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ECONOMY OF INTEGRATED EUROPE: PROBLEMS AND PROSPECTS

Abstract

Basing on the comprehensive analysis of the European Union economic development the author defines specific features of the Western European economy, analyses reproductive, technological, and industrial capital structure changes, and shows problems connected with investment implementations and communication structure development. Unification of state economic policy instruments with the help of the subsidiarity principle actualizes the issues of harmonization and definition of the EU countries' development priorities. As a result, the discussion of financial policy and credit system problems, big and small economic cycles of development, and the Western-European countries' world economic relations is very actual.

Key words:

Capital investments, communication structure, credit system, economic cycles, financial policy, integrated Europe, international relations, loan market, postindustrial era, social security, state budget, world commerce.

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Some conclusions of economic development

Western Europe is an important part of «golden billion» to which also belong the United States of America, Canada, and Japan. To it belongs 1/5 of the world GDP that is equal to the portion of the USA. During the post-war period a gap between developed nations (DN) and developing countries (DC) has not been eliminated in an international economy; moreover, it even increased. In this way globalization of the economy with American bias is manifested, which leads to reinforcement of antiglobalization policies in developing countries, first of all, towards the US, which are eager to a unidirectional world, or, in other words, to international economy under American domination. In spite of the fact that growth rate of developing countries is higher than that of industrialized nations, the gap between them is not getting smaller, since absolute growth of developed nations is higher than that of developing ones, although developed countries have lower rate of growth than developing nations. The point is that the growth rate of developed nations has much greater weight than that of developing ones in absolute values. During the last two decades of the 20th century annual rates of gross domestic product (GDP) growth of the European Union (EU) have been lower than worldwide rates and those of the USA and Japan.

Table 1

Real GDP growth rates (percentage)

	1981–1990.	1991–2000	2001
Whole world	3,4	3,3	1,5
Developed countries	3,1	2,7	1,0
Developing countries	4,2	5,6	4,3
EU	2,3	2,1	1,6
USA	2,9	3,2	1,1
Japan	4,0	1,4	–0,5

Source: Internationale Wirtschaftszahlen, Koln, 2002, s. 31.

In general, the world economy is characterized by extended reproduction (reproduction on an enlarged rate), although economic crises are not excluded, when reductive reproduction takes place in short duration.

A significant feature of the EU countries' economies is their tight interdependence in the process of internationalization, globalization, and regional inte-

gration. The EU countries have the greatest weight of goods export and import in their GDP. Suffice it to say that during the last two decades of the past century the weight of goods and services export in GDP (export quota) of the EU countries has increased from 35% in 1980 to 47% in 2000[1]/

This has naturally been reflected by their participation in international trade. In 2000 the weight of the EU countries in international export has made up 40%, while total goods export of the USA and Japan has been little more than 22%, i.e. almost half less. As to services, the EU has ended the 20th century having the weight of 40% on the world market, whereas the weight of the USA has been 17.1%, and Japan - 6.3%, i.e. together they have had 23.4% of this sphere, or again half less than the EU countries[2]/

It is notable that in the second half of 1990s the EU countries quota in the total direct foreign investments (DFI) amount has increased greatly - exceeding 50% in 2000 - while the quotas of the US and Japan have made up 17.7% and 1.6% correspondingly by the end of the 20th century[3]. So, the EU countries have entered the 21st century with the weight of their DFI twice as big as that of the US and Japan together (just as in the case of goods and services trade).

The following figures can show significant changes in DFI flows. During the period of 1985–2000 a DFI inflow into the EU countries has made up $2.2 trillion and the DFI outflow from these countries has equaled $3.4 trillion. That is the DFI outflow from the EU countries has been $1.2 trillion greater than the DFI inflow during the period. In other words, the EU countries have financed capital investments and contributed to reproduction processes of other countries, and first of all the USA. Has not this been one of the reasons of high economic growth rate of the US in 1990s?

If we examined capital investments of the European countries, it appears that the DFI quota in investment sources is small, although it has been growing since mid 1980s.

The DFI weight has comprised on average of 5.7% in gross investments of the EU, and 5.6% in the US, i.e. at the same level. In 1990s the DFI weight in the gross investments of the EU has risen to 8%, while in the US it has remained stable. In Japan the DFI weight has not reached even one per cent during the period[4].

Significant structural changes have not passed branches of the Western Europe economy after the World War II. The production sector of the Western European economy, which includes industry, agriculture, and construction, has decreased from 40% in 1950 to 30% in 2000. The decrease has most affected the agriculture: from 6% in 1950 to 3.5% in 2000, i.e. almost in half. A weight of

[1] Internationale Wirtschaftszahlen, 2002, Koln, s. 26–27.
[2] 2002, Deuthschland in Zahlen, Jdw, Koln, s. 134.
[3] Jbidem.
[4] 2002, Deuthschland in Zahlen, Jdw, Koln, s. 134.

the construction industry has decreased in one and a half. A weight of industry in the production sector has decreased from 25.4% in 1950 to 21.6% in 2000.

An opposite situation is observed in non-production sector. Its weight has increased since 1950 when it had been equal 60% to 70% in 2000. A service sector has shown the greatest growth: from 35.9% in 1950 to 43.6% in 2000. A share of trade has also increased[5]. Above mentioned tendencies conform to the worldwide ones, although they are greatly expressed in the industrial weight of the EU countries. In comparison to other international competition centers Western Europe has the industrial sector share (30%), which exceeds the corresponding American share (27.8%), although is smaller than the industrial share of Japan (41%). As to the non-production sector, Western Europe with its 70% gives way to the US (72%), but leaves behind Japan greatly (58.8%)[6].

An important feature of the EU countries' economy is a transition from extensive to intensive way of development during the post-war period. Extensive methods have prevailed up to 1980s, whereupon the EU countries have gone on to the intensive development, which is being improved today. The following features characterize the extensive way of economic development, which was used until the world economic depression of 1974 – 1975: considerable rates of economic growth under high savings rate (27.3%), which exceeded the savings rate in the US (22.4%). Annual growth of gross investments at the rate of 5.3% was also higher than in the US (4.8%). Capital ratio was increasing by 3.8% per year (in the US by 1%). Annual growth of labor productivity amounted to 4.4%, while in USA – to 2.1%[7]. The employment growth, including foreign labor force, and unemployment reduction took place. Although at the same time little attention was paid to scientific and technical progress. Research and development work expenditures quota in GDP have only approximated 2%, whereas in the US – 3%.

When Europe has proceeded to intensive development in 1980s, reduction of economic growth rate, industrial production, profit rate, and investments has taken place.

At the same time reproductive, technological, and industrial structure of capital has been changing considerably. Simultaneously capital output ratio, material capacity, labor-intensity, and power-consumption coefficients have been reducing, which shows productive efficiency improvement. Intensive economic development has strengthened centripetal tendencies in the integration process.

The next significant feature of the EU countries' economy is represented by reinforcement of the state role in economic development regulation and even

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[5] Мир на рубеже тысячелетий, М., 2001, с. 573 (World on a Frontier of Millennium, Moscow, 2001, p. 573).
[6] Мир на рубеже тысячелетий, М., 2001, с. 573 (World on a Frontier of Millennium, Moscow, 2001, p. 573).
[7] Wirtschaftliche technische Revolution und Krise des staadsmonopolischen Kapitalosmus, JMSF, Frankfurt am MAIN, 1988, s. 40.

in indexes planning on micro- and macroeconomic levels as well as in international relations.

Lately the point that putting greater emphasis to internal integration objectives improves prospects of industrial and employment growth of a state, its currency and monetary unit consolidation, and development of integration in breadth and deep into has gained great importance in the EU countries. State policies have contributed to considerable reduction of budget deficits and even budget surpluses in some states. Consolidation of budgets is reached basing on the Maastricht Criteria, especially after adoption of the Stability Treaty in 1997. The share of government spending in GDP, which has reached 40–50% in the EU, is the greatest not only in Europe. Such government spending allows for state regulation through legislation and budget economy financing. Even though percentage of government spending in GDP has shown some reduction tendency since 1990s, it still is the biggest in integrated Europe comparing to the rest of the industrial world. The EU government spending have amounted to 46% in 2001, whereas to only 30% in the US and 36.9% in Japan[8].

The main source of the EU countries' state budget revenues is represented by direct tax funds (income tax and profit tax). In 2000 budge revenues of the EU from direct taxes have been on average 36%. Similar situation was observed in the USA even in greater amount (50%). The second place belongs to the revenues from indirect taxation – goods and services turnover tax, which accounts for 30.2% (in the US – 16.2%). Obligatory social insurance assignments to budget take the third place. In this case their weight in the EU (26%) is higher than in the USA (24%) and less than in Japan (40%). Among others sources of the budget revenues there are property taxes, which amount to 5%, that is half as much as in the US and Japan[9].

Averaged figures hide differences among countries. Belgium, Denmark, Finland, Ireland, Sweden, and Great Britain have higher than average budget revenue from income and profit taxes. The share of these taxes is the same as average in Italy, Norway, and Luxembourg. The other countries of the EU have share less than average, so deviations in general are small, although they are distinguished. Budget revenues from goods and services turnover tax vary between countries from 25 to 35%, i.e. also relatively little. Obligatory social insurance assignments to budget vary pretty unequally while average assignments are 26%[10]. Total amount of the above-mentioned taxes and assignments percentage of GDP is again higher in the EU than in the USA and Japan. In 1999 these taxes and assignments have constituted 42% of GDP in the EU countries, while only 28% in Japan, and 27% in the US, i.e. twice as much in the EU as in the USA and Japan[11].

[8] 2002, Deuthschland in Zahlen, Jdw, Koln, s. 129.
[9] Internationale Wirtschaftszahlen, 2002, Koln, s. 44.
[10] Internationale Wirtschaftszahlen, 2002, Koln, s. 44.
[11] Internationale Wirtschaftszahlen, 2002, Koln, s. 45.

The EU social security policy is the most solid among all industrial states. Entrepreneurs themselves, as well as employees, and especially the states participate in the social security. By the end of 1990s (1998) the states have financed social needs by 39%, entrepreneurs – by 35%, and employees – by 20%. Although averaged figures again hide differences by countries. The share of entrepreneurs is much higher than average in Spain, France, Italy, Belgium, Germany, Finland, Sweden, Austria, and Greece. The state social care exceeds average figures greatly in Denmark (67%), Ireland (61%), Great Britain (48%), Sweden (45.8%), and Luxembourg (46%).[12] Employees themselves provide higher than average social care in the Netherlands, Germany, France, Belgium, and Austria. The Netherlands where employees serve 35% of social expenditures distinguishes greatly. The EU countries spend for social needs much greater part of their GDP than the USA and Japan. The last country holds the same level as Greece, Portugal, and Ireland and lower one in comparison to the other EU member countries, especially to Scandinavian countries.

Social expenditures per capita have increased on average by one and a half in the EU during the last decade of the 20th century. This proves that the EU countries have paid attention to improvement of living standard, as one of new objectives of a «magic polygon». Social expenditures per capita have shown more than 50% increase in Luxembourg, Denmark, Ireland, and Portugal. Luxembourg holds the top position in social expenditures per capita with 10 thousands Euro, and the last ones keep Greece and Portugal with 3.3 thousands Euro.[13]

It is important to mention, that 6.4% of the total $2.5 trillion social expenditures of Western Europe, or 30% of its GDP, has belonged to education, 6.2% – medical care, and 17.8% – pensions and welfare payments in 2000[14].

By the end of the 20th century Western Europe has taken the first place in the world market of loan-funds. The share of Western Europe amounts to about 40% of the world loan market, while the share of the US is 35% and 24% of Japan. This gains special importance if we take into account the fact that the world loan market (about $80 trillion) is twice as big as the world GDP and exceeds the world goods export fifteen times. At the same time the fact that about 1/5th of all loan capital belongs to the world loan market and about 4/5th – to national loan markets should be held in mind. It approximately corresponds to the ratio between world commodity output for export and inside use. Strong positions of the EU on the international loan market evidence its active participation in internationalization and globalization of world development processes and international labor division. The fact that only 20% of loan capital circulates in the developing countries, while more than 80% falls at developed countries, should be also taken to consideration in general description of the international loan market. It is important to emphasize that the size of the EU financial market (stock

[12] Internationale Wirtschaftszahlen, 2002, Koln, s. 84.
[13] Internationale Wirtschaftszahlen, 2000, Koln, s. 82.
[14] Мир на рубеже тысячелетий, М., 2001, с. 588–589.

and bond capitalization, and bank assets) has reached the level of the US one by the end of the 20th century. By mid 90s of the last century a tendency of bond market growth as compared to other loan market constituents - bank credit and stock market - has become apparent. According to current estimations of D. M. Mykhailow (Д. М. Михайлов) at the beginning of 1996 bond market has approximately amounted to $30 trillion, whereas stock market has approximated $20 trillion as well as bank credit, which in the past has held the top position. About 85% of all bond credits account for eurobonds. A bank credit weight reduction is happening not only on the international loan market, but also on national markets of loan capital. For instance, the bank credit weight of Germany has experienced a reduction on a half while fictitious capital (i.e. securities) increased during the last two decades. The bank credit weight of Japan has reduced from 90% to 50% during the same period[15]. Similar processes took place in the USA and other developed countries.

At the end of 1970s new financial instruments – derivatives - have emerged on an equity market. Growth and development of these instruments is related to a crisis of traditional financial markets, especially during 1980 – 1990s. Collapses of stock and bond market prices have induced a need to insure, or hedge, risks on stock markets by the end of 1980s. For this particular reason along with traditional securities' transactions forward contracts have been put into practice to hedge risks. As a result of the derivatives implementation, share and role of stock exchange has decreased and an off-exchange market, or derivatives market, begun to dominate. Banks account these operations as off-balance sheet items. These new units of the world loan market belong to a forward derivatives market. Before 1980s cash transactions were prevailing on stock exchange, while forward transactions with both securities and currency played a little role. During 1980s and especially 1990s forward transactions have already been prevailing. However, stock futures transactions have also seriously developed. Options, just as futures, have first emerged in the field of currency transactions, although securities transactions have become their main sphere later. Hence, futures have taken the first place, forward transactions – the second, options – the third, and swaps – the forth place among derivatives during the last decade of the past century. At the same time futures have twice exceeded options during the decade, and the tendency here was such that if in 1986 futures have made up 45%, and options – 55% of all derivatives transactions, in 1996 these shares were – 70% and 30% correspondingly. The scope of futures, forward transactions, and options has been increasing sharply since mid 1980s, first of all in Europe, while the weight of these transactions has reduced in the USA. If in 1986 the US has conducted 90% of all derivative trade, and Western Europe – only 3.3%, in 1996 Western Europe and the US have evened up on a level of 37%[16]/ Nowadays competition on the forward derivatives market has caused a foundation of a united electronic system of Paris, Frankfurt-am-

[15] Д. М. Михайлов. Мировой финансовый рынок. Тенденции развития и инструменты. – М: Изд-во «Экзамен», 2000, с. 7, 22 – 25, 60, 61.
[16] Д. М. Михайлов. Цит. соч. с. 88, 89.

Main, and Zurich stock exchanges. Moreover, London and Frankfurt-am-Main stock exchanges have combined their efforts on a bilateral basis. Ex-pit transactions are generally conducted by commercial banks and grow faster than stock-exchange transactions (the same situation is observed on foreign exchange markets). As for swaps, Western Europe has become a swaps trade center due to the integration processes in the European Monetary Union in 1990s.

During the last two decades a separation from a production sphere towards a fictitious capital is resulted by capital circulation on the world loan market (Russia experiences this in the worst measure). The fictitious capital becomes the most important loan market sphere; besides, insurance and hedge transactions are supplemented with purely speculative ones in order to receive maximum profits.

As a result of loan-capital flow towards financial capital sphere severe world financial crises occur. In 1980s Mexico, Brazil, and Argentina were involved in the world payment and financial crisis. At that time, restructuring and securitization – transfer of bank liabilities to bonds and other securities - have taken place. Syndicated credits of commercial banks started to lose their significance; instead real innovation boom took place on securities market. In 1990s countries of South-Eastern Asia were involved in the world financial crisis, which played the same role as in Latin America. Loan market separation from industrial sphere both with outflow of assets toward speculative finance and fictitious capital on a world scale have also affected «Asian Tigers», which after a long-run economic growth found themselves in an economic crisis. Sharp capital inflows and outflows show interdependency of the international loan market on different continents. Not only Western Europe, but also Russia has experienced this in 1998.

Entrance into a new postindustrial era of economic development has caused additional problems for the integrated European economy. They, first of all, refer to improvement of scientific and technological progress, new technology implementation and innovations. «New economy» sets a problem of science intensive production speeding-up and increasing expenditures on research and development works in integrated Europe. Severe competition forces the EU to promote science intensive production.

As for research and development work, integrated Europe has entered the 21st century without having reached an average 3% GDP share of research and development work expenditures. Only two countries - Sweden and Finland - have been able to exceed this share.

Competitors of the EU – the USA and Japan are ahead of Europe not only in research and development work expenditures, but also in science intensive production. The weight of science intensive production has exceeded 20% in the US and 13% in Japan, whereas European average is less than 10%. Among the European countries only Germany with about 15% is close to the levels of the USA and Japan. Although it still is an exception in the EU, since science inten-

sive production in Great Briton, France, and Benelux that follow Germany makes up less than 8%[17].

Purchase and sale of patents and licenses, as well as number of registered patents is one of important scientific and technological progress indexes. Data about earnings and costs shows the way patents and license are used. In 1990 the EU countries have earned about $10 billion on patent and license sales, and spent $16.5 billion on their purchases, i.e. $6.5 billion higher than income. The USA have earned $16.6 billion on patent and license sales and spent on their purchase only $3 bln. In 1998 the EU has raised its income from patent and license sales to $17 bln., i. e. by $8 bln., and experienced $13 bln. increase of costs. In the USA earnings have increased by $20 billion and costs of the purchase – by $8 billion during this time.[18] On the one hand, such situation is good for economic development of the EU, although, on the other one, it shows a technological lag between the EU and the USA. It is important to emphasize that the number of claimed and registered patents has been greater in the EU than in the USA in 1990s. There have been 35,000 officially registered patents in the EU countries and 28,000 – in the USA, i.e. 7,000 less, in 1990s. In 1995 the figures were 40,000 and 36,000 correspondingly. So, the EU countries have a good scientific potential, but they do not use it effectively.

A communication structure is again not to the EU credit. In 1998 there were 256 mobile telephones per 1,000 citizens in the USA, whereas in Great Britain the figure was just 187, in Germany – 134, and in France – 116. Figures for cable communicative equipment were: in the USA – 242, in Germany – 234, in France – 49, and in Great Britain – 40. Internet usage data was the same[19].

Investments play an important role in the reproduction process. It is impossible to rich economic development without capital investments. J.Keynes wrote that economy could normally develop only when investments are equal to private and business savings. At the same time for capital circulation should be used loan market and government tools to assist investments either using fiscal policy for self-financing (depreciation and net profit accumulation) or government spending.

Investing process is measured by investment quota in GDP. The average quota was constantly reducing in the EU: from 25% in 1970 to 23% in 1980, 22% in 1990, and 21.7% in 2000[20]. In other words, the investment quota has reduced from $1/4^{th}$ to $1/5^{th}$. This has naturally been reflected by the real GDP growth rate decrease. Spain, Portugal, Austria, Greece, Ireland, and the Netherlands have higher than average quotas. The rest EU countries have either quotas of average level (Germany, Belgium, Denmark, Luxembourg) or lower ones (Sweden, Great Britain, Italy, Finland, France).

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[17] Internationale Wirtschaftszahlen, 2002, Koln, s. 38–39.
[18] Ibidem, s. 35.
[19] Internationale Wirtschaftszahlen, 1999, s. 109.
[20] 2001, Deuthschland in Zahlen, Jdw, Koln, s. 127, 2002, s. 129.

Polygon of economic purposes

Macroeconomic regulation in Europe in the second half of the 20th centuries has experienced significant changes. The level of macroeconomic regulation (both on the theory and on practice) in the developed European countries is one of the highest in the world. In conditions of development of integration processes in Europe unification of state regulation instruments and mechanisms of the economic order policy within the framework of formed European economic space takes place. In these conditions Western countries more often appeal to the concept of «a magic polygon» economic targets. This concept has been created as a result of the world economic crisis of 1929–1933. In the beginning it was a triangle, then a quadrangle, and after the World War II has turned to a polygon. Nowadays, to the initial purposes (stabilisation of monetary circulation and finance, employment problem and unemployment reduction, work of loan market and stock exchange, net balance of payments and stability of exchange rate, economic growth achievement) were added some new – life quality, social security, speeding up of scientific and technological progress. If during the state regulation problem solving within a quadrangle the priority was given, first of all, to evening-out of business cycles in anti-inflation package (struggle against inflation) and unemployment, nowadays the state participates more in scientific and technical advance progress support and also in social problems solving. During the evening-out of a business cycle conjuncture the state based, first of all, on theories and the models developed by Keynesian and monetary schools. In practice instruments and methods of these directions were combined frequently in the form of neo-classic synthesis. At the time the theory of institutionalism became more important.

In use of state-economic policy instruments (direct and indirect) and application of the models developed by various directions of scientific and economic ideas, integrated Europe acts as an unconditional leader in the modern capitalist world. Differentiation of competencies between levels of the government and realisation of imperious functions (especially in federal states) occurs on the basis of the principle of subsidiarity. Subsidiarity refers to interrelation and interdependence of various government structures and their institutes authorised by co-ordinated rights and duties. The principle of subsidiarity is adequate to an effective social market economy when decisions are passed and brought to life at the lowest level and only in the case it is impossible to be done at the given level, authority is transferred from below upwards to the upstanding level. And on the contrary, the authoritative hierarchical state structure in which commands go from the top downward that, as a rule, undermines market mechanisms is condemned.

The greatest success is achieved where alongside with entrepreneurs and employees that are represented by trade unions, states participate in production management as well. As an example can serve the agreement

between businessmen, trade unions, and the government made in Germany in 1967 that allowed to overcome an economic crisis due to "concert performance" (Konzertierte Aktion). The doctrine of the social market economy that was also put into practice for the first time in Germany became fundamental for Western Europe as a whole. Besides, the economic potential of Germany makes up approximately 1/4 of the EU potential. The European integration processes led to creation of the all-European uniform goods and services, free capital, and labour movements, then to realisation of the economic and currency union ideas, and since 1999 – creation of an eurozone made up by 12 states that became called "Euroland" with a common currency – Euro that applied for the role of a world regional monetary unit and made a modern world monetary system bipolar.

An important feature of the «Euroland» is that its participants are obliged to observe requirements of the Maastricht Agreement which act as obligatory performance criteria in the field of monetary circulation, credit, finance, public debt, and exchange rate fluctuation. It is the policy directed on divergence of monetary, credit and financial policies, infringement of which is punished by a penalty including even exception of the country from the «Euroland».

Struggle for monetary circulation stability

The first criterion of the Maastricht Agreement demands from the «Euroland» members to maintain the price level which should be not more than 1.5% higher than that of the maximum of three member states that have performed best. In 1999 the smallest rise of prices was in Austria - 0,5%, Germany and France - 0,6%. So, according to the Maastricht Criterion the limit of the price increase was 2,1%. Only three countries of the «Euroland» did not meet it: Ireland – 2,5% inflation rate, and Portugal and Spain – 2,2% price increase. In 2000 the price increase limit has risen up to 3,5% and only Ireland did not meet this requirement. In 2001 the margin increased up to 3,6% and was overcome by Greece, Ireland, the Netherlands and Portugal. As deviations from the defined level were rather insignificant it is possible to say, that the given norm basically is fulfilled. Monetarists find a money supply growth as the mail reason of inflation. However, inflation is a multifactorial phenomenon, it is caused by a lot of reasons, even though a certain connection with money supply certainly exists. It is easily to figure out the connection comparing price increase and money supply. In practice monetary aggregate M2 is used most often.

Table 2

Monetary aggregates in the Eurozone (billion, Euro)

At the end of the year	M1	M2	M3
1999	1964,0	4133,3	4791,5
2000	2076,2	4287,0	5078,5
2001	2207,9	4664,6	5430,9
2002 (August)	2229.3	4735,6	5556,6

Note: M1 – cash (till 2000 national banknotes and coins of the Eurozone countries), on-demand accounts

M2 – M1 plus deposits with an agreed period up to 2 years.

M3 – M2 plus «Repo» operations, money market securities, and bonds up to 2 years.

Source: Monatsberichte der Deutschlen Bundesbank, 2002, № 5, s.13; 2002, № 10, s.13x.

Financial policy

Financial theories and also financial policies that are based on such theories differently perceive the state budget deficit and public debts. The first theory – classical – emphasises that state budgets should not be short at all. The second one is the cyclic theory. According to this theory during crisis situations a state can address to the loan capital market in order to help the economy to overcome the crisis, and during an economic upturn when incomes increase the debts will be paid out as a result of a positive budget. The cyclic theory gives a ground for a financial policy of public debt management during cycle phase changes (deficit – surplus of a state budget). Such financial policy was recognised in the world and in Western Europe in particular. There is also a financial theory that proves that for a state as well as for enterprises and firms it is natural to have constant debts in general. According to this theory in expanded reproduction conditions when industrial production, GDP, the national income grows, public debts can be increased without any damage for economy. A characteristic feature of the "Euroland" countries is that according to the Maastricht Criteria in the field of finance they have agreed not to exceed 3% state budget deficit limit and keep public debts at the level of 60% of GDP. As to state budget deficit, only two countries did not maintain its limit rate in 2001 - Finland and Luxembourg; however, six countries had even a surplus.

The situation with public debts was worse. In 1999 seven countries from the twelve exceeded a 60% limit. Besides, three countries (Belgium, Greece and Italy) had a public debt above the level of their GDP. In 2000 five countries have not fulfilled the Maastricht norm, and among them the three (Belgium, Greece

and Italy) have exceeded GDP. Finally, in 2001 only four countries were over a public debt margin, and other eight have decreased their debts to the norm.

In 2002 probably only three countries from the twelve will not meet the requirement, as Austria, most likely, will decrease its debts to the norm, Belgium and Italy will go below 100% of their GDP (Greece has done it already in 2001).

Credit system

An obligatory criterion of loan capital according to the Maastricht Conditions is the one of its price, or interest. The interest norm is established on not more than 2% points higher than that of three member states that have performed best.

Common credit system of the «Euroland» in 2002 has achieved 14 billion Euro[21]. 80% of its assets are used within the Eurozone and only 20% – outside of it. In the Eurozone about 4/5 of loan funds are directed to enterprise sector and physical persons, whereas only 1/5 belongs to public sector. Enterprise sector and physical persons use mainly bank credits that make up to 88%, bonds - 4,6% and shares – 7,4%. So, securities make up only 12% of all loan funds of the two sectors.

On the contrary, in public sector loans inflow mainly due to security sales (3/5) and only 2/5 are bank credits.

Sources of the loan capital are money supply increase and non-bank deposits of enterprises and physical persons. Cash (M0) makes up to 5.5% of the Eurozone monetary circulation. So, basically calculations and payments are made in non-cash form. As to the loan funds sources, to cast issue belongs hardly more than 2% weight.

In liabilities of the Eurozone credit system non-bank deposits occupy the main place (42%), whereas on the state accounts the sums are less than 3% of the liabilities. If compare them to assets, the share of enterprises and physical persons is equal to 70%, whereas in liabilities it is only 42%, the share of state budgets in the assets is 22%, that is 7 times more than in liabilities.

Hence, the capital circulation occurs mainly for the benefit of the enterprises, physical persons and the state. As inflows into the credit system from the countries outside of the Eurozone are approximately equal to outflows from the Eurozone (20% or 1/5), remaining monetary funds on accounts are created mostly by long-term obligations (13,2%), monetary market funds (3,1%), «Repo» (1,7%) and other accounts (11%).

[21] Deutsche Bundesbank / Monatsbericht October, 2002, s. 10x.

Table 3

Main macroeconomic indicators of the Eurozone countries

Years	Belgium	Germany	Finland	France	Greece	Italy	Ireland	Luxembourg	The Nether-lands	Austria	Portugal	Spain	Euro zone
1. Real GDP, % to the previous year													
1999	3,0	2,0	4,1	3,2	3,6	10,8	1,6	6,0	4,0	2,7	3,5	4,1	2,8
2000	4,0	2,9	6,1	3,8	4,2	11,5	2,9	8,9	3,3	3,5	3,5	4,1	3,5
2001	1,0	0,6	0,7	1,8	4,1	5,9	1,8	1,0	1,3	0,7	1,7	2,8	1,4
2. Industrial production, %													
1999	0,9	1,5	5,5	2,0	3,9	14,8	–0,1	11,5	1,3	6,0	3,0	2,6	1,9
2000	5,3	6,2	11,2	3,5	0,5	15,4	4,8	4,3	4,0	8,9	0,5	4,0	5,5
2001	–1,0	0,5	–1,0	0,8	1,4	10,2	–1,2	1,8	1,4	0,1	2,4	–1,1	0,3
3. Manufacturing industry capacity usage, %													
1999	80,9	84,0	86,1	85,3	75,7	75,9	76,0	84,9	84,0	81,9	80,8	79,7	82,2
2000	84,0	85,9	86,8	87,5	78,1	78,6	78,8	87,8	84,7	84,5	81,2	80,6	84,2
2001	82,3	85,1	85,7	87,4	77,6	78,4	78,9	88,7	84,6	83,1	81,7	79,6	83,6
4. Gross investments, % of GDP													
1999	20,9	21,6	19,0	19,1	21,7	23,5	19,0	23,8	22,5	23,3	27,4	24,0	22,15
2000	21,1	21,6	19,3	19,7	22,6	23,6	19,6	21,3	22,7	23,7	28,6	25,3	22,43
5. Unemployment, % of work-able population													
1999	8,6	8,4	10,2	10,7	11,9	5,6	11,3	2,4	3,2	3,9	4,5	12,8	9,4
2000	6,9	7,8	9,8	9,3	11,1	4,2	10,4	2,3	2,8	3,7	4,1	11,3	8,5
2001	6,6	7,7	9,1	8,6	10,5	3,8	9,4	2,0	2,4	3,6	4,1	10,6	8,0
6. Consumer price index, %													
1999	1,1	0,6	1,3	0,6	2,1	2,5	1,7	1,0	2,0	0,5	2,2	2,2	1,1
2000	2,7	2,1	3,0	1,8	2,9	5,3	2,6	3,8	2,3	2,0	2,8	3,5	2,3
2001	2,4	2,4	2,7	1,8	3,7	4,0	2,3	2,4	5,1	2,3	4,4	2,8	2,5
7. Budget deficit/surplus, % of GDP													
1999	–0,5	–1,5	1,9	–1,6	–1,9	2,2	–1,8	3,6	0,7	–2,3	–2,4	–1,1	–1,3
2000	0,1	1,1	7,0	–1,3	–0,8	4,4	–0,5	5,6	2,2	–1,5	–2,9	–0,6	0,2
2001	0,4	–2,8	4,9	–1,4	…	1,5	–2,2	6,1	0,1	0,2	–4,1	–0,1	–1,4
8. Public debt, % of GDP													
1999	114,9	61,2	46,8	58,5	104,3	49,7	114,5	6,0	63,1	64,9	54,4	63,1	71,9
2000	109,2	60,2	44,0	57,3	104,7	39,1	110,5	5,6	55,8	63,6	53,3	60,5	69,4
2001	107,6	59,5	43,4	57,3	…	36,4	109,8	5,6	52,8	63,2	55,5	57,1	69,2
9. Remuneration of labor per hour[22]													
1999	23,16	24,23	20,45	17,27	8,33	13,47	15,46	19,54	20,12	19,93	6,15	13,39	16,79
2000	21,90	24,75	21,13	18,26	8,43	14,51	15,63	20,87	20,90	20,32	6,60	14,03	17,27

Source: Deutsche Bundesbank. Monatsbericht, Oktober 2002, s. 7x. Deutschland in Zahlen, IdW, Koln, s. 129; 2002, s. 131, s. 129.

[22] Direct and additional.

Table 4

Consolidated Balance of the Eurozone credit system (billion, Euro)[23]

At the end of the year	Active					Passive							
	Total	Loans for enterprises and physical persons	Loans for state sector	Loans for non-Eurozone parties	Others	Cash[24]	Deposits of enterprises and physical persons	Repo accounts of enterprises and physical persons	Bonds	Liabilities non-Eurozone parties	The own capital and reserves	Deposits of official institutions	
												Central institutions	Other institutions
1999	11489,2	6214,3	2058	2121	1095	350	4783	142	1535	1832	809	142	136
2000	12410	6877	1925	2402	1204	347	4945	172	1631	2145	895	164	149
2001	13578	7424	2026	2807	1317	239	5403	214	1760	2719	996	140	156
2002[25]	13651	7596	2050	2741	1262	301	5398	231	1813	2611	1012	139	150

Source: Deutsche Bundesbank. Vonatsbericht N 5, 2001, S. 10x, 11x, 12x, 13x; N 10, 2002, S.10x–13x.

It is important to notice that in both liabilities and assets long-term sources prevail. Enterprises and physical persons' on-demand deposits for a term not more than one year make half of all deposits. 47,7% are the deposits with a term more than two years. As to the assets, long-term credits take an essential place here and are used mainly for investments.

So, the discussed above monetary, fiscal, and credit policies of the EU countries are effective only when their goal achieving actions are mutually coordinated. According to the criteria set by the Maastricht Agreements, it is possible to point out than the following results were achieved within the Eurozone.

Firstly, inflation that in 2001 maintained, in average, on 2.5% level was limited. More than 90% of all monetary payments were made in a non-cash form. Secondly, in the fiscal policy the 3% state budget deficit limit rate was not exceeded. Besides, a half of the Eurozone countries has even had a surplus. The public debts have exceeded the 60% norm only in three countries, but there is also a tendency to public debt reduction observed.

Thirdly, the loan funds serve industrial sphere mainly with long-term credits. Interest rates met the Maastricht Criterion and were characterised in 2001 by

[23] Banks (including saving banks), monetary market funds, Eurosystem.
[24] Till 2002 – national banknotes and coins.
[25] Till the end of August.

an insignificant dispersion in the countries: from 4.8% up to 5.3%, at a margin in 6.9%.

In the credit system structure, except for the central banks which since 1995 have no right to cover state budget and commercial bank deficits (they work mostly with working capital of the enterprises), a significant place is occupied by financial institutions specialised on long-term crediting of enterprises and house-building.

They belong to the third part of the credit system where also are mortgage banks, federal land banks, savings banks, investment banks, state banks with particular objectives, insurers, retirement and other funds, etc.

The third part of the credit system in the EU countries is greater than the second one (commercial banks) both in its number and in loan capital amount[26]. Unfortunately, this part is very poorly developed in Russia but is necessary for speeding up of investment process and manufactures, as a result.

Big business cycles at capitalism

European capitalist economy develops cyclically in two versions: the big cycles (forming new structure) and small ones (overproduction).

Big cycles in Europe have started to form since the industrial revolution at the end of the 18th century. Four structures or technical and economic systems have taken place since then. At the end of the 20th century the fourth big cycle had finished and the fifth one begun. According to N. Kondratiev big cycles or «long waves» refer to changes of technical and economic systems or economic structures. The big cycles are characterized by drastic changes in production forces that for sure influence production relations. It means, in its turn, that the big cycles are connected with transition from premonopolistic to monopolistic and state-monopolistic capitalism, and also to global integration processes in the world economy. Hence, the big cycles help to understand and open objective laws of preindustrial, industrial, postindustrial, and international information society development. Each transition from one structure to the next one is based on «basic» innovations.

The first big cycle lasted in Europe, and first of all in Great Britain, up to the middle of the 19th century (approximately 60 years). Its essence is laying in the development of capitalism in conditions of a free market economy which laws are investigated already by classicists of bourgeois political economy[27].

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[26] Deutsche Bundesbank / Monatsbericht, 2002, n.10, s. 24x-25x.

[27] Alongside with M.Kondratiev in 1920s big contribution to the big cycles' research was made by Russian economists, among which are: Tugan Baranovskiy, S. Guberman, V. Bogdanov, A. Gennenshtein. Nowadays big attention to the problem is paid by S. Glaz'ev, L. Abalkin, S. Menshikov, L. Klimenko, Y. Yakovets, V. Maevsky, S. Nikitin, V. Tsirenshchikov, N. Mokashova, I. Savel'eva, I. Ryzhov, V. Fal'tsman, and some others.

The second big cycle is connected to the creation in the second half of the 19th century of a new structure such as a monopolistic capitalism.

During the third big business cycle (first half the 20th century) new economic structure which is generally admitted to be characterized as state-monopoly capitalism.

Finally, the fourth big cycle which has begun after the World War II finishes the 20th century by creation of a new economic structure on the basis of which lays the American «new economy» and integration-technological and informational space of the West-European countries in conditions of economic globalization.

The big business cycles show that to change economic structures there is required about a half of a century during which an ascending wave is replaced by a descending one of approximately even period of time is required.

Alongside with the big cycles connected to transition from one structure to another that are based on the scientific and technological progress and innovations there are minor (small) cycles connected with the circulation of capital in its actual – monetary, productive and commodity – form. These cycles of the expanded reproduction of the capital in its various forms reflect metamorphoses of the capital and its phase movement within approximately 10 years. The interrelation between these cycles is shown in such a way that during the production of new information technologies a higher ratio of capital turnover is found. If the formation of a new economic structure serves as a constituted formation of the big cycles, minor cycles of capital circulation on the expanded basis have economic crisis or depressions as a constituted phase.

A new big cycle structure arises inside of a previous one. Hence, the modern fifth structure started to develop from the fourth one that has started after the World War II and has finished by the end of the 20th century.

During the fourth big cycle in Western Europe four business cycles of goods and services overproduction with four crises took place: 1974–1975, 1980–1982, 1992–1993, and 2001–2002. It is interesting to note that the end of the fourth big post-war cycle and cycle of capital overproduction now has coincided.

What represents the present fifth structure that has started at the end of the 20th century and will define in many respects the development of the European economy up to the middle of the 21st century? With the development of the fifth cycle the transition to a postindustrial information society, which foresees that the computer science and communication technologies influence all parts of economic life is connected. Because of an accelerating wave there are especially quickly developing new branches that are making a basis of new technical and economic structure of an economic system that is called «new economy». Besides, integration processes in science and engineering are accelerating and internationalization of public reproduction in total as a result of globalization and use of international labour division is being intensified. In the basis of the mod-

ern structure lie: computer science; communications facilities; all-round automation on the basis of microeconomic; computing and fibre-optical engineering; biotechnology and new materials; nuclear physics; genetics; space engineering; electronic industry; and robot-building. The basic attribute of the technical and economic structure is scientific and technical integration; formation of a regional research-and-production complex is another feature of the fifth structure. Western Europe is entering the 21st century with the concept of «the European technological space». In the EU a common scientific and technical progress policy is been carried out, joint scientific and technical projects and programs are realized, in many cases a synergetic effect for other spheres of all-European CRADA manufacture is achieved. In the 21st century it is necessary to expect the entry of some other European countries into this technological space.

Economic (small) cycles of overproduction

The process of capital reproduction includes, firstly, manufacture and, first of all, capital investments.

Secondly, distribution and redistribution of produced goods and services.

Thirdly, sphere of capital circulation – the financial markets and, at last, fourthly, consumption of produced goods and rendered services.

The process of capital reproduction occurs on the expanded basis, in conditions of a metamorphosis of various kinds of capital. However, the expanded reproduction occurs cyclically with the change of phases: from exhilaration and upturn to crisis and depression.

Cyclical capitalist capital reproduction has begun in the most developed country of the world – England, where in 1825 was the first economic crisis of overproduction caused by contradictions between manufacture and consumption. Then crises, constitute cycles in other capitalist countries have followed[28].

The process of internationalization has resulted in synchronism of the capital reproduction in different countries and in 1857 the first world economic crisis of overproduction has occurred. During 1870s free competition in the world economy has resulted in mass bankruptcies and downfalls. The economic global crisis of overproduction has lasted for a decade and alongside with a cyclic one has acquired structural type. As a result of capital concentration and centralization the authority was taken over by monopolies and financial oligarchs that have implemented a certain organization on the microlevel.

[28] Problems of reproduction and economic cycles were studied by the following Russian scientists: L. Mendelson, A. Manulyan, S. Menshykov, A. Mileikovsky, Y. Hromov, S. Nikitin, P. Khvoinyk, N. Fominsky, Y. Shyshkov and others.

However, accumulation of great contradictions between manufacture and consumption at a monopolistic stage of development resulted in a deep cyclic global economic crisis of 1929–1933 and then a long depression (similar to the one in 1870s). It has caused strengthening of the state role, its intervention into reproduction process in order to eliminate dichotomy between individual and public capital. The monopolistic capitalism has developed into the stage of state-monopolistic capitalism (SMC).

After the World War II that had interrupted synchronism of the world cycle, integration and global processes of internationalization strengthened, then many problems have overtopped national borders first of all in such spheres, as power, natural resources, ecology, currency sphere, etc.

In 1974–1975 the world economic crisis has bursted out. It synchronized process of reproduction, connected cyclic crisis of overproduction with structural one in conditions of SMC and development of the world economic globalization. The last has brought to life new forms of regulation which were already showed at a regional level, especially in the EU and the Eurozone.

What are the qualities and characteristic features of four post-war reproduction business cycles in Europe?

The first post-war business cycle (1945–1975) begins with a phase of depression in conditions of non-synchronism reproduction process. Therefore, this phase is devoted, first of all, to recovery of a pre-war level of economy and lasts up to the middle of 50s. Then there comes a small economic exhilaration followed by a long phase of economic upturn. The economic upturn occurs on the basis of an extensive way of development during which restoration of the world cycle phases synchronism is observed. Till 1970s Western Europe exceeded all developed industrial countries including the USA in its economic growth rates. It is also concerned to rates of GDP growth, norm of accumulation, capital endowment, total investments, labour productivity, employment growth, unemployment reduction, etc[29]. The integration process that begun in 1957 was characterized by development, first of all inside, i.e. centripetal tendencies at approximately equal economically six countries prevailed. The integration development in breadth has taken place only at the end of the business cycle when three states – Great Britain, Ireland and Denmark have left EFTA and entered the EU in 1973. It is necessary to mention about new phenomenon of the first post-war cycle - so-called stagflation, i.e. inflation during a crisis. It became possible only after Bretton Wood monetary system collapse in 1971–1973 when pegging of foreign currencies to the US dollar was cancelled. The issue is in an abolition of dollar to gold exchange and transition to floating exchange rates.

The second post-war cycle that continued approximately 9 years since 1975 till 1983 was characterized by the following basic features:

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[29] See: В. Н. Шенаев. особенности экономического развития Заподной Европы. – М.:Наука, 1993. – С. 20–22.

Firstly, the big influence was made by the Bretton Wood system collapse having caused significant growth of inflation. From 1974 till 1983 the average annual price increase in Western Europe (11.7%) was higher than that in the USA and Japan – 7,5% and 5,5% correspondingly.

Secondly, the world economic overproduction crisis of 1974–1975 had a greater influence on the economy of Western Europe than on other capitalist countries' economy. That is why the overcoming of difficulties required more efforts and time than in other countries.

Thirdly, the centripetal integration development had eased significantly, and the development in breadth was limited only to one country – Greece (1981).

Fourthly, the exhilaration was weak that smoothed a little the economic crisis. Have appeared statements that the Western European economy is in a «sclerotic» condition. Fifthly, the emphasis was made on the foreign trade turnover that grew much faster than GDP.

Finally, the EU countries have begun transition to an intensive way of development that demanded significant means and efforts, especially in the field of capital structure: production, technological and industrial (reduction of industrial sector) structures. Besides, there has been also a capital outflow in DFI and credit formes from Western Europe. As a result, average annual rates of GDP growth during the second cycle period were 1.7% and of the industrial production increase – 0.8%, i. e. it is less than in other developed countries. Besides, the decrease of return and investment rates has been observed[30].

The third capital reproduction cycle had a classical character as to its term, i.e. it lasted approximately 10 years: since 1983 to 1993.

The main feature of the cycle was the emphasis on scientific and technical progress in order to overcome technological backlog from the USA. Transition mainly to an intensive way of development is being finished. Centripetal and external forces of integration started to prevail again. Centripetal integration is based on passing of the Common European Act (CEA) in 1987, and that in turn, on the White book of 1985. Because of the entering into the EU of Spain and Portugal in 1986, the EU extended up to 12 countries. After the exhilaration phase, in mid- 80s the EU economy entered the economic upturn phase which lasted until the crisis of 1992.

In monetary circulation, during crisis years (1992–1993) inflation decrease is observed, however, what is most important, reduction of price dispersion (i.e. price differentiation in different countries) – from 8% to 3%, and distinction in different countries' money supply increase – from 4% to 2,6%, takes place.

Structural shifts proceed to move to non-productive sector of services and scientific and technological progress. The growth of production efficiency during

[30] Европа вчера, сегодня, завтра. – М.: Экономика, 2002. – С.156.

the upturn phase was mostly due to savings of production assets, energy, material and labour expenses. In other words, parameters of reproduction, technological and industrial capital structure on the upturn phase were improved. However, during the crisis phase, since 1991 till 1993, there could be seen a significant drop in these parameters. Naturally, what during the phase, there was an increase of a state budget deficit and public debt volume over 60% of GDP in 1993. Paradoxical was such phenomenon as reduction of production investments at the time then monetary accumulation that frequently exceeded amount of capital investments and circulated as fictitious capital grew.

In 1993 the number of unemployed in the EU has increased on 2 million and reached 20 million people. The unemployment quote that had been equal 8.9% in 1992 risen in 1993 up to 10,3% of GDP.

The fourth cycle of the overproduction that has begun after the crisis of 1992–1993 is finishing now. In 2000 it has reached its culmination and since then (2001 and 2002) is in a phase of depression and stagnation. Its characteristic feature is, first of all, the tendency to achieve the tasks set by the Maastricht Agreement and determined in 1993 as criteria in the field of monetary, credit, financial and currency policies of 15 countries that are members of the EU. For 12 countries that have formed in 1999 the Euroland (Eurozone) these criteria are obligatory.

Thus, the centripetal tendency continued to proceed and caused the end of the EMU with introduction into the circulation of Euro in cash in 2002. The economic upturn that has begun in 1995 lost all its achievements by 2001. Nowadays the economy of the Western European countries is in the condition of depression and stagnation, but it has not entered yet the phase of a usual economic crisis with absolute manufacture and investment decrease.At the same time there is an inflation growth, money supply and unemployment increase, and workers' real incomes decrease. The greatest danger is connected to loan market that usually precedes manufacture reduction.

As Germany contains 1/3 of the Eurozone economic potential, the estimation of the country's economic conditions mostly determines the position of the Union in total. Hans Eichel – Minister of Finance of Germany foresees a complete cessation of growth in 2003. During the previous two years – 2001 and 2002 – the growth was 0,6 and 0,2% correspondingly. According to the Association of German Retail Trade it is expected that in 2003 the total amount of retail sales will decrease on 1.5%. According to the German Federal Ministry of Labour, the amount of unemployed has reached 4.6 million people by January, 2003, this is a «record» for the last five years.

The volume of exports is decreasing. Within certain measures under the influence of Euro exchange rate growth, and because of the anti-American spirit concerning the USA policy towards Iraq, banks have been facing essential loses for two years. So, the loses of mortgage banks in 2002 were 858 mln. Euro (the year 2001 end up with the profit in 938 mln. Euro).[31] There were 10 major bank-

[31] Комерсант, 25.02.03.

ruptcies in 2002. According to the Bundesbank data the number of bankruptcies has increased by 20% in 2002. The amount of orders became lower by 4,4% in the forth quarter of 2002. The director of the Ifo–Institute, Hans-Werner Sinn said, «I think, that this year we shouldn't wait for the desired economic revival». Chancellor Shreder thinks that because of the events in Iraq, Germany won't be able to perform the Maastricht Criteria. The head of the ECB W.Duisenberg has declared on February 20, 2003 that the war in Iraq would lead to the reconsideration of the EU major economic principles[32]/

World-economic relations of Europe

To research foreign economic relations it is important to have balance of account and balance of payments data. Balances of current accounts are of two types: for a certain period (usually one year) and on a certain date. Each of them has its purpose.

If the purpose is to find out if a country is a debtor or a creditor, one needs balance of account data on a certain date. For this reason one has to compare all requirements and liabilities of the country on a certain date. If the receivables prevail over the liabilities – the country is a creditor and a debtor if vice versa. The major creditor after the World War II till 1985 was the USA and debtor – the EU countries and developing countries according to the balance of account on a certain date. In 1985 the USA has become an international debtor for the first time and remains in this position by now. The EU countries and Japan have become creditors, so they have switched places. The balance of account for a certain period is based on the comparison of emerged and not liquidated liabilities and requirements for a certain period (year), even though payments on them can be represented in the balance of payments for other years. The difference between balance of account and balance of payments is that balance of payments consists of data about real payments made during the year by liabilities and requirements, which has arouse either this year or earlier but payments were made this year.

Balance of payments in international practice is used for analyses of current real payments in international trade, services (transport, tourism, insurance, etc.), noncommercial payments (transfers, interest payments, dividends, property payments, etc.), and also payments for capital flows: direct foreign investments, payments on securities (stocks and bonds) and on bank credits (see Table 5).

[32] The same source.

Table 5

Balance of payments of the Eurozone countries (bln. Euro)

Balance sheet account	1999	2000	2001[33]	2002[34]
A. Current balance sheets	–19,0	–60,4	–13,8	+37,2
1. Turnover	1561,0	1948,0	1990,2	1472,1
Export (FOB)	818,0	989,8	1033,0	784,2
Import (FOB)	743,0	958,2	957,2	687,9
Balance	+75,7	+31,6	+75,8	+96,2
2. Balance of services	–94,7	–91,9	–90,0	–58,9
1) non-factor services[35]	–10,7	–11,5	+0,9	+7,9
2) factor services[36]	–84,0	–80,4	–90,6	–66,8
B.3. Balance of property transfer	+12,8	+9,9	+8,9	+8,9
C.4. Balance of capital (net export: –)	+11,7	+70,0	–40,5	–92,1
1) DFI	–120,1	–12,3	–101,5	–24,7
Investments beyond Eurozone	–320,5	–463,3	–255.8	–120,2
Foreign investments in Eurozone	+200,4	+423.9	+154,3	+95,5
2) securities	–43,0	–115,2	+38,1	+49,8
Investments beyond Eurozone	–311,3	–411,3	–287,0	140,0
Foreign investments in Eurozone	+268,3	+296,1	+326,1	+189,8
3) derivatives	+3,8	–2.2	–3,7	–9,2
4) credits	+160,8	+182,0	+8,8	–107,0
5) changes in monetary reserves (increase: –)	+10,1	+17,6	+17,8	–0,8
D.5. Balance of statistically undivided operations	–5,4	–19.4	+45,4	+45,9
	0	0	0	0

Source: Deutsche Bundesbank. Monatsbericht N1, 2003, s. 67x.

An international trade is a major type of international relations. The Eurozone countries' turnover has reached its highest value in 2000. Since then it has stopped growing and remains at the level of 2 bil. Euro for two years[37]. The trade turnover has been calculated for inner zone, as the Euroland is a unit that preserves its member states' independence. In 2001 the Eurozone countries have increased their export over 1 bln. Euro for the first time, it exceeded import and had increased positive net trade balance twice as much. However, the Eurozone countries were able to cover the negative balance of services for the first time only in 2002. The negative balance of services depends on dividend expenses, interests, and money transfers. As to the non-factorial services – expenses on

[33] Greece is included since January 1, 2001.
[34] For three quarters.
[35] Expenses on transportation (including insurance), tourism, construction, etc.
[36] Interests, dividends, transfers, etc.
[37] Deutsche Bundesbank. Monatsbericht Januar 2003, s. 67x.

transportation (including insurance), tourism, construction, etc. – their balances are negative but not so great[38].

The second important form of the international relations is presented by the balance of capital and credit flows.

In capital «migration» an important role is played by direct investments. For three years (since 1999 till 2001) the Eurozone countries have exported about $1 bln. in DFI. At the same time they have imported approximately $778.7 bln.

The situation on stock exchange is a little different. Before 2001 the inpayments to the Eurozone countries were also smaller, but in 2001 the situation had changed. The inpayments were greater than the sums spent by the Euroland members. The same trend was also in 2002. During the three years (since 1999 till 2001) the countries had spent 1 trln. Euro on securities, and at the same time the inpayments for the securities from the foreigners into the Eurozone were 890 bln. Euro. In 2002 the situation had changed and inpeyments into the Eurozone were greater than securities' expenses.

In 2002 the changes were made in credit relations between the Eurozone members and other countries. If in 2001 balance of credit liabilities was positive for countries the Eurozone, in 2002 significant changes were made. During the three years (since 1999 till 2001) the stable growth of inflows of credit institutes was approximately 343.3 bln. Euro, but only within the first three quarters of 2002 there was a reduction of credit inflows on 51.7 bln. Euro mostly because of the shortage of long-term loans (75.9 bln. Euro)[39].

How the entrance of ten new states will influence the EU economy, after which the EU will increase to 25 member-states?

The share of the EU countries in export of the countries which are going to enter the EU in 2004 was equal to 67% in 2001 (the share of FRG itself was 31%, almost a half). The share of other industrial developed countries was 6%, of the Central-Eastern European countries – 14%, developing countries (DC) – 4% and other European transition countries – 8% (including Russia – 2%).

As to the international trade structure, in 2000 raw materials made up 5% in export of the Central-European countries which are going to enter the EU, consumption goods – 23%, investment products – 19%, others – more than half of them are floating funds for the future periods, so called, intermediate goods.

The import structure differs from export one by raw materials and consumption goods shares. Raw materials make up 11% of import, so it is twice as much as of export, consumption goods - 15%, that is 1.5 times less than in export. As to the investment products and intermediate goods, their shares are almost equal in export and import structures.

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[38] The same source.
[39] The same source.

What will these countries bring to the EU after 2004?

First of all, in the current balance of payments of the applicant countries, unlike of the EU countries, there is a significant deficit of the trade balance since the beginning of 1990s, which in spite of the positive balance of services makes the total balance negative.

Secondly, all candidates have permanent negative balance of capitals, which are defined by inflowing direct foreign investments. It means that balance of account on a certain date for the countries-applicants is negative. It is possible to make a conclusion that these countries entering can make the figures worse for the EU. Almost all entering countries, except Baltic ones which can even enter the Eurozone, are far from fulfilling of the Maastricht Criteria. For example, Ireland has entered the EU in 1972, but only in 30 years had reached the average level. Greece that entered the EU 20 years ago and Spain and Portugal – in 1986 didn't reach still the average level. Therefore the new EU members will need at least 20 years, however, they will win from the entering more than loose. For the most developed country from this group – Slovenia, as supposed, it will take not less than 10 years to reach the average economic indexes of the EU. At the same time for many Eastern European countries the gap between them and the EU is greater than it was between the previous candidates. The most significant this problem is for Poland, one of the largest countries of the region with the population about 38 mln. people. According to the calculations of the major economist of the EBRD, Poland might need 40 years to reach the convergence[40].

The process of expansion will not be ended with the entering to the EU of the present countries-candidates. Potentially to this list can be added come Balkan states and Eastern Mediterranean countries.

Euro – an international regional currency

Nowadays important changes in world currency system in fulfillment of the world monetary function occur. The monetary theory reveals objective rules not only for national monetary system functioning but also for world exchange systems at the moment of their formation. However, it doesn't matter how many projects to organize world exchange system exist, all of them are concentrated on the world money functioning rules and conditions, or in other words on how the measure of value shows its worth, what and how is used as a standard of payments, means of purchase, reserves on the world market. It is known that value measure shows its worth in currency exchange rates and world prices. General standard of deferred payments and means of purchase are necessary to fulfill international accounts and payments. In reserves of gold and exchange reserves

[40] БИКИ №№ 149–150, 26.12.2002.

of central banks the savings of international liquidity resources are presented. Thus, the essence and weaknesses of an exchange system can be seen basing on analysis of how objective the intergovernmental agreements on exchange relations reflect existing conditions of the world economy.

Actually the 21st century starts with transition to a bipolar system – the third world currency system. In the 20th century for thirty years since 1944 till the beginning of the 70s the Bratton-Wood dominated. It was based on Garry White's published in the USA and J. Keynes's plan published almost at the same time in Great Britain (April, 1943). The system's fundamentals consist of three principles: dollar standard, fixed exchange rates (pegged to dollar which served as a prototype of currency board), international payments in dollars.

Approximately since 1978 a new second world exchange system joined into force and was called Jamaican (the conference took place in 1976 in Kingston – the capital of Jamaica). By that time new international synthetic monetary unit has been created – SDR.

Both those world exchange systems were characterized by dollar domination, so they were pro-American. Actually in both of them there was a dollar standard, although they had a certain differences. Within the bounds of Bratton-Woods system the dollar standard was supported by the required exchange amount of dollars for gold. That's why on practice it was a gold-dollar standard. In 1971 the president of the USA R. Nikson stopped this dollar-gold exchange. This caused a start of the Bratton-Wood monetary system's crash that lasted till 1973. An official cancellation of this system was acknowledged by the International Monetary Fund in 1978, and science that time the new Jamaican monetary system began. As a result there was an attempt to undermine the dollar monopolistic role in the world monetary system.

Firstly, Jamaican monetary system was approved under another alignment of forces and demonetization of the gold was taken into consideration, so the dollar was alienated from the gold and its exchange had stopped. Further it was replaced by so called SDR – cashless international monetary unit, composed basing on the basket of 16 leading currencies first, then of 5, and when Euro appeared – only of 4. However, SDR was not able to replace dollar, besides this synthetic monetary unit itself by 42% consisted of dollar. Although it should be mention that even though the monopoly of dollar was not seriously shaken, nevertheless, its role in exchange operations, in trade sphere and in monetary reserves decreased.

Secondly, Jamaican monetary system had changed the principles of fixed rates to the floating ones, so it canceled the peg of national currencies to dollar. At the very beginning the fluctuations were within ±1% limits, then 2.25%, and finally national currencies' peg to dollar was completely canceled (it remains nowadays a «currency board policy»).

Thirdly, it provided the fulfillment of the international accounts and payments by other currencies, which share has increased in comparison to previous

periods. In the both monetary systems of the 20th century the prior role was given to dollar, even though, other currencies were also playing main parts, for example, Deutsche Mark, French and Swiss Frank, English Pound, etc.

At the beginning of the 21st century formation of a new world monetary system when dollar has lost its monopolistic role. It's an important new phenomenon that is connected to the globalization and integration processes are taking place in Europe. Because of the globalization and regional integration processes there appeared a possibility to create a regional international money unit which would compete with dollar and become the determinant in the world monetary system. The way to Euro was long.

Struggle for a stable exchange rate in Europe took place in close relations with regional European integration, in approaches to which there were significant differences between France and Germany. France insisted on monetary stability as a necessary start of integration process. That's why for French integration processes in monetary sphere were the «motor theory» for the whole economic integration. Germans were reasoning another principle. They considered that monetary integration had to a culmination of economic integration and to peak the integration process. Both approaches had found its reflection in the plans of the R. Barr, France (1968) and K. Shiller, Germany (1970).

Special committee with P. Verner in chief (Prime Minister of Luxembourg) was expected to find a compromise between France and Germany. Such compromise was found and was called «Verner's Plan». It anticipated three levels for three years each ending in 1980. Those objectives and tasks which were set up were not fulfilled, but some elements of the plan were reached. One of them was creation of the European Monetary Cooperation Fund (EMCF), which was planned to be the European Monetary Fund (EMF). In 1979 the European monetary system was organized in the basis of which was a synthetic currency – ecu. Some ideas of Verner's plan have been saved and implemented later, when integration processes in Europe had reached an essential success.

In June, 1989 the three-level «Plan of Delor» about creation of the Economic and Monetary Union (EMU) was accepted. This time the integration significantly intensified as «Delor's Paln» took into account both French and German suggestions. Economic and monetary approaches were unified and showed in the Maastricht Criteria (1992), they actually defined the success which we observe nowadays.

For a long period of time within the EMU a new international unit was formed – Euro. As a monetary unit, Euro significantly differs from SDR and ecu, which are called international, but are mostly synthetic, (created as a «basket» of several currencies). As for ecu, more than a half of its «basket» belongs to only two currencies: German Mark (33%) and French Frank (19.8%).

For the first time in the world since 1999 in cashless settlement and after 2002 in cash payments an international currency of non-synthetic nature had appeared. It is international regional unit Euro that depend on common free

market zone of the EU 12 countries. The difference between Euro and dollar is the fact that dollar is a national money unit of the USA that claims to be a world currency. The outlet of the dollar over the USA borders determines by the country's balance of payments but not by the real demands of the world commodity turnover, payments, etc. Dollar's emission doesn't meet the requirements of the objective economic laws in the currency circulation sphere. This is a weak point of dollar. Now we are witnesses of the birth of a new regional money unit which only by 2002 was cashless and functioned parallel with the EU national currencies.

Since 2002 in the EU 12 countries' zone a money unit that doesn't have a national character is functioning. It is emitted by the European Central Bank (ECB), not national one, which is operating on the common free market zone of 12 countries which now form the Euroland. The globalization process in the monetary sphere is visually showed in it. Thus, the new currency has appeared: it is international by content, although bounded by region. In the nearest perspective the struggle between dollar and Euro will become more acute. Euro has an essential basis on the regional economic area. The Euroland by its economic potential can be compared with the USA. It relates to GDP, industrial production, and, especially, foreign trade with free flow of goods, services, capital, and labor. That's why the process of dollar exclusion from the operating in those spheres outside the USA has started. The role of dollar will decrease first of all in the European zone.

Apparently that not only the EU countries but also other states will switch from dollar to Euro. Euro has more perspectives than dollar. Great Britain, Denmark and Norway haven't entered the Euroland yet, but peg their currencies toward Euro. Bosnia and Herzegovina, Estonia and Bulgaria are practicing «currency board policy» which is also based on Euro (pegged to Euro). Euro is proclaimed to be an official currency in Chernogoria, Andorra and Kosovo. Nowadays, approximately 50 countries, especially in Africa and Eastern Europe, start to direct their currencies toward Euro.

Dollar, as a national currency of the USA, operates with more than a half of the world commodity turnover. The weight of goods and services of the USA in the world turnover is approximately 13%. It means that dollar takes upon itself the function of the world money over the investing of the USA into the world turnover. About 90% of products produced in the USA are consumed on the internal market. As a result has appeared the paradox when the USA dollars form «dollar shed» in the reserves savings of other countries.

By existing estimations, almost one third of the available dollars that are circulating outside of the USA are in Russia, forming «a dollar canopy» which demands attention and development of concrete measures to bring the dollars kept by population and those that work in «shadow economy».

More than a half of world currency reserves falls to dollars. More than a half of world export is served by dollars. About a half of loan market operations