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Deepening Economic Integration in the European Union*

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Péter Halmai:
Mélyintegráció. A Gazdasági és Monetáris Unió ökonómiája
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As regards the scale and depth of cooperation, the European Union is a unique economic integration in the world. Following the establishment of the single (internal) market, 19 out of the 27 Member States also entered the third stage of the economic and monetary union (EMU when referring to the integration within the EU) and introduced the common currency, the euro. Bulgaria and Croatia would also like to join the euro area soon. The evolution of the European Union can be regarded as a history of deepening and expansion (and also contraction and disintegration since Brexit in 2020). European integration is peculiar in that deepening and expansion were able to occur in parallel as it progressed. Analysing the EMU is key from the perspective of the entire European Union's future. The currency area that was established quite soon based on a political decision already had to be reformed after the first decade of its existence. The heterogeneity of the euro area and the system-wide issues were clearly reflected in the spillover of the global financial and economic crisis of 2008–2009 and the sovereign debt crisis in certain euro area members. However, the experiences from the first two decades showed that the EMU could not be reversed, the costs of leaving the euro area were incalculable, and moreover, all the members save Denmark had committed themselves to work for accession, even if no specific date was set and recently not even the European Union institutions are pressing forward with expansion of the EMU.

Péter Halmai's latest book analyses the EMU and the integration processes in the European Union in general from the perspective of the system of correlations in trade and growth theory. The author introduces the concept of *deepintegration* (one word in this context) in a new form to the economic literature on European integration. In trade theory, deep integration (in its general usage), is one of the

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characteristics of modern, next-generation trade agreements, illustrating that the cooperation goes beyond the elimination of trade barriers in a traditional sense. In this meaning, European integration has been operating as a deep (trade) integration for many decades, as the customs union was established in 1968. In fact, this has been typical of the economic and trade agreements between the European Union and third countries in recent years. Yet deepintegration in the sense used by Halmai is much more than that: it is a deep regional integration implemented in the European Union's practice, including both core integration and differentiated integration (periphery integration). A central element in deepintegration is core integration, comprising the most advanced achievements of integration. This deepintegration is fundamentally economic, but it cannot be realised without political will. Along this logic, the internal market and the EMU clearly belong to the system of deepintegration in the development of European integration, but the customs union can also be partly classified here (and partly to deep trade integration). Deepintegration has widespread economic effects, including a positive impact on growth,[1] mainly in the form of the accumulation of physical, human and knowledge capital. At the same time, this deepintegration forced Member States to relinquish an increasing portion of their sovereignty.

The book focuses on the comprehensive analysis of the most advanced form of deepintegration, the EMU, with a special emphasis on exploring the deeper correlations, as suggested by the title. The theoretical roots of the monetary union go back to optimum currency areas (OCAs), a concept which was coined by Nobel laureate *Robert A. Mundell*, who passed away just recently. As pointed out by the author, the EMU fulfils only some of the requirements of an optimum currency area, with high(er) labour mobility and fiscal transfers missing, but the advantages of monetary integration (which also boost trade) may be able to help raise the level of optimality. These requirements were completely disregarded in 1991 during the establishment, when the regulations in the Maastricht Treaty to be signed on 7 February 1992 were negotiated. The implementation of monetary integration was clearly the result of a political decision in Europe.

The analysis of the EMU makes it evident that the original scheme of monetary integration adopted in Maastricht contained system-wide issues right from the outset. This was highlighted by the 2008–2009 global crisis with particularly dire consequences, followed by the sovereign debt crisis that affected several members of the euro area. The structural problems became evident, just like the institutional peculiarities, the nominal and real rigidities, the frictions, in other words the heterogeneity of the currency area. Besides *convergence* (the aspects of which continuously expand, and the book presents its nominal, real, social, cyclical and structural dimensions),[2] the analysis of *resilience*, the economy's ability to respond

[1] See: *Halmai* (*2014; 2015a, b; 2018a*), *Elekes – Halmai* (*2013*; *2019*), *Halmai – Vásáry* (*2010*, *2011*)
[2] For more on the topic of convergence, see *Halmai* (*2019a; b*), *Halmai – Vásáry* (*2012*)

and withstand shocks, has to gain increasing prominence. This is not only important in a static dimension (such as maintaining the functions of a system in a crisis) but also includes an adaptive dimension, i.e. the necessity to adapt to the conditions of a changed environment. This is also a fundamental feature of deepintegration. The experiences from the first more than two decades of the EMU also suggest that the impact of the interactions and synergies in the system of deepintegration is determined by the intertwined effects of convergence and resilience (their synchronicity and homogeneity). Since in its original form the EMU proved to be unsustainable, a large-scale, multi-stage reform process began to achieve 'real', or to employ the phrase used in the book 'deep', monetary integration, which also includes the goal of ensuring the convergence of members towards resilient economic and social structures and increasing homogeneity. The implementation of the reforms is now under way, with two of the three pillars of the banking union having been created. Nonetheless, the author believes that further reforms are necessary to improve convergence and resilience. It is argued that a central aspect of the continued reforms should be the implementation of solidarity and responsibility through a new synthesis aimed at further deepening.[3]

The book seeks to provide additional material to the comprehensive theory on European economic integration by analysing differentiated integration and disintegration. The schemes and opportunities of differentiated (unequal) integration have received special attention in the international literature in recent years. The author explains the different versions of differentiated integration (and differentiated disintegration) based on the various constellations of interdependence and the politicised nature of the process, using political economics for the analysis.

One of the most interesting and topical parts of the book examines the relationship between the United Kingdom and the European Union in the above system of correlations, first by illustrating the advantages of EU membership (basically deepintegration), and then at the end of the book Brexit is explored as the first large example of disintegration.[4] Although no deal had been struck on the post-Brexit economic and trade relations by the time the manuscript was finished, the author leaves no doubt that Brexit has negative consequences for both parties. Nevertheless, the United Kingdom has to expect relatively larger losses in the long run, even if it has already started to establish deep (trade) integrations with Asian countries, and a plan to join certain megaregional trade agreements has also been considered. However, these are hardly examples of deepintegration. (History seems to repeat itself: the United Kingdom failed to sign the Treaty of Paris establishing the European Coal and Steel Community and the Treaty of Rome founding the EEC precisely to avoid deep trade integration.) The book draws a striking parallel between the establishment of the EMU and Brexit: both were the result of a political decision.

[3] For the EMU reform, see Halmai (*2013; 2017; 2018c; 2020c; 2021*)
[4] The author has analysed the issue of Brexit in several works, see *Halmai* (*2018b; 2020a; b; d*).

The closing chapter includes a summary of the conclusions in integration theory in a broader sense, expanding the narrower scope of the analysis. The book ends by outlining a new analytical framework or deepintegration paradigm by revisiting integration theory.

By the end, readers might wonder *what the road ahead for European integration may look like*. Deepintegration can be considered irreversible, and complete disintegration would entail exorbitant costs and have unpredictable consequences, while the system has its own pace of development. Accordingly, increasingly deepening core integration can be expected, however, the group of countries affected by periphery integration may remain unchanged for a while. In other words, within the euro area an increasingly close supranational cooperation is projected, but the expansion of the currency area may slow down considerably compared to 1999–2015, when eight countries joined the 11 founding members.

Péter Halmai's latest book presenting the conceptual framework and analysis of deepintegration is a must-have for teachers and researchers of European economic integration, and it can definitely be part of the set or recommended reading in the classes of master's or doctoral courses that deal with the European Union and the EMU.

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