European Research Studies Journal
Volume XXII, Issue 3, 2019

pp. 261-281

The Future of EU: Towards a two Speed Europe

Submitted 17/04/19, 1st revision 11/05/19, 2nd revision 23/06/19, accepted 25/07/19

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Abstract:

After more than 60 years of successful integration the EU entered the deepest crisis since its establishment. In this long perspective the benefits of integration were undisputed, which justify its increasing extention to the new members and new field of activities.

Meanwhile, the EU passes lately through several problems related to economic downturn in the euro area, Brexit and the crisis of refugees. These crises have given rise to discussions about the best methods of overcoming them. One of the possible solutions leading to rescue an idea of European integration is to escape forward through the implementation of "Europe two speed".

The purpose of this article is to analyze the concept of "Europe of two speed", its rationale and the advantages and the possibility of its implementation in the context of the further evolution of the EU. The point is that some European countries see the need for deeper integration as panacea for crisis, but others do not see sense in improving the mechanism for political integration and rather opting out for economic cooperation limited to the single market or even free trade.

Keywords: *First speed Europe, European Monetary Union, Euro area, Optimum currency area.*

Paper type*: Extended research study.*

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1. Introduction

The European integration is continuously evolving, and its driving rationale has always been the need for an economic benefit as well as political cooperation. The number of the Member States of the EU has grown from 6 to 28, which increases its differentiation as in terms of economic, political and social sphere. At first, European integration was established on the principles of liberalization within customs union or free trade areas. The introduction of free trade had brought a huge increase in trade flows in Europe, as it is calculated that positive effect of the creation surpassed several times negative consequences of the trade diversion (Balassa, 1974, p. 27, Prewo, 1974, p. 379-405). The liberalization of trade has increased intra-regional weight, so that the countries of our continent have become the most important trade partners for each other. Positive results brought also the liberalization of the movement of factors of production (capital, services and people); the implementation only the single market program could bring Member States an increase in the GDP from 4.3% to 6.4.% (Cechini, 1988, p. 84).

After establishing the European single market, the next logical steps were to establish an economic and monetary union. It said that in Europe, like in the US one market would be better served by one money, so against a free float, the European Monetary Union (EMU) was expected to yield more opportunities to develop international transactions. Overall it was thought that monetary integration would be conducive to improve the efficiency and better allocation of resources due to elimination of risk associated with changing rate of exchange, reduction of transaction costs, transparency of prices, better integration of financial market. Before crisis intra-area trade flows in the euro area accounted for 1/3 of the area's GDP up from ¼ in 1998 and FDI stood at one third of GDP member countries as compared to one fifth. According to the European Commission the elimination of exchange rate volatility could explain up to half of trade development and up to two thirds of increase of foreign direct investments (European Economy 2008, p. 474).

Despite economic success the EU has passed lately by the deepest crisis since its inception; the global downturn in 2008 has showed some weakness in principles and organizational structures of euro arrangement. Moreover, on the crisis in the euro area has also imposed refugee crisis and the political deadlock with an instance of the UK from the EU. The conclusions coming from the crisis are that the cost and benefits of the EU were not fully assessed, and the European integration should be evaluated again from the perspective of interest of different countries. One of the proposed solutions to the EU crisis should be restructured organization and realization of the concept of so called “two speed Europe”, hence the purpose of this article is to analyze the concept of “two speeds Europe”, its rationale, costs and benefits and the possibility of its implementation in the context of the further evolution of the EU.

The EU should provide a clear vision of the evolution of future development and mutual alignment of the relations between the Member States. On the one hand the crisis in the euro area clearly shows that the EMU is still an unfinished house, on the other hand the EU must take into consideration the consequences of Brexit, flows of refuges, growing protectionist tendencies in the world. Solution to today problems it's not just about freezing the level of integration and the existing institutional structures, but above all dish countries of choice, feel they need to close integration, or name your own business they want to reduce the level of cooperation. It is considered that the EU need a deep institutional reform now, these reforms if they are to be effective can only be carried out in a limited circle of member countries.

Sources the concept of integration of two speed Europe should be sought primarily in last decade of XX century, when there was a period of deep transformations in Europe, both political and economic. During this period there was also a breakdown of the existing European Monetary System, which had stabilized for years the currencies exchange rate. Facing the process of Eastern enlargement, the EU countries have been taken the initiative of closer integration of existing members countries. In a new strategy of European integration would establish two concepts of integration: deepening of the EU or widening towards new member countries. In the discussions often deepening opposed widening, they had prevailed opinion that the EU had to progress its deepening before accepting the new partners.

The price for the unification of Germany was the consent of West Germany on the signing of the Maastricht Treaty, leading to the introduction of euro. The report titled: “One Market, One Money” asserted that the European single market needed one currency, but condition of euro introduction was the fulfillment of so-called criteria of convergence (Delors, 1990, p. 1-4 and 74-100). Therefore, the introduction of euro has first led to the division of the EU members to those countries, which have reached convergence indicators and those countries outside the euro area. Before enlargement of the EU to ten new members there were also discussion on conditions of mutual integration, if newcomers may assume all common standards, considering their heterogeneity in terms of economic, social and cultural affairs. Moreover Brexit, crisis in euro area and refugee problems give additional inspiration for new proposals, new concepts of integration to find an answer to the question how Europe should be restructured in the 21st century.

2. The Political Conception of “two speed Europe”

Rapidly changing environment inside and outside the EU witnessed of the permanent lack of adequate the existing model of integration to the new situations (Konopacki, 1998, p. 116). The basis of the European integration were free trade, customs union and common market providing freedom of exchange goods, services, capital and workers. In the years 80-the EU took up the reform of the common market to complete it into the single market, where not only direct barriers to trade and factors production flows, but also all indirect barriers have been abolished

(Kundera, 2003, p. 93-143). The single market was formally introduced in 1992; complement to the single market was to show off the Schengen Convention on the free movement of the crossing of internal frontiers. Several new members states (Cyprus, Czech Republic, Estonia, Latvia, Lithuania Slovakia, Poland, Slovenia) have been covered by the free movement of people, to the Schengen area belongs also to some European countries that are not members of the EU like Norway, Iceland or Switzerland, but some like Romania, Bulgaria, Ireland Croatia are not today members of Schengen. Thus far no one disputes out of the need to keep free trade and free flow of capital in Europe, but what is challenged is the free movement people, which is abused especially in connection with the influx of refugees to Europe.

The concept of Europe of two speeds is the answer to making changes in the integration rules in reference with increasing diversity of the EU partners. Initially integration was limited to economic objectives, but the current economic objectives are interwoven with political objectives. The EU has common policies in several spheres like trade, competition, transport, agriculture, regional policy, common monetary policy. The introduction of the euro divided de facto EU countries into two groups, those countries that have provided their sovereignty about the monetary policy to the ECB (19 countries) and which have retained autonomy in the field of emission of national currency (Denmark, Poland, the Czech Republic, Hungary, Sweden, Romania, Bulgaria, Croatia).

Therefore, in the Europe of two speeds a distinction shall be made between the core group of member states the most advanced in economic development, implementing all the provisions of the Treaties and a group of peripheries. Some authors consider the core countries as of all member of the euro-area (19 countries), the others include to this group the 15-member states of old EEC, while peripheral countries are generally the countries that joined the EU after 2004. After the crisis in 2008 some authors include also into this group of countries that have been most affected by the economic crisis like Greece or Portugal, which are characterized by continuing trouble in accomplishing the convergence criterion, lower level of development and lower competitiveness.

Although the concept of “two speed Europe” can become a tool for the management of diversity of societies, it's hard to resist the impression that it creates a first-class Europe and its second category. Model of integration which questioning the principle of equal rights and obligations of the members is the concept “Europe a la carte”. This concept is based on choice participation in the integration processes or the scope of participation that it allows states to choose certain programs or policies from the Community menu, and the resignation of the other belonging to the acquis communautarie. This model could only designate a minimum area of integration like free trade or single market, that Member States would have to accept, but on the other occasions they should be offered complete freedom in deciding whether to further participation in the integration process. The “Europe a la carte” reflects the approach to Europe as a group of countries associated with its different levels of cooperation. On the one hand this looking as somewhat realistic approach, on the other hand it gives the choice to individual countries to participate in only the most favorable for them joint ventures.

The implementation of the concept of Europe a la carte can lead of course to conflicts within the EU rather than counteract them. It would be in the first place here to extract the set of basic obligations of the Member States to the EU, but the lack of effective control over their policies could lead to drifts in the process of European integration. Therefore, a lighter form of the concept of “two speed Europe” seems to be the idea of “varied cooperation” or “multi speed Europe”. "Varied cooperation "is quite an elegant euphemism for a Europe of multi speed. The concept of “multi speed Europe” can be described as the pursuit of common objectives of integration, but according to the varied schedule. This means that all member countries accept the common objectives of European unity and adopt the acquis the objectives, but don’t carry out it with the same speed. This model leads to crystallize leaders’ group, which follow other countries. For some purpose’s weaker member countries, it will possibly come to common objective later. This delay may depend on their own preferences or from the internal conditions of the state. Simultaneously stronger members are obliged to assist the weaker in this venture, but the actual degree of achievement of solidarity in this area may be symbolic.

The concept of varied cooperation should be assessed and associate not only negatively, but also positively; although controversial the conception now has many supporters. The division of European countries according to the different speeds of integration may affect both the extent of their participation in the freedoms flows, as well as in the various common policies. Not every EU action is good for all member countries at any time. Some countries retain the right not to join the euro until their economic level will rise enough to not have been exposed to external shocks. Not all countries are interested in developing a common energy policy or European defense policy. Other countries may keep at least temporarily border controls, if they argue in favor of including security considerations, or they want to keep their own tradition of law, administration or education systems.

Currently drawing much attention the ability to the ability to divide EU members with reference with compliance with the code of conduct of the EU fundamental values. Multi-speed Europe" should not also mean sustainable, the official separation between these countries, which always strive for strong integration and those that are integrated into it looser. Each country evaluates without coercion his benefits and costs of participation in the various programs of integration, when he chooses not to participate in each moment in the closer integration, they don’t not have a closed door and could to join such initiatives later.

The current shape of the EU seems less and less attractive for Member States, so there is a need to reform the European institutions. If reform there will not be possible across the EU, it may be limited to certain Member States. Frist of all we need to deepen and enhance the Economic and Monetary Union with common budget. No doubts that " first speed Europe" rise around the euro area and stronger cooperation and financial stability there. Secondly, a major concern for EU integration will be the arrangement of future relations with the United Kingdom after Brexit. The point is that the UK has not remained on the sidelines of European integration, and it was turned on in this process is convenient for both sides of the formula. Thirdly, the reform of the EU should allow slow down the processes of integration of some Central European countries, which are not yet sufficiently prepared for the acceptance of all policies and obligations arising from participation in the EU.

3. The Legal Basis of “two speed Europe”

The legal basis of the concept of “two speeds Europe” can be seen in two pieces of legislation contained in Europe at the end of the fifties, namely: The Treaties of Rome and Stockholm Convention (Konwencja and Sztokholm, 1960; Rzym, 1957). The Treaty of Rome as well as the Stockholm Convention obliged European countries to open their markets and mutual trade liberalization. The common element in making the free exchange was also a concern for the protection of free competition: both Treaties have banned monopolistic agreements among enterprises and abuse of their dominant position (Art.15 Konwencja Sztokholm, 4.01. 1960, art. 85 Traktat 1957).

However, the scope of the liberalization of economic exchange within the European Economic Community - EEC was wider than under European Free Trade Association - EFTA. In EFTA free trade didn’t include the exchange of agricultural goods and full freedom of migration of workers as within the EEC; fitted in EFTA only freedom to establish firms in the partner countries and in connection with this the right their entrepreneurs to settle down to run a business.

Among the EFTA countries lacked also obligation concerning political coordination, to which require the member countries of the Treaty of Rome. These differences were based on two different concepts of the European cooperation: the functional and institutional integration. It is known that proponents of functional integration treat it as a method to return to the conditions of a free market. Because the regional grouping should be in their opinion wide open on the outside, so they prefer to base integration on the principles of a free-trade area. In turn, supporters of institutional integration are in favor of the customs union as the basis of integration, which restricts the sovereignty of member states in the field of commercial policy. If functional integration is in favor of reduction in the intervention policy in economies of the member states, the advocates of the institutional integration are opting for a wide coordination of economic policies among the partners. The latter agree to the transfer of competence of the national states to transnational bodies in accordance with the principle of subsidiarity.

As far as the above concepts laid at the basis of the appointment of two competing trade blocks in Europe with varying degrees of integration. The EEC was set up originally by six countries: Germany, France, Italy, Belgium, Holland and Luxembourg and the EFTA were founded on the initiative of the United Kingdom and included Austria, Switzerland, Norway, Sweden, Finland and Iceland. Because of leaving the EFTA by UK, Sweden, Finland, Austria; subsequent the EEC' extensions discussion on Europe of two speeds moved from "outside" into 'inside' of the EU. For example, the Maastricht Treaty has introduced for the first time that integration process would leave some members out of the monetary union.

According to this Treaty the countries that fulfil the so-called the convergence criteria were able to adopt the euro, but those countries which do not fulfil had to wait for joining the monetary union later. Besides because of opposition to the idea of euro, together with UK a similar op-out clause was given to Denmark. Sweden also asked for an opt- out clause, which was denied, but diplomatic solution was found whereby she did not enter the ERM (Baldwin and Wyplosz, 2004, p. 383-384).

The Treaty of Amsterdam, which entered into force on 1 May 1999 made it possible for Member States to use in certain conditions with the idea of enhanced cooperation. Areas in which enhanced cooperation became possible between a limited number of states was the so called first and third pillar. While the Amsterdam Treaty provided for enhanced cooperation only in respect of the European Community and cooperation in the field of Justice and Home Affairs, the Treaty of Nice provides for its application in relation to all pillars. According to Article 43 Treaty of Nice Member States, which intend to establish enhanced cooperation between themselves may make use of the institutions, procedures and mechanisms laid down by the Treaty provided that the proposed cooperation:

(a) is aimed at furthering the objectives of the Union and of the Community, at protecting and serving their interests and at reinforcing their process of integration;
(b) respects the said Treaties and the single institutional framework of the Union;
(c) respects the acquis communautaire and the measures adopted under the other provisions of the said Treaties;
(d) remains within the limits of the powers of the Union or of the Community and does not concern the areas which fall within the exclusive competence of the Community;
(e) does not undermine the internal market;
(f) does not constitute a barrier to or discrimination in trade between the Member States and does not distort competition between them;
(g) involves a minimum of eight Member States;
(h) respects the competences, rights and obligations of those Member States which do not participate therein;
(i) does not affect the provisions of the Protocol integrating the Schengen acquis into

the framework of the European Union;

(j) is open to all the Member States. Moreover, enhanced cooperation may be undertaken only as a last resort, when such cooperation cannot be attained within a reasonable period by applying the relevant provisions of the Treaties. When enhanced cooperation is being established between limited number of countries, it shall be open to all Member States at any time (EN Official Journal 2001, Article 43).

4. Economic Conceptions of "two speed Europe"

In connection with the concept of the multi speed Europe always the question arises as to which countries are fit for the first speed of integration, and which countries remain outside this group. It can of course be assumed that the "first speed Europe" creates the euro area and the countries which have not adopted the euro are in "Europe of second speed". However, the crisis year 2008 shows that some euro area countries found it difficult to become the member of EMU, hence the case split the EU on various speed seems to be more complicated than just a formal break between euro and non -euro area. In order to determine the criteria for the first and second speed of Europe one can refer to the theory of optimum currency area that defines the conditions of the appointment by the partners to the joint monetary integration.

The conception of optimum currency area was elaborated by R. Mundell who analyses the conditions that are necessary to introduce a common currency between different regions or partner countries and benefits and costs of flexible or fixed exchange rates (Mundell, 1961). He described different complex situation of factors mobility or immobility between regions and countries, where flexible exchange rate policy is used mainly to overcome a lack of factor mobility. If there is high geographic factor mobility across all regions, then in his view the country's regions compose an optimum currency area.

Nevertheless, regions with high mobility of factors of production are not necessarily defined by national boundaries and optimum currency areas may be composed of the several states and there may be optimum currency areas within the states. In today's global economy capital is highly mobile as internally as well internationally, so the real problems in the Mundell's theory concern the mobility of labor. If labor is not mobile internationally, then the best policy for a country open to international trade is to keep a flexible exchange rate for its currency. R. Mundell argues that the world can be divided into regions, that constitute separate currencies within each there is labor mobility.

Based on Mundell's theory one of the leading theorists of international integration J.E. Meade contended that conditions for the introduction of a common currency did not exist in Europe at time of setting up EEC, because of the low mobility of the labor force. He shared the opinion that under conditions of low mobility of factors of production in the common market a system of flexible exchange rates would be more effective in promoting balance of payments equilibrium among partners and consequently their internal stabilities (Meade, 1957).

From the point of view of the euro member countries it is interesting to analyze how above-mentioned theory applies now to the conditions of the European single market. According to Eurostat Statistics in 2017 in sum there were 36.9 million people born outside of the EU-28 living in a single market (about 7.5%), while there were 20.4 million persons who had been born in a different EU Member State from the one where they were resident. In 2017, the largest numbers of non-nationals living in the EU Member States were found in Germany (9.2 million persons), the United Kingdom (6.1 million), Italy (5.0 million), France (4.6 million) and Spain (4.4 million). Non-nationals in the five countries with biggest immigration collectively represented 76% of the total number of non-nationals living in all the EU Member States. In Germany part of immigration from the EU accounted for only 39.2% of total migration, in France-21.2%, in Italy-20.8%, Spain-28%.

In one-year 2016 a total of 4.3 million people immigrated to one of the EU-28 Member States, but among these there were an estimated 2.0 million citizens of non-member countries, 1.3 million people with citizenship of a different EU Member State, around 929 thousand people who migrated to a mother country (returning nationals or nationals born abroad). One year earlier to the EU came mainly refugees and immigrants from third countries -2.4 million. From these numbers one can see that the influx of immigrants from third countries to the EU is 1.8 times more intense than the citizens migration between partner countries. Taking into consideration that on average about 3.9% of emigration flows is comprised of the citizens from member countries in the EU population, Baldwin and Wyplosz conclude that labor Europeans move not intensively between member countries only half as often as US citizens (Baldwin and Wyplosz, 2006, p. 364-365).

Table 1. *Immigration in Europe by citizenship in thousands and % in 2016*

Country	Total	National	Citizens of the EU partners	Citizens of non- member countries
Austria	129.5	9.8 (7.5%)	64.7 (50%)	54.5 (42.1%)
Belgium	123.7	17.6 (14.2%)	58.9 (47.6%)	46.5 (37.6%)
Bulgaria	21.2	9.3 (43.6%)	1.3 (6,2%)	10.6 (50%)
CzechRepublic	64.1	4.5 (7.1%)	29.0 (6.3%)	29.9 (46.7%)
Croatia	14.0	7.7 (55.3%)	2.2 (15.8%)	4.0 (28.9%)
Cyprus	17.4	3.6 (20.5%)	7.4 (42.3%)	6.5 (7.3%)
Denmark	74.4	19.7 (26.5%)	25.0 (33.6%)	28.6 (38.4%)
Estonia	14.8	7.1 (48.1%)	3.5 (23.7%)	4.2 (49.2%)
Finland	34.9	7.6 (21.9%)	7.1 (20.3%)	19.6 (56.3%)
France	378.1	137.2 (36.3%)	82.7 (21.9%)	158.2 (41.8%)

Italy	300.8	37.9 (12.8%)	62.7 (20.8%)	200.2 (66.6%)
Ireland	85.2	28.0 (32.9%)	28.9 (33.9%)	27.2 (31.9%)
Germany	1029.9	110.5 (10.7%)	403.6 (39.2%)	507.0 (49.2%)
Greece	116.9	30.7 (26.3%)	16.6 (14.2%)	69.5 (59.5%)
Hungary	53.6	29.8 (55.6%)	10.5 (19.8%)	13.3 (24.7%)
Latvia	8.3	4.9 (58.7%)	0.5 (6.0%)	2.9 (34.9%)
Lithuania	20.2	14.2 (70.5%)	0.8 (3.7%)	5.2 (25.7%)
Luxembourg	22.9	1.3 (5.8%)	16.0 (69.7%)	5.6 (24.3%)
Malta	17.1	1.4 (8.1%)	9.0 (52.8%)	6.7 (39.3%)
Netherlands	189.2	42.5 (22.5%)	63.9 (33.8%)	76.7 (40.5%)
Poland	208.3	105.4 (50.6%)	22.8 (10.9%)	80.1 (38.4%)
Portugal	29.9	4.9 (49.7%)	7.2 (24.1%)	7.8 (26.2%)
Romania	137.5	119.6 (87.0%)	5.6 (4.1%)	12.3 (8.9%)
Slovakia	7.7	4.1 (53.0%)	3.0 (38.9%)	0.6 (8.1%)
Slovenia	16.6	2.9 (17.2%)	3.4 (20.4%)	10.4 (62.4%)
Spain	414.7	62.6 (15.1%)	116.3 (28.0%)	235.6 (56.8%)
Sweden	163	20.0 (12.3%)	30.5 (18.7%)	104.4 (64.0%)
United Kingdom	589	74.2 (12.6%)	249.4 (42.3%)	265.4 (45.1%)

Source: *Eurostat (online data code:migr_imm1ctz).*

In 2016 Germany reported the largest total number of immigrants (1,029 million), followed by the United Kingdom (589 thousand), Spain (414 thousand), France (378 thousand), Italy (300 thousand), Poland (236 thousand) (see table no 1). Among the states of the EU: 21 reported more immigration than emigration, but in Bulgaria, Croatia, Latvia, Lithuania, Poland, Portugal and Romania the number of emigrants outnumbered the number of immigrants. In relative term Luxembourg reported the largest share of immigrants coming from another EU Member State (93% of its total number of immigrants), followed by Slovakia (80%) and Romania (74%); relatively low shares were reported by Sweden (24% of all immigrants), as well as Italy (25%). In 19 of the EU' states, most non-nationals were citizens of non-member countries; the opposite was true only for Belgium, Ireland, Cyprus, Luxembourg, Hungary, Malta, the Netherlands, Slovakia and the United Kingdom (http://ec.europa).

In the view of neoclassical economics mobility of labor may be substituted by flexibility of the labor market in its function to recover the equilibrium. Flexibility of the labor market means mainly the wage elasticity and interregional or inter-sectoral mobility of labor. The economic shocks may have different effects on workers mobility depending on the character of labor institutions. Among economists there is prevailing opinion that both systems of trade unions: strong centralization or strong decentralization, are equally well equipped to face economic shocks in monetary union. The countries can use the advantages of one system far more effectively than countries with an intermediate degree of centralization of trade unions.

In Europe it is generally accepted that there are four main models of industrial relations systems: 1) Nordic corporatism; 2) social partnership; 3) liberal pluralism; 4) state centered. Simultaneously the EU members are often divided into: Scandinavian, Continental, Anglo-Saxon, Southern, Eastern and Mediterranean group. The Scandinavian countries follow the Nordic corporatism model (Denmark, Finland and Sweden), most of the Continental group have some form of social partnership (Austria, Belgium, Germany, Luxembourg, Netherlands plus Slovenia); the Anglo-Saxon states and some Mediterranean follow the liberal pluralism model (Ireland, Cyprus, Malta); the Southern group, together with France, has state-centered systems (France, Greece, Italy, Portugal and Spain); Eastern states often showing characteristics of both liberal pluralism and state-centered systems (Trade Unions Brussels, 2010).

Given such a large diversity of the functioning of trade unions in Europe it is difficult to conclude that labor markets work flexibly in euro area; rather divergent unions interest sometimes make international dialogue impossible. The trade unions in euro area countries often find it difficult to speak a common language as far as wage and employment policy is concerned. When we look at the roots of the crisis in euro after 2008, we see that financial disturbances was partly consequences of trade and wage imbalances among partner countries, when the two group of countries had developed with a surplus in foreign trade (Germany, the Netherlands, Austria, Belgium) and the countries recording a deficit in current account (Greece, Portugal, Spain, France, Ireland, Italy).

The basis of trade imbalances were the structural factors: productivity growth and wages trend diverge caused the lowering competitiveness of some economies about others. If for example within a period of eight years before the crisis wages in the euro area increased by an average of 14%, in Germany only by 2%, but by 17% in France, Italy by 23% and Spain as much as 26% (Saint- Etienne, Paris 2011, p. 34, 59).

By another shot the countries that are the most open are the most fit to create a common currency. The openness of an economy can be judged on the concept of ratio of tradable to non-tradable goods, that classifies tradable goods as those that can enter foreign trade and no tradable goods cannot enter foreign trade due to some reasons, for example of high transportation costs. According to McKinnon in an economy, that is open to international trade flexible exchange rates lose their effectiveness as a control device for external balance (McKinnon, 1963, p. 717–725).

In a highly open economy improvement in trade balance can be better accomplished by domestic absorption, reduction of public spending would occur mainly by tradable goods and decrease of import at the costs of small reduction of employment in the no tradable sector. Therefore, the fixed rate of exchange or a common currency would be better adapted for controlling external balance equilibrium and price stability in open economies, at the same time creating a lower adjustment costs for resource allocation.

Table 2. *Participation of trade in goods and services in GDP of EU countries in 2016*

Countries	trade in goods as % of GDP	trade in services as % of GDP
Austria	100	28.2
Belgium	164	47.3
Bulgaria	124	25.2
Czech Republic	152	22.4
Denmark	101	33.8
Estonia	154	44.5
Finland	72	22.5
France	60	19.1
Germany	84	16.9
Greece	62	20.0
Hungary	169	32.2
Ireland	221	111
Italy	56	11
Latvia	119	28.1
Lithuania	148	29.6
Luxembourg	407	286.8
Netherlands	154	38.3
Poland	100	17.8
Portugal	79	21.4
Romania	84	16.7
Slovak	186	18.4
Slovenia	146	26.3
Spain	63	15.9
Sweden	84	25.9
United Kingdom	58	20.3
Euro area	84	23.7
European Union	83	23.3
China	37	5.9
USA	27	6.7

Source: *Trade (% of GDP) World Bank national accounts data, and OECD National Accounts data files. License: Open. Line Bar Map. Share Details. Label. 1960 – 2016, https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS, Trade in services (% of GDP) International Monetary Fund, Balance of Payments Statistics Yearbook and data files, ... Share Details. Label 1960 – 2016, https://data.worldbank.org/indicator/BG.GSR.NFSV.GD.ZS*

As seen in Table 2 the euro area countries are more open economies (84% -share of merchandise trade in GDP and 23.7% -share of exchange of services in GDP) than the US (27% - merchandise trade and 6.7% - services) or China (37% - merchandise trade and 5.9% services). In 2016 the average share of international turnover of goods in GDP was in euro area more than twice the size of the economy of China and of the United States, and the share of turnover in services in the GDP was almost four times larger. Among the EU countries the most open to trade in goods and services in relation with GDP were the smallest countries: Luxembourg (407% and 286.8%), Slovenia (146 % and 26.3%), Estonia (154% and 44.5%), Belgium (164% and 47.3%), Netherlands (154% and 38.3%), Ireland (221% and 111%), Latvia (119% and 28.1%) and Slovak (186 % trade).

Because the transaction costs would weight more heavily in the small open economies, from the point of view of trade openness these countries qualify the most to become the member of monetary union. Below the EU average the share of international trade in goods and services in GDP were in such countries as Greece (62 % and 20.0%), Spain (63 % and 15.9%), Portugal (79% and 21.4%), Finland (72% and 22.5%) and Italy (56% and 11%). These countries being less open to international trade might experience less benefits of monetary union then more open economies.

Additionally, the essential element of an optimum currency area is also the diversity in a nation's products mix, because well diversified national economies are more able to withstand abrupt changes in international transactions and serve to average out external shocks. While diversification reflected in export diversification then it may bring less frequent changes in the country' terms of trade and rate of exchange (Kenen 2007, p. 41–60). So, if we divide Europe according to different speed, we should consider above all the economic structure of these countries and their level of productivity. When the partners of integration processes have the similar economic structure, productivity and economic policies, the business cycles between their economies may be broadly synchronized and the costs of establishing monetary union between them would be lower.

Statistical data shows that the EU countries have similar structure of production and consumption like the USA. The share of agriculture in the creation of GDP is much higher in the economy of China, India, or Russia than on average in the EU, industry's share of GDP is higher in China and Russia, the share of services is much lower in the economy of China, India, or Russia than on average in the EU. The EU countries specialize mainly in the medium advanced technological production and traditionally they are competitive when it comes to such industries as machine industry, automotive, telecommunications, chemicals, financial services, in biotechnology, but in international markets competing poorly in computers and informatics. The main export items in the euro area were machinery and transport equipment (36.29%) and chemicals and related products (17.45%).

Table 3. *List of EU countries by GDP sector composition in 2017*

Countries	Agriculture	Industry	Services
Austria	1.5	29.4	69.1
Belgium	0.7	21.7	77.6
Bulgaria	5.2	30.6	64.2
Dania	4.5	19.1	76.4
Estonia	3.5	28.5	61
Finland	3.0	29.2	67.8
France	1.8	18.8	79.4
Germany	0.8	28.6	70.6
Greece	3.3	17.9	78.9
Hungary	3.7	31.3	65.0
Italy	2.0	24.7	73.4
Lithuania	3.3	28.2	68.6
Netherlands	2.7	24.2	73.1
Poland	3.4	33.6	63.0
Portugal	2.5	22.8	74.7
Romania	7.9	32.9	59.2
Slovakia	3.8	35.5	60.7
Spain	3.2	25.8	71.0
Sweden	1.8	27.3	70.9
United Kingdom	0.7	21.0	78.3
European Union	1.8	24.9	73.2
USA	1.12	19.1	79.7
China	10.1	46.8	43.1
India	17.4	25.8	56.9
Russia	4.5	36.9	58.6

Source: *https:// en. wiki/list_ of _ countries _ by _GDP_sector_composition.*

Taking into considerations sectors statistics it is hardly to say that euro area members have the same production structure that the most developed partners. The participation of agriculture in GDP is much higher in Greece, than in Germany France, Belgium or Holland, industry in France and Italy employs less than in Germany, services in the southern countries like Greece, Spain and Portugal are based mainly on the development of tourism. As seen in table 3, the importance of agriculture in the economy is much larger than the EU average (1.8%) in such countries as Romania (7.9%), Poland (3.4%), Slovakia (3.8%), Spain (3.2%), Bulgaria (5.2%), Denmark (4.5%), Finland (3%), Greece (3.3%) and Hungary (3.7%). In turn, the industry's share in the creation of GDP is higher than the EU average (24.9%) in such countries as: Austria (29.4%), Bulgaria (30.6%), Estonia (28.5%), Finland (29.2%), Hungary (31.3%), Lithuania (28.2%), Poland (33.6%), Romania (32.9%), Slovakia (35.5%), Sweden (27.3%) and Germany (28.6%). In countries where there is a large share of agriculture and industry in the GDP there is of course the smallest share of services. Higher than the EU average share of services in GDP (73.2%) have only Belgium (77.6%), Denmark (76.4%), France (79.4%), Greece (78.9%), Italy (73.4%) and Portugal (74.7%)

Furthermore, in the euro area there are also differences when it comes to the labor productivity and the location of production with high added value. If we assume that labor productivity in the EU- 15 was at 109.2% of all EU members in 2010, labor productivity in Germany was at 105.9%, in Belgium at 127.5%, in France at 119.9%, in the Netherlands at 114.9%, in Austria at 113.2%, in Spain 110.3%, but in Estonia at 70.1%, in Portugal 77.2%, in Slovenia at 81.9%, in Slovakia at 82.6%, in Lithuania at 62.9%, in Latvia at 54.9%. For the other countries outside the euro area labor productivity was in Czech Republic at 71.8% of the EU average, in Hungary at 70.9%, in Poland at 66.6% in Romania at 47.4%, in Bulgaria at 41.5%, but at 113.3% in Sweden (Eurostat, 2012). The euro area competitive position in terms of the intensity of use of the factors of production is 1.1 when it comes to labor, 1.2 when it comes to capital and 1.1 when it comes to research, in the United States in turn, 0.9 is for labor, 0.8 for capital and research significantly add 1.4. This means that the U.S. produce and export much more high-tech goods than on average the countries of the euro area

While there has been real convergence in the EU owing to the catching up of central and eastern European economies, there has been no process of real convergence among the euro countries, especially after 2008. The relatively low-income countries have maintained (Spain and Portugal) or even increased (Greece) their income gaps with respect to the average; moreover, Italy, initially a higher-income country, recorded the worst performance, suggesting substantial divergence from the high-income group. This lack of convergence was related to several factors, notably weak institutions, structural rigidities, weak productivity growth, lack of macroeconomic stability and sound fiscal policy; favorable conditions for an efficient use of capital and labor in the economy supporting total factor productivity growth (Bancherul, ECB 2015, p. 1-35).

Less developed European countries, being less well equipped in capital and having a lesser qualified labor force export less technologically intensive goods and have less opportunities to develop intra-industry specialization with better developed partners. The calculation of intra-industry share in trade between the EU partners shows that before euro crisis the intra-industry trade (ITT) coefficient was advanced in the most developed countries of the euro area: in France- 83%, Belgium-Luxembourg- 77%, Germany 76%. To this center we can also classify the Netherlands and north region of Italy, relatively lower was ITT in trade of Spain, Italy (south) and Ireland, namely the countries affected by the crisis of the euro. But the level of intra industry trade between Portugal and Greece and the EU partners were much lower than in trade the other members states: at least two times less than for example in France, Germany, Belgium, half less than in trade of Italy. The level of ITT in Portugal and Greece was at the same on the same level that in Poland, which doesn't belong to the euro area (Poland Competitiveness Report, Warsaw 2008, p. 89).

The diversity of the economic structure and intra industry trade prevents of course strong fluctuation of terms of trade and the sudden changes in exchange rates. The coexistence in a monetary union of countries with different level of development under the roof of the euro led to different rates of growth of production, investments and export before the crisis. The ECB' interest rates which was based more on the economic situation countries belonged to the center of the euro area had brought speculative boom and balance of payments disequilibrium in periphery partners. No wonder that the 2008-euro crisis affected mostly peripheral partners like Greece, Portugal, Spain, Ireland, which have different structures and less competitive economy. The relinquishment national central bank policy in a monetary union puts more weight on the fiscal policies in partner countries as far as it comes to stabilizing their economies. In the view of D.A. Snider, the frontier of an optimum currency area should be limited by the possibility of conducting the effective fiscal and monetary policy between partners. Therefore, an essential condition for first speed Europe is to create common institutions, which can help to avoid the problems with the application of contradictory means and negative effects that result from carrying out of different policies (Snider, 1967, p. 13-17).

5. Perspective of the EU' Reforms

Considering all reservations towards the concepts of two speed Europe the questions arise what the perspective for such evolution of the EU are and which countries eventually should be admitted to this concept of "first speed Europe". On the one hand for the small similar and open economies, the marginal benefits from integration are the higher that marginal costs, on the other hand, with the size of the market too big and diversify union may be not necessarily an optimum currency area. White paper on the future of Europe published on 1 March 2017 maps out the drivers of change in the next decade and presents a range of five scenarios for how Europe could evolve by 2025 (White paper, Brussels, 1 March 2017):

1. Carrying on: In first scenario the EU sticks to its course on delivering its positive current reform agenda. By 2025 the member continues will focus on growth, investment and job creation by strengthening the single market and by stepping up investment in digital, transport and energy infrastructure. Further steps are previewing to improve euro functioning, financial supervision, to ensure the sustainability of public finances and to develop capital markets. Cooperation will also be reinforced in the field of the management of external borders. Common defense is mentioned among priorities to pool some military capabilities.

2. Nothing but the single market: In this minimum scenario the EU is gradually re-centered on the European single market, which becomes the main "raison d'être" of integration. Where the EU cannot agree to do more in many policy areas, it increasingly focuses on deepening certain key aspects of the single market, namely easier for the free movement of goods and capital, to develop common standards. This scenario creates a risk of a "race to the bottom", where free movement of workers and services will not become fully guaranteed, migration and some foreign policy issues are increasingly left to bilateral cooperation; partners will not to work together in such areas as security or energy, fighting tax evasion.

3. Those who want more do more: In the third scenario the EU allows willing partners to do more together in specific areas. "Coalitions of the willing" may emerge to work together in such specific policy areas as defense, taxation or social matters. A new group of partners may agree on specific legal, fiscal and budgetary arrangements in order to strengthen the euro area and single market, to deepen their cooperation in a few cutting-edge technologies, products and services as well as on security and justice matters. Relations with third countries, including trade with the UK will remain managed at EU level.

4. Doing less more efficiently: In the fourth scenario the EU should focus on delivering more and faster in selected policy areas to tackle problems in the key new areas, while doing less elsewhere. Due to limited resources the EU would able to act more decisively in its chosen priority areas in such fields like in R&D, innovation, security, migration, the management of borders and defense, invests in new wide European projects. On the other hand, the EU should stop acting or does less in such domains like regional development, agriculture, employment and social policy, consumer and environment protection, move away from detailed technical harmonization towards a strict minimum.

5. Doing much more together: In the last scenario, the EU states decide to do much more together across all policy areas, to share more power, resources and decision-making across the board. New financial resources will be available to boost economic development in partner countries and respond to the shocks at regional, sectoral and national level. In the euro area there is much greater coordination on fiscal, social, taxation matters, technological start-up, supervision of financial services. In fifth scenario there is a strong focus to complete the single market in the field of energy, digital and services, and to finance wide infrastructure projects, to set up research centers like European "Silicon Valleys". The EU is still represented by one seat in most international organization and a European Defense Union will be created.

Though it is not known which scenario the best chance for the implementation has, it seems that the future of the EU will depend on a few fundamental factors. First, the success or failure of Brexit negotiations and shape of economic relations with the UK ([2]). Secondly, the position of the EU depends on what lessons learned member countries from the crisis in the euro area and what shall undertake reforms to prevent similar downturns. Because one cannot separate membership in the EMU from membership in the EU, the future of the euro area also depends on the success of the EU, and the disintegration of the EU also means the breakdown of the euro area. Only reformed EU institutions and new perspective of profitable integration between partner countries can put an effective firewall against further its disintegration.

[2] *If the United Kingdom will conclude profitable agreement with the EU and will return on the path of rapid growth, then you may receive a knock-on effect and going in the footsteps by the other Member States. If the UK will fail to conclude agreement with EU, then the barriers in mutual exchange will arise, the important costs of an instance might discourage other countries to follow this example.*

Thirdly, the future of the EU also depends on how Member Countries cope with the problem of the influx of refugees and whether the scale of the influx will become significantly reduced.

To answer to the perspective of the threat of the disintegration the EU must be taken to reform, even in a limited number of member states. In reference with this we can imagine different scenario of further development: division of Europe into" first speed Europe"; realization of concept of "multi speed Europe"; or even disintegration of the EU and individual economic agreement between countries. The future of the single market depends on the maintenance of four freedoms, Schengen agreement, common rules of competition, as well as the of effective prevention of negative externalities of some of these freedoms in the framework of regional policy and agricultural policy. Furthermore, the economic policy integration relay on success or failure of monetary union and effective coordination between monetary and fiscal policy. Since we do not have a clear model of the final functioning of European integration or we don't not see the reform plan for all the EU, so we can imagine different scenarios of future development:

Firstly, in connection with rising pessimism about mechanism of international integration some commentators do not believe in the success of the reforms the EU. Because of Brexit, huge public debts and the refugee's crisis there appear voices, that all these problems can be better resolved by the national states than at EU level. They advocate of solution of the actual structure of EU and return to the concept of loose confederation of nation states, where national sovereignty is limited to absolute minimum. This would not be the solution of the EU as such; however, it would mean resignations from purposes as supranational organization and act to support the principles of free trade and the free movement of factors of production. Out of the question is only the need to maintain the rules of single market and of the customs union, provided the limitations of Schengen provisions and restore at least periodic border controls. However, the member states should gradually move away from political integration, a common EU policy in specific areas like regional and agricultural policy. In this scenario Europe as a loose confederation of national states there is no place for a euro area and their partners will return to national currencies in the long perspective. Supporters of functional integration are talking about the denationalization of monetary, agricultural policy, regional policy, reduction of resources devoted to the EU common budget.

However, leaving the common policies seems to relate to important costs of the disintegration. Preliminary calculations show that any solution to the euro area is an expensive alternative for euro area citizens assessed on 9 500 – 11 500 euros in the first year and from 3500 to 4500 euros in the coming years, return to the national currency would entail coming back economic crisis, a decline in GDP of some Member States up to 25% (Forbes, Ames, New York, 2014 p.195). Proponents of the concept of a return to national currencies often forget, that elastic currency courses carry some cost of an increase in the risk of exchange rate, a reduction in trade, the decline in investment, not to mention the possible inflation and ease speculate currencies.

The second scenario is move to closer union and divide the EU for at least two group of members with their own sets of rules. We understand that Europe can't move along at one and the same pace, so two speed Europe seems to be of use to those countries, that need more freedom in carrying out own economic policies. Therefore, the current system of integration could be replaced by “first speed Europe “- to let countries which wish to integrate more robustly and “second speed Europe” giving partners an opportunity to switch the clubs. To this “first speed Europe “should be including countries with high mobility of labor force, strictly integrated capital market, a large proportion of tradable to non-tradable goods, high level of GDP and similar diversified of their economies. Theorists of integration limit also such area by the possibility of conducting the effective fiscal and monetary policy and low level of budget deficits and public debts (France, Germany, Austria, Finland, Benelux countries, perhaps Ireland, Spain, Estonia). Other than EU countries after the fulfilment of conditions of optimum currency area can also proceed to the “first speed Europe”. The smooth functioning of the “first speed Europe” requires moves towards a fiscal union with common budget and optimal budgetary spending in all area. However, moving in this direction would engender transitional shock from a partial break up where the partners of the “first speed Europe” may suffer as well from the partial break up due to temporary instability on the financial markets. In the long run, they would probably face appreciation of euro in reference with a dollar and other currencies.

Third the option is reforming the all EU as an effect of the recent economic downturn, refugee crisis and Brexit. These several recurrent crises have exposed the weakness of the EU institutional arrangements, so there are voices in favor of stronger multilateral surveillance of policies within the EU, better coordination between monetary and tax policy, solidarity to resolve refugees’ problems, effective trade policy to resistance toward growing protectionism in the world economy. No institutional reforms in the EU mean acceptance of the inherent fragility and potentially break up. If the EU takes the necessary structural reforms, would keep free trade and free flows of factors of production, improve external border protection, would be able to coordinate economic policies between members, then they would create the effective and viable block to be able to compete on the international scene, otherwise it would face the danger of further disintegration.

The reform of the EU would be exercised in many of its areas of activity, including agricultural policy, regional, budgetary, social policy. In the annual summary of activities of the EU with its President J. C. Junker pushed for reforms in the EU and he appealed to the 7 Member States outside the euro area to join the Monetary and Banking Union, "if we want the euro unify our continent and does not go away” (Financial Times, 2017.) Although this is the concept of closer integration based on the euro including all EU members, it seems that the current substantial differences between Member States concerning the refugee problems is the prospect of the most difficult to achieve.

6. Conclusions

The notion of “two speed Europe” seems to be a rational solution in the view of recurrent the EU crisis, that allows one partners to moving faster in integration process, but to slower speed of the rest of Europe. The original sources of conception to dive the Europe into two speed are coming from diversification of the EU countries and as well as conviction that common policy in many fields is not suitable now for all partners. Therefore, a variable Europe with first and second speed may increase the political and economic efficiency of the EU given the member countries more freedom to carry out specific policy. To achieve new benefits from integration the EU need new ideas of cooperation, if necessary, even in limited circle of “first speed Europe”.

In the absence of decisive reforms, the institutional weakness of the EU can deepen keeping the current status quo and reform atrophy. All steps towards “first speed Europe” are collateral and one steps followed the other: monetary integration requires sticker fiscal integration, fiscal integration requires banking union, but fiscal and banking unions are going to require some form of a political union. In the opinion of the author the concept of Europe of two speeds is a rational option if the “first speed Europe “will be built around the countries which create optimal currency area. Only the effective coordination between monetary policy of EBC with national fiscal policies and the common budget equipped with adequate resources will provide protection against repeated economic crises and encroaching into new areas of profitable cooperation will restore belief in success of European integration.

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