

# **The Greatest Success of European Integration: The Achievement of Economic Integration in the European Union\***

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*Péter Halmai:*

*Európai gazdasági integráció (European Economic Integration)*

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The greatest success of European integration has undoubtedly been the peace that has prevailed on the territory of the Member States for more than six decades, the steady expansion of economic and trade cooperation, and the creation and functioning of the internal market. The European integration is unique in the world in that there is no other integration formation where such a large number of countries have such extensive internal trade. In 2021, there were only three EU countries with higher export performance to non-EU countries than to other EU countries (Ireland, Cyprus and Malta) and only one country, Ireland, whose imports from outside the EU exceeded its imports from EU countries.<sup>1</sup> This is why it is important to pay particular attention to the dynamics of economic cooperation if we want to understand the development and strength of the European integration. This is something that could have a major impact on the future of the European Union.

Péter Halmai's book examines the system of European economic integration in a complex way, based on state-of-the-art international approaches. The work discusses the European integration, some of the competences of the European Union (the common and Community policies taking the term used before the Treaty of Lisbon), in an applied economics approach. Throughout the book, the author uses both the micro- and the macroeconomic approach depending on the topic. The trade and competition policy are essentially based on a microeconomic analysis, while the chapters on structural and regional policy, Economic and Monetary Union (EMU), economic policy coordination, fiscal policy, European growth potential and structural reform pressure are discussed in a macroeconomic approach. In keeping with the complexity of the subject, Halmai analyses the Common Agricultural Policy from both a microeconomic and a macroeconomic perspective.

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\* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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<sup>1</sup> Eurostat (2022)

“The European integration is first and foremost an economic integration,” the author points out in the theoretical introduction to his book. We can agree with this statement even in the knowledge that the development of the economic integration has been shaped by political intentions, considerations and compromises in the practice of the European integration. The book’s assertion that the integration process is not about the loss of national sovereignty, but rather about the exercise of certain elements of sovereignty (transferred to the Community or the Union) jointly with the Member States, could be given more space in public thought. Economies of scale, the trade creation and trade diversion effect of the customs union, the EU-level regulation of public procurement and concession contracts have all contributed to the success of the internal market (single market), which will be 30 years old in 2023, as shown by the analysis of the BE-COMP curves in Chapter 1. The EMU can be seen as the crowning achievement of the internal market, even if it had only a modest real trade impact in itself.

The establishment and operation of a common trade and competition policy was a prerequisite for the completion of the internal market, as well as for the completion of the common market, which was already a goal of the Treaty of Rome on the EEC. Without an evaluation of this, the logic of European economic integration cannot be understood. Given that the trade policy is an exclusive competence of the Union under the Treaty of Lisbon, knowledge of the EU’s external trade relations is a fundamental requirement for all economists working in business in all Member States, both now and in the future. It is also important to understand – as the author states in the trade policy chapter of his book – that possible disintegration, a backtrack from trade liberalisation, will cause prices to rise and competition to become less intense, with negative effects for all consumers. Although the time at which the research for the book was completed did not allow for an in-depth examination of the Brexit scenario<sup>2</sup> that was realised, all scenarios are outlined in the second chapter of the book. In the third chapter, similarly to the wide-ranging presentation of trade policy relations, the reader would have liked to see some specific examples of competition regulation.

The fourth chapter on the EU’s common budget provides a remarkable overview and systematisation. In addition to a comprehensive analysis of the common budgetary system, a special attention is given to the development of Hungary’s budgetary relations with the European Union.

The common agricultural policy is indeed one of the most controversial areas of European integration, but it is undoubtedly an important segment of European economic cooperation. Looking at the whole vertical integration, it makes a significant contribution to gross value added and is still the second largest item

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<sup>2</sup> The author has analysed the Brexit problem in several works, see e.g. *Halmi (2020a)*.

of expenditure in the EU budget. Halmai, as one of, if not the most prominent expert on the European Union's agricultural system in Hungary, is in favour of a radical reform of the common agricultural policy, as opposed to a renationalisation or even – albeit highly unlikely from a social and political point of view – a complete dismantling of the policy area. The need for cohesion spending, which is the largest component of the common budget, is beyond dispute, although it is worth reflecting on the fact that even the most developed EU countries and regions can in practice benefit from these funds, even if only to a relatively small extent. The *raison d'être* of the regional (cohesion) policy is also confirmed by the author's convergence calculations:<sup>3</sup> on the one hand, the deepening of economic integration initially benefited only a limited number of regions, and on the other hand, the catching up of most less developed Member States also led to an increase in regional disparities within the country.

The Economic and Monetary Union, the most advanced stage of economic integration, was established on 1 January 1999 with 11 Member States as part of the European Union. The European Union is unique in this respect as well: although there are several monetary unions in the world (for example, the CEMAC or the WAEMU in Africa, or the ECCU in the Caribbean), none of them has the same number of members or the same economic power. As a result of continuous enlargement, there are 20 EU Member States in the single currency area from 1 January 2023. The Eurosystem is, in the author's words, the core integration of the European Union. At the same time, it is very important to be aware of not only the theoretical foundations of monetary integration (the theory of optimal currency areas, the impossible trinity), but also of the structure, functioning and shortcomings of the EMU realised in practice in the European Union. The EMU itself can be seen as an asymmetric integration with "variable geometry", complex institutional conditions and discretionary decisions. Halmai, who introduced the concept of deep integration<sup>4</sup> in the domestic EU literature, describes in detail and provides a professional critique of the form of integration established by the Maastricht Treaty, which did not strictly adhere to the provisions of the Stability and Growth Pact, already weakened compared to the original German concept, which cannot (could not) contribute to addressing asymmetric shocks and which even widened the gaps between the current account balances of the Member States. In addition to the construction of monetary integration, the monetary policy of the European Central Bank has been criticised for the lack of a sufficiently transparent monetary policy strategy mix at the outset, slow interest rate decisions, late application of quantitative easing (QE) or excessive purchases of sovereign debts of "crisis countries" on secondary markets. But crises (the global financial

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<sup>3</sup> See, for example, *Halmai (2019a, 2021a)*

<sup>4</sup> *Halmai (2020c)*. The inclusion of differentiated integration in the analytical framework and its interpretation in economics deserves special mention. For further details, see for example *Halmai (2019b)*.

and economic crisis of 2008–2009, the sovereign debt crisis in some euro area Member States) can lead to closer economic policy coordination in the context of core integration, the steps and context of which are described in Chapters 8 and 9 of the book. Equally important is the future of the Economic and Monetary Union too – even if the reform measures are implemented – the scenarios, risks and opportunities of which the author has already presented in several publications.<sup>5</sup> His position is clearly expressed in this book as well: the completion of the economic union and the development of economic governance represent a real chance to make the process of European integration more dynamic, while remaining outside the process of core integration entails the risk of being marginalised.

For Europe's role in the world economy and geopolitics, the factor discussed in the last two chapters of Halmai's book is of great importance: growth. It cannot be stressed enough that the average economic growth of the European Union has been steadily lagging behind that of the US since the mid-1990s, while China has emerged as a new challenger in the global economic race. Europe's growth potential is fading, and the potential growth rate of EU countries, as well as productivity growth, could remain at a persistently low level. Halmai has drawn attention to this in several previous publications.<sup>6</sup> The Lisbon Strategy could not change this at all, and the Europe 2020 Strategy has achieved only modest results. One can fully identify with the author's view that, in addition to comprehensive structural reforms to boost growth potential, macroeconomic policies aimed at growth and stability and much more innovation are needed.

Halmai's monograph is first and foremost a professional book, which draws on an extensive, largely foreign literature base, and also processes the author's decades of research, but it is also intended as a university textbook. The latter is underpinned by a large number of illustrative, colourful diagrams to help the reader understand the theoretical context of integration and the practice and experience of European integration, and by a set of concepts (more than 300 in total) to be reviewed at the end of each chapter to support the learning process. The eleven chapters may form the basis of at least eleven university lectures and/or seminars.

In my view, Halmai's book titled *European Economic Integration* is a must-read for undergraduate and postgraduate students and lecturers in economics, as it organically builds on the knowledge of micro- and macroeconomics and international economics acquired earlier. However, I recommend it to all lecturers, researchers, students and anyone interested in European (economic) integration, even only marginally, regardless of their field of study or training.

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<sup>5</sup> For further details from recent years see *Halmai (2020b, 2020c, 2021b, 2021c, 2022a)*.

<sup>6</sup> See, inter alia, *Halmai (2020b, 2021c, 2022b)*.

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