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The Interpretation of Differentiated Integration in Economics

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Halmai Péter (ed.):
Tagállami integrációs modellek – A gazdasági kormányzás új dimenziói az Európai Unióban
(Member State Integration Models – New Dimensions of Economic Governance in the European Union)
Dialóg Campus Kiadó, Budapest, 2019, p. 277
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The authors of the studies in *Member State Integration Models* analyse European integration models while also considering member state-specific aspects. This is the first time the interpretation of differentiated integration in economics has been presented in the Hungarian literature. The studies offer insights into a research process, and its results, the starting point of which was presented at a 2015 conference (also reported on in this journal; see *Kovács 2016*). The content of this book, however, is markedly different: it primarily focuses on differentiated integration, which was not discussed at the conference, not even as a subtopic.

The thirteen studies cover issues of economic governance, centred mostly on the potential consequences of economic integration, the differing positions of and the differences between the member states, as well as eurosceptic efforts. The ideas formulated are explored by the authors in the light of the EU's differentiated integration and with a view to economic and social developments.

The relationship between a multi-speed Europe and governance structures at various levels is a major topic discussed in the book. In the introduction (pp. 11–14) and the first study (*Bevezetés: tagállami integrációs modellek /Introduction: Member state integration models/*, pp. 15–26), editor *Péter Halmai* discusses the concept of differentiated integration (or multi-speed Europe) as a starting point, describing its role and significance in European integration.

* 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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As Halmai notes, in the multi-speed integration model, a group of member states set and implement shared objectives first, with the assumption that the other member states will later join this closer cooperation. In differentiated integration, however, a specific group of member states is not subject to the same EU rules as the others. This differentiation has short-, medium-, and long-term effects that need to be addressed. The issue of differentiated integration has been long discussed by integration theorists. Since the last two enlargements in 2004 and 2007, particular attention has been paid to this issue. According to the author, in the new millennium, the EU–27 has become too large and too heterogeneous, and now the only way forward is differentiated integration. Differentiation may be a tool for managing the heterogeneities among EU member states by allowing countries with different levels of integration to cooperate, taking their different economic and political characteristics into consideration. With this, it is possible to overcome the stalemate in the integration process, as substantiated by the developments in the euro area crisis, which are discussed in detail in several studies in the book, but differentiated integration may also trigger trends of disintegration and dissolution.

The study by *Tibor Palánkai* (pp. 27–50) explores the relations between integration and cohesion in the EU in detail, covering global inequalities, as well. The further widening of the inequality gap, the "inequality turning", is mostly due to globalisation and current global integration trends. Palánkai underlines that in order for the EU's social and economic system to be sustainable in the long term, the inequalities resulting from globalisation must be addressed. However, the effectiveness of cohesion policies remains uncertain, as the EU has not been able to respond properly to the inequalities that led to the cohesion or solidarity crisis.

In her study, *Többsebességes vagy menüválasztásos jövő? A differenciált integráció elméleti és gyakorlati kérdései az Európai Unióban* (*Multi-speed or à la carte future? Theoretical and practical issues of differentiated integration in the European Union*), *Boglárka Koller* highlights that the Treaty of Lisbon was a milestone in the codification of differentiated integration, as it clearly defined the framework of cooperation and the processes of taking initiatives and of implementation. For the future of the European Union, one crucial question is which types of differentiated integration will be implemented: will integration evolve into a community that is multi-speed yet open to everyone, or into a set of cooperations where individual choices can be made as if from a menu?

In the comprehensive study *Differenciált integráció: gazdasági integrációs modellek* (*Differentiated integration: models of economic integration*, pp. 67–142), *Péter Halmai* points out that differentiated integration is not an alternative to an ever closer integration, but should rather be seen as an additional method besides the main trend, deepening core integration. Halmai poses the question of whether differentiated integration has evolved as an inevitable structural attribute of

European integration and whether this process will lead to a stronger core Europe or fragmentation of the European Union. Differentiated integration is a method that supports the implementation of a pragmatic integration strategy. Its value is most significant in times of crisis. In this regard, differentiated integration has been an effective tool for integration management. With regard to Grexit and Brexit (for details on the latter, see *Halmai 2020b*), this must all be reevaluated, as these latest forms of differentiation clearly constitute a disintegration trend.

The European Union is a system of differentiated integration. This is true for various policy areas both in terms of the levels of centralisation (vertical differentiation) and territorial scope (horizontal differentiation). This is because differentiation is inherent to deepening and expansion. The growth and consolidation of the EU occurred through the expansion of its power, policies and membership. The model of differentiated integration can be interpreted in the interaction between mutual dependence and politicisation. Differentiation between member states (internal differentiation) is a consequence of supranational integration, which results from the conditions of a high level of mutual dependence and politicisation. However, external differentiation (the selective political integration of non-member countries) occurs in highly interdependent yet only marginally politicised policy areas. As a potential solution to the problems, Halmai points to the chance of a comprehensive reform of the Economic and Monetary Union and the creation of a total economic union (*Halmai 2020a; 2021; 2022; 2024*), a prerequisite of which is the review of competencies and, if necessary, further transfer of sovereignty. However, the member states currently take different positions on this issue.

In *Maastrichti kompromisszum: vele, vagy nélküle?* (*Maastricht compromise: with or without it?*, pp. 143–166), *István Benczes* focuses on the introduction of more stringent fiscal rules and the possibilities of a fiscal union. While the need for a reform of economic governance has clearly emerged at various levels, with the specific ideas and proposals presented after 2010, the leaders of Europe have opted for more stringent legal regulation. The author of the study agrees that the current momentum is significant, but is critical to the process of the establishment of the fiscal union. In his summary, Benczes underlines that while going beyond the Maastricht compromise may be a long-term goal, it is not likely to happen in the short term.

The banking union and the fiscal union are also major topics in the book. In his study (pp. 167–182), *László Csaba* analyses in detail to what extent the Fiscal and Banking Union's operational experience and the expected complementary measures will constitute a new phase in the development of European integration. The Fiscal and Banking Union supports faster crisis management, but the financial vulnerability of non-participating member states may pose a risk. The single market and uniform rules must be preserved, even if the open system of cooperation allows for member states to coordinate in varying configurations. However, the creation of a fiscal union implies significant changes, and the implementation of this requires that economic disparities between member states first be reduced. Full integration into the union will be necessary for each member state, in order for the Fiscal and Banking Union to provide real stability.

The study *Külső egyensúlytalanság az euroövezetben. Megoldás-e a többszintű kormányzás?* (*External imbalance in the euro area. Is multi-level governance the solution?*) by *Gábor Kutasi* describes theories of multi-level governance that presuppose the coexistence of a multi-level political community and multi-level (both horizontally and vertically) governance structures. The debt crisis of the euro area exposed the structural problem of the single market. The key point is that the current account imbalances in the euro area are the results of disparities in competitiveness within the area. These disparities stem from the single currency and the heterogeneity of development across the member states, and these issues must also be addressed.

In her study, *Erkölcsi kockázat és szolidaritás a GMU-ban: a görög válság tanulságai* (*Moral risk and solidarity in the Economic and Monetary Union: lessons from the Greek crisis*), *Dóra Győrffy* discusses the moral risks involved in providing bailout packages. On the one hand, bailouts may encourage irresponsible lending among investors, but on the other hand – with a view to the principle of solidarity – if a member state is in trouble, it is in the interest, and it is the responsibility of the whole Union to help that country. This dilemma was clearly acute in the case of Greece, the biggest loser of the European financial crisis. The bailout packages required budgetary constraints that were unprecedented in the past 50 years in the OECD countries. These enormous sacrifices were meant to keep Greece in the euro area. The reasoning for this is described in detail in the study. Through the analysis of the structure of Greece's economy and the composition of debt, the author points out that leaving the euro area would not solve a single problem of the Greek economy, but would result in enormous costs both for the Greek households and for other members of the euro area.

In his study, *A jogharmonizáció integráló erejének gyengülése* (*The weakening integrating power of legislative harmonisation*), *László Kecskés* describes how legislative harmonisation has strengthened integration since the beginning of the legal functioning of the European Communities in 1958 and then analyses its effects on economic and political integration processes in the EU. *Miklós Király's* study, *A nemzetközi magánjog kodifikálásának útjai az Európai Unióban és tagállamaiban* (*Codification of international private law: the paths taken by the European Union and its member states*) explores the unification of law with regard to international private law.

László Várkonyi focuses on the changes in the decision-making and legislative processes in the EU with regard to commercial policy in *Intézményközi harcok az EU kereskedelempolitikai döntéshozatali, jogalkotási folyamataiban* (*Inter-institutional battles in decision-making and legislative processes in the EU's commercial policy*; this author also has another study in the book: *Lisszaboni Szerződés: EU-s és tagállami beruházási hatáskörök /The Treaty of Lisbon: EU and member state investment competencies*/). In the period after the European Economic Community was established and before the Lisbon Treaty came into force, the common commercial policy was mostly shaped by the dialogue of two entities: the European Commission and the Council, which consists of the representatives of the member states. The stakeholders discussed the exact definition of the subject of commercial policy and the areas where member states can enact national legislation and engage in international negotiations. It was also discussed to what extent they can directly and actively take part in bilateral or multilateral negotiations and become parties to international treaties. However, the Treaty of Lisbon brought about major changes in the previous practice of commercial policy. As the competencies of the EU changed, tensions between the Commission and the Council increased, and the European Parliament took on a major role, which put the cooperation on a new footing. However, a balance has still not been reached.

In his study, *Többsebességes Európa – magyar érdekek a GMU mélyítése során* (*Multi-speed Europe – Hungarian interests in the deepening of the EMU*), *Géza Hetényi* points out that the most palpable manifestation of multi-speed European integration is EMU. While every EU member state is a member of EMU, the single currency, the euro, is used by 19 member states[1], and the remaining 8 must strive to introduce it[2]. The development of EMU to date and the direction of further deepening reveal a widening gap between the countries within and outside of the euro area, resulting in two-speed integration. Member states on the periphery cannot exploit cooperation opportunities, which may restrict them from pursuing their interests, especially if the number of such countries is to decrease further. Consequently, the ever-widening gap will pose an increasing challenge to the introduction of the euro.

The main conclusion of the book is that the future development of the EU is fundamentally affected by the management of the economic and political inequalities among the member states and by deepening integration. Differentiated integration and the use of various governance models may support the proper management of challenges in the future and contribute to the stability of the EU.

[1] The euro is currently used by 20 EU member states.
[2] Currently, only 7 states must strive to introduce the euro.

The work's strengths include that the authors, when formulating their responses, apply a complex economic approach, incorporating not only theoretical but also practical considerations. This is especially clear in the analysis of the various forms of differentiated integration and their effects on the EU.

Overall, *Member State Integration Models* offers in-depth, high-quality analyses and well-founded conclusions about the economic and political integration of the EU.

It is mostly recommended for economists, political scientists and lawyers seeking a deeper, expert-level, scientific understanding of the EU's integration processes. The book is also suitable for wider audiences interested in issues related to the EU's future and the development of economic governance.

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