



- **Economic Integration in Europe**  
**Mis-management of an Incomplete Contract**

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# Governance of economic integration and EU reforms



- Governance: key issue in all EU reform alternatives
- Focus on the **economic** aspects of governance but growing attention to the **political** ones
- Governance issue of regulatory integration overshadowed by the focus on EMU governance (North-South or EMU perspective on governance)
- The problems of CEE countries are discussed outside this framework

# Why governance?



- **Economic integration is built on pooled sovereignty**
  - Creation of a level playing field by removing national controls
  - From FTA through single market, monetary integration to unified economic policies
- **It works if**
  - **All parties play by the common rules**
  - **All parties can benefit from playing by the rules**
- **The deeper is integration, the more diverse are members' capacities**
  - **The harder it is to foresee and solve in advance all possible distributive consequences,**
  - **Need for complex forms of governance**

# Governance problems of integrating lesser-developed economies



- Weaker capacities to play by and benefit from integration
- Danger of spillover of the negative developmental consequences to core countries
- Need for mechanisms to anticipate and alleviate the potential mutually destructive and increase the mutually beneficial outcomes

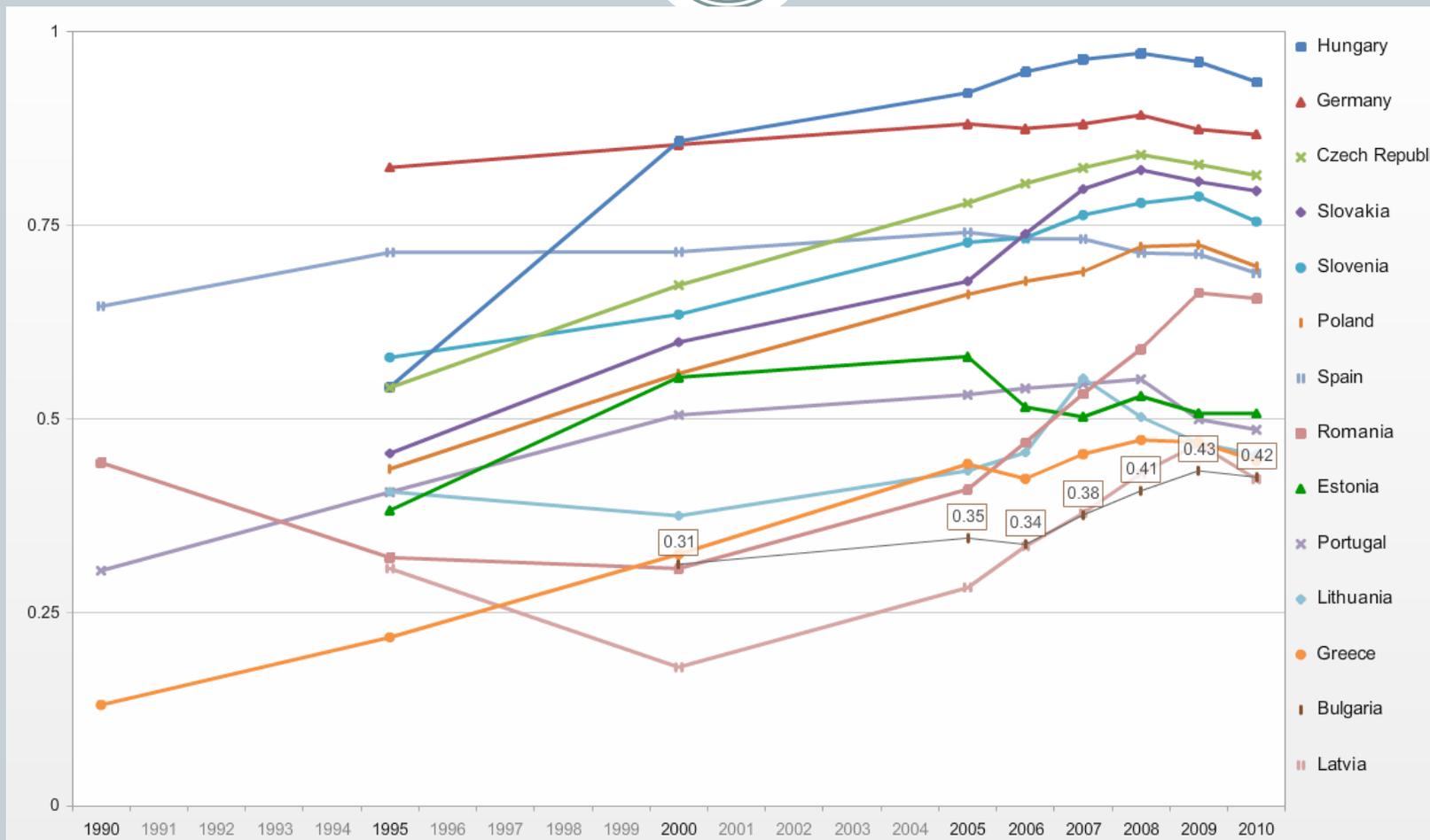
# EU core-periphery integration



- Early awareness of integration problems, but different modes of managing integration in the South and the East
- Southern Europe
  - Arms-length governance: “Setting the incentives right”
  - Structural Funds the main instrument of positive integration
- Eastern Europe
  - Direct intervention in institution building
  - Temporary set-up of supranational governance mechanisms for monitoring and solving the problems of integration

# Pathways from the periphery: East -South

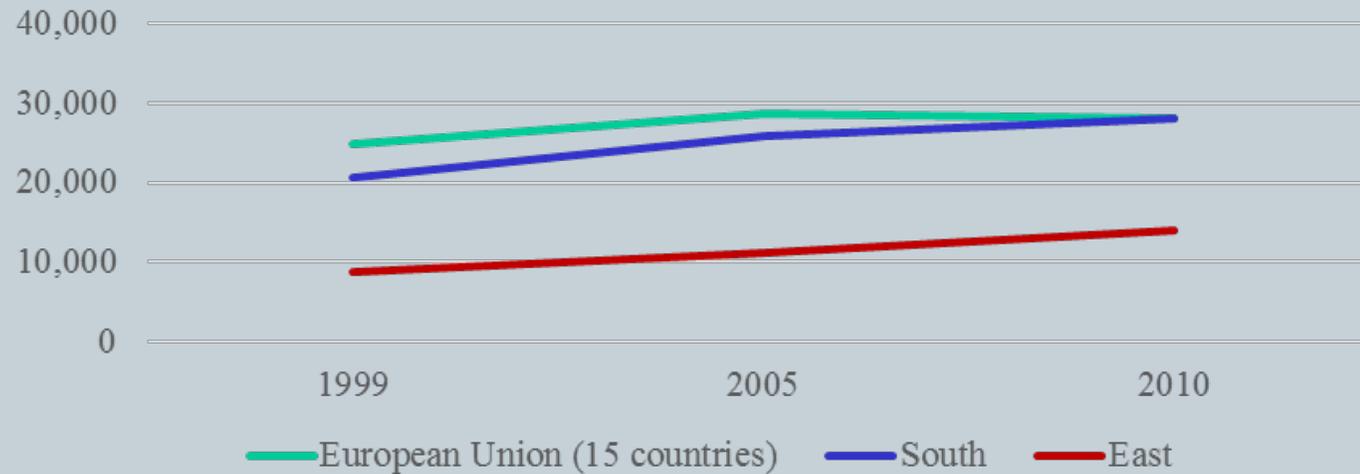
## Share of medium and high-tech in total exports



# Pathways from the periphery: East -South 2



Mean household consumption in PPS (source: Eurostat)



# Developmental dilemmas of the EU peripheries



- None of the peripheries converged with the core
- Differences in the developmental dilemmas
  - South: how to halt increase in the number of losers while increasing competitiveness within the narrow room of EMU rules
  - East: how to extend the range of beneficiaries of integration while increasing competitiveness
  - Within the framework of EU institutional status quo convergence is an uphill battle
  - Ample room for anti-EU and populist framing of developmental problems

# Key governance problem of the EU – uneven institutional development



- **Play by the rules**
  - Increased federalization of rule setting
  - Increased supranational capacity for monitoring and disciplining
  - Dominance of the “horizontal” and “aggregate”
- **Live by the rules**
  - Weak supranational capacity to manage developmental problems, correct the market
  - Ad hoc planning
  - Ad hoc institution-building
- **Limited incentive to care**
  - Federal regulatory state and a primarily confederate polity

# Governance problems of the EU in numbers



- Resources: the 500M large single market is run with  $1/20^{\text{th}}$  of the federal budget of the post-tax revolution US single market
- Institutional capacities: the size of the 'EU super state' is  $1/4^{\text{th}}$  of the size of the US Department of Agriculture
- Spends 0.3% of EU GDP on reducing territorial disparities
- Spends 1-2 % of EU GDP on other market correcting policies

# Conclusions: Mis-management of an incomplete contract

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- Pooling of sovereignty works when it can be said to produce common goods via common rules
- The deeper is integration the more need for complex modes of governance
- EU as a quasi state: weak institutional capacity to anticipate and alleviate negative distributive consequences of integration
- EU as a polity: furthers parochialism in the framework of asymmetry in power among member states

# Towards a European New Deal



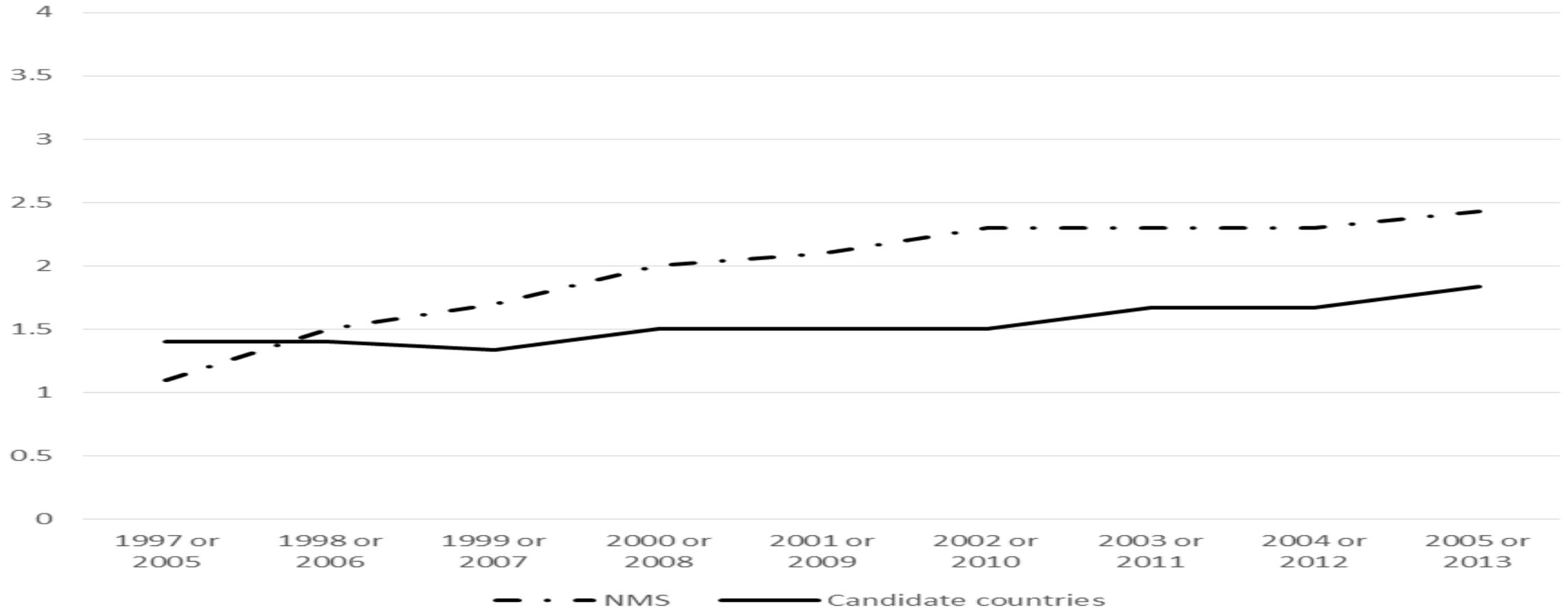
- Governance of the single market: source of disintegrative tendencies
  - Brexit, illiberal nationalism, populism
- Need for a new deal: making the integration a positive sum game
- Institutions that could make the common market a common good
- Federal political arrangements that could accommodate both the interests of the peoples of the member states and the common interests of Europeans



# Examples for EU induced institution building 1



Judiciary Capacity



# Examples for EU induced institution building 2



Bureaucratic capacity

