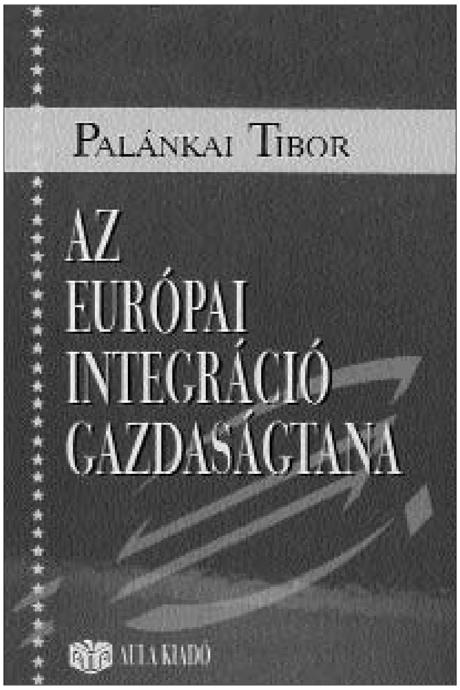
Tibor Palánkai

Economics of European Integration



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Since the end of the 1980s and the beginning of the '90s, one of the cardinal issues for the Hungarian economy on changing into a market economy has been modernisation, i.e. convergence with the developed world. Few debate that the way (in both senses) leading there is accession to and membership of the European Union, this integrative formation that got the farthest along the way of becoming international. Numerous books, publications and brochures have been published on the union, but scarce are the papers, especially in Hungarian, that examine this particular and influential formation of our age, placed in the theoretical context of international division of labour and its developmental process. Perhaps this is why it particularly pleases readers to handle the work of *Tibor Palánkai,* co-authored by *Ákos Kengyel* in some chapters. This book is a comprehensive work that volunteers to give a scholarly description of the economics of European integration, and of its most advanced form, the European Union. Research into integration and the foundations of the theory of international economic integration can be traced back to *Adam Smith* and *David Ricardo*, who attempted to show and quantify profits potentially gained from the international division of labour and trade. Since the 1950s, the theory of a customs union has been considered the basis of economic literature on international integration; it is no coincidence that this study also commences analysis by explaining this. The author defines integration as an intensive, stable and complex division of labour that is organised and institutionalised in the long term, and embraces the whole process of reproduction in economic terms, lending itself to be implemented in the forms of commercial and economic

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arrangements (page 30). But Palánkai also points out that the assessment (and, the reviewer adds, evaluation) of the benefits and drawbacks derived from the international division of labour also constitutes a political issue. International economic arrangements can be the following – according to a categorisation devised by *Béla Balassa* (page 36): free trade zones, a customs union, a common market, a single market and an economic and monetary union.

After detailing theories of integration, the first part of this book basically explains the static and dynamic versions of the classic customs theory under the title 'Economics of market integration', also presenting numerical examples to illustrate benefits and drawbacks. A customs union, however, only removes obstacles to the mutual trade of goods but not to production factors; consequently, the actual form of market integration is common market. It is particularly true if coupled with free flow as in a single market, i.e. of goods and services, capital and labour force.

Following the theoretical basics, the most substantial chapter of this book describes the historical process of European integration, from the customs union to the uniform European market, along the lines of creating the four freedoms. However, the internal conditions in the single market, which are parallel to the national market, have not ended up entirely in line with the original definitions, what is more, the process slowed down after 2000. The sluggish lifting of restrictions on public procurement and public markets, services and the free flow of labour force, the different tax systems and business environments, and a lack of a uniform system of patenting in Europe all represent obstacles to deepening integration. Presenting it as a stage in the development of the integration process, the author elaborates on the formation of an economic union that goes beyond the single internal market. This represents a qualitative addition to a single market – and means new institutions, regulations and economic policies. Among others, the reader gets a detailed picture of the community economic policies. Until the beginning of the 1970s, the community did not assume a definite role of determining structures, and the Treaty of Rome also emphasised competition policy, which meant that the change in structures was expected to be a result of trade liberalisation and competition on the common market. However, in some areas, the state assumed an active role, for example in the iron and steel industry and coal mining. In the wake of the 1973 oil crisis, traditional sectors experienced a deep crisis, too, and this gave rise to a deficit-funding negative structural policy that subsidised these sectors. Then, in the '80s, state intervention was increasingly replaced with an economic policy that facilitated structural renewal and technical development, and scaled down sectors lagging behind, even at a community level. A material part of the European integration process is, particularly with the accession of new and less developed South European countries, a regional policy that aims at reducing the differences within countries and regions. An unhindered emergence of market forces is not sure to bring about the expected resolution of these differences. It serves the purposes of the cohesion policy, economic and social cohesion, and elimination of any negative impacts of the internal market.

The development of integration climaxes, if you like, in monetary union. The European Commission committed itself to an economic and monetary union as early as in 1962, and the programme that was aimed at implementing it started in 1971. However, due to the 1973 oil crisis and adverse developments in global economy, the programme was revived only in 1979. Monetary union was also a logical consequence of the 1992 programme of a single European market, given that the benefits derived from it can hardly be realized without the single currency. Explicating the conditions of accession to the monetary union, the Maastricht criteria, the author arrives at the conclusion that the monetary union in countries struggling with structural problems would, due to problems in competitiveness, result in increasing regional differences, which means a higher value attached to budgetary transfers. While monetary policy rises to a union level, budget policy belongs to the national competence beyond the – widely debated – conditions defined in the Stability and Growth Pact.

The European Union's budget lends itself as a logical continuation. After describing the budget, the author examines the main principles of the budgetary reform, which has been in the pipeline for years. Palánkai argues, the reform has been necessary because the earlier system of the common budget did not facilitate cohesion, and the most developed countries were also net beneficiaries. The agricultural policy (CAP) is mentioned as an example of impacts weakening cohesion: higher food prices affect precisely the households with lower income, which consume larger quantities of these. The purpose of the budgetary reform implemented in waves has been to strengthen the functions of cohesion and redistribution. A remarkable statement reveals net transfers falling short of accurate representation of the fact that e.g. a considerable portion of monies flows back from the supported countries to the donor countries through various programmes of the Union, by virtue of deliveries from companies of the donor countries. Although the budget for 2007–2013 shows certain signs of improving cohesion, competitiveness and employment and of decreasing agricultural support, it still does not seem sufficient.

The author refers to the relationship presumed between the economic performance of member countries and the impact of integration as a chicken and egg problem. The authors opine that it is next to impossible to isolate the impacts of integration from other impacts. The debate traces back to the '60s, when it could not be distinguished whether a rapid growth of economy induced an enhancement of international trade, or vice versa. Starting from the '80s, the growth rate of the economies in countries of the European Union dropped to roughly half of the rate seen earlier, i.e. in the '60s, for which mainly the structural problems of the particular economies were to blame. Another manifestation of structural problems was a high unemployment rate, which represented a weak relationship between growth and job creation. The study refers to the role of the monetary union in slowing growth down: "Due to the survival of structural problems and the Maastricht decisions made in favour of a monetary integration, … the macro-economic performance of the EU continues to be moderate" (page 308). This is the price to be paid for a diminishing inflation and improving budgetary positions. Monetary integration may bring about significant regional differences, and may intensify revenue variations between social strata, which needs to be considered by policy. It is particularly true in newly acceded countries, where a high growth rate of the economy is imperative because of the convergence pressure. Owing to lower standards of living, differences of income may easily lead to social explosions.

How will the integration of Central East Europe with the European Union develop? The final part of the book seeks answers to this particular question. A relatively new field of integration research is the examination of integration maturity. The Treaty of Rome stipulated only two conditions to participation in the European Community, namely, that the country in question be European and democratic. Integration maturity was not assigned particular importance earlier because the economic development and structure of all acceding countries were similar. On the subsequent enlargement – in case of the three Mediterranean countries – political considerations were given priority. Although political considerations also surfaced on the admission of Central East European countries, these, with their market economies just in the early stages of formation, acceded to an economic and monetary union that had a full-fledged single internal market. The paper makes a distinction between meeting the accession or membership criteria and reaching integration maturity. The former stipulates the conditions of becoming a member and the proper behaviour within the integration zone, while integration maturity represents a capability of a particular country to get maximum benefit from the integration. The author hereinafter discusses integration maturity from economic, social, political and institutional aspects.

From the aspect of new member countries, whether and how fast they converge with the developed countries of the Union is of paramount importance. The status of convergence is presented in the book using multiple sources, and (on page 416) citing the statement published in *Világgazdaság* and in a review produced by ICEG: "In the past 4 to 5 years, Hungary has not been able to produce any results in terms of convergence with the EU" (Világgazdaság, 24 June 2004). We can also go along with the authors' account stating "however, the Laeken decisions of 2003 ("large enlargement") proved that, similarly to previous enlargements, the new members were selected upon political considerations…" (page 416).

The chapter discussing accession to the economic and monetary union may bear a current economic and political message. "A crucial question for the future is – the book concludes – how a rapid accession to the Euro zone influences sustainability of economic growth and structural modernisation …" (page 489). At this point, an earlier wording is somewhat conflicted (page 320: "While compliance with the EMU convergence criteria is presumed to curb on the rate of economic growth…"; page 490: "Monetary and fiscal stabilisation are not opposed to a rapid and stable growth…"), but the ultimate conclusion may generate agreement: "On assessing the costs and benefits, arguments in favour of a rapid accession gain ground." (page 490)

What kind of a European Union to expect, and how to determine the nature of it, Palánkai Tibor poses the questions at the beginning of his book (page 60). A large number of theories were also characteristic of the past period, and no uniform concept or position has been formulated on the nature and development of European integration. It is to be feared that this is all the more true for the future. "Since 2001, debates have been set off on "the future of Europe", related to the convent and the interstate conference discussing the future constitution. Although a number of issues have been clarified, the critical issue regarding the future of a "narrow union" have lingered on." (page 61)

Let the reviewer add a remark to a possibly pessimistic ending, stating that this study is a pioneer. This work, also used as a textbook, was written relying on a very wide range of literature, and represents a gain and an addition to the extensive literature discussing the issues of integration and international division of labour.

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