

Margit Rácz

## *Challenges and choice of alternatives for the EU in the 2000s*

*The single internal market and the common currency*

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**M***argit Rácz*, a senior member of the Institute for World Economics of the Hungarian Academy of Sciences offers her readers a dynamic, enjoyable and often markedly provocative piece of writing. The volume can be regarded as a certain kind of summary (if you like, you can define it as a manual or textbook); however, it can equally be considered to be an essay to be debated. It is a summary, as the author gives a comprehensive and critical analysis of the main events that have occurred since the Treaty of Maastricht, and organizes them into a unique logical order. At the same time, it is an essay to be debated, because she refuses to think within the framework of prefabricated schemes and solutions. Throughout the book, the reader can sense the author's conviction that the process of European integration is not a story finished but a moving target that is being shaped in a complex and complicated economic and political space. On the one

hand, it is evident that economic reason dictates that, in order to produce the highest possible gain, states should maintain their achievements attained so far and enhance cooperation. On the other hand, political reason seems to overwhelm economic reason: more and more frequently, there are (in certain cases serious) clashes between the interests of a member state and the interest of the community – at least in the short run. The volume clearly suggests that, in the long run, a commitment to the reinforcement of mutual confidence that enhances the deepening of the EU is rewarding at community and state levels alike. Yet the book is realistic, too; it points out that “policy makers” – as it is evident in those situations that resemble the prisoners' dilemma – tend to defend their own interest, even if doing so they exercise adverse effect on the long-term interest of the community.

The title of the book may be misleading



insofar as the author does not focus exclusively on the first few years of the new millennium; in fact, it can be stated that the elaboration of the events of the 1990s is of greater importance. Indeed, it is impossible to discuss the European processes of the 2000s without taking into consideration the most significant phase after the Treaty of Rome – the 1990s, that is, the period of the launch of the single market (1993) and the common currency (1999). Those who want to understand the EU of our time cannot skip a thorough analysis of the last 15-20 years. Moreover, without the knowledge of the past, it is impossible to outline future tendencies of development, as these tendencies are interrelated with paths. However, the subtitle of the volume – *The Single Internal Market and the Common Currency* – is very appropriate. Margit RÁCZ offers a thorough and critical analysis of these two closely interlinked fields; yet, while doing so, she puts these two eminent results of economic enhancement in a far broader context and gives a general assessment of the European integration process. It is not the author's fault that the final conclusion is not explicitly positive.

The approach of the work is best illustrated with the notion of “faith without illusions”. It is widely known that Margit RÁCZ is one of the most committed advocates of European integration – an integration that she understands to be not only a market-based integration in a narrow sense of the word; she calls (would call) for closer cooperation at the institutional level. Meanwhile, she exposes in a merciless style all those economic and political limits (even narrow-mindedness) which, as she puts it, “practically mark the end of economic deepening” (p. 9).

Furthermore, this notion – which is far from being optimistic – is highlighted in the preface of the book, where the reader immediately faces all those major challenges which Europe

has failed to respond to properly so far. The budgetary reform cannot be postponed any longer – this statement, among others, is verified by globalisation (and especially a failure of achievement in a productivity competition that is of global dimensions) and ageing society (pp. 10–11). Furthermore, the accession, albeit very beneficial for Hungary, appears different from the perspective of the EU: “enlargement brings about changes of such a scale which almost conceal the problems related to the standstill of the deepening process.” (p. 11). Thus there are numerous challenges while the institutions qualified for solving them seem less and less able to come up with permanent solutions on the national and supranational levels alike.

■ The first major section of four chapters is intended to offer information on the major challenges of the period between 1995 and 2005, that is, of a period mainly characterised by the introduction and use of the common currency. Another interesting point is that the author discusses the performance of the 15-strong EU and its member states not in isolation but in comparison with the USA. The first chapter sheds light on those background deals that had determined the evolution of the euro; the German-French relationship is given special emphasis. As the author points out, the introduction of the idea of the common currency gave an opportunity for the “influential godfathers” to reshape the integration project as a whole, creating the three-pillar European Union (p. 15). The chapter also gives an account of the dilemma that the Maastricht convergence criteria pertain to nominal indicators exclusively and thus fail to deal with the dangers that result from the differences of levels of development. That is, the founding fathers did not look for an answer for the following questions: “how great is the danger posed by heterogeneity of development in terms of the functionality of the monetary union?” (p.16) and “which level of economic integra-

tion guarantees that the states are suitable for being members of a currency union?” (p. 17)

■ Chapter 2 offers a thorough and comprehensive statistical analysis; yet, obviously, the author does not fail to make her critical observations here as well. Possibly, the most important message of the chapter is that Europe – if everything remained unchanged – could fall behind in terms of modernisation to a disastrous degree. As for productivity, the USA has far better indicators than Europe (p. 31); lagging behind in the global economic competition, Europe cannot be in a position favourable for deepening. Instead, as a rule, solutions (or, rather, attempt for solutions) of member states dominate (p. 32), which, in turn, clearly enhance heterogeneity (p. 32 and p. 35). A member state looking for a way out could strongly rely on productivity that is of high-quality in terms of innovation and R+D, especially in those industries that use cutting edge technologies. Yet, as Rácz points out, Europe has failed to achieve great success in this field either. The author cites the case of Ireland as a positive example several times throughout the volume. Unfortunately, since then the Irish miracle has come to be under considerable pressure: it is not known when Irish economy will overcome the present recession.

A major notion of Chapter 2 is related to a restructuring defined by the author in terms of the changes of the GDP per capita (calculated on the basis of purchasing power parity). In the period from 1996 to 2006, the three “big” countries (Germany, Italy, and, to a lesser degree, France) lost their relative power considerably; and, as Rácz says, such a restructuring exerts a negative influence on the integration process as a whole (p. 43). At this point, the author offers another significant message, related to enlargement; she formulates her idea clearly when, referring to her own statistical survey, she states that the slow-down of EU deepening is not due to the enlargement of

2004, “as the process of the deepening of integration has not accelerated among the 15 member states in the pre-enlargement period, either” (p. 45).

■ The volume attributes considerable emphasis to the assessment of Germany. For instance, Chapter 3 is dedicated to the discussion of the challenges of this country of a population of 80 million. It is possible to complain and ask if in such an essay it is worth to highlight a single state even if the state in question is certainly the most important one in several respects; however, there is no point in raising such questions. There is no point in doing so, because, on the one hand, it is true indeed that if Germany has problems, then the EU has problems (here it is possible to say “Hungary” instead of “the EU”), and, on the other hand, it is Germany that the author knows the best, therefore, this chapter may reveal correlations unknown for the majority of readers. The description of the systemic crisis of the German model of social market economy provides an example for this. This model “proved to be more and more overwhelmingly expensive in the first years of the 1990s, while the traditional and rigid system of reconciliation of the interests of the state, the employers and the employees failed to function properly any longer” (p. 50). Yet this type of model erosion keeps Europe as a whole in a state of uncertainty as “the German model (...) no longer serves as a structure to follow” (p. 51). Quite interestingly, Margit Rácz's opinion of economic reforms is most tangible in this chapter: she does not wish back a model that created the German miracle, neither does she call for some new social contract but expressly advocates an implementation of a budget reform that enhances private sector investments. At the same time, the author emphasises that the perfect solution would be to couple programmes intended to solve budgetary problems and efforts made to accelerate modernisation (p.

66). Unfortunately, these two do not necessarily reinforce each other – this is especially true in the short run.

■ The next chapter (Chapter 4), is a brief one, but it may be regarded as one of the best sections. Budgetary reform, which has been dealt with in great detail in the previous chapters of the book, now emerges in a completely different context. The author investigates if a re-formulation of the fiscal policy (a responsibility of national authorities within the framework of the GMU) makes further deepening possible. In this chapter, Margit Rácz clearly expounds that European politicians would find heating the EU engine profitable only if it projected the prospect of reducing the costs of nation-level reforms. Yet the chances are slight. What is more, certain member states, frightened of the even greater social costs of opening, does not shrink back from limiting the liberalisation of the service market while quoting national interests (pp. 77–78). (As to the nature of the correlation do the two phenomena, the author points them out most expressly in the final remarks. She says that common currency and common market in themselves do not provide sufficient extra growth for the member states. In the absence of such a hoped-for extra growth, we cannot expect measures (e.g. the liberalisation of the service market) that would make the benefits of the common currency and the single market tangible (p. 181).

■ The second part of the volume narrows down the scope of the hitherto broad investigation, and deals with the question if the European cooperation, based on the common market and currency, has the prospect of further deepening (after all) or the reform compulsion, perceivable on the level of member states makes national economies immune to community-level challenges. The answer unfolds in three well-structured chapters of clear argumentation; unfortunately, the conclu-

sion seems to be negative. The first chapter of this part outlines the two decades of the development and achievements of the single market in textbook-like way. A major conclusion of the analysis – based on several Commission documents and especially the reports of André Sapir (2003) and Wim Kok (2004) – is as follows: “in the 15 EU member states, the notions of and rules pertaining to market economies [described in different ways] mean safety and familiarity for the citizens. Adjustment to the challenges posed by globalisation endangers, among others, this type of familiarity.” (p. 104) That is, in spite of the pressures that are present on various levels and in various forms, the majority of the society is for status quo, which makes it difficult even for highly determined politicians to commit themselves to reforms.

Having discussed the single market, the author starts dealing with the common currency and its institutional system, the GMU. The author states at the very beginning the evolution of the euro is better accounted for by geopolitical events than by the principles of economic science (p. 116). In spite of (or maybe because of?) this fact, she dedicates a relatively long section for the discussion of the convergence criteria and for the presentation of the macroeconomic performance of the member states. The analyses seem to boil down to the conclusion that no matter how indicators are measured or modified, the point is (was) that the GMU be launched with the participation of as many members as possible, and especially of the big states. An interesting issue raised by the author is whether the culture of stability could have been firmly established in Italy (as well) if it had not been for *Silvio Berlusconi* and his (too early) populist turn. It might be added that – as Margit Rácz mentions several times – Germany, which had been regarded as an apostle of the stability culture, did not prove to contribute to this type of commitment; in fact, as it becomes

evident in the final (3rd) chapter of the second part, Germany did much to dilute the hopeful Stability and Growth Pact. This chapter offers several enigmas for the reader to ponder on. For example, the fact that the external value of the euro is no longer determined by a weighted average of the performance of some of the GMU members but the economic performance of the eurozone (what is more, the EU as a whole) (p. 141). We need to understand this to be able to have a meaningful vision of the evolution of a big and liquid euro market that can compete with the dollar. Furthermore, as Rácz points out, the limits and bounds of the international role of the common currency are defined by the EU's ability for further deepening (p. 158). However, this question has not been answered as yet; neither do we know an ideal balance of national and supranational levels which can make the euro and the European integration as a whole successful.

■ All in all, the greatest merit of the book lies probably in the fact that it raises provocative questions and formulates points very explicitly, and thus urges the reader to think all the time and to adopt a standpoint. Margit Rácz formulates her ideas in such a manner that almost all indicative sentences encourage the reader to imagine that there is a question mark at the end; that is, the style in this case is at least as important as the content. This, however, involves the danger that readers, hours after reading a specific chapter, find themselves arguing with Margit Rácz or trying to answer her questions. From this perspective, it would be very useful if the book was read not only by enthusiastic students, habitual doubters and the staunch advocates of European integration but also by those fellow-men of ours who definitely shape Hungarian policies (including economic policy) with the decisions they make.

*István Benczes*