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European Integration between Equity, Efficiency and Welfare

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Abstract: Throughout this article I tried to highlight the path for improving the Europeans standards of living. Poverty, inequality and efficiency are the key concepts of the welfare economic. Similar to many other articles about equity, efficiency and welfare, this article offers an account of the challenges facing the European Union welfare in a context of global economy assessing the ability of different components of the welfare governance to respond to these challenges. The welfare of European Union is analyzed under the multidimensional aspects of integration, such as: internal versus external integration and multilevel integration. Aging, changes in the labor market, increased mobility are particular aspects that characterize EU and under the fundamental reform of Europe 2020 Strategy, welfare economic becomes a priority even if the political integration comes first to the economic one. As Europe grows more diverse, the welfare economic translates from desire to necessity.

Keywords: enlargement; internal convergence; multilevel governance; Europa 2020 Strategy.

JEL Classification: I38; R13; R58.

1 Introduction

European integration is a very long and complex process that is interested to be analysed in terms of the effects on regional development and standard of living.

European integration process proves to be a permanent game between **economics** and **politics**. The challenges produced by European enlargement over time, demonstrate that cohesion policy is an important tool of EU in creating equilibrium between the *internal convergence* and the *multidimensional cohesion*.

On European integration path, the economic motivation turned to be *adjacent* to the political one so that the rethinking of cohesion policy was carried out with aim of achieving and maintaining **political unity** of Member States.

This article tries to argue the role of cohesion policy in designing the future of European Union.

2 Theoretical Approach of the European Union integration

European Union is a dynamic process that occurs in three sequential phases, which stimulate and influence each other: *enlargement* which consist in the increasing of Member States, *deepening* which refers to economic liberalization, common policies and rules for Member States and *widening*, in terms of the scope of policy areas and freedoms (of movement).

The enlargement permanently redefines the map of EU and economic, social and territorial cohesion become a moving target of EU integration. Since these three phases are not simultaneous, the effects are delayed and are felt with different degrees of intensity.

At the same time, the globalization that is internationalization of business and finances, together with the intense interconnection of Member States, generated by the Single Market achievement, as a proof

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of deepening integration, make the economic welfare of citizens of a Member State to be *strongly dependent* on the economic prosperity of other states. In this context, the European integration seems to be a more complex process. Not only the *internal integration* generated by the enlargement, is affecting the cohesion of Europe, but also external integration which is materialized by WTO agreements, IMF and World Bank policies.

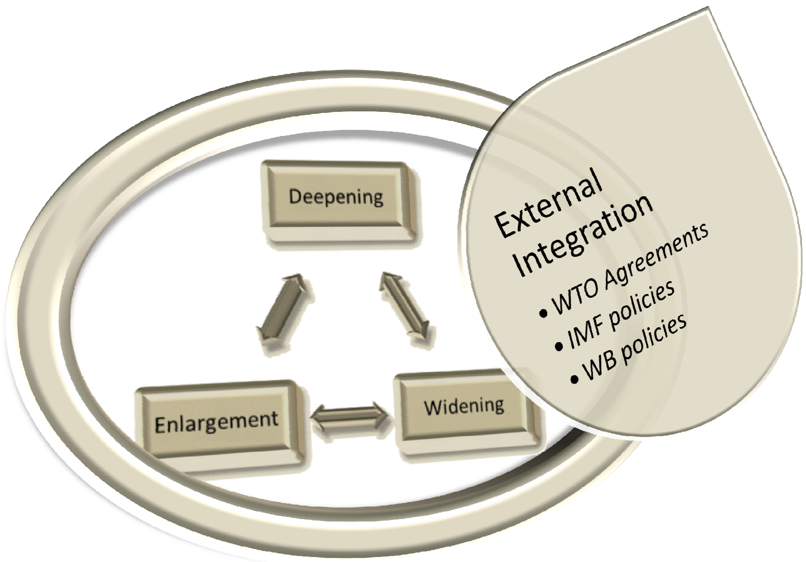

Figure 1 EU integration process

Source: personal contribution

The regional effects of different European policies caused by deepening and widening of EU, are strongly influenced and spread out by globalization. Thus the existence of a low develop region does not represent an *isolate problem* and does not concern only one member state.

Moreover, the labor mobility from the less develop regions towards the most competitive regions, more attractive in terms of economic and social conditions, represents an important factor of disequilibrium. Hence the rich countries should be equally interested in a harmonious development across the Union. But, the economic downturn that strongly hit Europe, rearranged the economic map of EU and the ratio of forces between rich and poor states.

The vulnerability of EU integration arises from different types in which the integration manifests itself.

The **multilevel integration** is caused by the differences between Member States in terms of the *caching-up rhythm* and also, by the *political options* of Member States to join or not the various integration projects.

In other words EU hard core is formed by those states that are "fully integrated": Austria, Belgium, Estonia, Finland, France, Germany, Greece, Holland, Italy, Latvia, Luxembourg, Malta, Portugal, Slovakia, Slovenia and Spain. The second level of integration is represented by those countries that choose to join the European Monetary Union: the previous states together with Cyprus and Ireland. The third level of integration is formed by all EU member states, including those states that has not yet meet the Maastricht Criteria in order to join EMU (Bulgaria, Lithuania, Poland, Czech Republic, Romania and Hungary) and those states who refused by referendum to be a part of Eurozone (Denmark, Sweden and United Kingdom). And the last level of integration is embraced by states from Europe which joined only the economic projects of European integration and not the political ones: Island, Liechtenstein and Norway.

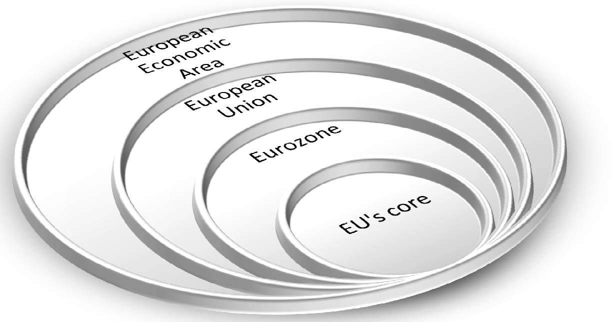

Figure 2 Europe of concentric cycles

Source: personal contribution

I already mentioned the complexity of the European integration process, so in line with this idea, the Euler Diagram reflects the other cooperation projects that reveal the deepening and widening of EU integration and also the economic prospects of EU. As it may be noticed there is a mix between political and economic decisions in designing the map of integration. A part from the concentric cycles of Europe, that are presented in the figure above, in the Euler Diagram of EU integration, other important projects of integration are described: Schengen Area, European Free Trade Association – EFTA (Iceland, Liechtenstein, Norway and Switzerland), EU Customs Union (EU-27 and Turkey, Moldavia, Monaco and San Marino) and those countries that have Agreements with EU in minting Euros (Monaco, San Marino and Vatican) and the last but not the least important, the Council of Europe (47 Member States).

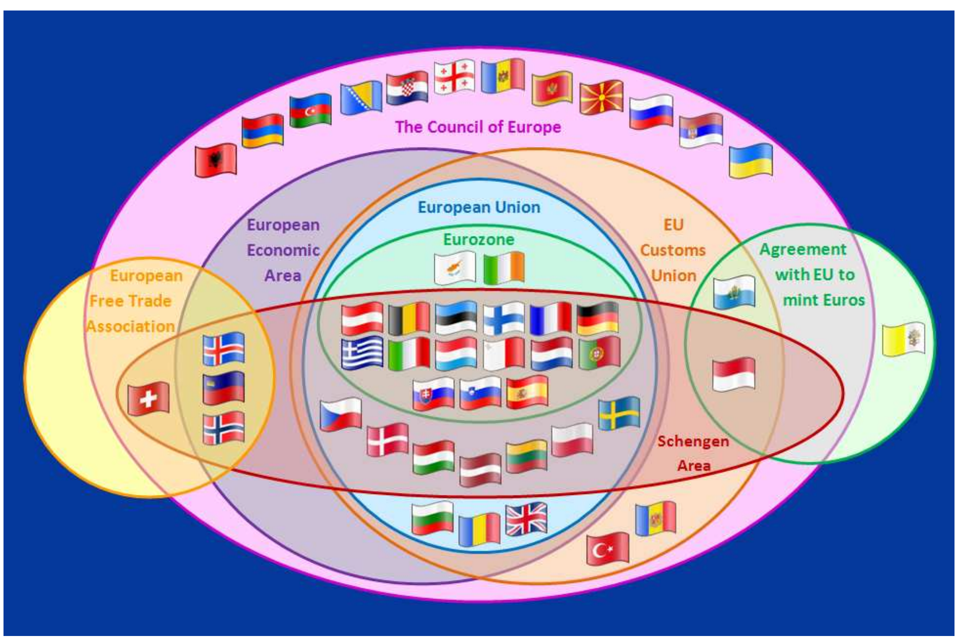

Figure 3 Euler Diagram of EU integration

Source: http://upload.wikimedia.org/wikipedia/commons/8/84/Supranational_European_Bodies.png

3. Equity in Terms of EU Integration Process

Equity is the fundamental principle of economic and social cohesion policy. Equity in European integration means that European citizens should not be disadvantaged wherever they live in EU. This idea is underlined by Boldrini and Canova (2001) which state that "*structural and cohesion policies mainly serve the purpose of redistribution of funds because of the equity criterion, on which the Union is built*". Equity is equivalent to reducing disparities of living standards and represents the key objective of most urban and regional development policies of the Member States. In broader terms, spatial equity is not only to equalize living standards, to achieve socio-economic balance, but also means the opportunity for different groups of individuals to develop harmoniously. Equity has a philosophical foundation that includes moral and ethical dilemmas.

The EU as a prototype of supranational organizations provides a vast framework of supranational rules and emphasizes the goal of promoting "system equity" (Green 1999; Drezner 2001; Knill 2005; Schlicht-Schmalzle & Moller 2011).

The idea of equity in European integration process is discussed in the specialised literature in connection with the idea of efficiency. But, there is a conflicting relationship between these two terms: "*national efficiency aims at an efficient allocation of regional resources in order to maximize the net national benefits, while interregional equity refers to fair teritorial distribution of revenue, labour factor, infrastructure, etc*" (Bachtler, 2000). More recently, **efficiency** is defined as being equivalent with avoiding waste and **equity** is view in relation with "*fairness and justice and is not about equitable distribution of resources*" (Oxley, 2004).

"*The effectiveness of integration policy has become a central political concern in European societies.*" (Schlicht-Schmalzle & Moller, 2011) Initially cohesion policy was established for creating equilibrium among the development level of EU regions. Today the role of cohesion policy is changing towards boosting competitiveness and intelligent economic growth. This change is occurring in the context of the new pattern of European multilevel governance in a globalized world.

4. Welfare Economics into EU

In order to increase the living standards of its citizens EU needs to focus on ***welfare economic***, which consists in a correct use of resources with the aim of maximizing the wellbeing of the entire EU society, rather than the interest of its individuals. Thus wellbeing of EU may be different from the sum of the wellbeing of each 27 Member States. Therefore, the interest of the Union is prior to interest of those countries that compose the Union. But, in reality this technical approach is very difficult to be implemented since the *political integration* comes first to *economic integration*. Also, the current financial crisis generated a strong reallocation of funds and the budget of each Member State for cohesion policy became more and more reduced. "*Strategic reflections on the future role of cohesion policy include its relationship with other EU policies and with domestic policies.*" (Polverari & Michie, 2011) Fieldwork research highlighted the two sides of Cohesion Policy: *external coherence*, reflected by the interrelationships between Cohesion Policy, domestic policy frameworks and institutional frameworks and, *internal coherence* which refers to Cohesion Policy's regulatory framework that may hinder the policy's effectiveness in achieving its goals.

So, if the European goal is to increase competitiveness, in this globalized world, the quality of products is essential. European Union has to be more oriented towards modern technology in order to be able to speech the languages of international business. Mobilization of resources by pushing more of the population to work, upgrading the educational standards or investing in physical technology, is strongly required in order to produce the range of products demanded by international market. This is the reason of the new pattern of cohesion policy for 2014-2020 programming period, which is in accordance with Europe 2020 Strategy.

The *uniqueness* of European integration arises from its role of *political community*. In many aspects of life, the community law not only that is superior to national law, but may produce direct effects on

European citizens, giving them the right to contest the legislative measure from their national law when their rights conferred by the European law are violated. The role of EU citizens also increased by the Lisbon Treaty that authorizes popular initiatives starting with April 2012. In this context, if the individuals are more informed and involved in the society problems they may be more active in public debates and their voice may be heard even at Community level.

As it can be noticed there is an important distinction between ideological and technical discussion of European economic welfare, even if the final expected result is the same: maximizing the welfare of Union. In a globalized economy there is a debate between *individual decision-making* as organized groups versus *collective decision making* as citizens of a Member State.

This multilevel governance puts the state activity in an odd position. The state activity should not ignore individual choice or reject the preferences of individuals, but at the same time, due to some given circumstances imposed by *external integration*, market processes are not able to produce outcomes which do fully respect individual choices.

Another argument is that the EU lacks two important features of federalization. First, is that the Member States represents the authors of the Treaties, with the exclusive right of amending or modifying them, in accordance with their policy view. Hence, *political decision* will guide further integration. Second, there is no single system of taxation; basically there is no European fiscal policy. This could be the cause to important turbulence on EU market, because of the increased mobility of citizens and the Single Market mechanism.

5 Conclusions

Obviously, as welfare economics becomes more important the *coordination* between different European policies is needed together with *discipline* in implementing the communitarian decisions.

In designing the economic prospects of the EU, an *elaborate development plan* is needed. A mix between having money, natural resources or receiving foreign aid (investments) in order to build a dynamic full-employment economy, by stimulating European business environment, promoting SMEs' activity and bringing into life highly informed and educated people.

There are a series of obstacles that governments have to remove in order to accomplish these goals. Even if nepotism, favoritism and covered corruption are well-known as belonging to the Eastern and Central European Members, due to full interconnected economy and free movement of people, a communitarian campaign against these bad practices is requested.

Although the patchwork of nations is very various, the desire of EU citizens is the same: to maintain and improve their economic welfare in the face of rapid technological changes and the expansion of global economic markets for capital, labor, goods and services.

Openness is a necessity but not a sufficient condition for economic growth and prosperity. The "fertile soil" is as well very important: infrastructure development, human resources (highly informed and educated people), internal legislative framework, and juridical system. A valid proof is related with EU Member States evolution. Accordingly with Eurostat Yearbook 2011, some convergence in living standards took place between EU Member States during 1999 and 2009. Baltic countries suffered a significant setback in relation to economic downturn. Even if the New Member States (2004/2007) remained below the EU average, together with Portugal and Greece, all except Malta moved closer to EU-27 average. Luxembourg, Spain and Ireland moved further ahead of EU-27 average, while Portugal moved further behind.

The pattern of real GDP growth has varied significantly across EU in the last ten years. Between 2000 and 2009, the average annual growth rates of EU-27 were 1.5%. The Baltic countries averaged were 4.8% real growth per annum despite double digit decreases in 2009. Bulgaria, Slovakia (4.7%) and Romania (4.6%) recorded annual average growth around three times the EU-27 average, while Ireland, Greece and Luxembourg, the New Member States, with the exception of Hungary and Malta, grew by an average between 3% and 4% per annum during the period 2000 to 2009. At the opposite pole were Italy, Germany, Portugal and Denmark which grew of less that 1% per annum.

The economic excellence is not related to the size of the state or of being involved into an integration project. Switzerland, New Zeeland and Singapore are some examples. But, their individual success does not confer them the possibility to express their view on international stage, and their evolution is also strongly influenced by international forces. So, in a globalized economy it is important to have something to say, to be involved in decision making process.

In order to avoid a permanent stagnation or worse a never ending depression EU Member States have to be more oriented on efficiency and development rather than equity and assistance to the poor. The Europe 2020 Strategy seems to be designed in this purpose.

In my opinion the key to success consists in encouraging macroeconomic stability by avoiding high levels of inflation and budget deficits, together with discouraging social welfare schemes.

Each Member State should promote high levels of savings and capital investments rather than high consumption spending. Also, it is important to be opened to global technology and to promote better education and training. In Romania, for example, the illiteracy rate increased in the last decade and the on the other side the underemployment is endemic. Romania is also confronted with a huge brain drain and labor factor.

My own view is that if we want to develop the business environment and to prevent the external draining of valuable human resources we have to impose law and order, to create top standards in security, health, education and transportation. For encouraging domestic industry we need to attract investors so, it is necessary to cut the taxes on business and investment. Moreover, a lower level of government spending would release resources for society, for capital formation and growth.

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