PERFORMANCE OF EUROPEAN UNION TRADING BLOC: DID INTEGRATION HELP NATIONS?

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ABSTRACT

This study measures the effectiveness of the integration of Europe by evaluating economic and socioeconomic progress made by participating nations since the Maastricht Treaty. The Maastricht Treaty has been identified as the determining point because of its significance in transitioning Europe from a community into a union. The study compares the two periods: pre-Treaty 1984-1992 and post-Treaty 1993-2003. We find that on the economic front, member nations have made good progress during the post-Maastricht Treaty period. However, on the socio-economic front, during the post-Maastricht Treaty, many member nations show deterioration in the performance. It is possible that going forward from 2003, the enlargement of the Union is becoming an important source of socio-economic frictions across, rather than within the borders of member states.

INTRODUCTION

Much has been written in favor of a global economy stating that it provides world citizens with access to more (and perhaps better) goods and services. It draws people closer together, and through technology allows for better communication. There is also another phenomenon to reconcile with and that is regional integration. In recent years, regional economic integration has grown. There are at least twelve regional integrated areas in the world with the European Union being the oldest and the most integrated. EU promises its existing and potential member states peace and prosperity in terms of higher GDP growth rates through free market trade within the union, lower inflation through monetary policy coordination and lower budgetary deficits, lower currency volatility through single currency, promotion of democratic institutions through respect for human rights and peace on borders of the participating nations.

The purpose of the study is to determine the effectiveness of the European Union (EU) trading bloc in delivering on its promise of peace and prosperity by tracking the progress made by participating nations on the economic and non-economic fronts. The study examines the pre- and post- periods of the Maastricht Treaty to determine if conditions improved as a result of the integration[1].

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The study is important for several reasons. European Union formally came into existence in 1992 and despite the fact that it has been in existence as the largest trading bloc in the world; no study has evaluated the performance of the European Union in terms of deliverance on its promise of a better future for the member nations. Recent events point to the fact that all member nations may not have benefited from integration in an equal manner. And if the union has not been able to deliver on its promise of a better future for every member nation, then the future of European Union may be in danger.

Secondly, for the European Union to continue to exist and expand in the future, it is important that the economic and non-economic benefits of integration should be borne out by all member states. If there are huge variations in the economic performance of different member nations, it will be a matter of concern for policymakers within the EU. For instance, it is expected that the Italian growth rate in the current year will be close to zero. This has already resulted in calls for moving back to Italian Lira instead of staying within the EU.

The rest of the paper is organized along the following lines. Section II provides a review of previous studies that directly or indirectly discuss the impact of European Union on participating nations' progress. Section III provides theoretical insights into our study. Section IV discusses the data and methodology being used in this paper and section V provides an empirical analysis of our results. The paper provides policy implications for the European Union in section VI.

LITERATURE REVIEW

We are not aware of any published study that has evaluated the performance of the economic and socio-economic progress made by member nations of the European Union during the post-union period. According to Paliwoda (1997), a common objective shared by many Central and Eastern European nations is membership of the European Union together with the NATO defense alliance, so as to be better able to consolidate economic and political gains made to date. Grimwade (1999) discusses the growth of the European Union and documents higher growth in the Eurozone after the integration. Wynne (2000) looks at how the economy of the euro area has fared under the single monetary policy, examines how successful the European Central Bank has been in fulfilling its mandate for price stability, and considers the prospects for the future. Despite the dramatic decline in the euro against the dollar over the course of 1999, the first year of EMU must be judged a success. Garcia-Mila and McGuire (2001) evaluate the seventeen regional governments of Spain that receive grants from the European Union. This study evaluates the effectiveness of these grants and finds that these policies have not been effective in stimulating private investment or improving the overall economies of the poorer regions. Amuedo-Dorantes and Wheeler (2001) examines the impact that the European Union (EU) has exerted on Spanish economic activity. The main finding of the analysis is that the EU has significant impacts on the Spanish economy by affecting output and inflation in Spain. Gacs (2003) analyzes how much and to what direction the inherited structure of the Central and East European candidate countries was transformed in recent years, and what this shift meant for their real convergence in the enlarged EU. Salih (2004) argues that the road to EU as a nation will not be as smooth as some European countries would have hoped. Structural incompatibilities, political rivalry and speculator's behavior are some of the factors that will affect the performance and unification of Europe. Ultimately, cooperation between rival nations is a vital factor to a successful unification of Europe, better global well being and trade and development. Room (2005) argues that the Lisbon process is intended to move European Union towards a dynamic but socially inclusive knowledge-based economy. The paper further argues that whereas patterns of social and economic development are increasingly shaped by global processes, the Lisbon process remains focused on action at the national level. The article argues the case for a stronger global dimension for indicators of change. Soukiazis and Castro (2005) examine the Maastricht obligations and the Stability Pact restrictions' impact on the process of real convergence between the European economies in the last two decades. They test for convergence in living standards, productivity, investment and unemployment among the European countries. Yu and Zhang (2005) examine the economic performance of the member countries of the European Union. They use four variables-GDP, pre-euro-dollar exchange rate, euro-land inflation, and unemployment rate-as indicators of current unity of the member countries. They report that the member countries of the euro-land have significant differences in terms of the status of their economic development.

CONCEPTUAL FRAMEWORK

Economic integration is a mechanism through which a group of countries try to improve their level of welfare through higher growth. A single market arrangement, the highest form of regional cooperation (as adopted by the European Union), requires that all residents (producers and consumers) should be governed by exactly the same rules. This form of integration implies that all participants must be treated equally in all parts of the market. The guiding principle behind economic integration/economic union is the concept of convergence in per capita income and/or per worker income among participating nations. According to the neo-classical models of economic growth, "the technology is such that, all things equal, poor countries/regions in terms of GDP per capita and/or per worker, grow faster than rich ones. If poor and rich countries differ only by their initial level of per capita GDP and they face identical technology and preferences, then, inequality eventually disappears in the long-run. If countries differ in other aspects too, then convergence takes the form of the stabilization of the distribution of relative income per capita across territories (See Fiess and Fugazza, 2002)." European Union was created with this basic principle in mind. By making conditions equal across Europe, EU will be able to bridge the gap between the rich and poorer nations. Over the last twelve years, EU has tried to create equal opportunities for the poorer nations and we try to find out if it helped poorer nations get richer and closer to rich nations in terms of GDP per capita as well as in terms of absolute amount of GDP. This study evaluates if EU delivered growth to member nations by creating equal conditions in terms of lower inflation through monetary policy coordination and lower budgetary deficits, lower currency volatility through single currency, promotion of democratic institutions through respect for human rights and peace on borders of the participating nations.

DATA AND METHODOLOGY

The European Union has been built to achieve political goals, but its dynamism and success spring from its economic foundations-the 'single market' formed by all the EU member states, and the single currency (the euro) used by 12 of them. The EU as a unit has much more economic, social, technological, commercial and political 'clout' than the individual efforts of its member states, even when taken together. There is added value in acting as one and speaking with a single voice as the European Union.

The European Council established three major criteria for acceptance into the Union. First, a political criterion: candidate countries must have stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Second, an economic criterion: candidate countries must have a functioning market economy and be able to cope with competitive pressure and market forces within the Union. Third is the criterion of being able to take on the obligations of EU membership, including adherence to the aims of political, economic and monetary union. This means candidate countries must adopt the entire body of EU law-known as the "acquis communautaire". The ultimate goal is bring peace and prosperity to member nations of EU.

The study evaluates the impact of the EU integration on achieving peace and prosperity by tracking the gains (or losses) made by each member nation on economic and non-economic fronts for each of the 15 states of the union. The Maastricht Treaty has been identified as the determining point because of its significance in transitioning Europe from a community into a union. The study will compare the two periods:

- For economic variables, we will compare pre-Treaty 1990 -1993[2] and post-Treaty 1994 – 2003 periods.
- For non-economic variables, we will compare pre-Treaty 1984-1993 and post-Treaty 1994-2003 periods.

The data for this study is obtained from *Countrydata.com*. Twenty (23) variables, 11 economic and 12 non-economic, are used to evaluate the impact of European integration on the participating nations. These variables have been chosen as the basis for the study given the above criteria established for entrance into the European Union.

The variables have been defined by *Countrydata.com* as follows:

Economic Variables:

Budget Balance as Percentage of GNP: Central government budget balance for a given year, expresses as a percentage of GDP for that year.

Composite Risk Rating: Composite Political, Financial, Economic Risk Rating for a country (CPFER) = 0.5 (Political Risk + Financial Risk + Economic Risk) Ranging from Very High Risk (00.0 - 49.5) to Very Low Risk (80.0 - 100). The higher the points, the lower the risk.

Current Account as Percentage of GDP: Estimated balance on the current account of the balance of payments, converted into US dollars at the average exchange rate for the year, expressed as a percentage of GDP, converted into US dollars at the average rate of exchange for the period covered.

Current Account as Percentage of XGS: Estimated balance on the current account of the balance of payments, converted to US$ at average rate, expressed as a percentage of total exports of goods and services (XGS), converted into US$ at exchange rate for period covered.

Economic Risk Rating: This is a means of assessing a country's current economic strengths and weaknesses. In general, where strengths outweigh weaknesses, a country will show low risk and where weaknesses outweigh strengths, the economic risk will be high. To ensure comparability between countries, risk components are based on accepted ratios between the measured data within the national economic/financial structure, and then the ratios are compared, not the data. Risk points are assessed for each of the component factors of GDP per head of population, real annual GDP growth, annual inflation rate, budget balance as a percentage of GDP, and current account balance as a percentage of GDP. Risk ratings range from a high of 50 (least risk) to a low of 0 (highest risk), though lowest de facto ratings are generally near 15.

Exchange Rate Stability: It is measured by the annual percentage change in the exchange rate of the national currency against the US dollar (against the euro in the case of the US).

Financial Risk Rating: It is a means of assessing a country's ability to pay its way by financing its official, commercial and trade debt obligations. To ensure comparability between countries, risk components are based on accepted ratios between the measured data within the national economic/financial structure, and then the ratios are compared, not the data. Risk points are assessed for each of the component factors of foreign debt as a percentage of GDP, foreign debt service as a percentage of exports of goods and services (XGS), current account as a percentage of XGS, net liquidity as months of import cover, and exchange rate stability. Risk ratings range from a high of 50 (least risk) to a low of 0 (highest risk), though lowest de facto ratings are generally near 20.

GDP per Head of Population: Gross domestic product per head of population, converted into US dollars at the average exchange rate for that year.

Inflation: Estimated annual inflation rate, expressed as the weighted average of the Consumer Price Index and calculated as a percentage change.

International Liquidity: Estimated annual net liquidity expressed as months of cover and calculated as the official reserves of the individual countries, including their official gold reserves calculated at current free market prices, but excluding the use of IMF credits and the foreign liabilities of the monetary authorities.

Real GDP Growth: Annual change in estimated Gross Domestic Product, at a constant 1990 prices (for data in the 1990s), of a given country is expressed as a percentage increase or decrease.

Non-Economic Factors:

Bureaucracy Quality: Institutional strength and quality of the bureaucracy is a shock absorber that tends to minimize revisions of policy when governments change. In low-risk countries, the bureaucracy is somewhat autonomous from political pressure. Highest number of points awarded under this category is four.

Corruption: A measure of corruption within the political system that is a threat to foreign investment by distorting the economic and financial environment, reducing the efficiency of government and business by enabling people to assume positions of power through patronage rather than ability, and introducing inherent instability into the political process. For the least corrupt country, maximum number of points awarded is six.

Democratic Accountability: A measure of, not just whether there are free and fair elections, but how responsive government is to its people. The less responsive it is, the more likely it will fall. Even democratically elected governments can delude themselves into thinking they know what is best for the people, regardless of clear indications to the contrary from the people. Maximum number of points awarded for a country that has the most democratic accountability is six.

Ethnic Tensions: Ethnic Tensions is a measure of the degree of tension attributable to racial, national, or language divisions. Lower ratings (higher risk) are given to countries where tensions are high because opposing groups are intolerant and unwilling to compromise. For the least risky country, the maximum number of points is six.

External Conflict: A measure of the risk to the incumbent government and to inward investment, ranging from trade restrictions and embargoes through geopolitical disputes, armed threat, border incursions, foreign-supported insurgency and full-scale warfare. Twelve points (the highest) are awarded to a country that is least risky in terms of external conflict.

Government Stability: A measure of the government's ability to stay in office and carry out its declared program(s), depending upon such factors as the type of governance, cohesion of the government and governing parties, approach of an election, and command of the legislature. Twelve points mean that the country has the most stable government.

Internal Conflict: A measure of political violence and its actual or potential impact on governance, taking into consideration such factors as whether threats exist, whether they have political objectives, the size and strength of support, and the geographic nature of the conflict. Twelve points are awarded to the least risk country.

Law and Order: Two measures comprising one risk component. Each sub-component equals half of the total. The "law" sub-component assesses popular observance of the law. Maximum of six points are awarded to the country that has law and order.

Military in Politics: A measure of the military's involvement in politics. Since the military is not elected, involvement, even at a peripheral level, diminishes democratic accountability. Over the long term, a system of military government will almost certainly diminish effective governmental functioning, become corrupt, and create an uneasy environment for foreign businesses. A maximum of six points are awarded to a country that has the least military involvement in politics.

Political Risk Rating: A means of assessing the political stability of a country on a comparable basis with other countries by assessing risk points for each of the component factors of government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religion in politics, law and order, ethnic tensions, democratic accountability, and bureaucracy quality. Risk ratings range from a high of 100 (least risk) to a low of 0 (highest risk), though lowest de facto ratings generally range in the 30s and 40s.

Religious Tensions: A measure of religious tensions arising from the domination of society and/or governance by a single religious group—or a desire to dominate—in a way that replaces civil law by religious law, excludes other religions from the political/social processes, suppresses religious freedom or expressions of religious identity. The risks involved ranging from inexperienced people imposing inappropriate policies to civil dissent or civil war. Maximum of six points are for a country that has the least religious tensions.

Socioeconomic Conditions: Socioeconomic conditions are an estimate of the general public's satisfaction or dissatisfaction with the government's economic policies, covering a broad spectrum of factors ranging from infant mortality and medical provision to housing and interest rates. Different weights are applied in different societies, depending upon the relative political impact. Maximum of twelve points are awarded to a country that shows maximum general public's satisfaction with government's policies.

EMPIRICAL ANALYSIS

Table 1 provides summary statistics of the economic performance of EU 15 countries for the period 1990 and 2003 except for Luxembourg. Luxembourg's economic performance is for the period 1998 and 2003.

Table 1: A Summary of the Economic Performance of 15 European Union Countries, 1990- 2003.*

Variables\Country		Austria	Belgium	Denmrk	Finland	France	German	Greece	Ireland	Italy	Luxembourg	Netherland	Portugal	Spain	Sweden	Uk
Budget Balance as % of GDP	Mean	-3.11	-2.98	0.15	-3.39	-3.09	-2.47	-7.26	0.42	-5.73	1.42	-1.52	-3.21	-3.05	-2.94	-2.21
	Std Dev	1.71	2.48	1.99	6.85	2.02	0.87	6.35	2.19	4.03	0.20	1.59	1.83	2.09	6.34	2.86
Current Account as % of GDP	Mean	-1.54	4.01	1.44	1.67	1.20	-0.21	-3.19	1.06	0.79	13.43	4.54	-4.01	-1.65	0.91	-1.26
	Std Dev	1.07	1.29	0.99	4.09	1.07	1.07	1.74	1.58	2.00	18.35	1.42	4.10	1.69	2.44	1.13
Current account as % of XGS	Mean	-1.69	3.21	-0.04	-1.21	2.08	1.75	-17.32	1.76	-0.12	6.76	5.78	-7.40	-4.26	1.02	-4.82
	Std Dev	2.68	1.91	6.06	9.80	3.17	6.13	7.30	5.10	5.31	16.99	2.27	9.58	10.63	5.20	6.95
Exchange Rate Stability	Mean	-1.15	-1.01	-0.92	-3.33	-1.04	-1.10	-6.19	-1.59	-3.39	-3.15	-1.10	-2.56	-3.27	-3.39	-0.35
	Std Dev	10.23	10.49	10.27	12.72	10.10	10.20	10.05	10.00	11.19	13.38	10.26	10.37	11.27	12.62	7.01
GDP per head	Mean	25082	23439	30898	23882	23792	25616	10668	20308	19826	40439	23159	10069	14116	26558	21004
	Std Dev	2576	2234	3279	2926	1989	2509	1442	5600	1335	3433	2451	1508	1109	2787	3219
Real GDP Growth	Mean	2.31	1.95	2.22	1.94	1.88	2.59	2.31	6.26	1.46	3.12	2.61	2.38	2.54	1.84	1.84
	Std Dev	0.92	1.34	1.30	3.67	1.22	3.41	1.65	2.87	1.10	0.66	1.18	1.48	1.42	2.13	1.63
Inflation	Mean	2.57	2.55	3.00	2.79	2.62	2.22	11.18	3.71	4.73	2.43	2.32	7.92	5.54	3.53	3.86
	Std Dev	1.23	1.54	1.41	2.14	1.83	1.34	6.63	2.14	2.82	1.20	0.65	6.34	4.25	2.87	2.13
Economic Risk Rating	Mean	40.15	39.73	40.20	38.93	39.28	40.93	33.68	40.05	38.03	40.95	41.98	38.08	37.90	39.90	37.25
	Std Dev	1.23	2.51	2.68	5.22	2.80	1.50	4.52	3.18	2.47	3.97	1.53	2.76	2.59	2.93	2.39
Financial Risk	Mean	45.10	42.95	42.85	41.70	42.48	45.53	32.18	41.98	42.05	46.63	44.03	38.70	40.28	41.93	44.08

Rating	Std Dev	2.47	3.59	3.40	3.01	3.29	4.58	4.06	1.62	3.13	3.05	4.58	4.65	2.43	4.43	5.45
International Liquidity	Mean	4.87	2.32	3.60	3.47	3.54	3.55	5.98	3.07	4.54	2.51	3.51	8.84	6.54	3.76	0.92
	Std Dev	1.40	1.03	1.57	0.95	1.81	1.31	3.19	1.06	1.70	1.25	1.37	3.80	2.23	1.69	0.71
Composite Risk Rating	Mean	86.08	81.84	85.34	84.92	80.69	85.58	67.83	82.23	78.44	90.07	87.50	77.43	76.22	84.11	82.40
	Std Dev	2.07	1.95	2.44	2.79	1.41	3.10	7.62	3.99	2.90	1.40	2.24	4.66	3.54	2.04	2.10

* Luxembourg's economic performance is for the period 1998 through 2003

As shown in Table 1, in terms of budget balance as a percentage of GDP, only Luxembourg, Ireland, and Denmark show a positive number. Other 12 EU member nations show a negative budget balance as a percentage of GDP with Greece showing an average deficit of 7.26 percent for the period 1990 to 2003, followed by Italy with an average budget deficit of more than 5 percent. Furthermore, seven participating nations have an average deficit of more than 3 percent, which violates the EU guidelines of keeping budgetary deficit below 3 percent of the GDP.

An examination of the GDP per capita clearly brings out the diverse nature of the impact of the European Union on various member states. Luxembourg[3] shows the highest average GDP per head of $40,439 followed by Denmark ($30,897) and Sweden ($26,558.21). Lowest average GDP per capital is being recorded by Portugal ($10069). Similarly, real GDP growth rates also vary widely across the EU 15 nations with highest average real GDP growth rate of 6.26 percent being recorded by Ireland and with lowest average real GDP growth rate of 1.46 percent being recorded by Italy. Thus, all EU participating nations are not experiencing the same level of growth on the average.

Greece records the highest inflation of more than 11 percent among all the participating nations followed by an equally high inflation rate of more than 7 percent by Portugal. Spain shows an inflation rate of more than 5 percent, while Italy has an average inflation rate closer to 5 percent during 1984 to 2003. This is the direct result of public borrowing getting out of control in the Eurozone. Germany shows the lowest inflation rate of 2.22 percent during the same period.

Economic risk ratings and financial risk ratings on an average do not differ much across all the EU 15 nations. Highest average economic risk rating of 41.98 is for Luxembourg and the lowest average economic risk rating of 33.68 for Greece. In terms of average financial risk ratings, Luxembourg leads the EU pack and Greece is again at the lower end of the ladder. UK is the only country among the EU 15 nations that shows international liquidity of below 1. All other countries show international liquidity of 2 and above, which means that their foreign exchange reserve positions are quite comfortable.

Overall composite risk ratings vary in the range of 67.83 to 90.07. Highest composite ranking is being recorded Luxembourg and lowest rating goes to Greece.

Table 2 provides summary statistics of the performance of EU 15 nations in terms of non-economic variables.

Table 2: A Summary of the Performance of 15 EU Countries in Terms of Non-Economic Variables, 1984-2003

Variables\Country		Austria	Belgium	Denmrk	Finland	France	German	Greece	Ireland	Italy	Luxembourg	Netherland	Portugal	Spain	Sweden	Uk
Socioeconomic Conditions	mean	8.70	7.38	8.15	7.85	7.40	7.90	5.75	8.25	7.20	9.74	8.40	6.75	7.20	7.45	8.50
	std dev	1.42	1.46	1.39	1.30	0.88	1.52	1.01	1.80	1.19	0.99	1.56	1.58	1.53	1.50	1.76
Bureaucratic Quality	mean	3.88	4.00	4.00	3.98	3.88	4.00	2.65	3.80	3.15	3.97	4.00	2.65	3.20	4.00	4.00
	std dev	0.22	0.00	0.00	0.11	0.32	0.00	0.49	0.25	0.37	0.11	0.00	0.59	0.38	0.00	0.00
Corruption	mean	4.80	4.65	5.95	6.00	4.65	4.95	4.45	4.30	3.55	5.68	5.90	4.55	4.20	5.95	5.15

	std dev	0.41	0.93	0.15	0.00	1.14	0.69	0.93	1.07	0.58	0.48	0.31	0.67	0.68	0.15	0.56
Democratic Accountability	mean	5.35	5.50	6.00	6.00	5.50	5.40	4.55	5.75	4.70	5.84	6.00	5.20	5.40	6.00	5.75
	std dev	0.75	0.51	0.00	0.00	0.51	0.50	1.23	0.44	0.86	0.37	0.00	0.77	0.50	0.00	0.44
Ethnic Tensions	mean	5.30	3.35	5.80	6.00	4.45	4.85	5.90	5.13	5.35	5.00	5.93	5.50	3.70	5.60	4.65
	std dev	0.80	0.99	0.62	0.00	0.58	0.49	0.31	0.86	0.49	0.00	0.34	0.51	1.08	0.50	0.59
External Conflict	mean	12.00	12.00	12.00	12.00	10.20	11.80	9.70	12.00	12.00	12.00	12.00	12.00	11.20	11.60	10.60
	std dev	0.00	0.00	0.00	0.00	1.32	0.63	1.34	0.00	0.00	0.00	0.00	0.00	1.03	0.84	1.26
Government Stability	mean	8.48	7.93	7.80	8.93	7.85	8.35	7.18	8.68	7.35	10.58	8.60	7.83	8.15	8.28	8.18
	std dev	1.35	1.82	1.48	1.26	1.57	1.85	2.17	2.00	2.37	1.02	1.58	1.97	2.03	1.55	2.45
Internal Conflict	mean	11.90	10.90	11.90	11.95	10.40	11.23	9.45	11.30	10.43	12.00	11.90	10.80	8.05	11.40	10.23
	std dev	0.45	1.28	0.31	0.22	1.01	0.70	1.64	0.44	1.39	0.00	0.31	1.20	1.61	0.66	0.98
Law and Order	mean	6.00	5.70	6.00	6.00	5.18	5.50	3.90	5.10	5.28	6.00	6.00	5.15	4.63	6.00	5.45
	std dev	0.00	0.47	0.00	0.00	0.44	0.51	1.17	0.85	0.64	0.00	0.00	0.37	0.93	0.00	0.83
Military in Politics	mean	6.00	6.00	6.00	6.00	5.40	6.00	4.25	6.00	6.00	6.00	6.00	4.70	4.90	5.95	6.00
	std dev	0.00	0.00	0.00	0.00	0.50	0.00	1.06	0.00	0.00	0.00	0.00	1.42	0.72	0.15	0.00
Religious Tensions	mean	5.65	5.00	6.00	6.00	5.70	6.00	5.20	4.30	4.95	6.00	5.40	6.00	5.15	6.00	6.00
	std dev	0.49	0.32	0.00	0.00	0.57	0.00	0.70	0.73	0.15	0.00	0.50	0.00	0.97	0.00	0.00
Political Risk Rating	mean	86.63	80.78	87.48	89.03	79.45	84.55	69.43	82.30	76.63	92.39	88.88	77.88	74.08	86.28	83.33
	std dev	3.28	3.47	3.75	4.35	2.31	3.79	8.38	5.74	5.40	2.03	4.38	8.26	4.79	4.13	5.11

In terms of socio-economic conditions, on an average Luxembourg enjoys the highest score of 9.74 followed by Austria (8.70) and UK (8.50). Lowest score is for Greece and Portugal. A perusal of the average score for socio-economic conditions shows that residents of the Eurozone do not, in general, approve of their government's policies. They are skeptical of the politician's promises of better economic conditions through higher competitiveness, more output, and greater job growth.

Bureaucratic quality is highest for Belgium, Denmark, Germany, Netherlands, Sweden, and UK with the highest possible score of 4. Lowest bureaucratic quality score goes to Greece and Portugal with a score of 2.65. Least corrupt country is Finland with the highest possible score of 6 during the period 1984 to 2003. Most corrupt country is Italy with an average score of 3.55 out of 6. Democratic accountability, on an average, is quite good and consistent across EU except Greece which has a rating of below 5 on democratic accountability.

EU 15 nations' performance on ethnic tensions again shows variations across nations with the highest possible score of 6 out 6 being recorded by Finland followed closely by Netherlands and Greece. Belgium with an average score 3.35 out of 6 shows the poorest performance on the issue of ethnic tensions followed by Spain with a score of 3.70. Ethnic tensions are bound to deteriorate if job growth is not equal across all participating nations or if one country fears that cheap labor from other parts of the union will threaten their jobs. Law and order on an average is quite good across EU 15 nations except for Greece which records an average score of 3.90 out of 6. On issues of external conflict, government stability, internal conflict, religious tensions, and military in politics, all EU 15 nations score very high on an average basis. Ireland shows a low score of 4.30 on the issue of religious tensions, all other countries have a score of 5 and above on this issue. On the issue of internal conflict, Greece is the only country with a score slightly below 10 at 9.45. All other member nations have a score above 10 on this issue.

To evaluate the pre- and post-Maastricht treaty performance of EU 15 nations in terms of economic and non-economic variables, we divided the sample into two periods: 1984 - 1993 and 1994 – 2003 and use t-test to assess the statistical significance of the difference in the performance of the two periods. Highest mean political risk is associated with Greece followed by Spain and Italy. Lowest mean political risk goes to Luxembourg followed by Finland and Netherlands. Table 3 summarizes the comparative performance of EU 15 nations in terms of economic variables during the 1984 – 1993 and 1994 – 2003 time periods.

Table 3: Comparative Analysis of the Performance of 15 EU Countries in Terms of Economic Variables during the Pre-1994 and Post-1994.*

Budget Balance As % Gdp		**Austria**	**Belgium**	**Denmark**	**Finland**	**France**	**Germany**	**Greece**	**Ireland**	**Italy**	**Luxembourg**	**Netherland**	**Portugal**	**Spain**	**Sweden**	**Uk**
Before 1994	mean	-4.45	-6.13	-1.43	-8.55	-3.23	-2.85	-10.85	-1.38	-10.58		-2.83	-4.85	-3.90	-4.88	-3.13
	std dev	0.54	0.45	0.73	6.69	1.92	0.58	2.74	0.69	0.46		0.96	2.01	1.53	7.00	3.64
1994-2003	mean	-2.57	-1.72	0.78	-1.33	-3.04	-2.32	-5.82	1.14	-3.79	1.42	-1.00	-2.56	-2.71	-2.16	-1.85
	std dev	1.73	1.63	2.01	6.02	2.15	0.94	6.90	2.19	2.97	0.20	1.52	1.35	2.26	6.27	2.62
	t-test	**7.91**	**12.91**	**7.40**	**4.77**	**2.05**	**7.75**	**3.32**	**7.25**	**8.78**		**8.92**	**11.25**	**4.84**	**3.16**	**4.41**
Current Account as % GDP																
Before 1994	Mean	-0.08	3.10	2.25	-4.15	-0.08	0.15	-2.28	1.10	-1.30		3.13	-0.28	-3.08	-2.63	-2.08
	std dev	0.57	1.46	1.14	1.94	0.69	2.04	1.47	1.79	1.45		0.83	0.49	1.25	0.75	0.89
1994-2003	mean	-2.13	4.38	1.12	4.00	1.71	-0.36	-3.56	1.04	1.63	13.43	5.11	-5.51	-1.08	2.32	-0.93
	std dev	0.44	1.09	0.77	1.33	0.69	0.42	1.76	1.60	1.53	18.35	1.21	3.94	1.52	0.80	1.07
	t-test	**-13.69**	**3.36**	**-3.84**	**21.42**	**19.26**	**-1.00**	**-3.15**	**-0.13**	**7.45**	**7.32**	**8.30**	**-12.69**	**5.74**	**24.25**	**4.64**
Current account as % XGS																
Before 1994	mean	0.57	2.15	-3.17	-8.56	-0.33	5.69	-18.45	-0.36	-3.35	1.29	5.91	-4.90	-3.78	-2.95	-3.08
	std dev	1.28	1.43	6.14	7.79	2.46	6.35	6.75	4.45	3.94	3.72	2.30	6.94	14.72	4.27	4.72
1994-2003	mean	-3.95	4.26	3.10	6.14	4.49	-2.20	-16.19	3.88	3.11	11.69	5.65	-9.89	-4.74	4.99	-6.55
	std dev	1.46	1.79	4.23	4.70	1.50	2.07	8.00	5.00	4.55	22.54	2.36	11.47	4.60	1.98	8.53
	t-test	**-23.27**	**9.20**	**8.40**	**16.16**	**16.70**	**-11.81**	**2.16**	**6.33**	**10.72**	**4.55**	**-0.79**	**-3.72**	**-0.62**	**16.87**	**-3.56**
Exchange Rate Stability																
Before 1994	mean	2.85	2.83	2.55	-8.30	2.58	2.85	-9.38	0.20	-4.48		2.93	-1.10	-2.70	-5.98	-2.63
	std dev	9.00	9.94	10.08	15.81	9.83	9.00	10.21	13.02	16.94		8.91	12.85	15.92	18.90	10.73
1994-2003	mean	-2.75	-2.54	-2.31	-1.34	-2.48	-2.68	-4.91	-2.31	-2.95	-3.15	-2.71	-3.15	-3.50	-2.36	0.56
	std dev	10.69	10.81	10.53	11.62	10.35	10.66	10.24	9.27	9.19	13.38	10.75	9.94	9.94	10.33	5.43
	t-test	**-0.10**	**-0.06**	**-0.05**	**0.01**	**-0.06**	**-0.10**	**0.04**	**-0.01**	**0.00**		**-0.10**	**-0.01**	**0.00**	**0.00**	**0.02**
GDP Per Head																
Before 1994	mean	22092	20837	26591	22462	21710	23456.	8817	13720	19490		19951	8193	13325	26117	17395
	std dev	1438	1330	1410	4250	936	1332	569	1029	1790		1038	1158	1128	3280	865
1994-2003	mean	26278	24480	32620	24449	24624	26480	11408	22943	19960	40439	24442	10819	14433	26734	22447
	std dev	1826	1551	1824	2255	1651	2366	874	4235	1197	3432	1384	805	981	2740	2571
	t-test	**10.38**	**9.92**	**15.19**	**1.83**	**10.18**	**7.40**	**15.50**	**18.61**	**1.02**		**15.26**	**8.74**	**3.71**	**0.71**	**15.03**
Real GDP Growth																
Before 1994	mean	2.38	1.38	1.20	-2.83	0.80	4.98	0.55	4.13	0.65		2.25	1.68	1.38	-0.38	0.05
	std dev	1.55	2.05	0.27	3.26	1.58	6.16	2.05	2.63	1.38		1.44	2.28	2.11	2.80	1.80
1994-2003	mean	2.28	2.18	2.63	3.85	2.31	1.63	3.01	7.12	1.78	3.12	2.75	2.66	3.00	2.73	2.56
	std dev	0.64	1.00	1.34	1.34	0.78	0.75	0.78	2.60	0.84	0.66	1.12	1.06	0.77	0.93	0.87
	t-test	**-1.46**	**7.60**	**10.71**	**17.48**	**19.16**	**-0.38**	**28.83**	**10.41**	**13.38**	**47.11**	**4.47**	**8.10**	**18.59**	**16.08**	**28.21**
Inflation																
Before 1994	mean	3.53	3.47	3.75	4.31	4.01	2.97	17.01	4.50	6.85	3.11	2.24	12.75	8.11	5.81	5.26
	std dev	0.66	1.68	1.68	2.08	1.57	1.44	2.84	2.36	2.26	1.27	0.79	5.66	4.71	2.13	2.17
1994-2003	mean	1.60	1.63	2.24	1.27	1.23	1.46	5.35	2.92	2.61	1.81	2.39	3.08	2.96	1.25	2.45
	std dev	0.82	0.55	0.27	0.41	0.57	0.65	3.05	1.64	1.32	0.74	0.50	0.86	1.06	1.16	0.72
	t-test	**-18.35**	**-10.40**	**-8.85**	**-14.31**	**-16.66**	**-9.55**	**-27.96**	**-5.49**	**-16.21**	**-8.86**	**1.60**	**-16.89**	**-10.66**	**-18.84**	**-12.30**

Economic Risk Rating																
Before 1994	mean	39.80	37.55	37.70	34.70	37.35	41.70	29.70	37.65	36.10	37.28	42.25	37.30	35.80	37.75	36.00
	std dev	0.95	1.04	0.95	2.59	2.16	1.65	2.08	0.82	1.70	0.79	1.44	2.78	1.86	1.44	1.11
1994-2003	mean	40.50	41.90	42.70	43.15	41.20	40.15	37.65	42.45	39.95	44.25	41.70	38.85	40.00	42.05	38.50
	Std dev	1.41	1.31	0.63	3.35	1.92	0.82	1.92	2.80	1.32	2.31	1.64	2.65	0.94	2.41	2.72
	t-test	**4.95**	**33.25**	**79.05**	**23.86**	**19.52**	**-18.74**	**40.69**	**17.12**	**28.97**	**30.15**	**-3.36**	**4.99**	**43.42**	**17.84**	**9.20**
Financial Risk Rating																
Before 1994	mean	45.90	44.15	42.55	43.45	44.25	48.90	29.55	42.10	44.15	48.22	46.85	39.75	40.70	45.30	48.10
	std dev	1.79	2.14	2.27	0.83	2.70	1.66	3.70	1.20	3.11	1.30	0.82	4.49	2.87	1.89	2.08
1994-2003	mean	44.30	41.75	43.15	39.95	40.70	42.15	34.80	41.85	39.95	45.20	41.20	37.65	39.85	38.55	40.05
	std dev	2.88	4.40	4.36	3.40	2.93	4.02	2.42	2.01	1.12	3.51	5.09	4.80	1.96	3.54	4.74
	t-test	**-5.55**	**-5.42**	**1.36**	**-10.28**	**-10.94**	**-16.78**	**7.30**	**-1.24**	**-13.77**	**-8.62**	**-11.10**	**-1.14**	**-3.12**	**-19.03**	**-16.93**
International Liquidity																
Before 1994	mean	5.66	3.07	3.75	3.18	4.52	4.28	3.37	3.63	5.83	2.97	4.43	11.91	7.90	3.47	1.44
	std dev	1.36	0.75	1.12	0.97	2.05	1.42	0.77	0.77	1.34	0.72	0.80	1.54	1.27	0.90	0.50
1994-2003	mean	4.08	1.57	3.44	3.76	2.56	2.82	8.58	2.51	3.25	2.10	2.59	5.77	5.17	4.04	0.39
	std dev	0.95	0.64	1.97	0.89	0.76	0.64	2.42	1.04	0.77	1.51	1.19	2.68	2.18	2.25	0.45
	t-test	**-9.51**	**-15.15**	**-1.37**	**4.41**	**-8.95**	**-9.37**	**20.50**	**-8.69**	**-16.67**	**-5.19**	**-12.82**	**-19.86**	**-10.84**	**2.35**	**-15.65**
Composite Risk Rating																
Before 1994	mean	86.85	81.20	83.70	83.70	80.60	87.95	60.95	79.20	78.00	89.50	88.55	74.20	74.10	84.85	82.85
	std dev	1.99	1.14	2.15	2.81	1.56	2.41	3.40	1.65	2.45	1.03	2.15	3.92	3.28	1.92	2.31
1994 – 2003	mean	85.31	82.49	86.98	86.14	80.78	83.21	74.70	85.27	78.89	90.59	86.45	80.66	78.34	83.37	81.96
	std dev	1.95	2.41	1.40	2.29	1.31	1.40	2.46	3.23	3.37	1.53	1.88	2.70	2.39	1.97	1.88
	t-test	**-5.56**	**4.82**	**12.79**	**6.72**	**0.86**	**-17.00**	**32.74**	**16.72**	**2.12**	**5.88**	**-7.35**	**13.56**	**10.43**	**-5.40**	**-3.01**

* The data is for the period 1984 and 2003

A comparison of 1984 – 1993 and 1994-2003 data shows that all EU 15 countries show improved performance in terms of budget balance as percentage of GDP and the improvement in budget balance as a percentage of GDP is statistically significant. A move towards reducing the budgetary deficit was needed to control money supply and to move towards single currency. Moreover, EU puts a limit on the amount of budgetary deficit a participating nation can have during a particular year. This restriction also contributed to member nations' move towards reduction of budgetary deficit as a percentage of GDP. However, Greece, Italy, and France continue to have a budgetary deficit above 3 percent during the post-treaty years, which signals lack of fiscal discipline within the EU and may ultimately hurt the Union[4].

For current account as a percentage of GDP, many countries show a decline in performance. Austria, Denmark, Greece, Ireland, Portugal register a statistically significant decline in current account as a percentage of GDP. Germany also shows a decline in current account, but it is not statistically significant. Belgium, Finland, France, Italy, Netherlands, Spain, Sweden, and United Kingdom show statistically significant improvement in current account as a percentage of GDP and seem to the biggest beneficiaries of integration and resulting opening up of borders across Europe.

Current account as a percentage of exports shows improvement for Belgium, Denmark, Finland, France, Greece, Ireland, Italy, and Sweden. A simple t-test shows that the deterioration in current account as a percentage of exports is statistically significant for Austria, Germany, Portugal, and U.K. Netherlands and Spain also show a decline in current account balance as a percentage of exports, but is not statistically significant.

Change in exchange rate stability does not show any statistically significant changes for any of the EU 15 countries. All of the countries show a statistically significant improvement in GDP per head with the exception of Italy and Sweden. Italy and Sweden's improvement in GDP per head is not statistically significant. During the pre-Maastricht Treaty as well as post-Maastricht Treaty, GDP per head is the highest for Denmark, closely followed by Sweden and Germany.

All countries except Austria and Germany show a statistically significant increase in real GDP growth during the post-Maastricht Treaty in contrast to pre-Maastricht Treaty. Austria and Germany show a decline in real GDP growth rate during the post-Maastricht Treaty period although the decline is not statistically significant.

Inflation has declined significantly for all the countries except for Netherlands. Netherlands shows a slight increase in inflation. Since European Central Bank (ECB) took over the responsibility of monetary policy to introduce single currency across Eurozone, this is not surprising that inflation has come down for EU nations.

All EU 15 countries have benefited through statistically significant improvement in economic risk rating except for Germany and Netherlands. Germany and Netherlands's economic risk rating has deteriorated during the post-Maastricht Treaty. Surprisingly, financial risk rating for all EU 15 countries shows a decline in financial risk rating except for Denmark and Greece. Greece seems to be the biggest beneficiary in terms of improvement in financial risk rating during the post-Maastricht Treaty.

Political risk rating has also improved for all countries except for Austria, Germany, Netherlands, and Sweden. Biggest beneficiary of the political risk rating is Greece. There is also a decline in the international liquidity of all EU 15 countries during the post-Maastricht Treaty except for Finland, Greece, and Sweden.

Table 4 summarizes the comparative performance of EU 15 nations in terms of non-economic variables during the 1984 – 1993 and 1994 – 2003 time periods.

Table 4: A comparative analysis of the performance of 15 European Union countries in terms of non-economic variables during the pre-1992 and post-1992 period. Data is for the period 1984 and 2003

		Austria	Belgium	Denmark	Finland	France	Germany	Greece	Ireland	Italy	Luxembourg	Netherland	Portugal	Spain	Sweden	UK
Socio economic																
Before 1994	Mean	9.00	7.90	7.80	7.70	7.60	8.40	5.40	7.80	7.30	9.89	8.30	6.00	7.70	7.30	7.70
	Std. Dev.	0.94	1.10	1.23	1.25	0.52	1.51	1.07	1.62	1.25	0.78	1.34	1.33	1.34	1.25	1.34
1994 – 2003	Mean	8.40	6.85	8.50	8.00	7.20	7.40	6.10	8.70	7.10	9.60	8.50	7.50	6.70	7.60	9.30
	Std. Dev.	1.78	1.63	1.51	1.39	1.14	1.43	0.84	1.95	1.17	1.17	1.83	1.49	1.62	1.78	1.83
	t-test	**-2.98**	**-5.33**	**3.60**	**1.60**	**-3.21**	**-4.82**	**5.12**	**3.55**	**-1.17**	**-2.05**	**0.88**	**7.50**	**-4.76**	**1.38**	**7.06**
Bureaucratic Quality																
Before 1994	Mean	3.75	4.00	4.00	4.00	4.00	4.00	2.30	3.60	3.20	3.94	4.00	2.30	3.00	4.00	4.00
	Std. Dev	0.26	0.00	0.00	0.00	0.00	0.00	0.48	0.21	0.35	0.17	0.00	0.67	0.00	0.00	0.00
1994 – 2003	Mean	4.00	4.00	4.00	3.95	3.75	4.00	3.00	4.00	3.10	4.00	4.00	3.00	3.40	4.00	4.00
	Std. Dev	0.00	0.00	0.00	0.16	0.42	0.00	0.00	0.00	0.39	0.00	0.00	0.00	0.46	0.00	0.00
	t-test	**9.49**	**0.00**	**0.00**	**-3.16**	**-5.88**	**0.00**	**14.49**	**18.97**	**-1.90**	**3.33**	**0.00**	**10.37**	**8.71**	**0.00**	**0.00**
Corruption																
Before 1994	Mean	5.00	5.30	6.00	6.00	5.50	5.00	4.40	5.00	4.00	6.00	6.00	4.50	4.30	6.00	5.50
	Std. Dev.	0.00	0.48	0.00	0.00	0.53	0.47	0.84	0.00	0.00	0.00	0.00	0.71	0.48	0.00	0.53
1994 – 2003	Mean	4.60	4.00	5.90	6.00	3.80	4.90	4.50	3.60	3.10	5.40	5.80	4.60	4.10	5.90	4.80
	Std. Dev	0.52	0.82	0.21	0.00	0.92	0.88	1.05	1.15	0.52	0.52	0.42	0.66	0.84	0.21	0.35
	t-test	**-7.75**	**-13.70**	**-4.74**	**0.00**	**-16.05**	**-1.01**	**0.74**	**-12.18**	**-17.43**	**-11.62**	**-4.74**	**1.04**	**-2.06**	**-4.74**	**-11.07**
Democratic Accountability																
Before 1994	Mean	5.30	5.40	6.00	6.00	5.60	5.60	3.70	5.50	5.00	6.00	6.00	4.60	5.00	6.00	5.80
	Std. Dev.	0.95	0.52	0.00	0.00	0.52	0.52	0.82	0.53	0.94	0.00	0.00	0.52	0.00	0.00	0.42
1994 – 2003	Mean	5.40	5.60	6.00	6.00	5.40	5.20	5.40	6.00	4.40	5.70	6.00	5.80	5.80	6.00	5.70
	Std. Dev.	0.52	0.52	0.00	0.00	0.52	0.42	0.97	0.00	0.70	0.48	0.00	0.42	0.42	0.00	0.48
	t-test	**0.93**	**2.74**	**0.00**	**0.00**	**-2.74**	**-6.00**	**13.39**	**9.49**	**-5.11**	**-6.21**	**0.00**	**18.00**	**18.97**	**0.00**	**-1.56**
Ethnic Tensions																
Before 1994	Mean	5.90	3.10	6.00	6.00	4.60	5.10	6.00	4.40	5.00	5.00	6.00	5.00	3.40	6.00	4.50
	Std. Dev.	0.32	0.74	0.00	0.00	0.52	0.32	0.00	0.52	0.00	0.00	0.00	0.00	1.07	0.00	0.71
1994 –	Mean	4.70	3.60	5.60	6.00	4.30	4.60	5.80	5.85	5.70	5.00	5.85	6.00	4.00	5.20	4.80
	Std.	0.67	1.17	0.84	0.00	0.63	0.52	0.42	0.34	0.48	0.00	0.47	0.00	1.05	0.42	0.42

2003	Dev.															
	t-test	**-16.10**	**3.61**	**-4.74**	**0.00**	**-3.67**	**-8.26**	**-4.74**	**23.50**	**14.49**	**0.00**	**-3.16**	**0.00**	**3.99**	**-18.97**	**3.64**
External Conflict																
Before 1994	Mean	12.00	12.00	12.00	12.00	10.20	11.80	9.70	12.00	12.00	12.00	12.00	12.00	11.20	11.60	10.60
	Std. Dev.	0.00	0.00	0.00	0.00	1.32	0.63	1.34	0.00	0.00	0.00	0.00	0.00	1.03	0.84	1.26
1994 – 2003	Mean	11.60	11.90	11.90	11.70	11.15	11.65	9.85	11.60	11.45	11.95	11.90	11.95	11.20	11.90	10.45
	Std. Dev.	0.94	0.32	0.21	0.63	0.94	0.47	0.47	0.66	0.83	0.16	0.32	0.16	1.03	0.21	1.71
	t-test	**-4.27**	**-3.16**	**-4.74**	**-4.74**	**5.86**	**-1.90**	**1.06**	**-6.08**	**-6.61**	**-3.16**	**-3.16**	**-3.16**	**0.00**	**3.45**	**-0.71**
Government Stability																
Before 1994	Mean	8.60	7.30	7.50	9.00	7.20	8.20	6.00	8.10	7.10	11.00	8.30	7.40	8.20	8.50	7.80
	Std. Dev.	1.07	1.64	1.35	1.33	0.63	1.32	1.05	1.97	1.91	0.00	1.16	1.26	1.55	1.35	1.93
1994 – 2003	Mean	8.35	8.55	8.10	8.85	8.50	8.50	8.35	9.25	7.60	10.20	8.90	8.25	8.10	8.05	8.55
	Std. Dev.	1.63	1.86	1.61	1.25	1.96	2.33	2.40	1.96	2.84	1.32	1.93	2.49	2.50	1.77	2.93
	t-test	**-1.28**	**5.04**	**2.85**	**-0.82**	**6.32**	**1.12**	**8.95**	**4.14**	**1.46**	**-6.08**	**2.67**	**3.05**	**-0.34**	**-2.02**	**2.14**
Internal Conflict																
Before 1994	Mean	12.00	10.00	12.00	12.00	10.30	10.70	8.50	11.00	9.80	12.00	12.00	9.80	7.40	11.30	10.30
	Std. Dev.	0.00	1.25	0.00	0.00	0.95	0.48	0.97	0.00	0.79	0.00	0.00	0.79	1.58	0.48	0.67
1994 – 2003	Mean	11.80	11.80	11.80	11.90	10.50	11.75	10.40	11.60	11.05	12.00	11.80	11.80	8.70	11.50	10.15
	Std. Dev.	0.63	0.35	0.42	0.32	1.11	0.42	1.65	0.46	1.61	0.00	0.42	0.42	1.42	0.82	1.25
	t-test	**-3.16**	**13.90**	**-4.74**	**-3.16**	**1.37**	**16.32**	**9.94**	**13.06**	**6.98**	**0.00**	**-4.74**	**22.36**	**6.13**	**2.11**	**-1.06**
Law and Order																
Before 1994	Mean	6.00	6.00	6.00	6.00	5.20	5.40	3.40	4.40	5.00	6.00	6.00	5.00	4.40	6.00	4.90
	Std. Dev.	0.00	0.00	0.00	0.00	0.42	0.52	0.70	0.52	0.00	0.00	0.00	0.00	0.84	0.00	0.88
1994 – 2003	Mean	6.00	5.40	6.00	6.00	5.15	5.60	4.40	5.80	5.55	6.00	6.00	5.30	4.85	6.00	6.00
	Std. Dev.	0.00	0.52	0.00	0.00	0.47	0.52	1.35	0.42	0.83	0.00	0.00	0.48	1.00	0.00	0.00
	t-test	**0.00**	**-11.62**	**0.00**	**0.00**	**-0.79**	**2.74**	**6.58**	**21.00**	**6.61**	**0.00**	**0.00**	**6.21**	**3.44**	**0.00**	**12.56**
Military in Politics																
Before 1994	Mean	6.00	6.00	6.00	6.00	5.40	6.00	3.60	6.00	6.00	6.00	6.00	3.60	4.70	6.00	6.00
	Std. Dev.	0.00	0.00	0.00	0.00	0.52	0.00	1.17	0.00	0.00	0.00	0.00	1.17	0.95	0.00	0.00
1994 – 2003	Mean	6.00	6.00	6.00	6.00	5.40	6.00	4.90	6.00	6.00	6.00	6.00	5.80	5.10	5.90	6.00
	Std. Dev.	0.00	0.00	0.00	0.00	0.52	0.00	0.21	0.00	0.00	0.00	0.00	0.42	0.32	0.21	0.00
	t-test	**0.00**	**0.00**	**0.00**	**0.00**	**-1.11**	**0.00**	**-0.28**	**0.00**	**0.00**	**0.00**	**0.00**	**2.21**	**-1.91**	**-0.17**	**0.00**
Religious Tensions																
Before 1994	Mean	5.30	5.10	6.00	6.00	5.60	6.00	4.70	3.70	5.00	6.00	5.00	6.00	4.40	6.00	6.00
	Std. Dev.	0.48	0.32	0.00	0.00	0.52	0.00	0.48	0.48	0.00	0.00	0.00	0.00	0.84	0.00	0.00
1994 – 2003	Mean	6.00	4.90	6.00	6.00	5.80	6.00	5.70	4.90	4.90	6.00	5.80	6.00	5.90	6.00	6.00
	Std. Dev.	0.00	0.32	0.00	0.00	0.63	0.00	0.48	0.32	0.21	0.00	0.42	0.00	0.21	0.00	0.00
	t-test	**14.49**	**-4.47**	**0.00**	**0.00**	**2.45**	**0.00**	**14.64**	**20.78**	**-4.74**	**0.00**	**18.97**	**0.00**	**17.26**	**0.00**	**0.00**
Political Risk Rating																
Before 1994	Mean	87.60	80.40	86.90	89.00	79.40	85.00	62.00	78.50	75.50	93.33	87.80	71.00	71.40	86.60	81.40
	Std. Dev.	2.63	3.27	3.25	4.22	2.17	3.59	2.11	3.21	4.22	0.71	3.16	2.26	3.17	3.89	4.67
1994 – 2003	Mean	85.65	81.15	88.05	89.05	79.50	84.10	76.85	86.10	77.75	91.55	89.95	84.75	76.75	85.95	85.25
	Std. Dev.	3.70	3.79	4.30	4.70	2.55	4.12	4.62	5.22	6.39	2.48	5.28	5.82	4.74	4.55	5.01
	t-test	**-4.30**	**1.50**	**2.13**	**0.08**	**0.30**	**-1.65**	**29.25**	**12.41**	**2.94**	**-6.92**	**3.49**	**22.03**	**9.38**	**-1.09**	**5.62**

In terms of socio-economic conditions, eight countries show improvement and seven countries show deterioration in the socio-economic conditions during the post-Maastricht Treaty, which implies that the EU citizens are split over their satisfaction with the government's economic policies, covering a broad spectrum of factors ranging from infant mortality and medical provision to housing and interest rates.

There is no change in the bureaucratic quality of six nations. Six countries report an improvement in bureaucratic quality during the post-Maastricht Treaty. Three countries: Finland, France, and Italy report deterioration in the bureaucratic quality during the post-Maastricht Treaty. Twelve out of fifteen nations show an increase in corruption. Only Greece and Portugal show a decline in corruption, but the difference is not statistically significant. However, in relative terms, Greece and Portugal are still more corrupt than many other member nations of the European Union.

France, Germany, and Italy report a statistically significant deterioration in the democratic accountability of during the post-Treaty period. UK also shows deterioration in democratic accountability, but it is not statistically significant change. All other nations either show no change or an improvement in democratic accountability.

Austria, Denmark, France, Germany, Greece, Netherlands, and Sweden show a deterioration of ethnic tensions in their nations during the post-Treaty period. On the other hand, Belgium, Ireland, Italy, and UK report an improvement in ethnic relations within their countries during the post-Treaty period in contrast to the pre-Treaty period.

Eleven out of fifteen nations report an increase in external conflict threat during the post-Treaty period. Government stability has significantly improved for all the participating nations during the post-Treaty period in contrast to the pre-Treaty period.

Nine out of fifteen countries report statistically significant improvement in their internal conflict. There is not much change in the law and order and military in politics ratings during the post-Treaty period. Only Belgium and Italy report deterioration in religious tensions within their countries. All other nations either show no change or an improvement in their rating on religious tensions.

Overall composite risk rating has improved for all nations except for Austria, Germany, and Netherlands. Austria, Germany, and Netherlands show a statistically significant decline in their overall composite risk ratings.

POLICY IMPLICATIONS

This study measures the effectiveness of the integration of Europe by analyzing both economic and socioeconomic factors. The Maastricht Treaty has been identified as the determining point because of its significance in transitioning Europe from a community into a union. The study compared the two periods: pre-Treaty 1984-1992 and post-Treaty 1993-2003.

The European Council established political, economic, and social criteria for acceptance into the Union. The study evaluates the progress made by members of the Union by evaluating the economic and non-economic factors for each of the 15 states of the union. Twenty-two (23) variables, 11 economic and 12 non-economic, are used to evaluate the impact of European integration on the participating nations. These variables have been chosen as the basis for the study given the above criteria established for entrance into the Union.

We find that on the economic front, member nations have made good progress during the post-Maastricht Treaty period; however, the progress is not consistent among all nations. Some participating nations have not benefited as much as other nations and this has led to social unrest among the residents of other nations. We summarize the managerial implications of the integration from the industry viewpoint and policy implications of the integration from the policy makers' viewpoint.

Managerial Implications

Globalization has become the "buzz" for the 21st. century. While structures vary, the one concept that is constant is that we are in the midst of a global economy. Structures are reflected through the European Union, North American Free Trade Agreement, Central American Free Trade Agreement and World Trade

Organization. With these structures, members have been able to internationalize their products and services more easily. Movement of capital and human resources has become a mainstay. As a result, social, political and monetary policies have had to be adjusted.

These changes in structures have put the focus on issues that would not necessarily come to light. As we know, issues concerning human rights, physical environment and health issues are at the forefront. “There is increasing awareness of contemporary challenges facing mankind and the environment, as well as the merging of national economies within a global framework.” (Karston 2005)

“Traditional economic theories usually consider capital and labor as the primary factors of production.” Today, what is important is the need for “preservation and regeneration of natural resources.” (Karston 2005)

Labor Issues: Because of structural issues, countries in the European Union are facing a stalled economy. Much of it has to do with the regulation barriers causing investors to reconsider this region.

A number of companies are leaving the Euro zone because of “labor costs, high payroll, taxes and strict labor laws.” International Business Machines Corp. is planning “14,500 layoffs” in which “70 percent would be in Europe. General Motors Corp. is shedding 12,000 employees in Europe.” (Walker 2005)

The consumers are driving the economy. They are not willing to pay high prices for goods when they are available at lower prices; these goods coming from China and India.

Other issues include consumers’ confidence, labor laws, competitiveness, industries that are heavily regulated and “rigid traditional mortgage markets that make it difficult for consumers to get cheap loans based on home values.”

Consumerism: There has been a shift in the way consumers are viewed in recent years. It used to be “buyers beware” but that has all changed since there is more competition in the marketplace. The attitude of the consumer has changed today because she is well informed, more knowledgeable and better educated, has more disposable income and has more choices. The trend is that consumers should be able to benefit from a competitive market by giving them “access to a wide range of goods and services at reasonable prices.” (Kantor 2005)

A good example as to how the environment is changing in Europe, Brussels has investigated a Belgian brewing company, Interbrew SA, and has determined that companies that hold leases of the companies that own the pubs should be allowed to offer competing beers. This is a major break through in the way of competition. This has major implications for managers and how they go about doing business.

Tax Laws: A real challenge has been with tax laws. In terms of tax harmonization taxes would be equalized. As it is now, the tax laws effecting business are different across the countries. For example, “Slovakia, Poland and Latvia have 19% corporate-tax rates, compared with 38% in Germany.” (Kantor 2005)

By definition, the European Union’s goal is to be totally integrated. In many ways this has been a challenge for many of the members in a number of ways. As we can see, there is unevenness in labor and tax laws which creates tension among the members and makes it difficult to develop a cohesive plan. The bureaucracy that has been created in sectors such as welfare has made the process inflexible and difficult to deal with. It has also been a challenge for national governments to disband old structures and create new ones that will spur economic growth. Many of them have held onto their own agendas disregarding the “European perspective.” This is clearly reflected in the “no-vote” to the new constitution by French and Dutch voters.

The EU demands a market economy in each state. Though there is no call for an American type of unilateralist identity, formation of political, economic, and monetary union simultaneously makes a “social contract” quite difficult to maintain. Therefore, on the non-economic front, there is still lot to be done by the member nations. During the post-Maastricht Treaty, seven out of fifteen member nations show deterioration in the performance on socio-economic front, which means that residents of the Eurozone do not approve of the economic policies of the European Union and do not perceive European Union as a tool to competitiveness and better economic conditions. There is also significant increase in corruption and ethnic tensions. Deterioration on the non-economic front is emanating from the lack of superior performance on the economic front. For instance, many residents of the Eurozone are wary of the single currency Euro and did not like the idea, because it reduced their purchasing power. Many complain that they are worse off now, because Euro was used by traders to hike up the prices and actually had a negative impact on their living standards.

Globalization is here to stay and it has changed everything with extremely harsh consequences for some participants. Globalization has resulted in migration of jobs to new cheap locations in China and India, resulting in complaints about outsourcing and delocalization. The creation of the single market and enlargement of the European Union has further intensified the pain to the existing residents of the Eurozone by displacing many people out their existing jobs. Also, open internal borders have attracted criminals and illegal immigrants that are threatening to erode the social fabric of the European society and their existing way of life. Therefore, residents of the Eurozone feel left out of the promises of higher competitiveness, more jobs, and better living standards.

If the European Union is to survive and expand, the member nations, especially the original 15 founder nations must listen to their citizens and deliver on the promise of better economic life for them; otherwise the very survival of the EU may be at risk. European Union was founded with a promise of higher growth, lower inflation, and higher job creation. Some of the policy initiatives that the European Union should implement include:

- European Union must promote economic growth. With exchange rate stability, single currency, and low interest rates, participating nations need to introduce necessary flexibility in the labor markets so that economic growth in the Eurozone can be regenerated[5]. With low interest rates, corporations can borrow easily, hire labor at favorable terms across the Eurozone, and bring economic growth all over Europe.

- European Union must enforce fiscal discipline among its participating nations by strictly adhering to budgetary deficit not exceeding 3 percent of the GDP. Countries that borrow beyond the limit must be penalized to keep public borrowing and, consequent, inflation under control.

- European Union should encourage the member nations to do fundamental reforms in the form of removal of subsidies, tax reforms, and labor market reforms that will encourage competitiveness, increase output, and create jobs instead of public borrowing to solve their problems.

- Make European Union more democratic and open to the citizens so that they do not believe that this is a just a project of the politicians without any regard for the ordinary citizen. Residents of the Eurozone must be made to participate and their opinions and voices must be incorporated in the decisions of the European Union instead of leaving the decision making in the hands of a few bureaucrats and politicians, which can be blamed for any pain their citizens are going through. This only undermines the credibility of the union.

- Last, but not the least, European Union should not rush into expansion of the union. Larger the number of member nations in the union, more difficult it will be to implement desperately fundamental reforms on a consensus basis.

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ENDNOTES

1. The Maastricht Treaty was "adopted by the European Council at Maastricht in December 1991 and became effective in November 1993.

2. Data for economic variables is available to us beginning 1990. Therefore, our analysis of economic variables begins with 1990 only.

3. Luxembourg data for real GDP growth rate and GDP growth rate per head is available from 1998 onwards.

4. Recently, European Union has initiated steps to penalize defaulting member nations.

5. European governments will find it very difficult to introduce flexibility in the labor markets, because it has political fallout. The story of "Polish Plumber" became a political slogan during the "no-vote" to the new constitution.