THE ECONOMIC SITUATION OF THE EU AND ITS CONTRIBUTION TO THE INCREASE IN POPULATION'S STANDARD OF LIVING

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Abstract

The basic structure of our research for this article focuses on identifying, with arguments, reasoning for the following question: „How do we explain the switch between industry and services as a determinant of growth/prosperity for the 28 member countries of the EU?" In order to answer this question, we need to analyze the problems that EU member countries face from an economic standpoint, as well as the contributions of macroeconomic indicators to economic and welfare growth. There are gaps between developed countries and EU new-entrants (in 2004, 2007 and 2013). In the same context, the analysis of the GDP after the plummeting that occurred during the world economic crisis is a must. We highlight a slower GDP growth for EU-28 in 2011, 2012, 2013 (since 2011, the average EU GDP started growing, but the annual growth rate varies across countries; Romania's average GDP growth rate was approx. 2-3% per year since 2011, which translates into a significant growth when compared to other EU member states), as a result of the major contribution of the service sector to GDP growth and its adaptability to the volatility of competitor markets. Amongst other things, we have showed that the contribution of the service sector to GDP growth was higher for countries with higher GDP per capita. We underline the fact that both developed and developing countries have services-oriented economies. Simply put, in any modern capitalist state, economic growth is particularly based on a broad service sector, as well as industries that comprise high-end technologies (certain industries such as robotics, lasers, IT, biotechnology, pharmaceutical etc. have been directly/indirectly associated), as well as extremely intensive services that are based on knowledge exploration.

Keywords: *Gross Domestic Product (GDP), national income, wealth, knowledge-intensive services, competitive advantage.*

JEL Classification: *F00, H70, I30, N30, O10, O50.*

I. INTRODUCTION

General economic theory has suffered significant changes in perspective with time; changes regarding the mechanisms and instruments that measure socio-economical prosperity across countries. On the same note, we must say that the measurement of prosperity in a certain country remains partially dependant on the national accounting system, on the method of organizing national accounts and on the statistical system in general. In order to make a comparative analysis on EU countries regarding their relative wealth or poverty, we actually use indicators such as: National Income (NI), Gross National Product (GNP), Gross Domestic Product (GDP), national wealth etc. These indicators that measure the distribution of wealth within a certain country will be completed, as needed, by other indicators that are presently being calculated by various international bodies, research institutes or other similar institution (Human Development Index, Competition Index, Innovation Index etc.).

When thinking about indicators that are used in international evaluations to identify wealth/prosperity in EU member states, we see that the National Income indicator is at the heart of determining the GDP and GNP; GDP can be estimated using the value of the total consumption of final goods and services and adding investment, government expenditure and net exports; GNP represents the value of all goods and services that are created within a certain country in a period of one year, also regarded as value added. However, in determining this indicator we must also consider the relationship between the country's economy and foreign economies; the National Wealth indicator indicates a country's capacity with regards to human and natural resources, with regards to economic growth and creating wealth within a certain time period. For this last indicator we also see that, in the case of developed countries, the intangible assets (highly-trained human capital with great knowledge etc.) contribute to economic growth and the standard of living in a proportion of 60%-70% in the medium to long –run; for developing and under-developed countries, natural resources account for a higher percentage of

national wealth. The information presented below was taken from the statistical data of the World Bank (table nr. 1).

Table nr. 1 Per capita Wealth according to selected regions and countries (1994, USD)

Region/country	Total wealth	Human resources	Tangible assets	Natural capital
North America	326000	249000	62000	16000
OECD Pacific	302000	205000	90000	8000
Western Europe	237000	177000	55000	6000
East Asia	47000	36000	7000	4000
West Africa	22000	13000	4000	5000
…….				
Germany	281000	211000	66000	4000
United Kingdom	266000	209000	51000	5000
USA	401000	308000	76000	17000
Japan	304000	208000	94000	2000
Mexico	113000	87000	19000	7000
Tanzania	8000	2000	4000	2000
Vietnam	18000	12000	2000	4000
Saudi Arabia	171000	69000	30000	72000

Source: Selected by the author from World Bank, Estimating National Wealth: Methodology and Results, 1998, p. 2 and appendix

To conclude, I state the fact that a country's/region's total wealth includes natural capital (energetic resources, mineral resources, forestry resources, farming land, fields, reservations), tangible assets (machinery, buildings and urban land) and human resources, the latter being essential for the creation of intangible assets (Hamilton K., Ruta G. and all, 2006).

II. THE STRUCTURE OF EU ECONOMIES

The major interest for the structure of European Union economies comes from its contribution to welfare and the increase in the standard of living of population. On this perspective, we found that in time, a series of studies have been made, which attempted to find the historical determinants of growth. Therefore, we are analyzing the macroeconomic indicators offered by IMF, World Bank, OECD and CIA reports, in order to identify the current economic situation.

We can see from these studies that, across EU, there are countries such as Luxemburg, Ireland, Holland, Austria, Germany, Denmark, UK and France that lead the chart when it comes to GDP per Capita; the GDP growth rate is positive and increasing for countries such as Latvia (4%), Romania (3,5%0, Lithuania (3,4%), Malta (2,4%) and Poland (1,3%); as far as aggregate export is concerned, the EU is a global leader, while Germany alone has exports amounting to 1,493,000,000,000 $ (table nr. 2).

Table nr.2 Comparison amongst EU countries based on the macroeconomic indicators of 2013

INDICATOR/ COUNTRY	GDP (bln USD)	GDP Growth Rate (%)	GDP per Capita (USD)	GDP Structure on Sectors (%)			Labor force (people)
				Agriculture	Industry	Services	
1.AUSTRIA	313	0,40	42.600	1,6	28,6	69,8	3.737.000
2.BELGIUM	383	0,10	37.800	0,8	22,6	76,6	5.150.000
3.BULGARIA	40	0,50	14.400	6,7	30,3	63	2.551.000
4.CIPRUS	17	-8,70	24.500	2,4	15,9	81,7	443.500
5.CROATIA	43	-1,00	17.800	5	25,8	69,2	1.715.000
6.DENMARK	249	0,10	37.800	1,5	21,7	76,8	2.795.000
7.ESTONIA	18	1,50	22.400	3,9	30	66,2	692.900
8.FINLAND	193	-0,60	35.900	2,9	25,1	71,9	2.685.000
9.FRANCE	2.060	0,30	35.700	1,9	18,7	79,4	29.940.000
10.GERMANY	2.738	0,50	39.500	0,8	30,1	69	44.200.000
11.GREECE	182	-3,80	23.600	3,5	16	80,5	4.918.000
12.IRELAND	164	0,60	41.300	1,6	28	70,4	2.161.000
13.ITALY	1.560	-1,80	29.600	2	24,4	73,5	25.740.000
14.LATVIA	23	4,00	19.100	4,9	25,7	69,4	1.022.000
15.LITHUANIA	35	3,40	22.600	3,7	28,3	68	1.452.000
16.LUXEMBURG	45	0,50	77.900	0,3	13,3	86,4	208.800
17.MALTA	7	2,40	29.200	1,4	25,3	73,3	190.400
18.POLAMD	390	1,30	21.100	4	33,3	62,7	18.220.000
19.PORTUGAL	166	-1,80	22.900	2,6	22,2	75,2	5.395.000
20. UK (9)	1.909	1,80	37.300	0,7	20,5	78,9	30.150.000
21.CZECH REPUBLIC	149	-0,90	26.300	2,4	37,3	60,3	5.304.000
22.ROMANIA	142	3,50	14.400	6,4	34,2	59,4	9.451.000
23.SLOVAKIA	72	0,80	24.700	3,1	30,8	47	2.727.000
24.SLOVENIA	35	-1,10	27.400	2,8	28,9	68,3	913.400
25.SPAIN	1.023	-1,30	30.100	3,1	26	70,8	23.200.000
26.SWEEDEN	420	0,90	40.900	2	31,3	66,8	5.107.000
27.NETHERLANDS	603	-0,80	43.300	2,6	25,4	72,1	7.939.000
28.HUNGARY	98	0,20	19.800	3,5	16	80,5	4.263.000

Source: own calculations, based on CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook

The consequences of these values are a result of economic activity within the EU countries. According to the above data, we can argue that economic implications are closely linked to politics, regardless if they are economic, social, cultural etc. Approaching different policies, such as coming up with a proper legislation for each economy and successfully applying is an essential component of development.

Thus far, explanations are backed up by statistical data that gives us the percentage contribution of each sector to GDP creation. This helps us highlight the type of economy that each country has. Therefore, we can see that in countries where GDP per Capita that is higher than 20,000$, the service sector contributes by more than 63% to the GDP, except the case of Slovakia (which has a GDP per Capita of 24,700$ and the service sector has a contribution of only 47% towards the GDP).

We also highlight the fact that, for a great number of countries (26), the contribution of services towards GDP is over 60%. From the above table, we see how countries such as Luxemburg, Cyprus, Greece and Hungary have a contribution of the service sector of over 80%, while their GDP per Capita varies from 19,800$ in Hungary, 23,600$ in Greece, 24,500$ in Cyprus to 77,900$ in Luxemburg.

The data shown in table nr 2 shows that Germany continued to lead the EU ranks, mostly due to its impressive economic power: it has the highest GDP, approx 2,730 bln $, a GDP per Capita of 39,500$ and a contribution to EU's GDP of 21%; it is the higher EU exporter and the 4th importer globally, amounting to 1,233,000,000,000$; it ranks 13th globally and 1st in the EU based on currency and gold reserves. As far as the GDP structure is concerned, we notice that the services sector contributes by 69%, followed by industry with 30.1% and agriculture with 0.8%, while the labor force amounts for 19% of EU's labor force. The unemployment rate is 5.03%, while the external debt was 5,717,000,000,000$, making Germany the second largest indebted country after the UK (which has an external debt of 9,577,000,000,000$), while public debt amount for 79.90$ of GDP (ranking 26th globally and 9th in the EU). The inflation rate is 1.60% and the GDP growth rate is 0.50%.

Apart from Germany, there are countries such as France, UK, Italy and Spain, countries whose GDP amounts to 62.33% of the EU GDP (including Germany's GDP). We also see that the contribution of the service sector in these countries to GDP growth amounts to over 70%; France's GDP per Capita is 35,700$, Italy's is 35,700$, UK's 37,300$ and Spain's is 30,100$; the GDP growth rate is 0.30% in France, -1.80% in Italy, 1.80%

in the UK and -1.30% in Spain; as far as the GDP structure is concerned, we see that France has a service sector contribution of 79.4%, industry contribution of 18.7% and an agriculture contribution of 1.9%; In Italy, the service sector contribution is 73.5%, industry's 24.4% and agriculture's is 2%; the United Kingdom has the following structure of economic activities: service sector 78.9%, industry 20.5% and agriculture 0.7%; in Spain, the service sector contributes to GDP by 78.9%, industry by 26% and agriculture by 3.1%. We also see that the labor force in these countries represents 47.69% of the EU labor force; the unemployment rate was 10.20% in France in 2013, 12.40% in Italy, 7.20% in the UK and 26.30% in Spain.

From the countries that joined the EU last (in 2004, 2007 and 2013), we see that Poland stands out due to its impressive workforce (18,220,000), Finland has the highest GDP per Capita (35,900$), while Latvia has the highest GDP growth (4%). The GDP structure is as follows: for Bulgaria, the service sector amounts for 635, industry for 30.3% and agriculture for 6.7%; for Croatia, the service sector amounts for 69.2%, industry for 25.8% and agriculture for 5%; Cyprus stands out due to its 81.7% service sector contribution, while industry contributes by 15.9% and agriculture by 2.4%; in Estonia, the service sector contribution is 66.2%, industry's contribution is 30% and agriculture's contribution is 3.9%; in Finland, the service sector contribution is 71.9%, the industry contribution is 25.1% and agriculture contribution is 2.9%; the GDP of Latvia is made 69.4% by the service sector, 25.7% by industry and 4.9% by agriculture; in Lithuania, the service sector contributes by 68% to GDP, industry contributes by 28.3% and agriculture by 3.7%; in Poland, the GDP is made up as follows: 62.7% by the service sector, 33.3% by industry and 4% by agriculture; the Czech Republic's GDP is made out of 60.3% service sector, 37.3% industry and 2.4% agriculture; Romania has the smallest service sector contribution to GDP, 59.4%, while industry's contribution is 34.2% and agriculture's contribution is 6.4%.

The results presented on the CIA website highlight the fact the unemployment rate in EU new entrant countries has a common volatility, Croatia being the most affected country (21.6%), while the public debt as a percentage of GDP is very high in Cyprus (113.10%).

The analysis of the above mentioned data is followed up by the results for macroeconomic indicators in other EU member states. Therefore, we can see that Austria, Belgium, Denmark, Ireland, Malta, Portugal, Slovakia, Slovenia, Sweden and Holland together amount for 15.50% of EU's GDP; Holland takes second place in the EU based on GDP per Capita, has a negative GDP growth of -0.80% and holds an external debt of 2,347,000,000,000$; the labor force in these countries together amounts for 15,30% of EU's labor force; the highest unemployment rate (from this group of countries) is found in Portugal (16.80%), and the inflation rate varies between 0 and 2.20%. The structure of their economies based on the activities they are composed of and their contribution to GDP is as follows: Austria has a service sector contribution to GDP of 69.8%, an industry contribution of 28.6% and an agriculture contribution of 1.6%; in Belgium, the service sector contributes by 76.7%, industry by 22.6% and agriculture by 0.8%; Denmark has a GDP that is made 76.8% by the service sector, 21.7% by industry and 1.5% by agriculture; Ireland has a GDP that is made 70.4% by the service sector, 28% by industry and 1.6% by agriculture; in Malta, the service sector contributes toward GDP by 73.3%, industry by 25.3% and agriculture by 1.4%; Portugal has a GDP made in proportion of 75.2% by the service sector, 22.2% by industry and 2.6% by agriculture; in Slovakia, the service sector contributes by 47% towards GDP, the industry by 30.8% and agriculture by 3.1%; Slovenia has a service sector contribution of 68.3%, industry contribution of 28.9% and agriculture contribution of 2.8%; in Sweden, the GDP is made up in proportion of 66.8% by the service sector, 31.3% by industry and 25 by agriculture; Holland has a 72.1% service sector contribution, 25.4% contribution of industry and 2.6% contribution of agriculture towards its GDP.

III. GDP EFFECTS ON THE ECONOMY OF EU-28 COUNTRIES

Information on European Union member states shows the capacity, technology, financial resources and population of a great power which lacks consensus. At the same time, we note the absence of certain features regarding feeling, emotions, common goals that are necessary to create unity within Europe. The strategies that could allow Europe to regain its position in the global economy are underdeveloped and are being improved by the new decisions of the Europa 2010 program.

To conclude, we analyze the Gross Domestic Product comeback after the losses caused by the economical-financial crisis. We are talking about a lower GDP increase for EU-28 states in 2011 and 2013 (chart nr. 1).

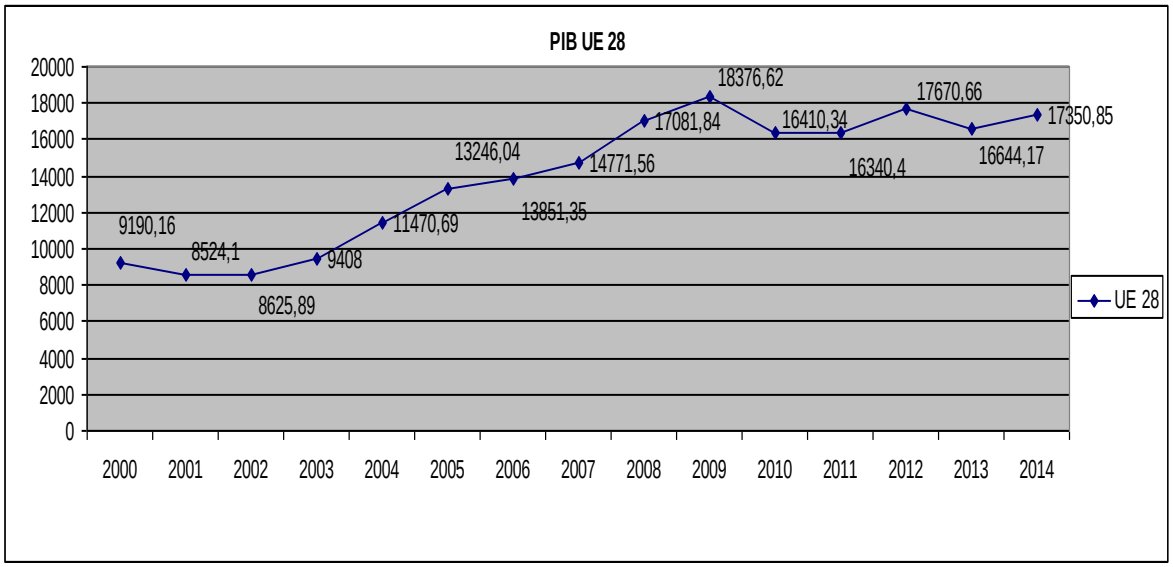

Chart nr. 1 - The evolution of GDP for EU 28 states

Source: CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook

Therefore, we see that the analysis of this indicator varies significantly across countries, as well as across time. The year of 2009 shows a decrease in GDP for all EU member states, except Poland; economic growth recovered in 2010 for 22 EU member states, which continued in 2011 for 25 EU member states; the 2012 report shows that only half of EU member states had an increase of GDP, while their number increased to 17 in 2013. The highest GDP growth rates were recorded in Latvia (4%), Romania (3.5%), Lithuania (3.4%), Malta (2.4%) and Poland (1.3%); the economy of Cyprus has decreased even further in 2013, while Greece experienced the opposite effect, its decrease of -3.9% in 2013 being smaller than in previous years. As far as production is concerned, we can see that its importance is relative for 10 activities that contribute to gross value added. Thus, in the years 2003 to 2013, the rate of the industrial sector as value added in EU-28 has decreased by 1.2% and reached 19.1%, while it was only followed by commercial distribution services, transports and accommodation and public food services (19%), which have also decreased by 0.7% in the time period. Public administration, education and health increased by 1%, and reached 19.4% in 2014 – thus becoming the most important value adding activity. They are followed by real estate activities (11.2%), professional, scientific, technical, administrative and support services (also known as "company services") (10.4%), construction (5.7%), financial and insurance services (5.4%), information and communication services (4.5%). The smallest contributions came from entertainment and other services (3.6%) and agriculture, forestry and fishing (1.7%).

In the same context, we mention that services contributed by 73.5% to the total EU-28 gross value added, compared to 71.5% in 2003. In 2012, services amounted for more than three quarters of the total gross value added for Luxemburg, Cyprus, Greece, France, UK, Belgium and Denmark.

The (partially) recorded structural changes came as a consequence of technological change, relative price evolution, externalization and globalization, sometimes determining a movement of production activities to regions which have a lower labor cost, both in and outside EU.

To conclude, we highlight the fact that the total EU economy is only slightly larger than the USA economy (table nr. 3), with a nominal GDP of 16.58 billion $ in 2012, and a PPP (Purchasing Power Parity) GDP of 16.09 billion $ in 2012; it has the third largest labor force globally, it is the first importer and the second exporter globally. It is considered to be the world's largest commercial market; the smaller average GDP per Capita came only as a result of inclusion of the Eastern countries.

Table nr. 3 Comparison between EU-28 and USA according to the macroeconomic indicators in 2013

Indicator / Country	USA	EU
PPP GDP	16.720 bln $ (1)	15.850 bln $ (2)
Nominal GDP	15.684 bln $*	16.584 bln $*
GDP Growth Rate	1,60% (157)	0,10% (194)
GDP per Capita	52.800 $ (14)	34.500 $ (41)
GNI index	45 (41)	30,6 (118)
GDP Structure per Sectors		
Agriculture	1,1%	1,8%
Industries	19,5%	25,2%
Services	79,4%	72,8%
Labor force	155.4 mil (4)	228.6 mil (3)
Unemployment rate	7,3% (79)	10,5% (111)
Investment % of GDP	12,9%*	18,1%*
Budget deficit % of GDP	-4% (142)	-
Public debt % of GDP	71,8% (36)	-
External debt	15.680 bln $ (2)	15.950 bln $ (1)

** for the year of 2012*
*** the number in brackets shows the country's position in the world rankings for that specific indicator*
Source: CIA World Factbook, https://www.cia.gov/library/publications/the-world-factbook https://www.cia.gov/library/publications/the-world-factbook/rankorder/2003rank.html

EU's revival after the 2012 recession, as a result of an absolute decrease in both private consumption and productive investment, is supposed to be moderate in the following period. Amongst the problems that EU faces at the moment, we mention: the lack of efficiency in the European socio-economical model, the rate of sovereign credits, the public debt to GDP ratios, as well as budget deficit to GDP ratios, since both of them are high.

IV. CONCLUSION

I believe that it is very difficult to say exactly what a country's competitive advantage is compared to another and to determine which type of economic structure is the most favorable to economic growth and the growth of standards of living. In the last two centuries, we have seen a major rise and influence of the Western economy compared to other countries or regions of the world (one of the possible explanations could be: market economy, property rights, cultural matrix, innovative capacity etc.); the post-war era and the economic rise of some countries shows us that the differences in civilization and/or culture can be overtaken in time and there is no one ".

Amonst other conclusions, our research stresses the idea that the current structure of the developed countries (EU, USA etc.) is being dominated by the service sector, as a percentage in GDP creation. In other words, if we measure the annual prosperity and wealth of a nation using GDP, then we infer that 50 to 70 per cent of its prosperity and standards of living come from the various service sectors, especially from knowledge intensive services. Almost all internationally-recognized specialists highlight the idea according to which a country's or company's competitive advantage is grounded on the acquisition and exploitation of knowledge as a distinct resource. Therefore, the conclusion that arises is that certain categories of services and certain industrial sectors (high-end technologies) will continue to play a major role in the economic structure of developed countries and, as a result, in their competitive global positioning.

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