

FUTURE PROSPECTS OF THE EUROPEAN UNION

PERSPECTIVAS FUTURAS DE LA UNIÓN EUROPEA

Tamás Szemplér
Institute for World Economics of the Hungarian Academy of Sciences
tszemler@vki.hu

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ABSTRACT

The present article is devoted to reflection on future prospects of European integration –based on actual challenges and past experiences. As it is presented, much has been reached, but the integration process is still far from perfection. There are internal and external factors that impede the Union to act efficiently. Among internal factors, fragmentation, the imperfect functioning of EMU, the problems of EU institutions and decision-making and the treatment of (recent and future) enlargements of the EU. Among the external factors, demographic trends, the question of sustainability of the European social model(s), the emerging competitors outside Europe, and, last but not least, the political uncertainty about “Project Europe” is discussed.

Keywords: European Union; Integration; Deepening; Enlargement.

RESUMEN

En el presente artículo se desarrolla una reflexión sobre las perspectivas futuras de la integración europea, basada en los retos actuales y las experiencias pasadas. De acuerdo con los resultados, podemos señalar que se han logrado muchos de los objetivos marcados, aunque el proceso de integración aún dista de ser perfecto. Existen factores internos y externos que impiden que la Unión funcione de forma eficiente. Entre los factores internos destaca la fragmentación, el imperfecto funcionamiento de la unión monetaria, los problemas institucionales y de toma de decisiones y el tratamiento de las presentes y futuras ampliación de la Unión. Entre los externos destacamos las tendencias demográficas, la sostenibilidad del modelo social europeo, los nuevos competidores y por último, aunque no menos importante, la incertidumbre política sobre el proyecto europeo.

Palabras clave: Unión Europea; Integración; Profundización; Ampliación.

JEL Classification: F5.



1. INTRODUCTION

The European Union (EU) has recently had some important round anniversaries –some of them much celebrated, some of them quasi forgotten. The relaunch of the European integration process –by the Treaties of Rome– is already more than half a century behind us. The European customs union is more than 40 years old. The story of the European Monetary System –the first successful chapter of the glorious project of the single European currency has begun just three decades ago. In 1988 –just a bit more than twenty years back from now– a fundamental reform package of the EU budget and of the structural policies has been introduced. Ten years after that –a good decade ago– the negotiations on the biggest enlargement round of the EU have been begun. By now, the experiences of the first five years of EU membership of the first group of newcomers from Central and Eastern Europe are intensively discussed on research and political forums.

Round anniversaries are good opportunities for reflection. The present article is devoted to reflection on future prospects of European integration –based on actual challenges and past experiences. These latter can be more useful than sometimes expected for estimating the real room for manoeuvre and proposing solutions.

2. EUROPEAN INTEGRATION: ACHIEVEMENTS AND CHALLENGES

During its history of more than half a century, the European integration process has achieved things that had been unconceivable before. Despite the fact that political integration could not develop as rapidly as the founding fathers imagined it, the process brought tangible success. Relying on the solid foundation of French-German cooperation –a thing that had also been inconceivable before– the integration progressed dynamically until the first half of the 1970s.

After a good decade of relatively unsuccessful period and “eurosclerosis”, it was again the French-German engine (led by common political will based on

mutual interests) that led the integration to a new period of successes. As a result of this development, the EU arrived at the achievements we can observe now. In many respects, the EU has surpassed its main competitors –some major points are presented in Box 1– and has in principle good chances for future progress.

Box 1: EUROPEAN INTEGRATION: ON THE WAY TO PARADISE ON EARTH?

The European Union...

- ...is the biggest single market of the world;
- ...is the most important commercial power of the world;
- ...produces 1/3 of world GDP;
- ...'s GDP exceeds that of the USA;
- ...'s single currency, just after some years, is the 2. most important one regarding international payments;
- ...'s economy has a modern structure: almost $\frac{3}{4}$ of its GDP is provided by the services sector;
- ...'s social model is attractive worldwide.

Despite the multitude of tangible results, the actual situation of the EU is far from being unproblematic. It would even be unrealistic to expect a development without debates and conflicts between member states with different interests. However, by now, the conflicts have reached a point where they endanger the efficient functioning of the integration process. Although it seems to be logical to explain these problems with the recent massive enlargements –the increase of the number of member states from 15 to 27–, it is not the core of the issue. It is not the new member states who were the main “troublemakers” in the recent years: since 2005, the integration process received the major blows from France, the Netherlands and Ireland –two founding members and a third one being a member for more than 35 years by now.

The problems are rooted in the diverging (rightly or wrongly perceived) interests of the member states *and* in the incapacity of the EU's institutional and decision-making system to handle these problems efficiently. This inefficiency also has tangible consequences on the Unions's capacity and speed to react, and thus limits or endangers the practical value as well as the sustainability of the achievements of the integration process. Beyond some basic facts, Box 2 –especially if compared to Box 1– shows some examples for this, as well.

On the basis of what we said until now, it is hard to judge whether we should call the European integration process successful or problematic –especially having in mind (as it is always the case) the actual issues. A possible answer is that it is at the same time successful *and* problematic, but such an answer does not provide any advice on how to further develop the integration or what to change.

BOX 2: EUROPEAN INTEGRATION: ON THE WAY TO HELL?

The European Union...

- ...'s GDP per capita is less than that of the USA;
- ...'s economic growth is slower than that of the USA;
- ...'s market positions are threatened by new competitors;
- ...'s average unemployment rate is high;
- ...'s single market is unfinished;
- ...'s actual objectives are not clear;
- ...'s social model is unsustainable.

Instead of that, we can ask what the initial objective of the European integration was at the start of the process and whether this initial objective has been achieved or not. Regarding the original objective, it can be summarised in the statement that after centuries of more or less regular armed conflicts in Europe, the founders wanted to establish economic and political cooperation instead of wars between the member states. Due to the historical experiences of the decades preceding the launch of the integration process, specific emphasis was put on French-German reconciliation and cooperation.

We can say wholeheartedly that this initial objective was reached. Stability replaced international conflicts in Western Europe; this stability was not even endangered neither by the dramatic change of the world order at the turn of the 1980s/1990s in general, nor by one of the specific elements of this change having an important impact on Europe, namely by the reunification of Germany. All this is to a great extent due to the structured relations built up during the decades of European integration. Integration has achieved fundamental economic success, as well: as the circle of European policies widened and the policies themselves deepened, the EU has become a structure (more than an international organisation but less than a state) with no equal.

However, there are problems, and in the recent years it seems that the problems with European integration become deeper. The root of the problems is the fact that –due to its complexity, but also to its complicated institutional setup– the EU is traditionally slow in adaptation to the changing environment. Of course, there are always new problems or issues that need time for adaptation. However, many of the basic problems of the EU –some of them are listed in Box 2– are well-known for decades, but appropriate reactions are still missing.

3. KEY ISSUES

As experiences show, slow reactions and adaptation problems are not new phenomena in the EU. They constitute a long-term problem, and there are internal and external factors that impede the Union to act efficiently.

3.1. INTERNAL FACTORS

Among internal factors, we can list issues that are inherent to the structure of functioning of the EU. Obviously, the list below is not exclusive, but the issues highlighted are –especially from an economist’s point of view– between the major causes of adaptation problems:

- *Fragmentation*: although the Single Market has officially been finalised more than one and half a decade ago, in reality, the Single Market is still far from being finalised. Its main deficiencies concern the free movement of services (despite the fact that –as we have seen– this sector represents about 3/4 of the EU economy) and that of labour. Cases of obstacles for mergers and acquisitions in the EU in the recent years also show that capital movements are still not entirely free, either. New problems add to the old ones with enlargement: transition periods delaying the full access of citizens and enterprises of the new member states to the Single Market aggravate its deficiencies. All these deficiencies of the Single Market weaken its expected positive effects on growth, employment and European competitiveness.

There is an interesting (and even surprising) aspect of the above shortcomings of the Single Market: these deficiencies “model” on the European scale the way globalisation proceeds worldwide. In a rapidly increasing (“globalised”) part of the world economy, the flow of products and capital is more or less free, services also tend into this direction, while there are still important (not only financial and technical, but also traditional, cultural, language, etc.) barriers limiting the legal movement of labour. Given this worldwide situation, the strength of the Single Market could be to fully assure the four freedoms in the EU. Instead of this, its actual stand reflects the worldwide differences in the treatment of the four freedoms, thus it does not realise the potential gains of its logical construction for Europe in the global competition.

- *The functioning of the Economic and Monetary Union (EMU)*: EMU was conceived as the coronation of the economic integration process. Although the project of EMU as a whole is successful, it also raises some problems. The above mentioned deficiencies in the realisation of the Single Market also mean that some bricks in the construction under EMU are missing. EMU criteria are important, but –especially in the circumstances of the actual financial and economic crisis and in the situation of some EU national economies– they contribute to limit growth (or even deepen recession). Public deficits (especially in three of the biggest economies of the EU, Germany, France and Italy) give ground for concern about economic stability on the one hand, and about growth, employment and the sustainability of the welfare state on the other hand. Delays in reforms concerning this latter aspect only darken the picture.

- *Problems of EU institutions and decision-making*: the institutional and decision-making system originally designed for six member states has reached –despite reform efforts– the limits of its functioning. Institutions and decision-making are a very sensitive issue, and even a progressive solution has to be based on compromises, so the theoretically optimal solutions (in laboratory circumstances) are out of reach in practice. The problem is not this, but the fact that even compromises are very hard to reach, and even when the compromise is reached, the way into its practical application is long and difficult. As the efficiency of the institutional and decision-making system is crucial for the proper functioning of the EU, a happy end of the saga of the Lisbon Treaty could only be highly welcome.
- *Treatment of the effects of (recent and future) enlargements*: the EU is far from realising all the potential (EU level) gains from the enlargements in 2004 and 2007. Instead of this, as there were (mostly unfounded) fears from competition from the newcomers, the reaction was –as we have already mentioned it– the limitation of the Single Market in some “sensitive” cases. Almost five years after the first round of the Eastern enlargement these fears seem to diminish and the evaluations of the first years of membership of the newcomers have become more balanced. There is, however, no such change regarding future enlargements: it looks like the EU was very much undecided about every little move in this respect. Of course, negotiations have to be driven with care, but the actual EU approach seems to reflect more hesitation (and internal division) than care.

3.2. TRENDS AND EXTERNAL FACTORS

Among trends and external factors, it is worth identifying issues that are basically not dependent on the EU's development, but may influence this development to a considerable extent. Similarly to the internal factors, the list is not exclusive:

- *Demographic trends*: the most important demographic challenge for the EU member states is that they have an ageing population. This trend causes deteriorating dependency ratios meaning that the share of people in their active age continuously decreases, while the share of the elderly increases. This is a well-known phenomenon in the developed world for a long time, but it is the consequence of the lack of adaptation capacity (resulting in relatively low average economic growth in Europe for three and a half decades) that it has become a factor menacing competitiveness, and thus also the sustainability of the welfare states in Europe.
- *The (un)sustainability of the European social model(s)*: there is nothing

surprising in the statement that developed welfare states cost a lot. During the first three post-World War II decades, characterised by rapid and stable growth, this did not constitute a major problem. However, with the first oil shock (and with the lack of appropriate adaptation in Europe), this situation has changed, as well; the demographic and social changes referred to above contributed to deepening the problem, increasing the financial needs of welfare states. While in some countries (some Nordic EU member states) promising reforms have been carried through since the mid-1990s, in most member states –including economic and political heavy weight players of the EU– the problems are very far from being solved. In addition to all this, with the Eastern enlargement, the EU has internalised new types of problems related to the sustainability of welfare state functions¹.

- *Emerging competitors outside Europe*: the EU must face all the above mentioned deficiencies of its economic integration in a period of rapidly intensifying global competition and, right now, of dramatically changing economic environment. Although competition from inside the European continent is “internalised” (but by far not digested) by the enlargements in 2004 and 2007, this solves only a minor part of the problem (and, actually, due to Single Market deficiencies, not perfectly). The really new challenge for the EU is the emergence of the giant and rapidly growing economies of China and India. Both countries (and some other new competitors, too) enjoy extremely low production (first of all labour) costs, which has already been enough for them to take the lead in some labour-intensive industries. However, the real challenge is the extremely rapid modernisation of these economies; as a result of this process, they are already highly competitive also in sectors where labour costs are not the decisive factor. Their market size and rapid development is attractive for foreign (including European) investors, as well, pushing other regions (including Europe) into the background. The actual financial and economic crisis can even speed up this process and thus contribute to the change of the balance of power in the world economy.
- *Political uncertainty about “Project Europe”*: the anniversaries mentioned in the introduction of the present article demonstrate clearly that the development of the European integration process has been project-driven since the beginning. All big projects had their specific role in bringing integration further – be it deepening or widening of the EU. Contrary to the past, the EU has no similar “large-scale” projects now. Although there are important developments in key policy areas (from

¹ Most of these problems stem from economic transition; for details, see e.g. Vaughan-Whitehead (2003) and Wickham (2002). The fact that new countries bring in new problems also in this field is not new: see Guillén-Matsaganis (2000) on some of the consequences of the accession of Greece and Spain.

R&D to environmental policy), they –due to missing instruments or political will, or simply because they are (or seem to be) partial– do not have the “critical mass” needed to become a next major step in the development of the integration process.

4. A TYPICAL SYMPTOM AND POTENTIAL CURES

In the EU, there are a number of policy areas –from the EU budget to enlargement– that can also be regarded as specific symptoms of the general problems. Due to its central place in the debates recently, it may be worth paying specific attention to the Lisbon strategy; it is also interesting because it raises many of the typical problems of actual (new) EU policies. While there is no general panacea for these problems, we present –also on the basis of earlier experience– some conditions whose fulfilment can give a policy chance to be successful.

4.1. THE LISBON STRATEGY: NICE, BUT...

The Lisbon agenda deals with key problems of the economic development of the EU. So, the topic of the policy has been highly relevant from the beginning. However, its details were –and, to a somewhat lesser extent, still are– very problematic.

The setting of the original objectives was entirely unrealistic. It is not just about the fact that the target values were out of reach by the deadline set, but also about the way the objectives have been formulated: fixed target values and target dates, no flexibility. No wonder that in 2004–2005 –by the mid-time review of the Lisbon strategy– the objectives have been modified and fixed target dates disappeared.

The above change made the objectives more credible, but did not solve all the problems related to the Lisbon agenda. Even after the review of the strategy, at the EU level, no clear adequate tools were available. This changed somewhat with the agreement on the financial perspective for 2007-2013; competitiveness (a key word of the Lisbon strategy) appeared as an independent subheading of the expenditure side of the budget. However, although the appearance of the issue in the EU budget can be welcome, the available amount is rather limited, and this appearance has the danger to make the functioning of EU structural policy less targeted (more fragmented) than before.

In any case, most tasks and financing rely on the member states' shoulders. This –not independently from the problem of limited financial capacity of a number of member states– also poses some problems: for example, in the new member states, Lisbon objectives are practically embedded into the National Strategic Reference Frameworks –there is simply no other way to find public finances for them. One can think that this is a positive development

because it can ensure the maximum potential synergy for structural policy; at the other extreme, one can also have the impression that some developments carry “Lisbon masks” in order to assure that the country is in line with EU expectations. The regular updates of the national Lisbon reform programmes can strengthen both impressions, as well.

Of course, the strategy will be judged according to the results it brings. After the mid-term review, there were voices that looked at some improving indicators as a result of the Lisbon strategy. However, it was probably too early to conclude that the effectiveness of the policy increased dramatically. The actual financial and economic crisis has shown (although in a quite drastic way) the nature of economic cycles; indicators can change also because of the –normal, and sometimes forgotten– changes in conjuncture. Especially in this light, approaching the tenth anniversary of the announcement of the strategy, no convincing results can be seen.

4.2. HOW COULD IT WORK?

An effective policy in the EU would require four elements: 1. concrete (specific) objectives, 2. realistic (and, if necessary, flexible) timetables, 3. functioning (and really own) tools and 4. credible politicians (in the optimal case, both in the member states and on the EU level).

Of course, this is easy to say, and much more difficult to produce. At first glance, especially the fourth point is problematic, but the really big problem now is that even the first three conditions are not met in many cases. The Lisbon strategy is the most striking example, but other big issues (like the evergreen topic of the reform of the EU budget, or the EU’s strategy with regard to enlargement and neighbourhood policy) show similar problems.

However, this does not mean that the mission would be impossible. Past experience shows just the opposite. The Single Market (even if the construction is still not entirely finalised) and the Economic and Monetary Union (despite the debates around it) are the best examples for a well-designed strategic approach. In both cases, all four conditions listed above were met. In the case of EMU, it is worth paying attention to the flexibility element (the date of the introduction of the single currency in the first member states depended on the performance of EU countries (on the number of member states fulfilling the Maastricht criteria)), which was also used in practice. Flexibility (connected to a clear conditionality) remains continuously a central element of EMU, as any member state can join the eurozone only if it fulfils the Maastricht criteria. Such flexibility and conditionality are totally missing from the Lisbon strategy.

Of course, the lack of credible politicians is a big disadvantage –one can compare the actual situation with the one at the time when the ideas regarding the Single Market and EMU were formulated. In order to become driving forces of European integration, new visions –if, of course, they exist at all!– need a strong Europe-wide political support.

5. LET'S (RE)INVENT EUROPE!

While there are no miracle remedies for the problems of European integration, a more consequent implementation of the (at least in principle) already agreed policies could bring additional positive results. These positive results can increase the credibility of both national and European actions (they need it badly!). Such a change would have crucial importance for planning and accomplishing comprehensive reforms, which are to be carried out jointly on national and supranational level.

The actual financial and economic crisis can be a milestone for EU reform. Of course, at first glance, one sees the problems, the increased tensions stemming from the crisis. But it is important to note that the crisis provides an excellent opportunity to change the way the EU (and its member states) traditionally tackled these problems. In critical situations support for change (a very important factor for political leaders deciding about reforms!) is higher than in periods when problems can be swept under the carpet.

In addition, European integration has already experienced a similar (not in its specific content, but in its nature) situation, when, in the mid-1950s the political conflicts pushed very young construction of the integration process into a deep crisis. However, a jump ahead in 1955 in Messina solved many of the then actual problems and opened entirely new prospects for the integration process.

A similar move is possible now, as well. A successful Europe needs visions – without visions, both deepening and widening are questioned.² An agreement of the member states on the finality (or mission) of the EU would also be welcome. If such an agreement (or at least an agreement on the next step to take) exists (unfortunately, this is not the case today), then the way until the finish line may be long, some participants of the “race” can arrive sooner, some others later, but the important thing – not to turn back – is not out of reach. Despite the fact that the EU's long-term economic prospects do not seem to be very rosy right now and the key to preserving traditions *and* being competitive has not been found yet, Europe has precious values, traditions and reserves – so, it is not hopeless.

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² See e.g. Rifkin (2004) on the importance of a vision – he compares the US to the EU; regarding the trend, his conclusions are not pessimistic with regard to Europe.

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