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THE ENLARGEMENT OF THE EUROPEAN UNION

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Summary

Starting in 1957 with six countries, the EU of 27 has become today the largest economic integration bloc in the world.

The new candidate member states are Croatia, FYROM, and Turkey, followed by the potential candidates Bosnia and Herzegovina, Kosovo, Montenegro, Serbia. Albania applied for membership on 28 April 2009.

Geographical and cultural limitations eventually will determine the maximum absolute size of the European Union. The optimum size however could be lower than the absolute maximum number of member states. Academic research about optimum size is based on theories about club size, economic integration and convergence. Frequently political decisions in favor for enlargement overrule the economic rationale for the optimum size of the EU.

Since 1993 the Copenhagen criteria determine the preconditions for membership.

Besides the ability to cope with the obligations of membership – the so called “acquis communautaire” – and the economic criteria, the highest priority often goes to the political requirement of democracy, the rule of law, respect for human rights and protection of minorities.

The EU offers help to countries that are in the process of meeting the Copenhagen criteria. For the candidate member countries the Instrument for Pre-Accession Assistance (IPA) is available, and the European Neighborhood and Partnership Instrument (ENPI) for the potential candidate countries.

There is no evidence for the existence of a positive correlation between the size of the EU and the capacity to solve the problems of the actual economic crisis. Deficit spending by the EU is not possible due to the restrictions of the budget. The European Central Bank (ECB) has been applying an expansionary monetary policy by frequent interest rate cuts, but the impact only applies to the 16 euro countries.

The EU Commission has been demonstrating a tolerant attitude against various types of state support which has been given by member states to sectors in trouble.

An overall recovery action plan as in the US is not possible in the EU, as there is no mandate for such an action plan and because of insufficient funding.

Keywords: enlargement, Copenhagen criteria, pre-accession

1. INTRODUCTION

Six countries signed the Treaty of Rome in 1957, starting the European Economic Community (EEC), nowadays called the European Union (EU). Since then, frequent enlargements caused the number of joining countries to increase to the actual situation of 27 member states.

This article focuses on some important issues in the enlargement debate. The first issue deals with a historical explanation of the EU enlargement process over the years, followed by an overview of the countries which have the status of 'candidate' and 'potential candidate' members.

The next part of the text deals with arguments for and contra enlargement. Are the Copenhagen criteria still an efficient basis to accept new member states, and how important are the pre-accession programs?

The final point of attention goes to the usefulness of an expanding EU from an economic point of view, especially in the current context of widespread economic crisis.

2. THE HISTORY OF EU ENLARGEMENT

One of the main reasons to start up economic integration in Europe was the political ambition to secure peace in Europe. Policymakers believed that peace could be maintained in a more efficient way if countries glue together by economic integration. This was the basic priority of the three smallest countries to start up Benelux after the end of World War II. Belgium, the Netherlands and Luxembourg indeed have been a frequent historical battlefield in Europe during major confrontations between large nation states. This peace seeking ambition

was continued by the creation of the European Coal and Steel Community (ECSC) in the Treaty of Paris 1951. At that time the coal and steel sector provided vital inputs in the defense industry. By integrating these two sectors, a new confrontation between Germany and France was considered to become less obvious. Italy was included as well because of its history of collaboration with Germany during World War II.

The six countries of the ECSC continued to increase their mutual dependency by creating the European Economic Community (EEC) and Euratom in the Treaty of Rome (1957).

The EEC is based on the fundamental platform of a customs union with an option to become later a common market and even an economic and monetary union. As some political ambitions were stated in the preamble of the Treaty of Rome, political neutral countries like Switzerland, Austria and Sweden could not join the EEC. In 1960 they started economic integration on their own, known as the European Free Trade Association (EFTA). Being traditional trade partners, Denmark and Norway joined EFTA as well from the beginning. Another initial member was the UK, having political clashes with France. Portugal had to follow because the UK was its main export market.

The first erosion of EFTA happened in 1973, by the switch of the UK and Denmark to the EEC. Being the closest neighbor of the UK, Ireland joined at the same time.

The next new member was Greece in 1981, followed by Spain and Portugal in 1986.

EFTA lost again some member states in 1996, because Austria, Sweden and Finland joined the EU. Besides Malta and Cyprus, eight central and eastern European countries became member in 2004: Latvia, Lithuania, Estonia, Poland, Slovakia, the Czech Republic, Hungary and Slovenia. Romania and Bulgaria joined in 2007.

The next countries for membership will be Croatia (expected between 2010 – 2011), Fyrom, Turkey and Albania (application on 28 April 2009), and potential members are Bosnia and Herzegovina, Kosovo, Montenegro, Serbia. (COM-2008-127 final).

In the longer run membership could be available for even more countries such as Georgia, Armenia, Moldova, Ukraine, and not to forget the EFTA countries Switzerland, Norway, Iceland. It remains unclear what the position is going to be in the future for the mini states Liechtenstein, Andorra, Monaco, San Marino, Vatican City.

3. ARGUMENTS FOR AND AGAINST ENLARGEMENT

Several explanations have been developed over time to explain the ever growing size of the EU.

When the EU is considered to be a club of countries, club theories (Buchanan; Ahrens) argue that the first members create the highest marginal utility and the lowest marginal cost. As the size of the club increases, marginal utility declines and marginal cost increases. More members indeed create more complex organizational structures and reduced efficiency in decision-making (Gillingham, p. 484). A good example is the EU competition policy forcing the Commission to deal with an increasing number of countries, more cases of cartels and other illegal agreements between companies, abuses of dominant positions, more acquisitions and mergers to be controlled, more problems of state aid provided to companies, etc. Optimal club size will be reached when marginal cost is equal to marginal utility, as indicated by point M* in figure 1. The Treaty of Lisbon (OJ, C 306) creates a more transparent and efficient EU, and this can shift the marginal cost curve down and to the right. Consequently optimal club size can increase. Unfortunately, club size theories are not very practical and difficult to verify empirically.

Based on the traditional approach of customs union theory, efficient economic integration requires potential member states to be at similar levels of economic development, to have competitive sectors in their economies and a potential for complementary economic activity.

The global competitiveness scores of the World Economic Forum in table 1 illustrate that this criterion is not always respected during the enlargement history of the EU. Greece for instance became member in 1981, but still has a competitiveness index behind Montenegro and Turkey and just ranks ahead of Romania. Albania recently applied for membership state but ranks low behind Armenia, Moldova and Georgia.

Table 1.

Selected global competitiveness rankings 2008 – 2009

Rank	Country	Member since	Candidate	Potential candidate	+ other
3	Denmark	1973			
4	Sweden	1996			
6	Finland	1995			
7	Germany	1957			
8	Netherlands	1957			
12	UK	1973			
14	Austria	1995			
15	Norway (EFTA)				
16	France	1957			
19	Belgium	1957			
20	Iceland (EFTA)				
22	Ireland	1973			
25	Luxembourg	1957			
29	Spain	1986			
32	Estonia	2004			
33	Czech Republic	2004			
40	Cyprus	2004			
42	Slovenia	2004			
43	Portugal	1986			
44	Lithuania	2004			
46	Slovak republic	2004			
49	Italy	1957			
51	Russia				X
52	Malta	2004			
53	Poland	2004			
54	Latvia	2004			
61	Croatia		X		
62	Hungary	2004			
63	Turkey		X		
65	Montenegro			X	
67	Greece	1981			
68	Romania	2007			
72	Ukraine				X
76	Bulgaria	2007			
85	Serbia			X	
89	FYROM		X		
90	Georgia				X
95	Moldova				X
97	Armenia				X
107	Bosnia and Herzegovina			X	
108	Albania		X		

Source: www.weforum.org and www.ec.europa.eu/enlargement

The explanation is that political arguments frequently have been overruling the economic prerequisites. Even today it is claimed by the EU that enlargement contributes to more security in Europe (Good to know about EU Enlargement, p. 2) and to more political weight in the world (Olli Rehn).

Specialized EU financial support by the Structural Funds and the Cohesion Fund has been made available to improve the macro- and microeconomic convergence of countries lagging behind in economic performance. This financial support is available for member countries and aims at 'ex post convergence'. In the expenditure structure of the EU budget for the period 2007 – 2013, this convergence aid gets the highest priority, taking around 36 % of the budget (General Budget, p. 7).

Countries applying and eligible for future membership receive as well pre-accession financial aid to adapt their economies to EU standards.

This 'ex ante' financial solidarity aims at economic convergence for future member states and is unique for the EU. It makes it possible for countries with a less developed economy to join the EU and to enjoy the benefits of membership.

Empirical analysis however does not deliver convincing proof that the 'ex ante' and 'ex post' financial support contributes to a sufficient and efficient improvement of the economies of the countries lagging behind (Naert, p. 199). Consequently the large and expanding dimension of the EU is probably non optimal from a macro-economic economic point of view. One of the second best solutions is the evolution towards a multi geared structure of the EU, creating clusters of countries that engage in deeper mutual economic integration than the rest of the EU. A small cluster example is the close integration between the three Benelux countries. The eurozone, the Schengen area, the objective 1 and 2 regions in the regional policy are typical large cluster cases.

A clustered EU does not rule out that major new business opportunities can occur globally over the EU mainly due to an expanding internal market (Johnson, p. 54). More competition stimulates efficiency, economies of scale and cost cutting, possibly reducing prices and increasing profits.

A larger internal market gives access to more sourcing opportunities, and offers a greater price transparency especially in the euro zone.

The question still remains, whether there are sufficient political arguments to justify the larger dimension of the EU. If the EU can speak and negotiate in the world with one voice, then undoubtedly a higher number of member countries cause a higher weight on the impact of the EU voice.

Unfortunately, this 'one voice' strategy exists only in a limited number of areas such as external trade policy during negotiations in the WTO, the monetary policy by the ECB for countries of the euro zone, some international agreements such as the open skies agreement with the US, etc.

An improvement in this respect is provided in the Treaty of Lisbon by several amendments to the former treaties, such as the creation of the function of a ‘president’ of the European Council and by allocating a single legal personality to the EU (The Treaty at a glance).

4. REQUIREMENTS FOR MEMBERSHIP

Since 1993 the standard preconditions for membership are based on the Copenhagen criteria.

In the earlier days before 1993, the simple fact that a country was European and democratic, was already the necessary and sufficient requirement for eligibility to membership. In this case the theoretical maximum size of the EU is physically limited by the number of countries belonging to geographical Europe. This explains why the application of membership on Morocco in 1987 was not considered to be acceptable. Even the geographical criterion is not absolute (Lacoste, p. 20 – 34). Sometimes the European cultural dimension and tradition offer an alternative criterion for membership. Greenland for instance does not belong to geographical Europe, but was accepted as member because of its historical links with Denmark. The overseas countries and territories (OCTs) of France, the UK and the Netherlands are located in other continents but belong nevertheless officially to the EU. Cyprus officially is an Asian country, but could join the EU in 2004.

Economic preconditions were not vitally important in the period before 1993, although new members had to be able to comply with the ‘acquis communautaire’. Countries with poor economic performance could join very easily such as Ireland and the south European countries Greece, Spain, Portugal. The only country so far that got in trouble with the ‘acquis communautaire’ was Greenland. As this country was politically linked to Denmark, it became member at the same time as Denmark in 1973. The fisheries policy of Greenland was totally inconsistent with that of the EEC, ending up after a short while in the decision of Greenland to give up membership of the EEC. In all the European Treaties – Treaty of Rome, Single European Act, Treaty of Maastricht, Treaty of Amsterdam, Treaty of Nice – no written procedure to leave the EU was included. For the first time now in the history of the EU, a divorce procedure is clearly included in the Treaty of Lisbon, expressing the concern of the EU that some member states in the future could decide to withdraw from membership if they are not able to cope with the complex ‘acquis communautaire’.

The Copenhagen criteria of 1993 require the following (Doc/93/3):

- political criterion: member states should be democratic, use the rule of law, respect human rights and protect minorities.

- economic criteria: the economy should be based on the market principle, and the capacity should exist to cope with the competitive pressure and market forces within the Union
- the ability to adopt the obligations of membership ('acquis communautaire'): this refers to a detailed list of 15 policy areas in the EU

The political requirement is close to the pre 1993 approach, but the focus is now on a more detailed description of the market economy requirement and the 'acquis communautaire'. The Commission checks by written reports whether a candidate member state makes satisfactory progress in complying with the Copenhagen criteria (COM-2008-674).

No clear indication is provided however about the relative weight and importance of the Copenhagen criteria, although it seems that the political requirement still ranks as the highest in the practical assessment of the Copenhagen criteria (Nello, p. 472).

The director of the Luxembourg Institute for European and International Studies even expresses the pessimist opinion that the EU enlargement policy is "characterized by a high degree of irrationality, incoherence and arbitrariness" (Clesse, p. 112).

The official point of view seems more positive, as for instance in the communication of the Commission about membership of the Western Balkans: "the EU stresses the importance of peace, stability and security in this part of Europe, and welcomes all efforts of the Western Balkan countries to come closer to the EU, meeting the necessary conditions" (COM – 2008 -127 final, p. 21).

Concluded: the political criterion determines whether a country is eligible for membership, while the other criteria control the speed of the negotiations and of the joining process.

5. PRE-ACCESSION FACILITIES

The EU has a long standing tradition in concluding trade agreements with many countries in the world. This expands the economic power of the EU worldwide and can be considered as a substitute for the lack of EU political power in the world.

Some of these agreements intend to establish a stable neighborhood (Tsoukalis). The European Economic Area between EU and EFTA is an example of good neighborly relations. This intention was additionally highlighted in 2004 by the European Neighborhood Policy (ENP). It involves the Mediterranean countries of the EuroMediterranean Partnership and as well the Partnership and

Cooperation Agreements with Russia, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Ukraine, Uzbekistan.

Other agreements are the result of historical links of the EU, which can be illustrated by the Cotonou agreement with the ACP countries.

Agreements can be market driven. The free trade agreement for instance with Mexico opens the door towards NAFTA and creates opportunities for easier access to the North-American market.

Some agreements between the EU and other European countries prepare for membership. The Europe Agreements between the EU and Central and East European Countries (CEECs) are a good example of making membership easier when these countries joined in 2004 and 2007.

The current candidate countries are in the process of complying with the Copenhagen criteria, while the potential candidates are subject to specific stabilization and association agreements with the EU.

Since 2007 the European Neighborhood and Partnership Instrument (ENPI) provides financial support for the potential candidate countries, and other funding goes to the candidate countries under IPA, the so called Instrument for Pre-Accession Assistance (Council Regulation 1085/2006). An overview of the financial split of the assistance allocations is provided in table 2.

Table 2.

Pre-accession financial assistance (million euro)

Country	2007	2008	2009	2010	2011	2012
Albania	61.0	70.0	81.2	93.2	95.0	96.9
Croatia	141.2	146.0	151.2	154.2	157.2	160.4
FYROM	58.5	70.2	81.8	92.3	98.7	105.8
Turkey	497.2	538.7	566.4	653.7	781.9	899.5
Bosnia and Herzegovina	62.1	74.8	89.1	106.0	108.1	110.2
Kosovo	68.3	184.7	106.1	67.3	68.7	70.0
Montenegro	31.4	32.6	33.3	34.0	34.7	35.4
Serbia	189.7	190.9	194.8	198.7	202.7	206.8

Source: www.ec.europa.eu/enlargement

These financial facilities are classified under expenditure item 4 of the EU budget entitled “The European Union as a Global Partner” and both take around 1.15% of the budget. It should be taken into account that the budget itself represents only 1% of the overall GDP of the 27 member states. The conclusion is that the EU spends barely 0.01% of its GDP on IPA and a similar 0.01% on ENPI.

Table 3.

Main expenditure categories of the EU budget for the period 2007 – 2013

Expenditure category	%
1. Sustainable growth (<i>cohesion</i>)	44.35 (35.60)
2. Preservation and management of scarce resources	42.28
3. Citizenship, freedom, security and justice	1.25
4. The European Union as a global partner (<i>ENPI</i>) (<i>IPA</i>)	5.73 (1.15) (1.15)
5. Administration	5.76
6. Compensation	0.09

Source: Calculations based on: General budget for the European Union for the financial year 2009, p. 7 and 25; Statement of estimates of the European Commission for the financial year 2010, § 3.6.

6. THE ECONOMIC CRISIS

Many governments all over the world try to get out of the economic crisis by the classical instruments of Keynesian deficit spending, expansionary monetary policy, and state aid tailored to the specific needs of companies in trouble. Even the US, the most capitalist nation in the world, does not hesitate to inject huge sums of tax money into the private sector.

How successful is the EU engagement in these policies, and what is the link with a larger EU?

In contradiction to the US, direct financial assistance by the EU towards sectors and companies in trouble is out of reach primarily due to the small size of the budget. For the budgetary period 2007 – 2013, the EU budget represents around 1% of the overall GDP of the 27 EU countries together. This same percentage was applicable as well for the period 2000 – 2006, but was anyway more important in relative terms as many lower income countries joined since 2004. Consequently the enlargement of the EU since 2004 did not have a positive impact on the budgetary situation of the EU. A more substantial EU budget does

not dependent on a larger EU but will require a new budget mechanism (Laffineur).

Deficit spending is even legally impossible, as the budget of the EU should remain in equilibrium all the time.

Somewhat later than the FED in the US, the instrument of expansionary monetary policy has been used by the European Central Bank (ECB) in Frankfurt by lowering the interest rate several times. The expansionary impact however is limited to the 16 countries of the euro zone. A larger EU is here not an advantage as such, as long as not all members have been able to adopt the euro. Since the enlargement of 2004, only Slovenia, Malta, Cyprus and Slovakia were able to adopt the euro. The euro zone will remain at an international disadvantage as long as it does not represent the entire EU (O'Neill).

During the last months, state aid to companies in trouble, like banks and car manufacturing companies has frequently been the initiative of the individual member states. The only impact of the EU is horizontal via the industrial policy, or via the controlling authority of the competition policy.

The EU – whatever the size- is apparently not able to act and to speak with one voice, surely not in crisis situations and in cases of strong national and chauvinist interests. Referring to the low show up rates of around 40% for the elections of the European Parliament in June 2009, even the public opinion does not seem to be confident in the EU.

7. CONCLUSION

The EU of 27 will continue to grow. Croatia, Turkey, Fyrom and Albania are in the stage of candidate countries. Membership of Croatia is between 2010 – 2011, while Albania applied for membership on 28 April 2009. The status of potential candidate countries is given to Bosnia and Herzegovina, Kosovo, Montenegro, Serbia.

Although theories of club size and economic integration try to determine the optimum dimension of the European Union, political arguments frequently get higher priority.

Since 1993, the standard preconditions for membership are based on the Copenhagen criteria. Only democratic countries can join, if they have a functioning market economy and are able to cope with all the obligations of membership.

Although the EU provides pre-accession assistance to candidate and potential candidate countries, the efficiency of these financial facilities is hard to prove and the available funds represent a small fraction of the EU GDP.

Despite its size, the EU is lacking the mandate and the economic instruments to solve the problem of the economic crisis. The requirement for a balanced budget makes the option for deficit spending impossible, and the budget of the EU is insufficient as it represents only 1% of GDP.

Although the ECB is adopting an expansionary monetary policy by frequent interest cuts, the impact is limited to the euro zone of 16 countries.

In the current situation of a large but powerless EU, most recovery actions to solve the economic crisis are adopted by the individual states.

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PROŠIRENJE EUROPSKE UNIJE***Sažetak***

Počevši 1957. Godine sa šest zemalja, danas je EU postal najveći integrirani ekonomski blok na svijeti sa svojih 27 članica. Nove članice kandidati su Hrvatska, FYROM i Turska, zajedno sa potencijalnim kandidatima Bosnom i Hercegovinom, Kososvom, Crnom Gorom I Srbijo. Albanija je aplicirala za članstvo 28. travnja 2009.

Konačan i apsolutan obim Europske Unije odridetit će geografske i kulturalne granice. Optimalna veličina mogla bi biti manja od apsolutnog maksimuma država članica. Akademska istraživanja o optimalnom broju temelje se na teorijama o veličini udruženja te ekonomskoj integraciji i konvergenciji. Česte političke odluke koje idu u prilog povećanju nadjačavaju ekonomsku opravdanost za optimalnom veličinom EU.

Od 1993. Kopenhagenskim kriterijem su utvrđeni potrebni preduvjeti za članstvo.

Pored mogućnosti da se nosi sa obvezama članstva - takozvanim "acquis communautaire" – te ekonomskim kriterijima, najvažniji je politička potreba za demokracijom, pravom, poštivanjem ljudskih prava i zaštitom manjina.

EU nudi pomoć zemljama koji su u procesu stjecanja Kopenhaških kriterija. Za članice kandidate dostupan je Instrument za predpristupnu pomoć (IPA), i Instrument europske granične i partnerske pomoći (ENPI) potencijalnim članicama kandidaima.

Ne postoji dokaz za pozitivnu korelaciju između veličine EU i kapaciteta kako bi se riješili probleme aktualne ekonomske krize. Deficitarna potrošnja EU nije moguća zbog restrikcija u budžetu. Centralna Europska Banka (ECB) aplicirala je ekspanzionističku monetarnu politiku čestim smanjenjem kamatnih stopa, ali takav se utjecaj odnosi samo na 16 europskih zemalja.

Komisija Eu pokazuje tolerantan stav prema različitim oblicima državne potpore koje su članice pružile problematičnim sektorima.

Sveukupni akcijski plan za oporavak kao i u USA nije moguć u EU budući da ne postoji mandata za takav akcijski plan te zbog ndostatnih sredstava.

Ključne riječi: povećanje, Kopenhaški kriterij, predpristup

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