The schengen agreement its economic outcomes research paper sample

Business, Company

The Schengen agreement was formally established in 1985. This agreement had the aim of enhancing globalization within its member states both at a micro-economic and a macro-economic level. At the micro-economic level, globalization has been used to refer to the expansion of the financial markets of small businesses from a domestic scale to an international scale. On the other hand, globalization on a macro-economic level has been used to refer to the " denationalization of national markets, politics and legal systems to come up with what scholars refer to as a global economy (Wellman, 2003, p. 150).

Different scholars view the Schengen agreement and its objectives from different perspectives. There are those scholars who claim that the Europe countries were as globalized as they are today after the inception of the Schengen agreement (Geddes, 2005, p. 725). However, it is clear that there have been tremendous technological advancements over the past century thereby making trade and capital flows across the world easier and quicker due to improved transport and communication. Though the schengen agreement has increased capital flows across European countries that are signatories to the agreement, its outcome is linked to the growing inequalities between member-states in terms of the profits reaped from the integration of national economies, and the growing level of unemployment in different countries across Europe. This paper intends to argue that the Schengen agreement affects the European economy and labor market in five important ways.

The first way in which that the Schengen agreement affects the economy of the member states is through the de-localization of labor from the wealthy countries in Europe to the lesser wealthy European countries with the aim of minimizing the cost of production. This delocalization of labor has been motivate by the fact that lesser wealthy countries have less stringent measures in terms of environmental regulation and labor laws(Curtin, 1994, p. 225). Since environmental regulations reduce the net profits generated by multinational companies operating in Europe, companies have opted to relocate their firms to lesser wealthy countries so as to maximize their gains. The effect of the trend of the economy of most of the member states with the Schengen agreement is that most of the domestic populations within countries that have stringent environment policies are left unemployed (Meehan, 2005, p. 85). Increased unemployment causes the levels of poverty within these countries to increase thereby affecting the economies of these countries.

The second way in which Schengen agreement of 1985 has affected the labor market in Europe is through the increase of technology within the production process thereby reducing the number of workers in the production chains. Economic integration between the member states of the Schenegen agreement has led to competition within countries in terms of productivity. One of the ways to increase productivity is through the adoption of current technology in the production system. The use of technology increases speed and efficiency therefore leading to the substitution of manual labor with machinery. This transition has led to massive unemployment due to the fact that unskilled workers, in terms of technology, end up losing their jobs (Bayefsky, 2006, p. 106). Therefore the adoption of technology with the aim of increasing productivity has led to massive unemployed within many European countries that are signatories to the Schengen agreement.

Third, the economic integration brought about by the Schengen agreement brings about the idea of comparative advantage. Nation-states that are players with the European financial markets produce what they can produce best. This has resulted to more demand for skilled workers in the sectors that a given nation-state best. The demand of skilled workers has increased the income gap between skilled and unskilled workers in that most unskilled workers remain unemployed. Most of the industries within countries in Europe are interested in hiring workers that work in the sectors that generate the most income to the respective member states. This means that people who work in other sectors can hardly secure high paying jobs in that most governments are interested in strengthening the sectors of the economy that bring the most income to their countries.

Fourth, the Schengen agreement has exposed many infant domestic companies and goods in the lesser wealthy countries in Europe to competition from foreign goods often leading some domestic companies to either close down or reduce the number of their workers. This phenomenon has been experienced due to the fact that goods and services can move freely across territorial borders due to the fact that the Schengen agreement reduces travel and trade barriers between member states. Exposing domestic industries to competition from foreign goods reduces the market base for domestic base for domestic goods (Curtin, 1994, 226). This means that domestic goods within many less wealthy Europe end up operating at a loss due to the fact that the domestic population prefers to purchase foreign goods which are of higher quality and cheaper compared to domestic goods of the same kind. When domestic companies operate at a loss, they end up reducing their workforce thereby increasing the unemployment rates within the domestic population.

Fifth, the Schengen agreement has opened up most of the member states to international migration. This migration is polarized by the labor inequalities between member countries, in terms of the amount of wages that countries pay to their workforce. Most of the young talented workforce opts to migrate to countries that have higher wages. This means that lesser wealthy countries lose some of their best minds to wealthy countries in Europe due to increased international migration. In addition, the Schengen agreement has led to the migration of workers from outside Europe. For example, during the Arab Spring in countries like Tunisia between February and March 2011 people of Tunisian origin running away from the abuse of human rights in their country found their way into European countries in that once they access the border of countries like Italy they could move freely across other nations that are signatories to the Schengen agreement. The graph below shows the unemployment rates in some of the signatories of the Schengen agreement.

Appendix A: Graph showing the levels of unemployment in European Countries

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In conclusion, the Schengen agreement has caused the relocation of jobs from less wealthy to more wealthy countries, it is important to note that the goal of any company is to maximize it gains. One of the ways to increase profit margins is by reducing production costs. Since globalization reduces trade barriers like tariffs that initially hindered trade between different nation states, multinational companies are now able to move their operations into different countries. In specific, most manufacturing jobs especially in the United States and other developed nations are moving to the developing world. This is because companies are looking for workers that are willing to work for them under low wages (Convey, 1995, p. 941). By paying low wages to workers in developing countries, multinational companies are able to increase their profit margins. Another important reason as to why multinational companies opt to relocate their manufacturing jobs to developing countries is due to the fact that they experience lesser problems with workers' union compared to developed countries (Convey, 1995, p. 943). In addition, multinational corporations opt to relocate their manufacturing jobs to developing countries in that there are less stringent labor and environmental regulations. The presence of labor laws and environmental regulations in the developed world make it difficult for multinational corporations to operate in that there have to measure up to the set standards if there are to continue being in business The fact that Multinational Corporations opt to relocate their manufacturing jobs to developing countries in order to avoid the adherence to labor and environmental regulations have led to public criticism of globalization. Critics of globalization argue that globalization is likely to exploit workers in the developing world in that multinational companies do not extend the same workers' rights to them as they do to the workers in the developed world (Wellmann, 2003, p. 149). The relocation of manufacturing jobs from developed nations to developing nations causes the scarcity of high pay-paying jobs for unskilled workers. This is because it is difficult for them to fit in other high paying jobs in that they do not have the necessary skills. The scarcity of high paying job opportunities leaves unskilled workers in developed countries with no other option than occupying low paying jobs so that they can be able to meet their daily needs. The scarcity of high paying jobs for unskilled workers in lesser wealthy countries increases the income gap between skilled and unskilled workers.

Moving to the second argument, the Schengen agreement has resulted in the increased use of technology in companies. The adoption of technologies in companies is aimed at increasing productivity, efficiency and speed. The increased of use of technology in companies have resulted in phenomenon whereby manual labour is substituted by machines and other forms of technology. When manual labor is substituted for machinery, it means that lesser people are employed in manufacturing companies thereby resulting in increased unemployment rates (Geddes, 2005, p. 727). The increased use of technology also leads to job specialization such that only workers who are conversant with the use of technology are able to secure jobs in manufacturing companies. Unskilled workers remain unemployed or they take up alternative jobs that are low paying in that their lack of skill cannot permit them to take up other jobs that are high paying. In addition, skilled workers are also faced with the lack job security due to the continued technological changes and advances. Since technology is changing, workers are forced to keep up with the current technological skills if there are to retain their jobs (Brock, 2000, 13). However, some workers do not have adequate resources to keep up with the rapid changes in technology and therefore their skills become obsolete over time putting them in the risk of losing their jobs.

Looking at the third argument, Schengen agreement has resulted in phenomena whereby nation-states produce goods and services in which they have comparative advantage compared to other actors in the global financial market (Bayefsky, 2006, p. 107). According to the comparative advantage theory, markets are more rewarding to producers who produce their goods more efficiently (Bayefsky, 2006, p. 108). Due to the idea of comparative advantage, players in the global financial market concentrate on the production of goods that they can produce easily and effectively. The concentration of nation states to goods that they have comparative advantage compared to other nation states leads to a situation whereby there is more demand for skilled workers who can work in the sectors where countries have comparative advantage. The demand for skilled workers in these sectors leads to a scenario whereby there is a less demand for unskilled workers thereby causing them to either remain unemployed or they occupy jobs that are low paying. This results in the increase of the income gap between skilled workers and unskilled workers.

Finally, the Schengen agreement has led to the exposure of domestic industries to competition from foreign goods. This is because the reduction of barriers between players in the global financial markets has allowed free flow of goods and services across boundaries of different nation-state. This has resulted in an increased availability of goods causing consumers to have a wide range of good to choose from. Though the increased availability of goods is a positive trend in terms of meeting the tastes and preferences of consumers, it is important to note that the reduction of trade barriers between actors in the global market causes foreign goods to reach the domestic consumer at a lower price. In some cases the cost might be lower that the price of the same commodity that is produced domestically. This means that domestic consumers tend to have more taste and preference of foreign goods in that they are cheap to acquire and at the same time foreign goods have different varieties thereby not confining the consumer to one brand. Therefore, it important to conclude that the Schengen agreement has both positive and negative economic outcomes.

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