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EU Reforms and the Nations²

Introduction:

The EU integration is in a deadlock. We face several crises, like growth, regulation, climate, migration or cohesion. The measures of Euro governance consolidated the single currency, but the long-term stabilisation call for solution of the debt crisis or creation of a real community budget. At the moment, the EU has *no agenda for any qualitative progress of its integration program*, which would go beyond the present constructions. The popular support for any such programs is just contradictory. It is an important development that in the integration processes the role of nation has increased (Palankai, 2018 and 2019). Instead of neo-functionalism spill over, we face the possibility of a post-functional backlash. All these make constructive reforms more than urgent and complex. Some major framework conditions:

I. The EU integration is composed of national and international integration processes. Historically, *national integrations* have emerged in the last two - three hundred years. *Structurally, they have been related to the industrial revolution; in social-political terms they could be connected to capitalist transformation.* In the birth of the concept of modern nations several factors played a role. In Western Europe and on the American continent, the nation state building had been consolidated by the end of the 19th century. The majority of the present about 200 nation states in the world were created during the 20th century in three major waves: after the First, then the Second World War, in the process of decolonization and recently after 1990 due to the collapse of Soviet-type of regimes.

In the last about half a century, we experience *the development of international integration.* It is composed of *interstate regional and global integration.* According to WTO data, there are dozens of these regional forms (ASEAN, Mercosur, etc.), which can range from free trade areas to economic unions. With some few exceptions (such as North Korea or Cuba) all of the ca. 200 countries of the world participate in at least one regional integration organisation.

The other major novel phenomenon of international integration is *global integration.* I do not wish to take a position with regard to the history of globalisation. I share those views, that globalization is a long historical process, and in the decades following World War II, globalisation

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turned into global integration. According to my opinion, global integration is related to this latest “contemporary” phase of globalisation. Thus, what is really new here is global integration and not globalisation.

The integration is a multi-level process and has several actors. Accordingly, the recent integration processes can be structured in the following way:

1. *Macro-integration:*

- International integration: global integration and interstate regional integration;
- National integration;

2. *Mezzo-integration:*

- Transnational company networks;
- Global city networks;
- Religions - churches.

3. *Micro-integration:*

- Families;
- Workshops, factories and individual companies in the different fields of socio-economic activities;
- Political, socio-economic associations, NGOs, civil organisations or great number of informal associations.

Market actors strive for gain (profit), therefore, they are efficiency-oriented. Gains, however, can be obtained from breaking the community rules. Therefore, the market should operate on the basis of moral, legal and democratic principles. This assumes broad legal and social regulation. Beyond efficiency, economy should render a broad range of functions, let them serve social, environmental, security or any other objectives.

The different levels and actors co-exist with one another; they are in the process of continuous transformation and adjustment. They are overlapping, interacting and interdependent. They cannot be separated; the process, performance or success of integration is dependent on all of its components and its governance *should be analysed on all its levels*.

II. In the EU, from the 1990s, the *integration* among the member countries raised to a *qualitatively new level*. This turning point is based on *two major developments*.

From the 1990s with the launching of *Economic and Monetary Union* the European integration process *entered a qualitatively new phase*. Customs unions, the common market and single market represented liberalization (“negative integration”), that is, the complete opening of markets to one another. Even customs union and the single market required certain common policies, but these mainly served to ensure the normal functioning of the market. The single market and the EMU mean already a broad regulatory (“positive”) integration.

By the *1990s, through* the high intensity of cooperation, interconnectedness and interdependence of EU economies, *the real-integration* (“integratedness”), *reached qualitatively new high level*.

In recent years, there were several attempts to measure the process and level of integration (integratedness). We called our research project drawing “Integration Profiles”, trying to describe and analyse process and state of integration both for countries and regional inter-state organizations. (Palankai, 2014; Palankai and Miklos, 2017)

The drawing of integration profiles was proposed in four dimensions: 1. Real economic integration (integratedness); 2. Institutional and regulatory integration; 3. Comparative performances; and 4. Convergence and divergence.

On the basis of scoring countries along these parameters, we ranked the countries (on a 100 percent scale) into five clusters (extremely high, high, medium, low and no integration). If the trade share in GDP is below 10%, it indicates no external dependence, as structurally closed economy, and lack of intensity. We propose to speak about low intensity between 10-30%, medium intensity between 30-50%, high intensity between 50-70%, and very high intensity (dependence and openness) above 70%. This scaling can be of course disputed, but in accordance with literature, we accept 10% as a minimum dependency threshold, and 50% as a high dependence threshold.

For measuring real-integration we used several parameters: trade integration (flows, stocks, intensities); structure of trade, balances of trade, interconnectedness and sub-regional concentration, factor integration, state of financial integration and transnational company relations.

In a summarising study for the EU, the data indicated *high level of real-integration among the majority of EU members and for the whole organization*. Out of the 27 countries, 20 fall into this category.

In the “*extremely highly integrated*” category, there are 9, mostly small developed core and some East-Central Europe countries (AU, BE CZ, EE, HU, IE, LU, NL and SK). In the “*highly integrated*” are 11 large (among them Poland) and some of the small developed countries.

The “*medium level integrated*” 7 countries come from the South of the EU (EL, CY, PT and ML), the 2 Baltic countries (LT and LV), and Bulgaria. In some cases, the performance can be low or marginal (the trade integration of Cyprus or Greece). On the whole, there are no EU countries in the low and the no-integration category. On the other hand, one can note that in other interstate regional integrations (ASEAN or Mercosur), the trade integration intensity falls into the low category.

Our original research was based on data from 2007 and 2008. The recent years (2017-2018) data support that trends and state of integratedness have not changed.

In terms of institutional and regulatory terms, the 19 members of the Eurozone qualify for high level integration.

In summary, the *EU, with its high integratedness, is in a unique position*: 1) it is based on a high level of real-economic integratedness (intensity of relations, interconnectedness and relatively balanced interdependences); 2) it is the only form of integration with *complex single internal market and a single currency* (the 19 members possessing 77% of the total GDP of the EU); 3) it has extended the *principle of cohesion to the level of the Union*; 4) it commands *certain*

political identity (polity) with several elements of supra-nationality; and 5) it aspires to becoming a global power; 6) the EU is considered as a model for regional integration.

III. The international integration brings substantial changes in *the national economies, both in structural and policy terms*. Internationalisation of national economies, started right from the beginning, and national and world markets developed hand in hand; of course, their relations were differing depending on the level of development, size and structures of economies. Recently, this internationalisation became highly intensive.

These new quality of relations assume *internal adjustment and transformation*. We can conceive this as extension of national integration to *external and internal dimensions*. As a result, these *external and internal dimensions* give the *dual character of national integration processes*.

This is a real turning point. The relations international and national integration have become closer, interrelated and interdependent. The integration reached a level, when its development and problems have repercussion on the national economies, and vice versa, the development and success or failure of adjustment of national member economies can determine the whole integration process of the Union. As a result, any step in any direction can affect basic interests on all sides with all of their consequences. In case, integration measures and policies can face serious national counter-interests and opposition, and are possible only through tough bargaining, coordination and consensus seeking. And, as broader economic, social and political interests are at stake, these no longer are matters of the elite, but call for broad democratic public support. These new developments are addressed primarily by the post-functional analyses.

The understanding of this duality of external and internal dimensions of integration is *a strategic issue* from the points of view of development and long-term consolidation of the whole European integration process.

Broad reforms are needed:

1. The new developments call for *fundamental changes, both in terms of multi-level governance and in relations among different levels. Multi-level governance is a product of international integration and growing interdependence.* It tries to respond to the challenges of control and regulation of a multi-actor system, and to harmonize and compromise among the interests of participants. Adjustment to the requirements calls for fundamental changes in system of objectives and tools, the institutional and regulatory structures of the traditional national policies. They assume increased and large scale openness and cooperation capacities.

The national adjustment (internal re-integration) is a basic component of the new stage of integrational integration. In regulatory terms, the new developments set the *national and the community dimensions as the two basic elements (“legs”) of multi-level governance structures.* This means *a strategic upgrading the importance of the nations in the international integration processes.* This is *the main point and the conclusion of this paper.*

It is important to stress that the *„national level” has the most complex and efficient institutional and regulatory structure with the broadest democratic and legal mandate.*

In structural terms, national adjustment is based on market forces, but it can be supported by several policy factors. These national policy adjustments assume appropriate “policy mixes”. In recent years, it was typical that most governments neglected the importance of responsible income policy by breaking the link between incomes and productivity. As the experience of the last two decades showed, that the failure of internal transformation and restructuring, the deficiency of national policy adjustments played prominent role in the recent crisis of European integration.

2. The successful national adjustment assumes *maximal exploitation of the benefits of integration*. In these, two main policy priorities are important: *competitiveness and convergence*.

All these increase the importance of innovation, education and training, care about health, development of infrastructure and their supporting policies. In international integration, competitiveness means not only globally competitive companies and sectors, but also a competitive national middle class and political elite. If it fails in adjustment, more precisely, if its political elite proves to be incompetent and unable to defend the interests of its country, that is a serious blow from the point of view of success of the nation. Innovative thinking and mentality should pervade the whole society.

From points of view of individuals, the quality of education, and the possibilities of training or re-training are important. The same applies to the access to a high level of health service, and in general to all public services. Integration supposes changing the public mentalities, and such heritages as inward-looking attitudes, suspicion toward change and otherness or intolerance should be overcome.

For company sector, for the longer run, investment and entrepreneurship-friendly atmosphere are needed through eliminating bureaucracy and corruption with transparent and calculable policies.

While encouraging foreign investments, *particular attention should be given to local small and medium-sized companies*. The success of SME, either as parts of transnational company networks (value chains) or taking transnational company attitudes in their own right are basic indicators and factors of competitiveness of a country. This is the dimension, where the new member countries have serious deficits of their external integration.

3. There is an agreement that for addressing the cohesion crisis, for the restoration of the social stability and for successful convergence *broad social reforms are needed*. That assumes the reform and *upgrading of existing social models*, both in national and community dimensions. In the past decades, with the emergence of knowledge- and competition-based societies, the *classic welfare state, based on paternalistic distributions, became largely unattainable and obsolete*. The Lisbon Treaty pledged itself to a “competitive social market economy”, as a desirable model of an integrated European economy. We propose to add the adjectives of “eco-social” and “democratic” ones. The “democratic” adjective refers to the need for striving for fair competition (anti-monopoly legislation) and fighting against corruption. This new *European social model can be a certain combination of a reformed welfare state and social market economy*. Thus, they should form an

integral part of any discussion on the future of Europe and EU integration. So far we do not see any remarkable progress to that direction.

4. In the *future stability* of integration and its *effective governance the nations play a strategic role*. The magic words are *adjustment and cooperation of the member nations*. This assumes constructive national attitudes and policies. Open, cooperative, inclusive and competitive nations form an integral part of a contemporary integrated system. Accordingly, what we need are transformed and adjusted nations, which are able to face the challenges of international integration in the 21st century. Through that, they can increase their importance. *The success or failure of national adjustment (internal re-integration) determines not only the development and well-being of the given nation, but also that of the whole Union. It assumes competent and responsible politicians with equal devotion to their nation and the whole union*. It became clear, that nations do not disappear in the foreseeable future, but they are fundamentally changed and different, both in their role and functioning as they were even just 50 years ago. What is eroding, that is the classical national state, and what needs to be rejected is archaic nationalism.

The changed position of nations requires new ways of thinking and policies. Concerning the national adjustment, the so far largely *negligent attitudes should be replaced by strategic thinking and more cooperative policies*. Only conscious national transformation strategies and policies can align the nations with the challenges and opportunities of international integration.

5. As a repercussion of the crisis, the spectre of *neo-nationalism* is haunting Europe again. Neo- or ultra-nationalism has no *comprehensive economic, political or social program*. It is rather about *extremist or populist slogans or promises*, which aim at gaining votes and acquiring power. Ultra-nationalism *demonizes certain global actors* (countries, persons or organisations), but often it is no more than shadow boxing. It over-dramatizes certain development, processes and its consequences (migration, terrorism, global competition or simply the trade deficit).

The neo- or ultra-nationalism is hostile and destructive toward international integration, says *nothing about the new role of the nation state*, and has *no relevant reform program for improving the global or the EU regulation*. This applies to even those parties or their programs, which do not propose leaving the EU by their countries, but only reject some of the integration projects.

The *ultra-nationalist*, the extreme populist policies offer not just a sort of negative sum games. They threaten with more; they *can set back Europe for decades*, and as Brexit indicates can impose damages which can be repaired only through tremendous sacrifices. *Ultra-nationalism is self-destructive*, it is *against the basic interests of not only the others, but also the own nation*. That is one of the main challenges for democratic political forces for the coming decades.

6. So far the *integration project was largely shaped along the lines of interests and the will of old member countries*. This applied to all major integration projects such as the single market and monetary integration. The Eastern enlargements, however, have brought substantial differences among the 27 members, which even later on in the decisions were largely not taken into account. These differences cut North and South, and East and West.

The differences are not only economical, such as gaps in levels of development, competitiveness or incomes. They are historical, cultural, religious, social, political, and geographical or many others; and they are even more decisive.

One important difference, which particularly counts for points of view of our analysis, is in the characteristics and the trajectory of nation-building and consolidation. In the East compared to West, there were about one hundred years of belatedness.

In the Eastern European region, the creation of national states took place in the 20th century, in two main waves. They were born after the First World War, as a result of the collapse of the Ottoman and the Habsburg empires, and then after 1990 by the disintegration of two Socialist federations (the Soviet Union and Yugoslavia). The Second World War did not create new national states in the region; it rather changed their status, affiliation (Baltics, the division of Germany) and the territory of some of the countries (Germany, Poland or Soviet Union).

The process in the East was less organic. The Western nations were born in fight *for freedom and democracy*, and that created strong democratic foundations for their national integration. In Eastern Europe, the nations were to a large extent created in the fire of their fight for national independence. The *freedom and independence* meant different emphasises of national integration, and the democratic principles got less attention. This historical heritage still to date has its impacts on the concepts and aspirations of the different members of the European Union.

Due to belated social development (emergence of capitalism and bourgeois society), the weakness in terms of the critical number of politically self-conscious and independent and democratically-minded citizens (“citoyen”) was a crucial hindering factor of development of modern political nations. The traditions of democracy are weaker, democratic political culture is underdeveloped.

7. One can raise the question, how the present EU integration model fits to the interests and the circumstances of the new members. In general, the aims are common, but in many respects special policy solutions can be adopted. We refrain from commenting on the relevance of the Maastricht criteria for the old member countries. They are more questionable for the new members; let it be the inflation targets, the budget deficit or ERMII requirements. The most striking example is the demand for balanced budget (Fiscal Compound), which is mainly irrelevant for a group of emerging economies. According to the economic history experiences, the catching up usually was accompanied with relatively substantial and lasting imbalances. They mean normal “prices” for convergence, which is “payed back” later by higher level of development and competitiveness. Of course, if the debts are consequences of wasteful allocation and exploitation of resources, that is a different question. But they should be avoided and not the deficits in themselves. The list of special requirements and solutions is of course, much longer.

8. A “*multi-speed*” Europe or a “*variable geometry Europe*” are models of integration that are not alien even from classic federations. These models are already realities of EU development. In light of the substantial differences among the nation states, a multi-speed Europe is a realistic option, even in the longer run. This model can be supported only on the following

conditions:

- it remains open by retaining the possibility for other countries to join any time (i.e., it should not mean a “new Iron Curtain”);
- it should not mean any isolation among the members, it should seek new forms and channels of transmission;
- it does not threaten the cohesion of the Union;
- it preserves the integrity of the *acquis communautaire*, particularly the basic rights, and decision-making process; and
- it maintains the normativity of all major policies.

Multi-speed Europe means that we are all heading towards the same destination, but with a later train, or on a different track. In light of the substantial differences, this can be a viable option. If we follow different aims then we can easily find ourselves on a train that is going nowhere.

9. The EU already owns several elements of supra-nationality. The federalism is subject of heated disputes, but many support the idea of some sort of United States of Europe. No one could deny that the European Communities and later, particularly the European Union amounted to something more, and probably much more, than a simple international institution, even if not yet a supranational, classical federal structure. All parties agree, that the European Union is a uniquely special and complex entity without precedent in the past. Even if we do not know the ending of the story, it can be reasonably presumed that the EU’s future lies in a federal configuration. But, about the question, in what concrete forms and when it could be realized, the opinions are deeply divided. Should it be just a looser confederation or even just nothing more than “ever closer Union”, remains open.

It seems, at the moment, that a centralised form of federation in Europe is out of the question, but in the longer run, various forms of *multinational federal structures* can be acceptable. This federation or confederation should seek to preserve the culturally and nationally heterogeneous character of the continent, and at the same time it should consider “*sub-state nations*” as the basic resource of its development. Nevertheless, such a scenario should not entail the elimination of nations; it could rather support their development, along with adjusted national structures. In the future, in the EU, the functional federalism remains predominant over tendencies of the political federalism.

A solid federation should be *based on organic and democratic development*. The enforced surrender of national identities and interests is an unacceptable option. European identity, society, public opinion, forming a real *European political community* would be absolute pre-conditions. We had impressive progress, but the recent crisis proved the vulnerability of EU cohesion. In fact, for nations coming out of an oppressive federation it is not easy to join immediately an evolving new one, even if it offers to guarantee all of its democratic aspirations.

10. The reforms assume political and legal changes. These changes are so complex that it is hardly possible without reshaping the basic institutional and policy framework. We support the idea that we need *a new treaty of the Union, which should bring fundamental changes in its all*

dimensions. New members should be active participants of these processes, which would need to assume the will and determination of all parties, and should conform to the common norms and values of Europe. Europe has all the political, professional or financial potentials to address all of these challenges. What is weak is the will and determination for deeper cooperation.

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