger their economies, realizing that these nations have much more at risk than poorer members. In other words, wealthier nations use this power to insure that their preexisting advantages are not marginalized.

The problem with this unequal access to power is that it grants wealthier nations the power to act selfishly and unethically (McCormick 6). Some might argue that wealthier and more successful nations have the intellectual capital and experience to make more informed

decisions about the future of the EU. In many cases this is true. For example, because the Bundesbank of Germany is the most established governing financial institution in Europe, it controls the Euro. If it operates in an ethical manner, Germany certainly has proven its financial superiority in relation to its currency; thus, it would be the best candidate for controlling the Euro. However, if Germany acts in an unethical manner that primarily benefits its own interests, the Euro could lose its overall value or be inflicted with other negative consequences. In this case, the physical makeup would backfire and the European Union would suffer as a whole. It is still unclear whether selfishness will cause wealthier nations to abuse their inherited power or if these nations will use their ability to better the union. Nevertheless, this uncertainty raises doubt about the stability of the European Union.

In addition to the problem of inequality, other limitations emerge that curb the process of integration. For instance, loss of national independence poses a serious threat to European countries, which have such a strong presence of rich history and tradition. Studies have shown that EU member citizens are opposed to give up their national sovereignty, holding a strong sense of national independence (McCormick 19). European countries are so entrenched in their respective cultures and traditions that it is no surprise that they are hesitant to surrender this individuality. This hesitation to relinquish national sovereignty, however, is a major deterrent towards integration. If members are unwilling to surrender national dominion to the European Union, its future is permanently limited. To exacerbate the problem, not only are nations unwilling to give up complete national sovereignty, but member citizens are apathetic in EU elections. Early, this paper delineated the idea of a supranational government for the EU, a government comprised of many member nations. In order for this

complex form of democracy to exist, turnout for supranational elections must be high, demonstrating an involved European Union citizenry. However, only 60% of Europeans participate in such elections, while over 90% of Europeans vote in their respective national elections (Nagengast: University of Pittsburgh; lecture 6/25/03). This type of societal apathy, coupled with an unwillingness to surrender national sovereignty, casts serious doubt on the future of the European Union.

VI Conclusion

Throughout its process of economic integration in Europe, the EU has encountered many successes and failures. Since its beginning in 1951, the European Union has succeeded in creating a free trade agreement, a customs union, a single market, a common market and finally a monetary union. Currently the European Union is between the stages of monetary and economic union. While the benefits of integration have been realized (decreased intra-EU military conflict, improved ability for smaller nations to compete, enhanced terms of trade for EU members, and proliferated market efficiencies), the negatives of integration are extensive. CAP has proved to be costly and largely ineffective. Trade inefficiencies have emerged from economic policies such as common external tariffs. Finally, inequality of power, citizen apathy, and certain market inefficiencies all compound the negative connotations associated with integration.

In the end, it is unclear whether the European Union is destined to fail. However, this paper has given numerous arguments for possible stumbling blocks for this supranational body. John McCormick, in his book *Understanding the European Union*, explains it best by stating that “Europeans have much that unites them, but much more that divides them. They

lack a common history, they speak many different languages, they have different social values, their views of their place in the world often differ, they have gone to war with each other with tragic regularity, they have often redefined their allegiance and their identity, and they have frequently redrawn their internal frontiers in response to changes in political affiliation” (McCormick 31). Therefore, while the founders of the European Union were surely in the right mindset regarding the process of integration, the future of the EU is indeterminable and depends on its ability to adapt to the continuous changes in the modern global economy.