

A pair of silver scissors is shown cutting through the fabric of two flags. On the left is the Union Jack (United Kingdom flag), and on the right is the European Union flag (blue with yellow stars). The scissors are positioned horizontally, with the blades meeting at the center where the two flags are being cut. The background is a dark, textured blue.

Marek Loužek and Luboš Smrčka

THE EUROPEAN INTEGRATION CRISIS

An Economic Analysis

The European Integration Crisis

The European Integration Crisis:

An Economic Analysis

By

Marek Loužek and Luboš Smrčka

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In Prague, July 23, 2020

INTRODUCTION

Since the initiation of European integration in the early 1950s a number of integration and international relations theories have been developed and applied to these processes. European integration has been examined from various perspectives: institutional, historical, economic, political, etc. Although all of them are useful, hitherto there has not been an analytic approach that linked them. Our objective is to demonstrate that public choice theory can be a suitable analytical tool to examine the European integration process.

Public choice theory is based on the assumption that consumers, politicians and even nations are similarly concerned with their own interests (economic, political, and so on). Public choice theory enables us to ‘de-idealize’ the European integration process and see the interests of individual actors in the process more realistically. European integration does not occur because the actors are altruistic; rather, it comes about due to their rational pursuit of individual or group self-interests.

Political science (with other social sciences) has developed many different approaches in its efforts to examine European integration. In general most integration theoreticians have viewed integration as beneficial, whether or not their design was implicit. European integration has been perceived as a process that builds peace, security and economic prosperity. Our monograph, which draws on public choice theory, takes issue with this simplified view.

European integration is not a priori positive or negative: it results from the interaction between various interests. During the past few years, however, it has been impossible to ignore increasingly strident claims that the European Union is in the midst of a crisis. According to this perspective, European institutions do not function well, democracy in the Union is flawed, eurozone problems have reached a critical point (despite the varying visibility of these problems) and inward migration, which European institutions seem incapable of handling, is escalating.

While opinions on these phenomena may be subjective, there are nonetheless wholly objective signs of a deepening crisis that cannot be overlooked. General trust in the European Union is at a low – in fact, at

historic lows in many countries. In 2016, the citizens of Great Britain voted in a referendum to leave the European Union, and in many member states political movements appear to be growing whose platforms include either leaving the Union or fundamentally reforming the Union to such an extent that its political framework would be negated.

Public choice theory has been applied to the European integration process in the fields of economics and political science. Economists have found that the EU does not exist in ‘the public interest’ because of the multitude of specific countries’ interests and objectives. Political scientists have particularly focused on voting procedures within European institutions. This study questions the constructivist approach to European integration, which is governed by normative considerations rather than objective interests.

Our book was influenced by hectic events that we were keen to highlight in a comprehensive way – those included, but were not limited to, Brexit. The aim of the book is to present the issue of European integration in a more comprehensive way than through the sole description of one topic, no matter how serious this topic is and how essential it is for tens of millions of people on the continent as well as in the British Isles. We have striven for maximum objectivity on the topic of integration (despite our reservations when considering the current EU’s methods of integration as optimal).

The first chapter discusses traditional theories of international relations and the alternative rational choice approach towards them. The traditional perspective is discussed, modern idealism and realism are outlined as well as the debate about the end of history. The chapter argues that rational choice is a better analytical tool for examining international relations than others. Public choice theory is proposed as a new approach.

In the second chapter we summarize the history of European integration that led to the creation of the European Union. We analyse the roots of the European idea, and we describe the creation of the Six, progress towards the Treaty of Rome, the formation of the European Communities and the British hesitation over becoming a member of the European Community. We also analyse the Single European Act, the Maastricht Pillars, and the developments at the turn of the millennium, including the Treaty of Amsterdam and the Treaty of Nice. The European Constitution and the Lisbon Treaty are analysed, including an evaluation of the rhetoric of integration.

The third chapter attempts a critical review of processes by which the European Union has been enlarged. We also try to define the stages of enlargement. First, we define the notion and procedure of becoming an EU member. Then we briefly outline the Western, Southern and Northern enlargements of the EC as well as the Eastern enlargement of the EU between 2004 and 2007. We analyse Brexit, the United Kingdom's referendum on its continued membership of the European Union, and the decision of the UK to exit the Union including negotiations about the form and organisation of the exit within the time framework available. We mention asymmetry between old and new members as well as institutional problems of the European Union. We also pay considerable attention to the possibility of further exits from the EU, for instance in Italy or countries of the Eastern enlargement.

Chapter four focuses on the economics of European integration. First, we look into approaches towards European integration, then introduce Moravcsik's 'rationalist' model of interstate bargaining. The deepening of European integration and the process of EU enlargement are further examined. We formulate the model of benefits of EU enlargement for politicians and citizens and we dwell upon the influence of interest groups. We decided to devote considerable attention to the notion of national interest and the relationship between national interest and integration.

Chapter five discusses the economic theory of globalization. We describe in detail the relation between globalisation and (European) integration since we do not consider those elements to be related or something from which we can draw parallels but rather as phenomena that might quite often, but not always, be contradictory. We also explain the paradox of globalisation - whereby globalisation may lead to a political response rejecting globalisation. We also focus on the technological and technical context of globalisation.

Chapter six uses quantitative methods for examining European integration. Based on the number of votes in European institutions, it calculates indicators of voting power for individual countries depending on individual options of EU enlargement. The findings show that current EU members do not have to 'lose' in case of EU enlargement with regard to the possibility of their influencing (or blocking) decisions inside the EU. Coalition indicators in the case of enlargement of the European Parliament or European Council will decrease, but they will, however, not drop as dramatically as relative power.

Chapter seven analyses the crisis of the eurozone. It explains why the eurozone is not an optimal currency zone. It discusses the economic development of the eurozone and points to the fact that the Euro intensifies economic cycles. It considers the economic development of the Northern and Southern areas within the eurozone, and reveals internal tensions inside it. It asks whether the Euro is a suitable currency for the countries of Central and Eastern Europe. Most emphasis is put on the debt crisis in the eurozone; we see the crisis as unavoidable and most probably cyclical in nature.

Chapter eight focuses on the migration crisis. We do not believe this crisis is constituted solely by migration from less developed countries outside the EU to the more developed EU states, but that it also reflects an internal east-west migration. The chapter also analyses migration from within the context of public debate, and we reflect upon the loyalty of new EU citizens towards the fundamental values of the defining EU political systems, i.e. liberal democracy and the constitution. We ask the question whether migration might be a cure for an ageing population or whether it would merely postpone problems. We also mention strengths and, in our opinion, the prevailing weaknesses of multiculturalism, and highlight the issue of democratic legitimacy. We analyse EU responses regarding the solving of the migration crisis, and ask whether a rational immigration policy exists.

This study confirms that public choice theory can be used to examine European integration and political phenomena in general. Although the field of economics has had a head start in the development of its analytical tools in comparison with other social sciences (e.g. political science or sociology), economists should not by any means ignore the important findings of political science. Only a sensitive and balanced linkage between these two areas will enable us more clearly to scrutinise contemporary European processes and foster a tradition of further research.

CHAPTER 1

INTERNATIONAL POLITICS THEORY

Thematically European integration can be discussed within various disciplines: economics, history, political science or international relations. In addition, various subfields of international relations, such as foreign policy analysis and research into the nature of international organizations, have been successfully introduced. International political economy constitutes yet another recognized field – see Pearson (1999), Watson (2005), Cohen (2008), Sobel (2013), Nolt (2014) or Oatley (2015).

The foundation of modern international relations is the Westphalian world order, which is based on a system of independent nation states associated through mutual interventions into domestic affairs (Kissinger, 2014). The system is balanced because none of the political entities has sufficient power to dominate the others, thus no special claim to truth prevails nor does any central world government develop.

The Westphalian system has functioned as a framework for international relations for the past four hundred years. Although the world encompasses many civilizations and regions, all of them recognize the fundamental principle of state sovereignty. The European Union, with its concept of shared sovereignty, attempts partially to restrict nation states, while paradoxically trying to create a new state. European nations have allowed their military prowess to decline and do not have the capability to respond should a violation of universal norms occur (Kissinger, 2014).

In this study, we rely on public choice theory as an analytical tool to examine European integration. First, however, we shall make a brief excursion into the theory of international relations. Our objective is not to drily describe different theories, but to set out an elementary review of them because public choice theory, the advantages of which we seek to demonstrate, is not included as part of international relations theory in standard textbooks.

The chapter is structured as follows: first, we begin with traditional and modern idealism and compare these two theories with realism, neorealism

and geopolitics. Next, we analyse the conflict between Fukuyama and Huntington over the end of history. We outline the basis of rational choice theory in international relations and its particular variation, public choice theory, which has already been applied to international organizations. We analyse the role of national interests.

1.1. Idealism

International relations began as an interdisciplinary field, not as an independent scientific discipline, and has basically remained so to this day. Although the field has been enhanced from various geographical regions, the main contributions have come primarily from Great Britain and the USA. In the discipline's earliest years, idealism assumed the dominant role, which corresponded to the atmosphere after World War I (Eichler, 2017).

1.1.1. Traditional idealism

Traditional idealism was influenced by the politics of US president Woodrow Wilson. Wilson connected hope for victory in World War I with a vision of qualitative changes in the global political system. According to Wilson, the old system expressed itself through selfish rivalry between autocratic cliques, clandestine manoeuvring, cynical bargaining, inconsideration for the defenceless and assertion of tyrants' interests (Krejčí, 2014).

The underlying characteristic of traditional theories of idealism is the conviction that perpetual peace and cooperation in international relations are possible and that institutions are of key importance to the development of such cooperation. Idealists cast doubt on the state's role as the exclusive actor in international relations and relativise the unambiguous separation of domestic and foreign policy. The state cannot be viewed as an entity with a clearly defined interest, but rather as a conglomerate of motives.

Political security does not have to serve as the decisive element in the evolution of international relations. Idealist schools of thought stress the role of business, and legal, ethical, cultural and technological aspects, which are no less important to international relations than the pure pursuit of nation states' own interests. According to idealists, the emphasis on egoistic self-interest may lead to conflicts and therefore they call for various normative restrictions on nation states (Drulák, 2003).

One of the most influential idealists prior to World War I was Norman Angell (awarded the Nobel Peace Prize in 1933), whose work *The Great*

Illusion (1910) was published on the eve of the war and reprinted many times. Angell elaborated the concept of mutual dependence. An offensive war is irrational because it is more advantageous to profit from the resources of other nation states through international trade and investments than through military occupation.

According to the idealists' view, war makes no sense and cannot serve as a rational tool in national politics. World War I came about because the then world leaders increasingly involved themselves in processes that were beyond their control. The cause of the war rested in misunderstandings between political leaders and insufficient application of democratic responsibility within nation states. The tension that lay at the foundation of the entire conflict could only be eliminated through the dissemination of the principles of state sovereignty and democracy.

A distinctive feature of the idealist approach is its faith in progress (Angell, 1910). The idealists believed the system of international relations could be transformed "into a more peaceful and just world order under the impact of the awakening of democracy, the growth of the 'international mind'" (Bull, 1972), post-war development and the good works of people striving for peace. The task of scientists studying international relations was to help spread progress and overcome ignorance, prejudice and hostility.

These formulas for a peaceful world order and international disarmament were popular but relatively vague. Their implementation was entrusted to the League of Nations, which was to replace the much disparaged power confrontations associated with legal conflict resolution mechanisms. Although most of the world's countries were members of the League of Nations and any form of disruption of peace was formally prohibited, no country was capable or willing to enforce adherence to the given treaties (Kissinger, 2014).

1.1.2. Modern idealism

With some simplification, the theory of functionalism can be included in the genre of modern idealism. David Mitrany (1943) accentuated some arguments of traditional idealism such as mutual dependence, the beneficial influence of international institutions and questioning of the nation state's exclusive role in international relations. He also brought into question the viability of the market economy and supported economic planning.

Mitrany believed that international issues should remain the domain of experts, who are capable of determining the best solutions using objective analyses. Specialized international institutions would be established with membership and content to be based solely on technical considerations rather than political factors. These expert institutions would be coordinated by higher institutions of the same type, and there would also be a network protecting the international system from rivalry, irrationality and military conflicts.

The idea that a tight network of nation states that would completely prevent war could develop behind politicians' backs is simultaneously technocratic and idealistic. Faith in the notion that domestic or foreign policy issues can be resolved neutrally, free of values, is flawed because it fails to understand the essence of politics. Politics, at least on a national or international level, is a constant clash between interests, visions and ideas that are normative and value-based as a rule.

The functionalist vision that the world of politics, with its hunger for power and self-interest, can be separated from the world of experts, held to be capable of fulfilling human needs based on rational consideration of alternatives, is utopian (Kratochvíl, 2008). As soon as apolitical experts assume decision-making power in international institutions, they become (whether they like it or not) politicized.

As the 'behaviourist revolution' began to permeate international relations in the late 1950s and to enhance scientific, mathematically-based methods, traditional functionalist texts seemed more like visionary essays reminiscent of earlier Kantian projects of perpetual peace rather than strictly scientific work. Mitrany did not precisely state whether his work was to be interpreted as a forecast or as a recommendation.

It is notable that functionalism became one of the main directions of theoretical reflection upon international integration and a guide for strategies that emphasize the apolitical, practical character of European integration. The idea that economic, social or political problems are of this nature in the modern world, that they cannot be addressed on a national level, has become the foundation of European integration efforts.

At the end of the 1950s, neofunctionalism emerged. The theory's proponent, Ernst Haas (1958), discovered the spillover effect. Spillover takes place when political leaders conclude that integration should be advanced into

new areas. Spillover effects occurred when economic integration in the EC/EU shifted to political, foreign-policy and security integration.

Haas's idea, however, that affected countries would balance disadvantageous integration in one area by advocating for integration steps that offer them more advantages in other areas, is just one option. Alternatively, disadvantaged nation states may simply reject integration in a given area (Kratochvíl, 2008). Neofunctionalism was eventually abandoned because it was incapable of recognizing the role of nation states as the fundamental actors in international relations.

The successor to neofunctionalism is transnationalism, which states that the nation state is no longer the actor that it used to be. The national state was disrupted by four factors: economic conflicts, the boom in international communications and permeability of national borders, development of aerial warfare, and nuclear weapons. According to transnationalists, it is unlikely that the state will maintain its role as the dominant unit in the international community in the future.

Although there was already a bias towards international integration in the 1950s, it was transnationalists who first began to claim that state sovereignty was gradually falling apart. The prevailing concept was that nation states must join with other similar economies to ensure further economic growth. Today, companies create multinational corporations that gradually grow beyond the sphere of national governmental influence.

From the transnationalists it is just one small step to 'globalization' theorists who claim that in addition to states there are other actors in international politics – multinational corporations and revolutionary groups – and that therefore states must join together if they are to face global challenges. This purely political concept, which definitely carries a technical bias, has also been used as an argument by proponents of European integration (Gavin, 2001).

1.2. Realism

The approach that runs counter to idealism is realism, which emerged in the 20th century in several forms: first as classical realism and later, after World War II, as neorealism. Particularly in the USA, realism was the most influential approach to international relations studies during the entire latter half of the 20th century (Eichler, 2017).

1.2.1. Classical realism

In 1939 the British historian E. H. Carr introduced a new way of thinking about the field. His book *The Twenty Years' Crisis* (Carr, 1946) was a critique of the way in which idealist opinions dominated the field of international relations. According to Carr, the science of international politics was, similar to related scientific fields, clearly and unreservedly utopian. The first visionary projects were replaced by logical considerations, marking the end of the utopian period of the scientific field (Carr, 1946: pp.8-9).

Realists interpret international relations as they really are, not as they should be. The central question for realists is the issue of power (Drušák, 2003). Power has a number of dimensions but typically the decisive factor is the level of material resources or military prowess. Hostility or rivalry is prevalent between actors in international politics. Perpetual cooperation or peace is not possible. The most important entities in international relations are states, which must be regarded as rational actors.

With the onset of realism, international relations lost its normative character. Carr introduced Machiavelli as “the first important political realist”. Carr held that realism rests on three pillars: 1. history is a coherent sequence of cause and effect that can be understood through intellectual effort; 2. practice does not follow theory, rather theory follows from practice; 3. “politics is not a function of ethics, but ethics is a function of politics”. Morality is the product of power (Carr, 1946: pp.63–64).

Carr criticized idealists for their utopianism, which serves to create a new world, while realism theory reflects established practice. Utopianism is favoured by intellectuals who believe in absolute principles that must not be compromised. Realism, on the contrary, recognizes the role of compromise, proceeds on the basis of precedents, experience and intuition. While utopianism believes in universal ethical principles, realism admits the existence of the rule ‘might makes right’.

Henry Kissinger’s mentor Hans Morgenthau popularized the realistic approach in his book *Politics Among Nations* (Morgenthau, [1948] 1973). According to Morgenthau, whom many regarded as the force justifying the USA’s power politics after World War II, there are two ways to regard politics: idealistically and realistically.

He claimed that idealism enables the creation of a rational and moral world order from a universally valid set of moral principles. This opinion, which

assumes that humans are inherently good, attributes any inability to live in peace to shortcomings in the arrangement of the international community. Realism holds that political affairs are the result of power elements that are essentially intrinsically present within the human character. To understand international relations, we must work in accordance with these power elements and not against them.

Morgenthau summarized the realist approach (1973: pp.4–16) in several points: 1. “politics is governed by objective laws with roots in human nature”, 2. the concept of interest must be defined in terms of power (with little concern for motives or ideological preferences), 3. the nature and essence of power are not static but rather change according to the environment, 4. universal moral principles cannot be applied to politics; a state’s key interest is survival of the nation, 5. states formulate their political actions through morality only in the form that suits them, and 6. the political sphere is autonomous.

According to Morgenthau, “there is no escape from the evil of power. Politics is the ethics of doing evil”. According to realists, states are the primary, if not the only, actors in global politics. The global political system operates through confrontation between the power and ambitions of individual states. The framework of state relationships that naturally occurs in history is a power balance that forces politicians to consider war as a marginal solution (Krejčí, 2014).

War breaks out when peace is no longer advantageous or sustainable for the main actors. Contrarily, peace emerges when war brings such palpable losses and damage and takes so many lives that no one wants to continue fighting; everyone wants to end the war and return to a state of peace (Eichler, 2017). Wars are exceptionally destructive but it can be expected that they will continue to break out relatively often in the future as well.

Wars occur in given cycles (Modelski, 1987). Global political affairs develop in phases which are dominated by a central agent or hegemon. After several decades, sustaining the world order becomes increasingly costly, until it finally exceeds the hegemon’s capacity. Simultaneously the influence of revisionist countries grows, as they require a new order and finally assert their interests through war, becoming the hegemony of a new world order.

According to realists, opting for war as a way of achieving political aims is the result of rational decisions by the highest political actors of specific nations. The onset of war is grounded in a conscious and justified decision

by both parties that is based on a calculation which confirms that war is a more suitable tool to achieve given objectives than peace. Realists do not see peace as a permanent state but rather as a temporary condition (Eichler, 2017).

The robustness and duration of peace depend on the balance of powers between the key actors, or on the strength of the hegemon's influence. According to realists, there is no supranational authority that could permanently prevent states from initiating wars. Consequently, realists do not concern themselves with deliberations about how to ensure perpetual peace; each period of peace is more of a transient state, while perpetual peace is wishful thinking.

Realists view national interests as an important concept. They maintain that a state's national interest is given objectively, regardless of the ideas of specific state leaders or domestic stakeholders. National interests must be detected, as they are not derived from actors' subjective preferences. International relations thus become a field where various national interests interact. They are by definition contradictory, for the strengthening of one state's power means the weakening of the others' positions. When contrary interests escalate, war can ensue.

The point of the Westphalian system is that any state may be recognised as a member of the international community while retaining its own culture, customs, policies and religion (Kissinger, 2014). Disparaging the Westphalian concept as a system of cynical power manipulation is unwarranted. The Westphalian system accepts plurality as its starting point. Today, this system of international relations is established and accepted on all continents.

1.2.2. Neorealism

Proponents of the view that the state still commands a dominant position in international relations were further fuelled by neorealism. The key neorealist work is *The Theory of International Politics* by Kenneth Waltz (1979). The state can rely on the loyalty of its citizenry and still hold a monopoly on legitimate power. The state sets the rules of the international system, although not all actors are obliged to follow them. The key neorealist concept is the hegemonic stability theory.

In his early work *Man, the State and War* (1959) Waltz still assumes a realist approach. He views the causes of war as existing on three levels: 1. the

individual level, characterized by human selfishness and barbarism, 2. the level of internal state structure, where war is connected to a state's undemocratic or imperialist character, and 3. the system level, where war occurs in times of general uncertainty in an environment of state sovereignty. Waltz criticizes most approaches as overly focused on one particular type of cause and neglectful of other causes.

International relations are defined by an anarchic structure that is unlike the hierarchical structure of domestic politics (Linklater, 1995). While relations between specific actors in domestic politics are defined by a constitution with sovereignty, there is no constitution or sovereignty in international relations; the structure is decentralized – anarchic. States cooperate only when faced with a common threat.

By assuming that the structure is anarchic, Waltz is able to abandon the classical realist assumption of fallen human nature (Drulák, 2003). The cause of conflicts is not human nature, but rather the anarchic world order. The anarchic structure of international relations presupposes homologous units that must rely on themselves; they cannot afford deeper specialization. States are quite similar to one another: they often have military strength at their disposal, exercise sovereign control over a territory and seek economic growth, etc.

According to Waltz, international relations are the unintended consequence of interactions between many independent actors pursuing their own interests. Much like companies striving to maximize their profit clash on the market in microeconomics, states pursuing their own national interests clash in international politics (Waltz, 1959, 1979). The nature of international politics stems from the clash of many nation states' interests.

International relations are governed by the logic of the 'balance of power' system. The distribution of power is key. Waltz distinguishes between a bipolar structure (two powers) and a multipolar structure (multiple powers). He maintains that a bipolar system is more stable than a multipolar system because it is easier to comprehend, rids actors of their dependence on alliances and enables easier alignment on international issues. Waltz saw the distribution of power as the central issue, while economic, political or cultural problems were of secondary importance.

Raymond Aron (1966) opposed Waltz's view of the stability of bipolar and multipolar systems. He distinguished between a homogeneous system, where states share fundamental values, and a heterogeneous system, where

there is a lack of shared values. Aron viewed the multipolar system as more stable than the bipolar due to the more dispersed nature of the rivalry, while in a bipolar system states have clearly defined enemies and conflict becomes characterized as total conflict.

Since no global sovereignty exists, the natural state of international relations is anarchic (Kissinger, 2014). The rules of international law such as non-interference in the domestic affairs of other states, the inviolability of borders, or state sovereignty are valid – when states find them advantageous. In reality, however, disputes and conflicts between states are usually settled peacefully, although violence comes into play at times. National interest remains the key factor for states.

Stephen Walt (1987) attempted to address the problem with Waltz's theory: the issue of balancing. The strategy which dominates international relations is to develop a countering alliance, which can, in Walt's view, deter a potential aggressor. A balance is not achieved if a threatened state is unable to form an alliance or faces almost certain defeat. In this case, the state will likely settle on a policy of concessions to the aggressor. Walt replaced the 'balance of power' concept with a new one: the 'balance of threat' theory.

Neorealist in tone, the work of Robert Gilpin (1987) even refers to standard economic theory. He viewed states as entities that maximally exploit their advantages through an expansion of power. Gilpin defined the marginal benefits and marginal costs of territorial expansion. States will continue to expand until the marginal costs exceed the marginal benefits of territorial expansion.

Since the mid-1960s it has been evident that the linear trajectory of integration, as outlined through functionalism and neofunctionalism imbued with federalist optimism, does not correspond to actual developments in Western Europe. Conservative realist analysis of European integration has pointed out a number of cases where attempts to overcome state-centrism has failed (Kratochvíl 2008).

The pessimistic projections of realists such as John Mearsheimer (1990) have been only partially fulfilled. The idea that Europe will once again become a typical anarchic environment, where weaker states begin countering stronger states by entering into new alliances with smaller states, was legitimate. The prediction that weaker countries would begin to block or hinder integration in this way, with a deceleration of integration and the

subsequent disintegration of the EC as a natural consequence, was not accurate.

Henry Kissinger (2014) points out that while the international economic order is global, the political world order is still grounded in nation states. Obstacles to the flow of goods and capital are eliminated economically, while international politics continues to rest on national interests. A paradox arises: economic prosperity is crucially dependent on the success of globalization, but this process itself provokes political reactions that deter aspirations to further globalization.

The European Union attempts to attack and dismantle nation states, which, according to Kissinger, is the natural and unavoidable basis of international relations. The EU, which attempts to advance and outline foreign policy based on soft power and humanitarian values, creates a vacuum that will be very difficult to fill because it retreats from realistic strategic approaches (Kissinger, 2014).

1.2.3. Geopolitics

Anglo-Saxon and German geopolitics may also be considered part of the realist school of thought (Hnizdo, 1995: p.12–18). At the turn of the century Halford John Mackinder (1904) was the leading proponent of geopolitics with his Heartland concept. Mackinder divided countries into three regions: the pivot area encompassed landlocked Central Asia (without access to ice-free ports), the inner crescent was defined as the rest of Eurasia excluding Great Britain and Japan, and America, Africa and Australia constituted the outer crescent.

Mackinder interpreted international relations as a clash between land and sea power, where the key to control was control of the Heartland – the core of Eurasia. The main geopolitical conclusion that Mackinder drew from World War I was Germany's effort to control East Europe through domination of the Heartland. This gave rise to his famous claim: "Who rules East Europe commands the Heartland; who rules the Heartland commands the World-Island; who rules the World-Island commands the world." (Mackinder, 1996: p.150)

Mackinder's successor was Nicholas Spykman (1944), who put forth the Rimland concept in the 1940s. He postulated that the most important factor in controlling Eurasia would be control from a sea coast and adjacent islands (from Japan all the way to Great Britain). In 1944, Spykman foresaw the

potential competition between Great Britain and the USSR over control of the Rimland, which found expression through the containment doctrine.

Saul Cohen (1973) was a geopolitical theorist who completely revised the Heartland – Rimland theory. In his view the world is composed of two geostrategic regions: the coastal world, dependent on trade, and the Eurasian continental world. The trade-dependent coastal world includes Anglo-America and the Caribbean, South America, coastal Europe and Maghreb, Sub-Saharan Africa and island Asia and Oceania. The Eurasian continental world comprises the classical Heartland with East Europe as well as East Asia.

Karl Haushofer, who recognized only four viable states – Germany, Russia, Japan and the USA – dominated German geopolitics in the 1920s. In contrast to Anglo-Saxon geopolitics, Haushofer believed the world was not composed of a single whole but rather divided into pan-regions. Each of the four powers has its own pan-region. Germany should control Central and Western Europe, Africa and the Near East.

These four world powers – Germany, Russia, Japan and the USA – also represent the division of the world. Haushofer was interested in the ‘Lebensraum’ theory and the issue of Germany’s potential expansion into East Europe. German geopolitics perceived the USA as one of the dominant powers. Haushofer’s model can also be interpreted as the Monroe doctrine times three. Geopolitics doctrines are related to national interests.

The geopolitical frame of mind assumes that power struggles will be addressed primarily through the consideration or use of the power potential of superpowers, i.e. with international law taking a weak role (Krejčí, 2014). The geopolitical view is that the global political system works on the basis of perpetual conflict between large nations. Globalization is accompanied by the hegemony of one state or regime.

In his later work, Henry Kissinger (2014) took the position that the conflict between idealism and realism had been overcome. A power calculation without a moral dimension transforms every dispute into a show of might. Moral orders which do not take into account a state of balance, however, typically lead to the initiation of crisis delegations or powerless provocations. Both extremes run the risk of disrupting the solidarity of the international world order itself.

The realist school does not refute the importance of ideals and values. However, it demands a thorough, almost unsentimental consideration of the

balance between material powers along with an understanding of the history, cultures and economics of the societies that created the international system. For its part the idealist school does not reject the geopolitical aspect of realism. Realists seek balance; idealists are after conversion. Crusades cause more social discord and suffering than responsible statesmanship (Kissinger, 2005).

1.3. Dispute over the end of history

In his famous work *The End of History and the Last Man?* (2012 [1989]) Francis Fukuyama, Professor of International Political Economy at Johns Hopkins University, expressed the opinion that the world was witnessing a remarkable consensus on the legitimacy of liberal democracy as a system of governance. At the end of the Cold War, democracy prevailed against competing ideologies such as inherited monarchies, fascism and communism. According to Fukuyama, liberal democracy constitutes the end-point of humanity's ideological development and the final form of human government.

Fukuyama claims that international politics is accompanied by a struggle for recognition (Fukuyama, 2012). The thirst “for recognition that led to the original bloody battle for prestige between two individual combatants leads logically to imperialism and world Empire. The relationship of lordship and bondage on a domestic level is naturally replicated on the level of states, where nations as a whole seek recognition and enter into bloody battles for supremacy” (Fukuyama, 1992).

Kant pondered whether human history, which may seem chaotic to an individual observer, is actually a consistent process that reveals a slow and ascending evolution over a long period of time. He came to the conclusion that history has a definitive end-point, a supreme goal that is contained in the current potential properties of humans and which renders history as a whole comprehensible. The goal is the realization of human freedom.

According to Fukuyama, there is a fundamental process that dictates the general pattern of development of all human cultures. The human history of the world is moving towards liberal democracy as the ultimate system. Cycles and discontinuity are not in conflict with the overall trajectory of global history, just as the existence of economic cycles does not refute the possibility of long-term economic growth.

Fukuyama (2012) does not describe global history as a chaotic list of everything that has occurred. Rather, he sees it as a meaningful pattern of the overall evolution of human cultures. Despite discontinuities such as the Holocaust, modernity constitutes a contiguous and strong whole. Modernity has also given human evil new opportunities to manifest itself and one can even question whether moral progress has been made, while retaining a belief in the existence of a directed, contiguous historical process.

At the end of history, liberal democracy has no serious ideological competitors. In the past, people rejected liberal democracy because they believed that it was not on par with monarchy, aristocracy, theocracy, fascism, communism or other ideologies. Now, with the exception of the Islamic world, there is general agreement that liberal democracy is the most rational form of governance because it comes closest to fulfilling the rational desire for recognition.

Fukuyama, however, is often interpreted in overly simplistic terms. One must understand that although he writes practically of the secure establishment of institutions and mechanisms that embody and ensure liberal democracy, and formulates the position that the emergence and existence of these institutions has led to a world order that enables freedom and the development of the individual, and of prosperity to the greatest degree, he does not in any way consider our world as given or unchangeable. But many people interpret his work in this simplified manner. Nonetheless, it is no coincidence that the first essay Fukuyama published on this topic, in the summer of 1989 in the journal *The National Interest*, was called ‘The End of History?’ – the question mark being obviously significant.

Harvard professor Samuel Huntington (1996) then enters the debate over the end of history. He claims that ideological, political and economic differences between nations do not play the most important role in the post-Cold War world; cultural differences have become paramount. According to Huntington’s view of the world western, Orthodox, Islamic, Confucian, Buddhist, African and Latin American civilizations are in competition against one another.

Huntington (1996) analyses the changing civilizational balance. He predicts that western power will continue to weaken with respect to other civilizations and that after the west will lose its position of superiority, a considerable part of its power will simply ebb away and what remains will be disbursed among several key civilizations and their central states. The

decline of the west is a long-term process. The ascension of western power took four hundred years and its decline may take just as long.

In Huntington's view, the division into 'us' (belonging to a single civilization) and 'them' (belonging to a different civilization) is a constant in human history. Every civilization considers itself the centre of the world and writes its history as the central drama of the history of all of humanity. The underpinnings of western civilization are its ancient heritage, Catholicism and Protestantism, European languages, the division between spiritual and secular authority, the rule of law, societal pluralism, representative bodies and individualism.

The events of September 11, 2001 made Huntington's theory about the clash of civilizations relatively appealing. Huntington claims that the world will not evolve towards a unified global system but will remain suspended in a clash of civilizations where six or seven civilizations will continue to co-exist side by side, unconnected, which creates space for the emergence of new crucial lines of conflict.

Although Francis Fukuyama and Samuel Huntington are considered spiritual opposites, it is worth noting the similarities and interesting commonalities between the two. In reality Huntington is a western intellectual who warns that whilst western civilization is not universal, it is unique. Fukuyama, on the other hand, does not contest that the coexistence of different cultures presents problems. Although Fukuyama considers liberal democracy as an insurmountable evolutionary stage in the world order, he repeatedly objects to the idea that democratic and liberal countries should be considered more moral than other countries. Fukuyama comes out particularly sharply (and frequently) against the idea of 'exporting' societal systems to other countries.

It is notable that Huntington cautions against American proponents of multiculturalism who reject the cultural heritage of their country. Instead of attempting to forge an American identity based on one civilization, they seek to create a country of many civilizations – which would render it a country that does not belong to any single civilization and lacks a cultural core. History, however, has shown that no country created in this manner is capable of sustaining itself as a coherent society over the long term (Huntington, 1996).

Fukuyama is surprisingly close to Huntington on issues of multiculturalism (see Fukuyama, 2006). In Fukuyama's view, a crucial challenge which

liberal democracy faces today is the integration of immigrant minorities – particularly Muslims. Cultural diversification of immigrants creates problems for all countries but Europe may become a prime focal point in the battle between radical Islam and liberal democracy.

After the end of the Cold War, some optimists believed that the spread of liberal democratic institutions and market economies would automatically result in a just world in which people would live in peace. This belief was shown to be flawed (Kissinger, 2014). Economic recession and political unrest, disillusion emerging from the Arab spring (which brought Islamic regimes to power), sectarian bloodshed in Afghanistan and Iraq, terrorism and wars in other parts of the world have shown that the end of war has not materialized.

On the other hand, however, many theorists point out a fact that numerous critics occasionally omit from their theories, and writers such as Fukuyama mention it repeatedly: if we are only to consider countries that could be labelled ‘liberal democracies’, then we can see that they have not waged any wars against one another. But these states have been involved in conflicts with other countries and one can debate the extent to which these wars have been ‘defensive’ or ‘offensive’. Nonetheless it is clear that these conflicts were not mutual (albeit in the case of the Greek and Turkish conflict over Cyprus one can note with some slight exaggeration that the conflict was on the verge of mutuality). It is no coincidence, therefore, that proponents of the vision of European integration emphasize the elimination of wars in Europe as one important advantage of this approach.

As we will note later, however, for example during our excursion into the history of the beginnings of the European Coal and Steel Community (ECSC), leaders of European integration pointedly avoid discussions about whether or not Europe’s unprecedented period of peace is rooted in European integration as expressed initially through the ECSC (later the European Community [EC] and finally the European Union), or is rather the result of the establishment of the North Atlantic Treaty Organization – that is, the initiative of military cooperation between independent, fully sovereign and largely liberal democratic countries (although some were never completely democratic and one can hold grave doubts about the extent of democracy in these countries even today).

In reality, there is no solution to the theoretical clash between peace as emanating from NATO and peace as emanating from the EU; more precisely, the solution will always depend on the subjective stances of those

disputing the issue. One can certainly note, however, that although peace and war have always related to the participants' domestic and foreign policies and arisen from the clash between their interests, NATO as a military organization is logically closer to the 'reason' behind peace than European integration, which was defined externally as economic cooperation, at least in its early phases.

Returning to the question of the end of history, it is hard to deny that the world order historically established by western countries and proclaimed as universal has nonetheless begun suddenly to crumble around the edges. Although almost everyone exchanges words like democracy, freedom, human rights and international law, there is no consensus on their interpretation. The world finds itself at a turning point (Kupchan, 2012): almost everyone recognizes the rules of international law but there is no effective mechanism of enforcement.

1.4. Rational choice approach

Scientific approaches to international relations share a basis in the possibility of objective knowledge – either theoretical or empirical. While these approaches introduced new facets to international relations theory, they also raised the problem of measuring and quantifying international relations. These theories and models try empirically to test hypotheses in line with standard scientific methodology (Popper, 1968).

In the 1950s behaviourism was adopted as a popular approach in political science. According to behaviourists, knowledge is obtained through the collection of observable data. Data that occurs regularly should result in the formulation and verification of hypotheses that can subsequently be developed into theories. Theories, then, should be developed through induction without relying, as realists had done, on prior presumptions (Drulák, 2003).

In his 1983 work *The Power of Power Politics. A Critique* John Vasquez argued that behaviourists had never doubted the theoretical premises of realism. He advances three points that realism and behaviourism share:

- nation states or their decision-makers are the actors with the greatest significance to understanding international relations,
- there is a significant difference between domestic and foreign policy,

- international relations are a struggle for power and peace. The objectives of the field are to understand how and why this struggle takes place and to propose ways to direct it.

Another scientific contribution to the theory of international relations, which can be considered the precursor to rational choice theory, is Morton Kaplan's systems theory, which he introduced in *System and Process in International Politics* (Kaplan, 1957). According to Kaplan, theories should be developed using analytical tools that enable incorporation of data from historical and biographical settings and their transfer to a body of timeless propositions.

Kaplan defined six possible organization systems for international relations: the balance of power, the loose bipolar, the tight bipolar, the universal, the hierarchical, and the unit veto. Each system is characterized by six variables: essential rules, transformation rules, parameters of stability, the actors (states, blocs and organizations), the actors' capabilities (military power, population), and the actors' information level.

Kaplan likens international relations to astronomy, which precludes experimentation. However, he carefully defines terms and formulates models and hypotheses that can be empirically tested. Although systems theory is not distinguished by a mathematical mechanism and its findings are not in profound conflict with realist theories, it sets out a more technical and assertive approach to international relations.

The beauty of systems theory is that it places units' behaviour into positions where they are dependent on the system. Rational choice theory, in contrast, assumes that it is important to see how the individuals representing these states deliberate. It assumes that units deliberate rationally, whereby each unit also takes into consideration the others' behaviour. In this view, the 'international system' is both the setting and the result of the games nations play (Cohen, 2008).

Individuals work together to create a system in which they can enter into agreements to advance specific objectives. Rational actors only enter into agreements that benefit them. Mutual influence in the world of rational actors can be examined as resulting from individually implemented rational choices between strategies. Similarly, European integration can be viewed as the result of the pursuit of aims by various actors (Oatley, 2015).

Rational choice theory views states as actors that are rational and autonomous. States select among options based on which option will afford

the greatest gain. Every rational actor has the following essential features: preferences, power, ideas and information. Preferences reflect the priority that the given actor ascribes to various developmental alternatives in terms of external environment and internal structure (Karlas, 2015).

Rational choice theory is one of the most expressive, elegant and captivating theories in the social sciences. In the field of international relations, it embraces both states pursuing their own interests as well as rational units which are smaller than nation states, i.e. individual citizens in power positions. Rational actors can be, but are not necessarily, actual people. They can be states, representatives of states or bureaucrats (Hülsemeyer, 2010).

International relations specialists sometimes have a tendency to overlook rational choice analysis. In our view, it offers an effective theoretical perspective and can also be understood as a concept that goes beyond the limits of traditional approaches in international relations and economics (Pearson, 1999). The basic premise of rational behaviour may be shared by the dominant paradigms in the social sciences, although political scientists and sociologists share this assumption less enthusiastically than economists.

1.4.1. Game theory

Game theory is one example of fruitful application of the rational behaviour premise in political science. Game theory is an alternative to systems theory. It treats units as rational actors and claims that the behaviour of a system is (often unintentionally) the sum of decisions made by units. In this case the internal organization of the units does not play an important role. It is enough to know that they always behave *as if* they had arrived at a rational solution.

One of the earliest game-theoretical approaches in international relations was developed by Lewis Fry Richardson (1960). He presumed that state A's armament level is an increasing linear function of state B's armament level. That gave him two straight lines of reaction whose common position is determined by the course of armament acquisition. If p and q stand for coefficients, then the reaction equation may be written as follows:

$$\begin{aligned} \text{Armament of A} &= p_1 + q_1 \cdot \text{Armament (B)} \\ \text{Armament B} &= p_2 + q_2 \cdot \text{Armament (A)}. \end{aligned}$$

The variable p is one state's minimum arms reserve regardless of the other state's armament level.

While q_1 and q_2 are positive - i.e. a state will respond to the armament-status of a competitor by increasing its own armament - the expressions p_1 and p_2 may be negative: i.e. a country begins to arm itself only once the armament level of the other country exceeds a given critical level that poses a danger to the first country. The point of intersection between the two reaction curves is the point of balance where neither country seeks to increase or decrease its armament level.

In 1960 Anatol Rapoport applied game theory to international relations in his book *Fights, Games and Debates* (Rapoport, 1960). He used mathematical models of arms races to illustrate fights, treated games in the spirit of game theory and examined debates using work on the character of symbols and opinion systems.

Similar ideas were expounded by Economics Nobel Laureate Thomas Schelling in *The Strategy of Conflict* (1960) and by Robert Axelrod in *The Evolution of Cooperation* (1984).

The Cold War antagonism between the USSR and the USA can serve as an example of the application of game theory to international relations: to disarm or not to disarm (Hollis and Smith, 1990). If both nations decide to disarm, positive results may be achieved (3,3). In reality, no one knows how the other party will react. If the USSR 'double crosses' the USA, it may gain (1,4), or it may lose (2,2). The same holds true for the USA.

Table 1.1 Prisoner's dilemma in international relations

		USSR	
		Disarm	Not disarm
USA	Disarm	(3,3)	(1,4)
	Not disarm	(4,1)	(2,2)

Source: Adapted from Hollis–Smith, 1990

Friendship and trust are not prerequisites for cooperation between two powers. Cooperation can develop if individuals have a real interest in their future interactions. Game theory became the key theoretical tool in the development of theories about the behaviour of states in the international system. It influenced the American government's foreign and defence policy deliberations and nuclear strategy debates in the 1950s and 1960s (Schelling, 1966).

Although the international arena is anarchic in the sense that states pursue their own national interests and will always violate fragile international rules when it suits them and when such violation does not pose excessive 'costs' to the given state, there are still opportunities and limits to be found in this arena. Within each state, the individual components of the bureaucratic apparatus have to legitimize their manoeuvres by claiming that their actions assert national interests (Eichler, 2017).

1.4.2. The state as a rational unit?

Graham Allison (1971) argued that the most common interpretation of states' foreign policy behaviour, which is adopted by both realists and their opponents, considers states' internal decision-making processes as rational. However, there are differences between the various approaches: most analysts interpret national governments' behaviour from the perspective of one basic conceptual model known as the rational actor model (the 'traditional' model). But there are also other models, namely the organizational process model and the government (bureaucratic) politics model.

The 'rational actor model' shows why a given action was rational in regard to political leaders' objectives. The rational actor model considers foreign policy to be directed towards a specific goal and assumes that it is based on conscious decisions by representatives or groups with clear objectives. The problem is that the state is not a monolithic unit with a single set of interests – it is a collection of various organizations, each with its own worldview. Decisions are not taken in alignment with a particular theory of national interests; they are based on the interests of the bureaucratic apparatus.

The 'bureaucratic politics model' argues that foreign policy is not the result of a decision-making process as much as of negotiations between groups within the decision-making mechanism of a given state. Foreign policy is thus a product of negotiations between groups within a state, where each group has its own opinion about state interests. Individuals and preferences are far less crucial to the determination of political stances than the positions these actors hold in the bureaucratic structure.

Although proponents of the bureaucratic politics model have succeeded in demonstrating that analysis requires smaller units than nation states, the rational actor model is still relevant. It would be unnatural if the rational actor model ignored the role of bureaucracy in nation states' decision-making processes. On the other hand, it is apparent that bureaucrats

calculate what resources are required to achieve particular goals, which renders them rational actors in a sense as well (Allison, 1971).

Rational choice theory applied to foreign policy does not insist on nation states as the basic unit. An advantage of the rational actor model is that it is capable of switching from a 'situation' to an individual if necessary. An advantage of the bureaucratic politics model is that individual bureaucrats decide on their own behalf while in the service of their office. The bureaucratic politics model and the rational actor model may therefore be elegantly integrated, making foreign policy an arena of purposefully rational members of the bureaucratic apparatus.

The bureaucratic politics model places power into bureaucratic structures in varying degrees, which is manifested in one office's ability to influence another. In the rational actor model, power is typically expressed through the 'price of compliance' of various actors or the price mechanism, through which agreements are made that benefit the specific actors to a greater or lesser extent.

In order to develop theories, every scientific field abstracts from the vibrancy of the real world. Although rational choice theory can simplify a broad spectrum of international relations to a certain extent, the simplification is instructive. If we consider society and institutions as the creation of individuals or the international system as the creation of states, then rational choice theory is a compelling and useful way to explain international relations.

There are a number of advantages to applying rational choice theory to international relations (Sobel, 2013). Firstly, it focuses on how people truly act rather than on how they should act. That is in contrast to the more common approach. Instead of emphasizing the ethics of interaction (the idealist view), it takes a sober and realistic position. This does not imply that actors' morals are irrelevant to this school of thought, but suggests that there are different motives driving international relations.

Secondly, rational choice theory in international relations supports the claim that decision-making processes at governmental level are rational. While not all political steps are rational, rational choice theory offers an understanding of individual rationality. By focusing on rationality, it gives a renewed meaning to the interpretation of states as individuals because everyone may be considered an actor in a specific game.

Rational choice theory, which rests on a logic that is general in nature, enables the development of striking analogies. By classifying states' behaviour in specific conditions along with the behaviour of different types of actors in analogous conditions, rational choice theory connects international relations to the broader realm of social behaviour. In this way states in crisis can be likened to firms engaged in price wars.

The principal-agent problem, well-known to economists, has begun to find application in rational choice theory in international relations. In this model, states delegate certain authorities to institutions which represent them in relation to particular issues and perform the competences to which they have been authorized (Kratochvíl, 2008). Whether or not states are capable of ensuring that their representatives truly do what is required of them, however, remains a problem.

Administrators often have a tendency to pursue other goals, e.g. strengthening their own positions. That leads to an almost irresolvable dilemma: either the agent is endowed with sufficient authority that he can effectively execute the duties of his office (but then he can easily elude the principal's oversight and misuse his position for his own benefit), or the delegated authority is limited, which enables the principal to control the agent (but here there is a risk that the agent will not be duly able to fulfil the tasks entrusted to him).

In international relations, the principal-agent model comes into play on two levels: on the first level, voters as 'the principal' delegate authority to the government 'as agent', and on the second level the government 'as principal' delegates authority to the integration 'agent'. This multiplies the principal-agent problem.

Transferring competences to supranational institutions on the assumption that national institutions do not perform at an optimal level can multiply problems on the European level rather than resolving them.

The principal-agent model can explain how it is possible that rationally deliberating states create institutions which subsequently insist on a high degree of independence. At first glance this theory indicates that states are the principal actors in the integration process (in the event that they are capable of effectively controlling international institutions). On the other hand, it is clear that states have lost this power (in the event that international institutions gain sufficient autonomy) (Kratochvíl, 2008: p.138-39).

1.5. Public choice theory

A special version of the rational choice theory as applied to politics is public choice theory. The public choice approach was founded by traditional authors: Black (1948), Arrow (1951), Downs (1957), Buchanan and Tullock (1962), Olson (1965), Niskanen (1971), Tullock (1998). Public choice theory is the economic analysis of politics. It wants to be more realistic than political science approaches since it believes that the behavioural drivers are politicians' own interests. The public choice approach investigates the theory of the state, electoral rules, operation of institutions, voters' behaviour, bureaucracy, special interest groups, etc.

Public choice analysis supports a number of specific theories including alternative assumptions on the division of power and influence (Gregor 2005). For instance, the median voter models assume that politicians are highly sensitive to the wishes of the electorate. Interest groups and bureaucracy models assume that voter knowledge is weak. The public choice approach is critical to rational models of a uniform state; however, it accepts that economic and geopolitical considerations highlighted in economic and security matters have a significant influence on the behaviour of the government.

Arrow's impossibility theorem, according to which there is no neutral method of choice that would rank the preferences of three voters (or groups of voters), might also be successfully used in the area of international relations. Let us assume that there are three countries, X, Y and Z that shall decide about three alternatives A, B and C, and that their preferences are as follows:

Table 1.2 Arrow's impossibility theorem

X	A	>	B	>	C
Y	C	>	A	>	B
Z	B	>	C	>	A

Source: Adapted from Arrow, 1951

If we are to rank A, B and C according to public preferences based on majority voting, two countries would prefer option A to B and two countries would prefer B to C. Although we might then deduce that A is better than C, actually two countries prefer C to A, which seemingly interferes with the

preference transitivity (although strictly this is in fact not the case since transitivity is related only to the preference of one entity).

Arrow's impossibility theorem based on the Condorcet paradox does not always apply. However, its probability grows with the number of alternatives and community members, and its application to international relations is commonplace: the greater the number of countries and political alternatives (which is relevant in the case of the populous EU), the higher the probability that the Condorcet paradox will appear in some form. It is therefore not possible to talk about 'general' or 'pan-European' interest or opinion.

Ronald Vaubel (1986) provides us with a public choice approach in relation to an international organisation. According to the conventional concept, an international situation without international organisations would be less stable, production of international public goods would be insufficient and planetary resources would be overexploited. Vaubel argues that increasing market interdependence does not justify a larger role for international institutions or intergovernmental coordination:

If national markets become interdependent or integrated, competition is intensified and the market works more efficiently, so that the role of government in the economy can be reduced. As international interdependence grows, it becomes more important to be well-informed about current and future developments in other countries. But this is not an argument for collective decision-making or for confidential exchange of information at summit meetings or through international agencies. (Vaubel, 1986: p.40)

Public choice theory shows that politicians attempt to maximise their utility by implementing policies that are beneficial to them. This applies to domestic as well as foreign policy. In domestic policy, politicians take steps to stay in power and be re-elected by a majority, whereas in foreign policy, politicians attempt to renegotiate international agreements which are satisfactory for them, increase their status, or reduce their costs in the domestic political arena (Vaubel, 1986):

International relations face substantial information cost. Since the weight of the individual vote is so small that it is unlikely to affect the outcome of the election, voters are to some extent 'rationally ignorant'. In these circumstances, the politician in government can use international meetings and agencies to affect the voters' information costs, to draw attention to popular policies, to hide unpopular policies, or to disseminate false information. Thus, international organisation – like all instruments of

policy-making – can serve the politician to pursue his own ends at the expense of his voters. (Vaubel, 1986: p.44)

According to Vaubel (1986), international bargaining between national governments is tantamount to secret agreements at the expense of most voters. This is because control over international institutions is weak so that voters do not have any chance to supervise effective decision-making in them. International institutions tend to favour pressure groups more than administration at national level:

A politician in government competes with: (i) other members of his government, (ii) the politicians in opposition, (iii) foreign politicians in government. Collusion with foreign politicians can be useful for the domestic politician in several respects. Participation in international summit meetings helps him to capture the attention of the media and to increase his prestige, in this way he can gain a competitive edge over the other politicians in his government and the opposition. (Vaubel, 1986: p.44)

Pointing out that some political decision was accepted at an international summit has often enabled politicians to suppress criticism at home, since people tend to believe that international organisations are wiser than national ones. Collective international decision-making therefore enables the participating politicians to avoid responsibility for unpopular policies at home and to ‘sell’ such policies as part of the international bargaining and compromising process, thereby protecting themselves against the superior performance of foreign governments (Vaubel 1986):

The division of labour work between international agencies and national governments is a function of the demand for powers from the international agencies and the supply of powers from national governments. If the economic theory of bureaucracy applies, the officials in international agencies try to maximize their power, their demand for additional powers and resources is unlimited. It follows that international agencies are willing to take any work they can get, however unpleasant. The division of labour is not demand-determined, but exclusively supply-determined. (Vaubel, 1986: p.52)

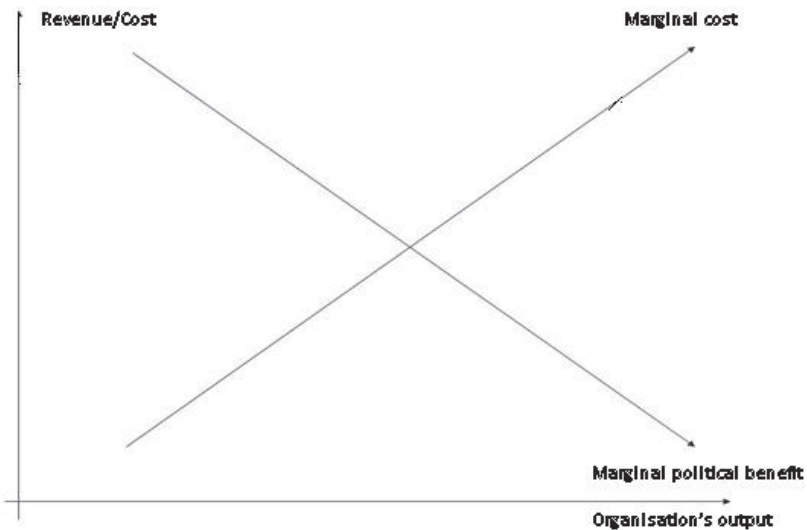
Vaubel’s application of public choice theory to an international organisation was a breakthrough. It showed that international bureaucrats have the same utility function as domestic bureaucrats. Both groups try to maximise their power in terms of budget size, staff and freedom of discretion and want to derive a reasonable level of satisfaction from performing their official duties. Both enjoy some degree of freedom to pursue these objectives

because, in many respects, they have acquired an information monopoly and because the politicians need their cooperation.

Vaubel does not go as far as to claim that international organisations are undesirable in general. However, his approach puts emphasis on the benefits of decentralised decision-making and warns against the kind of naïve internationalism that welcomes international agreements for their own sake – regardless of what has been agreed. International organisations may be misused, either due to the insufficient virtue of some politicians or the tendency to make secret agreements at the expense of citizens.

Bruno Frey (1984) shows that an international organisation may provide public goods and services, coordinate the activities of actors in the wider international system and create an institutional background for alliances. However, they may also serve other private (i.e. national) goals. Therefore, it would be a mistake to assume that international organisations maximize the collective economic welfare either of individuals from a specific country or even the world as a whole.

Figure 1.1 Organizational balance



Source: Adapted from Frey, 1984

Figure 1.1 shows organisational balance. The optimal size of an organisation depends on the point where the curves of marginal cost and marginal

political benefit intersect. From a certain moment, the marginal political benefit of the organisation may be lower than the marginal cost. The optimal size of an organisation is not its maximum size since in that case marginal cost would be much higher than marginal political benefit (Frey, 1984: p.217).

Public choice theory does not investigate the state as a whole, but focuses on the behaviour of individuals in the political process – voters, politicians and bureaucracy. We may also use the same starting point in international policy: states, like individuals, will in general pursue their own interests. Nevertheless, there is a problem: when studying international agencies should we start from the pursuit of a) the interests of states, or b) the interests of politicians (representatives of the states)?

One interpretation is that states in international organisations act in their own interests and that the job of the public choice theoretician is to investigate this behaviour. Another interpretation is that it is not the international agencies or individual states that ‘act’ but rather the politicians, the representatives of the state, that act. We believe the above interpretations are not contradictory but rather complementary.

Our approach does not ask whether or not European integration has been ‘impeccable’ but instead argues that it has been based on individual motivations and interests. This does not mean that under certain circumstances we might conclude in our analysis that a government has not acted in the national interest, but we believe that politicians are not altruistic and that their pursuit of national or European interests may sometimes be tempered or swayed by extraneous influences.

1.6. Problem of analytical levels

An important question asked in social sciences is whether the study of social and political processes should proceed from the bottom up, identifying individual actors and their preferences and seeing reality as a result of the pursuit of those actors’ interests, or whether the behaviour of actors should be seen in context, as a concentration of the impact of different political, social, and cultural factors. It may be more useful to identify these two competing approaches as atomistic and holistic (Buzan, 1995). They may be seen not only in economics but also in the social sciences, political science for example.

There is a dilemma in studying international relations. Namely, should the starting point focus on the preferences and pursuit of the interests of rational units, i.e. most frequently nation states, or should the focus be on the broader international context including the development of international organisations, contractual relations or institutional structures? Both approaches are possible although our study places more emphasis on the first.

Tolerance of different approaches in international relations requires a compliance with what is called the ‘problem of analytical levels’ or ‘systemic problem’ (Buzan, 1995). Even if it is decided that one must start with the concept of rational units – the nation states – that create the international system, another analytical problem arises: can it be said that a state’s behaviour must be interpreted as a system per se or can it be seen from the perspective of the behaviour of individual components of that state’s apparatus, such as authorities, etc? And if we conclude the latter is right, can the behaviour of that state’s bureaucracy be understood from the perspective of the behaviour of individual people of which it is composed, or vice versa?

Table 1.3 Analytical levels in international relations

Analytical units	Sources of interpretation		
	Ability to interact	Structure	Process
System	X	X	X
Sub-system	X	X	X
Unit	X	X	X
Bureaucratic apparatus	X	X	X
Individual	X	X	X

Source: Adapted from Buzan, 1995

In each phase the higher-level unit becomes a system for the lower level (see Table I.3). The international system is a system of relations between nation states. Nation states are a system from the perspective of national bureaucracy. National bureaucracy is a system for interest groups, and interest groups are a system for those individuals that create them. It is possible to build different analytical processes on these various layers – one top-down, the other bottom-up. The problem of the lower analytical plan is knowing whether it is the individual players that create institutional roles and rules, or vice versa.

Rational choice theory in international relations brings individual actors from backstage to the main stage. It is therefore a realistic or neorealist approach in this regard. The difference is in the predominant economic tone of the main principle: in accordance with realism the states defend their own interests in particular, while in rational choice theory the main actors, be they states or politicians, maximize their own benefits.

1.7. National interest

In the previous overview of various approaches to the examination of international politics we repeatedly came across the term ‘national interest’, albeit in different iterations. In particular, the realists and neorealists work with the concept of national interest and a priori consider it an objective fact whose existence is believed to be a need-bearing positive charge (or more precisely its absence is defined as a vacuum and thus a risk or negative situation). In contrast to the term national interest the transnationalists discuss the reduced dominance of the state in future (Burchill, 2005).

National interest is also very significant for rational choice or public choice theory, i.e. the application of rational choice theory to the area of politics. A more frequent term in domestic policy is ‘public interest’, whereas national interest plays a key role in international policy. If rational choice theory states that the main actors (i.e. states or individual politicians and, more and more frequently, other ‘opinion-makers’) maximize their utility, then the question of how national interest as a significant political marketing tool, is created and how it is defined in every situation becomes very pressing (Krasner, 1978).

National interest plays an important role in rational and critical views of European integration processes. This is valid at least due to the elementary fact that the European Union is frequently criticised as a mechanism that strives for denying national interests and thus reducing the relevance of nation states. Actually, the Union’s bodies’ internal policies are seen in terms of the arena of national interests, and decision-making processes are therefore influenced and practically predetermined by these interests (Black, 2006).

The problem of the concept of national interest lies firstly in its elusiveness. This elusiveness is derived from both words used. The word ‘nation’ is perceived completely differently in the regions to the west and east of the Rhine. This perception underwent historical developments which led to painful and tragic periods in European history, and today we can say that

the further west from the centre of Europe one looks, the more the concept of a nation is understood in the political sense of the word, i.e. as a 'political nation'. The nation is then defined not primarily on the basis of its ethnic origin but rather is based more on the agreement on common interests, political order and other non-national elements. Central and to a larger extent Eastern Europe, however, perceive the nation in the ethnic sense of the word. No matter how trivial this fact may sound it can often lead to costly misunderstandings (Krasner, 1978).

The word 'interest' is also problematic. This broadly used word derives from the Latin phrase *inter est*, which translates as 'something between' or 'be between', whereas the particular meaning 'share' just refers just to the original Latin term. We must also consider that however clear the word might seem in its main sense, it is used in different contexts with slightly different meanings. In psychology interest is related to experience or concentration, whereas in sociology it relates to the motivation to act or make a decision. With regard to political science interest is related to a need – we may say that national interest is a synonym for a national need or requirement (Roskin, 1994).

If we talk about national interest, the perception and understanding of what this means for those European regions situated east of Germany (which may also include East Germany) might present quite a confused situation, since there is no close relationship between the concepts of the state and the nation that would be based on the structure and existence of a political nation. In these countries the word 'nation' is synonymous with a clearly defined ethnic group of people, and considerations on the level of a 'political nation' are missing. For instance, for the citizens of the Czech Republic or Hungary (countries picked at random) the notion of a 'British nation' that includes English, Welsh, Scottish and Irish nationals (and also includes a number of other nationalities) is as exotic as the notion of an American nation composed of white people coming from all European nations, Latino Americans, African Americans, Native Americans of many tribes, Asians of different nationalities, and many others.

The notion of a nation or nationhood in central Europe, such as those nations found in the Balkans or the north-eastern region being examples, has a greater distinctness. These regions of the European Union have had similar experiences to Belgium or Spain. In the case of 'Eastern' notions of the nation, plebiscites on independence like those held in Scotland or Catalonia are understandable and a priori sympathetic. They reflect the reality of life in Central Europe after World War II (the expulsion of German and

Hungarian minorities) and the subsequent splitting of Czechoslovakia into two nation states. After the disintegration of the Soviet Union Eastern Europe shared a similar experience, which included the origin of new nation states, and upon the disintegration of Yugoslavia other new nation states similarly appeared in the Balkans that reflected an almost complete fusion of the concept of ethnic nation and state.

These facts would be largely insignificant and even humorous (no matter how tragic the circumstances that accompanied them in some cases), if it were not for the fact that ethnically defined nations show significantly higher sensitivity to some stimuli for various reasons, particularly their basic constitution. This is true, in particular, in the case of the issue of migration, but it is not the only case. In fact, this is a very relevant factor with a huge impact on European integration. Space does not allow for a more detailed analysis of the aforementioned aspects but we may at least point to the fact that during periods of enthusiastic EU enlargement (as a response to the disintegration of the socialist bloc) it would appear that no politicians were considering the weight of these social differences in terms of the assessment of some basic concepts.

In either situation, the concept of national interest, in the above-mentioned countries of Central and Eastern Europe who are members of the European Union, is understood to mean the national interest of Czechs, Slovaks, Hungarians, Poles, etc. There is a conflation of meaning of national (ethnic) interest with state interest, the 'interest of the ethnic group' being the solid foundation in both cases. To simplify, it is about maintaining the space and prosperity of the ethnic group. In the case of nations with political understanding, 'national interest' and 'state interest' usually fully overlap; however, their foundation lies more on the definition of political values, which we again might simplify as 'liberal democracy' (in the sense used by Francis Fukuyama). This difference may at first seem insignificant, but actually it is a key issue.

Political consideration of a 'nation' is missing in Central and Eastern Europe, or at least pertain only to a relatively small group of people at certain levels of the decision-making process. It is probably safe to say that in real life people do not think about up-to-date issues of national or state interest in any country of the European Union while having breakfast. That does not mean, however, that this influence does not significantly impact public discourse in the above-mentioned states. This may lead to gross mutual misunderstandings.

If we are to look at the issue of national interest from the analytical point of view there is a general assumption that the state is the custodian of national interests. In reality, there are certain and in some cases significant doubts about the extent of national interests as defined by nations and by relatively small groups of opinion-makers.

Traditional realists, and also to a significant extent neorealists, therefore distinguish between objective and subjective national interests, which is the same as 'state' in this context (Morgenthau, 1982). Objective national interests can be proven scientifically and exist independently from the will of opinion-makers in the foreign as well as in the domestic national policy of the respective state. They include growth or at least preservation of power (influence), security, providing existence and sovereignty for the state. There is an assumption that these basic interests, sometimes called vital or natural, derive from the fact that a historically determined group of people live in a certain region unified for the most part by language, culture and common history, which form and define such groups. These interests thus reflect the need and natural wish to continue to develop and to hand on benefits to future generations.

In reality, although we might admit that these fundamental interests are automatically adopted by the majority of people in a given region or nation, it is also highly probable that for many these interests are totally irrelevant. Such individuals may show hardly any active concordance with such generally conceived national interests. No matter how *objective* (and natural or automatic in a way) we consider these interests, it does not follow that they are, in reality and in general, accepted by any and all individuals in the respective society or group. Instead they might only be a lukewarm acceptance by society, only gaining greater emotional traction when that society is put under stress (in particular, real - or only hypothetical - security risks) (Morgenthau, 1982).

Subjective national interests that reflect the will of the people, whether a group or an individual, are a result of decision-making processes and thus artificially defined (in contrast to the vital nature of objective interests). In democratic systems they are usually influenced by the results of some voting procedure – either an election of delegated political representatives based on their manifestos, or plebiscites (Krasner, 1978).

In authoritarian systems or systems with limited democracy, objective national (state) interests and subjective national interests have a relatively high level of correlation since there are mechanisms (authorities) that ensure

that only those subjective interests fully compatible with objective interests gain influence. This correlation arises from the fact that the fulfilment of objective interests presupposes constant maintenance of political stability and the capabilities of growth, i.e. prosperity. From a technical point of view we can say that objective national interest falls under any and all possible constellations of the interests of (and as identified by) the governing power group. This group faces an essential problem: how to provide for the nation (whether it is an ethnic or political entity is irrelevant) appropriate means to achieve national objectives whilst at the same time ensuring those means are acceptable enough to be enforceable via the existing exercise of power. It is therefore relatively highly probable that, in decision-making processes, non-democratic mechanisms or a limited democracy environment will accept only such subjective national interests as are in compliance with those objective interests through the use of means that enable the power of the respective group. No matter how stable this system looks in theory, in practice it will always struggle with the fact that in order to fulfil objective and subjective national interests, said system can use only very limited means since the most effective means are often not accessible due to the risk of weakening the quality or power of the group as a whole.

In democracies (and in particular in the supreme form of liberal democracy) the process of formulating the methods for fulfilling objective interests becomes very complex and constantly creates significant tensions inside such communities. More important is that in a free society based on secure constitutional foundations, a significant number of subjective national interests are formulated and frequently accepted, and even relatively insignificant or marginal groups (with regard to the number of members) have the opportunity to set their own agenda for public discussion. Even minorities can intervene in the formulation of subjective national interests and achieve significant success in their definition (Burchill, 2005).

This state of affairs leads to a number of significant secondary processes that are very significant. Subjective national interests are formulated both on a continuous basis and in a dynamic way, but not to the extent that the process causes discomfort to the majority in society: it also does not mean that this discomfort is analysed by the majority, even though it may be strongly felt. The significant influence of minorities is such that because of their minority identity they have a greater necessity to intervene in the public arena in order to raise topics. This may lead to the perception that the standard majority is only partially satisfied with the achieved formulations of subjective national interests (King and Anderson, 1971).

One cannot talk about the influence of minorities on the formulation of subjective national interests without addressing one key fact: the influence of corporations and interest groups on the adoption of those decisions that define subjective national interests (Behrman, 1970). In this regard a number of authors mention U.S. foreign policy procedures in regard to petroleum countries as an expression of subjective national interests on the one hand, and the position of big petroleum corporations on the other. Similar evaluations manifest, to a significant extent, the subjective opinion of the author; however this fact becomes irrelevant as soon as the issue becomes part of a wider public debate and public opinion takes a view of it. When this happens, it is not important whether or not subjective national interests are defined and pushed through, and steps taken to implement and achieve them based on corporate influence; it is only important if public opinion either accepts them or regards them as unacceptable. The public, however, usually considers interventions of corporations in the process of formulation of subjective national interests to be totally unacceptable. This fact, of course, does not stop corporations from attempting to influence the mechanisms of acceptance and the implementation of subjective national interests if it is considered appropriate from their strategic point of view. Nevertheless, they would prefer to influence the process in a covert way.

We may well describe the situation of defining subjective national interest in current developed countries (liberal democracies) as somewhat chaotic. It becomes clear that the disintegration of the absolutist system – ‘the state is me’ – which admitted of no contradictions or complexities, since it did not let them manifest on a large scale, is replaced by the supremely individualist ‘each of us is the state’ (no matter how simplified this definition of liberal democracy is). This has led to a constant dynamic redefinition of the relation between objective and subjective national interests, and constant new definitions of means of fulfilling those interests (Black, 2006).

Thus, a truly paradoxical situation arises. From the technical as well as objective point of view, liberal democracy provides maximum space for an individual to be able to influence social affairs, including the supreme phase, i.e. co-influencing the definition of subjective national interests. But in order to do this we must accept the idea that objective national interests are given, natural, and independent of the will of the individual, whereas subjective national interests are defined by decision-making processes and usually represent a mechanism for implementing objective interests (Frankel, 1970).

This is due to the fact that each individual in society is confronted with the discrepancy between his own personal vision and the political decisions actually taken, or the consequences of the decisions made in the past. In highly simplified form we can employ an example that is used frequently in this regard. At a certain period the U.S. administration adopted a set of decisions that together defined the subjective national interest of the American political nation as being the expansion of liberal democracy in countries that had been authoritarian in previous periods (typically Iraq). In the longer term, it turned out that this subjective national interest was in conflict with the objective interests of the American nation (security, stability, prosperity) since the result of the implementation of the above-mentioned subjective national interest was not the implementation of the objective interest, but rather a deterioration in the conditions for its implementation.

No matter how modern this conflict may appear, it was addressed in a different form by thinkers living hundreds of years ago (see for instance J.S. Mill, 1861). There is a certain gap or difference between the individual and the group and defined subjective national interest, a certain deviation with a different level of relevance in each respective case.

Let us assume one accepts the existence of objective national interest as expressed by a political (or ethnic) nation: the question arises whether or not something similar exists with regard to the whole European Union. A further question, therefore, can be asked as to whether or not any European political nation exists. With regard to the various points raised above we may answer that it does not. While we might be able to magnify the elementary objective political interests of any nation to a continental scale, since there is nothing to change in the interests in security and prosperity, we may not imagine, even remotely, that the mixture of political and ethnic nations inside the European Union could rationally - and in particular with a sufficient degree of consensus - agree on something that is truly, acceptably, and subjectively national, i.e. that represents European interests, the interests of a pan-European political nation (which in fact does not exist).

The European Union has gradually created a number of decision-making mechanisms in order to define European national interest in some way (Black, 2006). Hand in hand with the progress of integration within the Union comes the understanding of the impossibility of defining the subjective interests of the European political nation. In addition, it was proven that under the pressure of enlargement the European political nation

has become an impossibility – decision-making mechanisms have constantly been equipped with a democratic deficit since only reinforcement has led to the adoption of its decisions: no matter how much it has been disguised and covered up, European nations have continued to feel this more and more. Not only did that include nations whose vote was reduced in order to reach agreements but, paradoxically, also those nations that acquired more significant influence in the decision-making processes.

1.8. Summary

The first chapter presents theoretical foundations for international relations. The argument of traditional idealism is for mutual interdependence, in that it calls for a larger role to be given to international institutions and questions the nation state's exclusive role in international relations. Another modern idealistic concept is neofunctionalism which prefers specialised international institutions whose membership and working remit are determined on technical and not on political bases.

We provide an overview of the foundations of modern realism. The main question for realists is the problem of the balance of power: continuous cooperation and peace being mutually irreconcilable. The most important entities of international relations are states that pursue their own interests. Neorealists believe states have a monopoly on legitimate power and thereby set the rules of the international system. The key neorealist concept is the hegemonic stability theory: Anglo-Saxon as well as German geopolitics may be regarded as party to realistic thinking.

We recall the dispute between Fukuyama and Huntington. The famous and prophetic 1989 work by Francis Fukuyama - *The End of History?* - marked the fall of communism and rebirth of democracy in Central and Eastern Europe. Samuel Huntington, however, advanced the theory of the clash of civilizations that became particularly topical after 11 September 2001. The idea of international harmony, which appeared with the end of the Cold War, therefore proved somewhat illusory.

We earlier highlighted rational choice theory and its particular component – public choice theory. This game theory, and other approaches based on mathematics, are well known in political science. Economics has a comparative edge in elaborating rational decision-making. In the area of international relations it is possible to work not only with the idea of states pursuing their own interests but also with rational units smaller than nation states – in particular with individuals taking positions of power.

National foreign policy makers strive to maximize profits by introducing policies that contribute to this task. In order to remain in power they must be re-elected by the majority. A foreign policy-maker will not participate in international decision-making, unless by doing so he can obtain an agreement which satisfies him personally, or helps him to gain votes or reduces his cost in the domestic political arena.

The main problem concerning analytical levels is posed by the question of whether during the study of international relations we start with preferences and the pursuit of interests of rational units (i.e. nation states), or focus on the wider international context that includes the development of international organisations. Rational choice theory brings individual actors from backstage to centre-stage in a similar way to realism: realists claim that states defend their own interests in particular, while rational choice theory claims that the main actors maximize their utility.

A key term in international politics theory is national interest. Democratic deficits seen in the development of European decision-making processes in relation to efforts for deeper integration are based primarily on the principal fact that however much the European Union is perceived as fulfilling the objective national interests of individual countries, particularly in terms of security and prosperity, in reality it has failed in both aspects and has not proved its necessity.

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CHAPTER 2

THE HISTORY OF EUROPEAN INTEGRATION

Over the course of history the notion of a unified Europe has emerged in diverse forms. Its roots are apparent in ancient Greek philosophy, the unification efforts of the Roman Empire and the integrative tendencies of the medieval Christian Holy Roman Empire (Wilson and Dussen, 1993). German philosopher Immanuel Kant also elaborated on the concept of a federal Europe. Some politicians advocated for a modern version of a unified Europe between the world wars and subsequently after World War II (Davis, 2014).

The recent 60th anniversary of the signing of the Treaty of Rome offers an opportunity to take an in-depth look back at European integration. What are the roots of the European project? How did European integration unfold after World War II? Are European communities the result of intergovernmental or federal approaches? What roles did the Single European Act (SEA) and the Maastricht Treaty play? Would the European constitution have been the breakthrough? How did the Lisbon Treaty move European integration forward?

2.1. Roots of the concept

The historiography of European integration is dominated by legends of great men. Most histories emphasize the role of a small band of leading statesmen with a shared vision. For the Community's supporters they have become saints, men who held fast to their faith in European unity and through the righteousness of their beliefs and the single-mindedness of their actions overcame the doubting faithlessness of the world around them. Monnet, Schuman and Spaak are honoured above others in the calendar, although Adenauer and de Gasperi stand in almost equal rank. (Milward, 2000: p.318)

In their revolutionary 2005 book, *The Great Deception: The Secret History of the European Union*, Booker and North tell of one of the most remarkable political projects in history, which was to take place over the course of several decades from its earliest beginnings until the present day. Most of

the facts ‘disclosed’ by the authors are well known to historians, economists and political scientists. It is their interpretation that is new, calling the procedural transition from nation states to the supranational level a “great deception”.

Booker and North’s view is based on the finding that the development of the European Union was inspired by the events of World War I and of the subsequent period, and particularly by the ideas of two friends who held important positions in the League of Nations, a Frenchman by the name of Jean Monnet and his British colleague Arthur Salter. After World War II these two men, along with others, laid the ideological foundations of the European Union.

The period between the world wars did not favour the ‘European project’ nor place much importance on ‘European integration’. The Great War had economically weakened the continent, increased political instability and increased its susceptibility to political extremism. The Russian communist victory in the civil war, the rise of a fascist state in Italy and the upheavals faced by traditional parliamentary democracies made any form of ‘European integration’ unlikely (Kovář and Horčíčka, 2005).

Even before the end of the war in 1918 Giovanni Agnelli, the Italian industrialist and founder of the Fiat empire, published *European Federation or League of Nations?* in which he claimed that a European federation would be the only effective defence against destructive nationalism. In 1923 Count Richard Coudenhove-Kalergi published *PanEuropa*, which became a source of inspiration for a movement of the same name. The most dedicated proponent of the pan-European movement was the French Foreign Minister Aristide Briand (McCormick, 2005).

The Pan-European Union model, which presented the first truly political project to build a unified Europe, provoked criticism. Some saw the model as an attempt to install a French empire in Europe while others saw it as a cover for construction of a German ‘Mitteleuropa’. Although the pan-European movement adverted to itself as a successful effort, its practical outcomes were minimal. It was not supported as a vital movement by any of the European governments (Kovář and Horčíčka, 2005).

In 1941, when most of Europe was suffering under the dominance of the Nazis or their fascist sympathizers, former Italian communist Altiero Spinelli, then imprisoned on an island off the Italian coast, came up with the idea that once World War II ended, enlightened politicians should begin

building a United States of Europe (Dinan, 2010). He declined to speak openly about his goal but it revolved around the founding of a new nation.

Spinelli did not clarify the structure of his European federation, but it was clear that his idea was an all-powerful supranational institution with its own constitution and army. "During revolutionary times, when institutions are not simply to be administered but created, democratic procedures fail miserably," explained Spinelli (quoted in Booker and North, 2005: p.29). He thus indicated that leaders would seek their peoples' opinions only as the project neared completion.

Belgian Prime Minister Paul-Henri Spaak also played a crucial role in the birth of the European integration concept. It was Spaak who persuaded Monnet that the easiest way to conceal the project's true political goal would be initially to pretend that it was merely a vehicle for economic cooperation based on elimination of trade barriers, i.e. by creating a common market (Baldwin and Wyplosz, 2015).

Monnet stressed his desire to replace hitherto anarchic and potentially destabilizing power politics with a legal order that would govern relations between European nations. Monnet wanted to civilize these relations. He longed in old age to write a book which comprised two parts: the power of yesterday and the law of today. He believed that offering economic integration was the way to achieve this goal (Laughland, 2016).

One thing the Utopian visions of the 1920s all had in common, from the League of Nations itself to Pan-Europa and Briand's European Federal Union, was that they were all based on the idea of nations coming together to co-operate on an 'intergovernmental' basis. This was the road to universal peace: governments should learn how to work willingly together for the common good, but without abandoning their sovereignty. (Booker and North, 2005: p.12)

Before World War II Robert Schuman, like Spaak, was indifferent to the issue of European unity and it was not until 1948 that he began to become convinced that the interests of his country would best be served by some form of a European union. Within three years he had become the apostle of a federal Europe and, within five years, the respected founding father of the European Coal and Steel Community. It was Schuman who considered Monnet's proposals as an official foreign policy initiative in an even more decisive way (Milward, 2000).

2.2. European Coal and Steel Community

At the outbreak of World War II, when nation states were unable to counter the Nazi threat and an anti-Hitler coalition was only just forming, the notion of a united Europe began to take hold in a number of organizations. In addition to the federalist movement led by the Pan-European Union, the idea of creating a supranational European organization also emerged from the resistance (Fiala and Pitrová, 2009).

When Winston Churchill spoke of the need to establish a United States of Europe after World War II, he was harking back to the internationalist idealism of the 1920s. A unified Europe was to be founded on partnership between France and Germany. It is an ironic point of history that Churchill and Monnet agreed on this sole point: if a United States of Europe was to develop it was to be without the involvement of Great Britain (Goodman, 1996).

Churchill's involvement in the integration process was the subject of many misunderstandings. Although the former British Prime Minister spoke of a United States of Europe in Zurich in 1946, to label him a European federalist would be misleading. Starting in the mid-1920s, he used the phrase 'Great Britain and Europe' with great pleasure (Johnson, 2015). He supported a historic conciliation between France and Germany but he did not share the political centralism of the French–German axis. He also did not have high hopes for a British–French union (Kovář and Horčíčka, 2005). And in his famous 'Sinews of Peace' speech at Westminster College in Fulton, Missouri on 5 March 1946, Churchill focused primarily on the task of the United Nations but stressed that the London–Washington axis was the essential line of defence against the rise of communism or other forms of despotism in Europe (Churchill, 1946).

The Marshall Plan was important in the development of post-war co-operation in Western Europe (Dinan, 2010). Although it is generally viewed as an altruistic gesture on the part of the USA to help impoverished western allies in their time of crisis, according to North and Booker (2005) it rested on powerful business interests: American companies realized that they had an opportunity to buy valuable European property for ridiculously low prices. The plan also included support for European integration.

At some points, the USA was an even stronger proponent of European unification than the Europeans themselves (Přikryl, 2014). After World War II, it was in Washington's vital interest to maintain European stability,

security and openness. The American security strategy gave Europe such weight that isolation, or leaving the continent to its own fate, was not an option.

Post-war peace in Europe was not secured by European integration but rather by a military pact – the North Atlantic Treaty Organization (Goodman, 1996). NATO was established in Washington on 4 April 1949, initially setting up offices in Paris and later moving its headquarters to Brussels to become the guarantor of peace in Europe for the next forty years. Its founding was, above all, a triumph of the intergovernmental principle, i.e. co-operation between independent states without any decrease of sovereignty.

The vagueness at the heart of Schuman's thinking made him an easy convert to Monnet's narrower, more specific organizational conceptions of European integration. His mind became fixed on the need for a central executive authority, like the High Authority of the European Coal and Steel Community, and he seems to have wanted Monnet to direct it... He looked for a central authority which would enforce integration from above, building on the method of the Coal and Steel Community. (Milward, 2000: pp.324–325)

Schuman, who had always previously acted merely as a national foreign affairs minister pursuing the national interest, began writing and speaking as the visionary of a future federal Europe. He claimed that European states could no longer resolve their domestic economic problems on their own. An economic union alone, however, would not suffice as a remedy for the situation. The assumption for success of any economic union was political union within a supranational political body (Milward, 2000).

It is no paradox that Robert Schuman, the 'patron saint' of an integrated Europe, was also the founder of French state planning. Schuman, as a democratic politician, understood that democratic representation at the supranational level was required and therefore his preference somewhat differed from Monnet's vision of a more bureaucratic system (Milward, 2000).

Although the work leading to the ECSC is known as the Schuman Plan, according to Booker and North (2005) it was not really his plan. After a thorough analysis, Schuman initially raised objections only to accept it finally as a means of salvation that rescued him from a problematic situation. Booker and North claim that historical documents clearly demonstrate that the plan was the work of another figure – Jean Monnet.

The High Authority, composed of representatives from manufacturing, the civil service and the unions, gave Monnet sufficient freedom to develop his own ideas about solutions to Europe's economic and political problems. Monnet had practical experience in the renewal of the post-war economy as well as contacts and knowledge gained while serving as Charles de Gaulle's economic deputy during the war (Fiala and Pitrová, 2009).

Adenauer supported the plan, as Monnet had presumed. Through it the historical animosity between France and Germany would be alleviated and, in addition, West Germany, which was not entirely sovereign at the time, would be better enabled to enter international negotiations. The real significance of the European Coal and Steel Community was less tied to the specific sectors that it encompassed than to its institutional foundation: a sector that had traditionally been under the authority of nation states would suddenly come under the authority of a supranational organization (Cihelková and Jakš, 2006).

British Prime Minister Clement Attlee made it clear that Great Britain would not under any circumstances agree to a transfer of authority of the country's most important economic resources to an undemocratic institution that would be accountable to no-one. Since the British government had nationalized British ironworks and steel plants just one year earlier, it saw no benefit in reassigning management of these sectors to yet another body (Booker and North, 2005).

Franco-German production of coal and steel fell under a single joint High Authority, which was intended to form the basis for economic development and serve as the first step towards federalization. Representatives from the Benelux countries and Italy were also invited to join in the negotiations. The new grouping was simply called 'The Six'. The final agreement was signed at the Treaty of Paris on 18 April 1951 which officially founded the European Coal and Steel Community (ECSC), also known as the 'mountain union' (Collins, 1998).

The European project soon came to evolve its own mythology to explain how it originated. One of the project's central needs was to portray itself as having emerged during the years after 1945. This allowed it to promulgate the myth that it had put an end to European wars, and also allowed it to present itself as a progressive creation of the modern world, rather than as a failed dream of the 1920s. Only as a post-war ideal could it be projected as new and forward-looking. (Booker and North, 2005: p.58)

Although Monnet had brilliantly managed the first stage of his ambitious plan, he overestimated his power in the next phase. His proposal to establish a European defence community to lay the foundations for a future European army headed by a European defence minister and council of ministers, with a joint budget and arms programme, did not succeed. In contrast to Schuman's plan, this plan was not received positively abroad (Dinan, 2010).

French Prime Minister René Pleven presented an ambitious scheme to create a European army managed centrally under a unified European defence minister. The ministry would be administered by a Foreign Affairs Council and defence ministers. The European Defence Community was intended to unite the defence policies of western European countries (Fiala and Pitrová, 2009).

On 27 May 1952 the European Defence Community Treaty was signed along with a general agreement on the renewal of German sovereignty. Spaak proposed the establishment of a European political community that would serve as a joint political umbrella for the European Coal and Steel Community and the Defence Community. To this end Spaak headed a committee formed to develop a basic draft law for the European Community – the first draft of the European constitution (McCormick, 2005).

De Gaulle was decidedly against a defence community, calling it a “monstrous treaty” which would rob France of its sovereignty. After a tumultuous debate that focused mainly on the supranational principle, the French parliament rejected the European Defence Community Treaty. This also swept Spaak's initiative off the table. At the time it seemed that the move towards supranational integration had been more or less suspended (Baldwin and Wyplosz, 2015).

Monnet's immediate reaction to this seemingly overwhelming defeat was to resign from his position as Chairman of the European Coal and Steel Community. Monnet only made progress towards his goal when his allies persuaded him of the need to use the boldest strategy yet: the entire project would be continued under the guise of deception. Through the European Atomic Energy Community (Euroatom), political integration was camouflaged by economic integration which, according to North and Booker (2005), enabled an essential mystification of the entire story.

During negotiations on the new treaty, Spaak purportedly noted that “what we will achieve is nothing short of a revolution”. On Monnet's urging, there was no talk of a High Authority; instead a more neutral Commission was

discussed. The French also pushed for a Common Agricultural Policy to be included in the text. Great Britain, which enjoyed free trade and exceptional trade relations with its Commonwealth, did not see the need to fall in with the Treaty of Rome (McAllister, 2010).

Every attempt to manage the affairs of the European continent using superstructures was an attempt to replace the free mutual interplay of states with a system of international corporatism. The concepts of the independent nationhood of states and the 'balance of power' are closely related. The 'balance of power' was a doctrine that was thus countered by the emergence of a 'hegemony of power' on the European continent (Laughland, 2016).

2.3. European Communities

In Rome on 25 March 1957 representatives of the Group of Six countries signed a treaty on Euroatom and the Common Market. The treaty established new institutions: a Commission, a Board of Ministers, and an Assembly comprising delegates from national parliaments. In addition, a European Court of Justice (ECJ) was also to be established. The rule of unanimity was very constrained in the new organization. The treaty was ratified later in 1957 (Collins, 1998).

The declared objective of the European Economic Community was to establish a 'common market' between the six members based on four freedoms: freedom of movement of goods, of services, of people, and of capital. This common market was not, however, conceived of as a 'free trade zone'. The four freedoms were enforced through an increasingly stringent system of regulation. The founders of the EEC saw the Treaty of Rome as the first step toward a future 'European government' (Jovanović, 2005).

One of the most fundamental principles on which Monnet had established his 'government of Europe' was that, once the supranational body has been granted a particular power or 'competence', this can never be returned. Power can only be transferred by individual states to the supranational entity; never the other way round. Once those powers or 'competences' are ceded, either by treaty or by passing laws over a particular area of policy, they constitute the Community's most sacred possession: the so-called 'acquis communautaire'. (Booker and North, 2005, p.103) [The Lisbon Treaty formally allows the opposite procedure – the assignment of competences from the supranational entity to member states – but it has never been used in practice.]

The operation of the European Economic Community was managed through an institutional structure developed according to the European Coal and Steel Community. The EEC's bodies were the Commission, Council, Assembly, Court of Justice and the advisory Economic and Social Committee. The EEC's management body was the Commission, consisting of nine members that represented the EEC in international affairs. The commissioners were delegated by their national governments and were accountable to the Assembly's 142 representatives (Fiala and Pitrová, 2009).

There is an asymmetry between member states and acceding states. The most that acceding states can achieve are temporary 'exceptions' or transitional concessions that enable the given country more easily to acquire and adapt to those requirements that it will eventually have to uphold in full. Acceding countries are always in unfavourable positions because the rules and decisions about membership are always made by the members of the club (Baldwin and Wyplosz, 2015).

The true goal of the designers of European integration was to transfer more power from national parliaments to the supranational centre (Dinan, 2010). According to the Treaty of Rome, the European Community was authorized to approve three types of legal norms: directives, decrees, and decisions. The Merger Treaty in 1965 fused the EEC, Euroatom and the ECSC into a single body, called the European Community.

Booker and North (2005) call the moment when the ECJ confirmed the authority of EC law over state law a 'state coup'. The proposal by which Community law is deemed superior to state law was in fact rejected during the finalization of the Treaty of Rome. Owing to two historical ECJ decisions, however, this principle became the rule upon which the entire enormous structure of the supranational government was built. In 1977 the ECJ confirmed that the Treaty of Rome upholds the central value of an 'internal constitution' of the Community, and that member states are also required to uphold it.

In the 1960s French president Charles de Gaulle vetoed Great Britain's membership in the Community not once but twice (Booker and North, 2005). The subsidy system assumed greater political significance in France than in any other country. De Gaulle rejected British membership in the EC on the grounds that, according to him, Great Britain's accession would fundamentally change the character of the community. Great Britain was an

industrial and trading country where agriculture played a marginal role (Goodman, 1996).

In June 1965 France increased pressure on the other five countries in order to assert its vision concerning financing. De Gaulle was not willing to compromise and did not want to forfeit the right to decide on the French contribution to the EEC. The remaining members of the Six were opposed to a Common Agricultural Policy (CAP). In protest the French foreign minister left the Council negotiations and the French found themselves in a political 'empty chair' crisis, after which French civil servants withdrew from the Brussels negotiations (Kovář and Horčíčka, 2006).

Great Britain's contrary stance on further integration was reflected in a proposal to create a free trade zone intended to relax trade barriers without introducing the risks associated with supranational economic management. The British free trade zone concept included free movement of industrial products but did not encompass agriculture. The British goal was to engage as many countries as possible, including ECSC member states, in the proposed zone (Fiala and Pitrová, 2009).

British resistance to the supranational principle was based on divergent visions of European integration. Since the British preferred the 'intergovernmental' model, they supported the establishment of a diverse array of intergovernmental organizations such as NATO, the Council of Europe, the European Free Trade Association (EFTA) and the Organization for Economic Cooperation and Development. Great Britain finally joined the European Community in 1973 (Booker and North, 2005).

The United Kingdom's application for membership in the EC was mainly for economic and political reasons. Two chief factors helped contribute to the change in British policy. The main one was the realization that EFTA simply could not compete with the EEC in terms of significance. The second was London's declining importance in international affairs, particularly in relation to its influence on Commonwealth countries (Kovář and Horčíčka, 2006).

The original goal of creating a broad free trade zone had not succeeded, and EFTA with its limited geographic and contractual scope could not compensate for the loss of trade relations on a broader scale. In addition, the United States was advising Great Britain to establish closer ties with the European Community (above all with France). Thus Great Britain finally decided to submit its application (Fiala and Pitrová, 2009).

North and Booker assess the British enabling act of 1973, which delegated direct legislative authority to the ministry, as the largest handover of power to the executive branch in terms of constitutional law (2005). Unprecedented competences were placed in the hands of unelected civil servants in Brussels and London, who acquired the right to create laws in a process that had little to do with democracy.

A referendum was held on whether the United Kingdom should remain in the EC: the results were positive. The United Kingdom thus remained in the Community, although Margaret Thatcher later applied considerable pressure to reduce the UK's contribution to the budget (Dinan, 2016). Other countries also hesitated to join the EC. Norway did not succeed in negotiating favourable fishing policy conditions and the Norwegians rejected accession to the EC in 1971. The Swiss also decided against accession negotiations on several occasions.

2.4. Single European Act

When the Werner Committee published its report on 'the establishment by stages of economic and monetary union' in 1970 it was seen as a huge step forward towards political integration. The vision was of a European federal state with a single currency. All national economic management tools (budgetary, currency, pensions and regional) were to be transferred to a central federal institution. The plan assumed transformation of the existing Community within a ten-year period (Urwin, 1995).

In 1972, the Basel governors of the European Central Bank in concluded a European Exchange Rate Agreement based on the 'snake in the tunnel' mechanism. The exchange rates of their currencies were to fluctuate with a margin of 2.25%. The countries of the Group of Six joined the system as did the United Kingdom, Sweden, Norway, Denmark and Ireland, but the snake was to encounter problems. Gradually the United Kingdom, Italy and France withdrew from the system and in the mid-1970s it seemed that all hopes of fulfilling the Werner plan had been thwarted (Chang, 2009).

During the second half of the 1970s and first half of the 1980s the European Community underwent a complicated process of intensifying integration. Preparations were underway for economic and monetary union. This process was hindered somewhat by the oil crisis of 1973 which, along with the international currency crisis and recession of 1973-75, contributed to the deepening of economic disparity among the Group of Nine (Kovář and Horčíčka, 2006).

The problems resulting from the unsustainable fixed exchange rates paradoxically contributed to the renewal of the idea of an economic and currency union. European politicians once again used the crisis to justify expansion of EC authority and subsequently to intensify integration. European 'political power', a Community budget and a central banking system were to be established alongside the common institutions of the community. A pan-European tax was also deemed necessary (Monticelli and Papi, 1996).

When Jacques Delors was elected President of the European Commission in 1985 plans began for a Treaty on the European Union (Hix, 1999). The document was so ambitious that it was divided into two separate treaties which were approved over a time span of five years: the first was the Single European Act, the second the Maastricht Treaty (Majone, 2005).

The initiator of this step was Altiero Spinelli, who was convinced that the only way to establish a federal Europe was to take the initiative through parliament and advocate for a complete reform of the Treaty of Rome. He argued that there was now greater pressure to integrate. The Community was about to take on three new members – Greece, Spain and Portugal. The Group of Nine was to become a Group of Twelve (Nava and Altomonte, 2005).

The real significance of the Single European Act was conveyed by its title. Although it would be presented as mainly dealing with the Single Market, it was in reality a further crucial step towards building a 'single' Europe. It extended 'Community competences' by taking over national governments' power to make laws in several important new policy areas, notably the environment. Through the extension of majority voting it added substantially to the supranational nature of the Community. (Booker and North, 2005: p.223)

The Act stipulated labour conditions, a reduction of differences between regions in the Community in terms of environmental policy and inhabitants' health, and cooperation in science and technology. The content of the Single European Act went far beyond a common market. Deliberations over a currency union, which were related to the establishment of a single market, were hindered by the United Kingdom and the Federal Republic of Germany (Kovář and Hořčíčka, 2006).

Jacques Delors was a strong and talented European federalist (Klaus, 2012). While the most famous attempt to centralize on the grand scale, the Soviet Union, was on the verge of collapse, the European Commission under

Delors' leadership was passionate about centralization. The intended result was an artificial mega-state. It is notable that during the dissolution of the Yugoslavian federation the EC's only effort was to assure federal courts of their intention to keep Yugoslavia whole.

Delors wanted to strengthen the supranational dimension of the European Community, because he believed that only a supranational approach could guarantee the successful establishment of a political union. In his inaugural speech to the European Parliament on 14 January 1985 Delors distanced himself from the wave of 'general scepticism' known as Europessimism or Eurosclerosis, and called for greater trust in the Commission (Fiala and Pitrová, 2009).

The most visible outcome of the single market was an increase in regulation (Armstrong and Bulmer, 1998). Harmonisation began taking place in all aspects of economic activity, from labels on firefighting equipment to the popular and heavily publicized issue of bent bananas. The official rationale for this legislation was the assertion of principles that no one could refute: security, hygiene, consumer protection, environmental protection, etc.

As integration of the EU grew, criticism of this process also increased, both in specific countries – from the perspective that procedures accepted in the EU were not in the interests of those states (the Common Agricultural Policy and bio-fuel measures being typical examples) – and also fundamentally from the point of view that continuing integration in areas other than the strictly economic (more precisely trade) would lead to an increase in tension between the given countries as well as a growth of public resentment of the EU.

The banana-curvature regulation became a popular example of EC regulatory processes. It should be noted, however, that despite how ridiculous this particular example sounds, it was not actually quite as ludicrous as it may seem from a layperson's point of view. Regulations categorizing the quality and appearance of fruit are not uncommon, and had pre-existed in all member states many years before those countries became member states.

For example, in 1983 the Czechs had already put forward regulations governing the diameter and other parameters of bananas as well as categorizing bananas by quality. The Czech Republic adopted European regulations in this area in 1999, i.e. prior to its accession to the EU. In reality many regulations governing the standard of products or agricultural products are required by trading or processing companies. In the case of

fruit, for example, due to standards of quality valid across the entire common market, the EU-wide regulation can be relied upon and there is thus no need to compare specific national legislations.

Nonetheless, the amount of new bureaucracy that was and is associated with the EU is considerable, although in some cases the only examples brought to light are those with very little substantiation (albeit with high media entertainment value) instead of truly valid examples used as criticism.

The Single European Act mentioned above comprises 34 articles amending the Treaty on the EEC, ECSC and Euroatom. It strengthened the authority of the European Parliament, which was no longer intended just as an advisory body, but rather as an institution collaborating on the adoption of European legislation. In the Single European Act, the inner market was defined and a schedule for its completion was set forth. The member states declared their support for ‘convergence of economic and monetary policy’ (Fiala and Pitrová, 2009).

2.5. Pillars of the Maastricht Treaty

During discussions about the expansion of the European Community to include the former German Democratic Republic, Federal Chancellor Helmut Kohl and French President François Mitterand agreed that instead of advancing European integration in Eastern Europe, further intensification of cooperation within the group of Twelve was necessary. Both politicians were supported by Commission President Delors who advocated for the creation of a political union (Kovář and Horčíčka, 2006).

The Commission focused on initiating social dialogue and then on the development of a Community Charter of the Fundamental Social Rights of Workers, known as the Social Charter. The Charter anchored the provision of the right to free movement within the EC, free choice and performance of professions for just wages, the right to social protection, etc. The Social Charter was ratified on 9 December 1989 at a summit in Strasbourg (without the consent of the United Kingdom) (Fiala and Pitrová, 2009).

Since further development of integration, whether economic or political, exceeded the framework of the founding treaties, amendments were required. At a meeting of the European Council on 9-10 December 1991 the intergovernmental conference concluded with the acceptance of a document entitled the Treaty on European Union, which the foreign affairs ministers signed on 7 February the next year (Chang, 2009).

The Maastricht Treaty was the greatest jump in European integration since the Treaty of Rome (Dinan, 2010). The Treaty introduced a three-pillar structure: a common economic and monetary policy, a common foreign, security and defence policy, and co-operation in judiciary and domestic affairs. The member states committed to support “the Union's external and security policy actively and unreservedly in a spirit of loyalty and mutual solidarity” (Soentorp, 2014). The Treaty increased structural funds through its ‘Cohesion Funds’.

The most important feature, however, was that the Maastricht Treaty expanded the authority of the European Commission and also introduced qualified majority voting in another thirty areas. The European Commission extended the limits into a diverse range of new areas, including culture, education, healthcare, and social security. ‘Europe’ was the top priority, ‘national’ became secondary: up until the Maastricht Treaty the opposite had been true (Klaus, 2012).

North and Booker (2005) consider the subsidiarity principle introduced by the Treaty to be a deception. Although the principle states that authority will be delegated to member states, in reality the most important competences were always transferred to a higher level. The ‘Higher Authorities’ had the right to decide when the subsidiarity principle should be applied, it thus being a principle of centralization, not decentralization.

The Maastricht Treaty introduced a common European currency (Neal, 2007). The first preparation period was initiated in 1992. The second phase established the institutional structure required for the operation of the currency. In the third phase, exchange rates for countries adopting the common currency were to be irrevocably set. The currency union concept also included publication of convergence criteria which the candidate countries had to uphold.

The ratification process of the Maastricht Treaty encountered some complications (Levitt and Lord, 2000). The Danes initially rejected the Treaty, which caused something of a commotion throughout Europe. The Treaty would have to be declared invalid if even one member opted against ratification. The European Council ministers decided that the ratification process would continue as if nothing had occurred. France ratified the Maastricht Treaty with a slight majority of 50.5%. After Denmark was allowed to abstain from adopting the common currency and from participating in a common defence policy, the Danes ratified the Treaty in a second referendum (Pelkmans, 2001).

The Maastricht Treaty marked a revolution in governance (Hix, 1999). The European Community became a legislation factory that spewed forth more and more directives and decrees by the year. The European Council of Ministers remained the only apparently democratic body. But Council meetings took place behind closed doors for years and minutes of its meetings or voting were not available to the public.

Whatever the Community claimed it was trying to do, the result was invariably the opposite. A Single Market claimed to be a great act of 'liberation' and 'deregulation' had produced one of the greatest concentrations of constrictive regulation in history. A 'reform' of the Common Agricultural Policy intended to cut back on over-production and misplaced expenditure ended up producing more unwanted food at even greater expense. The Common Fisheries Policy, intended to 'conserve Europe's fish stocks', had resulted in an ecological crisis. (Booker and North, 2005: p.306)

In order to avoid having to commit to an early accession date for new members, the old members set forth the Copenhagen Criteria, five rules for EU accession. Under the criteria, each candidate country had to have in place institutions to preserve democratic governance, a market economy, protection of minorities, the rule of law, and human rights. They also had to be able to fulfil all membership obligations including compliance with the objectives of economic and monetary union. Those conditions dictated tactics.

The distance from reality was seen also in further European Council meetings. Delors' White Paper proposed a solution to Europe's structural unemployment problems. One result was the production of a selection of phrases such as 'foundations of sustainable development' and the need to 'persistently continue in the construction of a united Europe'. Greater integration was considered to be the answer to all European problems (McAllister, 2010).

Monetary union was created at the turn of the millennium (Chang, 2009). In January 1999 the currencies of the member states had to be permanently fixed. In January 2002 new coins and banknotes were issued and national currencies ceased to be legal tender. The Maastricht convergence criteria (a public budget deficit lower than 3% GDP and a national debt lower than 60% GDP) were later breached by even the largest members of the eurozone. What is more, compliance by new members was the most rigorous. The Stability Pact turned into a farce (Mach, 2001).

The Treaty of Amsterdam cancelled the right of veto in another sixteen areas, including healthcare, support for full employment, an EU research programme, and equality between men and women (Dinan, 2010). The Community framework included the free movement of people, the Schengen Agreement, an asylum policy, migration, and police cooperation, although these areas had required unanimity (Pelkmans, 2001).

The main change brought about by the Treaty of Amsterdam was a communitarian approach to asylum and to a common migration policy. The Amsterdam Treaty lays out the fundamental principles of the Union, which are: “the principles of liberty, democracy, respect for human rights and fundamental freedoms, and the rule of law, principles which are common to the member states”. When any member state breaches the above principles, the European Council may decide, unanimously and with the consent of two thirds of the members of the European Parliament, on its punishment (Fiala and Pitrová, 2009).

The ratification of the Treaty of Amsterdam introduced changes of only limited scope, and of fairly low impact on the capacity and efficiency of the European institutions. Since the Amsterdam Treaty did cover the issue of the EU functioning after enlargement from the countries of Central and Eastern Europe, that issue became pertinent with their approaching accession (Kovář and Horčíčka, 2006).

The Treaty of Nice adopted several measures in order to adapt the institutions for the acceptance of a greater number of member states and thus prepared the EU for enlargement (McAllister, 2010: p.206). The meeting of the European Council was held in Nice 7-11 December 2000 and the ministers of foreign affairs of the EU member states signed the Nice Treaty the following year on 26 February. The Nice Treaty increased the possibility of decision-making by qualified majority within the Union (Jovanović, 2005).

Qualified majority voting in the EU can be used when adopting policies in the Union that support measures against discrimination, solve severe economic problems arising from things like natural disasters, deal with monetary policy issues, take up a large part of the common trade policy, are to do with decisions pertaining to the adaptation of industry to structural changes, increase support for businesses, ensure the coordination of economic and social cohesion tools or the definition of structural funds objectives (Fiala and Pitrová, 2009).

The Treaty of Nice even reinforced still further the straitjacket of European integration. It was ratified by national parliaments with one exception: Ireland ratified the treaty by referendum. And it was Ireland where the whole process became complicated. An initial referendum held in Ireland had not ratified the Treaty. Arguments expressing worries about traditional Irish interests and neutrality prevailed (Baldwin and Wyplosz, 2015). The second Irish referendum had a positive result.

In 2004 ten new members acceded to the EU (Jovanović, 2005). First, these new members had to bear the cost of compliance, introduce more than 100,000 pages of community law, and open up their markets to all other EU members. In addition, they could see that the new conditions meant depriving their citizens of the right to work in current EU member countries for an initial seven-year period and also that, in comparison with their more established peers, their farmers would get only one quarter of the subsidies.

2.6. European constitution

The Laeken Declaration founded the European Convention in order to ascertain whether or not the time was right to adopt a constitutional text on the ‘future of Europe’. Although the declaration only affirmed that the Convention should assess various options and not draft a ‘constitution’, its president, Giscard d’Estaing, would not be satisfied with anything less. The final version of the constitution was submitted to the intergovernmental conference for discussion and the European Council approved the European Constitution on 18 June 2004.

The European Constitution is much longer than the US Constitution. While the original US Constitution had only seven articles, with another ten shorter articles constituting the Bill of Rights added after four years, the draft European constitution contained 465 articles. Although the objective was to simplify and clarify the existing text, the draft of the new treaty was 40% longer than the 338 articles it was supposed to replace (Brodský, 2006).

The European Constitution was intended to cancel the indefinite three-pillar Maastricht structure. The first part specified the main EU values and objectives in such a way as to resemble the constitutions of its member states. It listed the EU symbols – flag, anthem, slogan, currency and the ‘Day of Europe’. The EU would become a legal entity. If the EU constitution came into force the Union would be able to sign international agreements and become a member of international organisations. In contrast

to the previous treaties it clearly set forth the supremacy of European law over national law (Kovář and Horčíčka, 2006).

The constitution extended the powers of the Union with a number of new objectives and competences (McCormick, 2005). The constitution distributed these powers between the EU bodies and member states. The EU constitution distinguished between the exclusive powers of the EU, the shared powers of the EU and member states, and additional powers. In the second case, individual states were allowed to pass their own legislation only in areas where EU legislation was not in force – internal market, environmental protection, selected social policy affairs. In the third case the EU only complemented or supported the member states' activities – industry, culture, etc.

The European constitution restricted the right of veto of the member states and applied qualified majority voting as the norm: if not stipulated otherwise, qualified majority voting would be a standard decision-making mechanism in the Council of Ministers. It would also be more widely applied in the European Council where until then it had not been used much. The European constitution established a new function of the EU President and Minister for Foreign Affairs, and the Charter of Fundamental Rights was attached (McAllister, 2010).

The EU constitution would bring about a revolution in the legal system. It revised the current legal system by introducing European laws, European framework laws, European regulations, European decisions, recommendations and opinions. Articles I-60 specified the conditions for the exit of a member state from the EU. The European Constitution would substantially change the way states were administered beyond that which had been expected of them during their accessions to the EU (Dinan, 2010).

The draft did not contain anything to make the Union more transparent or democratic, or to enable the European institutions to move closer to their citizens. The hundreds of pages of the Constitution represent the most complex governmental system the world has ever seen. Akin to what had occurred fifty years ago when the European project had been launched, its ingenuity lay in the fact that it left all national government institutions as they were but 'emptied them' from the inside.

When, however, the European constitution was rejected by referenda in France and the Netherlands, it seemed that the game was over. The Constitution, being considered both symbolic and the culmination of fifty

years of integration, received a heavy blow. European policy was first overwhelmed by chaos, followed later by a period of reflection (Fiala and Pitrová, 2009) and finally by an attempt to implement the constitution in another way. An adapted version of the constitution was the Treaty of Lisbon.

2.7. Lisbon Treaty

The Lisbon Treaty was signed on 13 December 2007 in Lisbon and came into force on 1 December 2009 (Šlosarčík and Kasáková, 2013). It brought some essential changes. It confirmed the supremacy of European law over national law. The Protocol pointed out that in compliance with case-law in the European Courts of Justice the treaties and legislation adopted by the Union thereunder would have precedence over the legislation of member states.

Article 6 (1) of the Treaty on the European Union says that the Union recognises the rights, freedoms and principles set forth in the Charter of Fundamental Rights of the European Union of 7 December 2000, as adopted in Strasbourg on 12 December 2007, which shall have the same legal value as the Treaties. It is obvious that the Charter, which had not been part of the EU legislative system, now became an integral part of it and was to be legally binding (Piris, 2010).

The Lisbon Treaty enhanced the powers of the European institutions and established new authorities, such as the EU Minister for Foreign Affairs, called the ‘High Representative of the Union for Foreign Affairs and Security Policy’. Another novelty from the European Constitution was preserved – the article on voluntary withdrawal from the Union (Article 50). The agreement setting out the arrangements for withdrawal, however, had to be approved by 72% of the Council members representing 65% of the population (Dinan, 2010).

The Lisbon Treaty included passerelle clauses – simplified revision procedures. The European Council may unanimously authorise the Council of Ministers to decide by qualified majority, even in those matters that previously had to be decided unanimously. The approval of national parliaments can thus be avoided. The areas where the member states still had the right of veto were transferred to majority voting without the need to sign further treaties (Petřík, 2008).

The previous Article 352 of the Treaty (on the Functioning of the European Union) stipulated that if certain activities of the Community were necessary in order to meet any of the Community's objectives within the common market, and if the Treaty did not provide for the necessary powers, then the Council would have unanimously to adopt appropriate measures upon the Commission's proposal after consultation with the European Parliament. The scope of the objectives was extended broadly by stipulating the 'fulfilling of some of the objectives laid down by the Treaties' (Piris, 2010).

The area of shared competences completely runs counter to the hitherto valid principle that the Union shall act 'only at the moment and to the extent to which the set objectives may not be achieved satisfactorily on the level of the member states'. In the area of shared competences the member states may now act only to the extent the Union has not acted. The rule valid until now said that the Union should act only if the objectives were not to be achieved at the level of the member states (McAllister, 2010).

The Lisbon Treaty significantly extended the scope of voting by qualified majority. Approximately four fifths of all European legislation is now approved by the co-decision procedure – a due legislative procedure. The legislation is approved by a qualified majority in the Council of Ministers together with the European Parliament, which decides by simple majority (Baldwin and Wyplosz, 2015).

The power to consult with national parliaments is purely formal. The Commission will review a bill only in cases where most national parliaments are in agreement on some objection. However, the Commission decides whether or not to keep, change or withdraw the bill. A legislative proposal from the Commission will not be considered only in the event that 55% of the members of the Council or European Parliament come to an opinion that the proposal is not in compliance with the subsidiarity principle (Petřík, 2008).

The changes in the Treaties on the Foundation of the European Union brought about by the Treaty of Lisbon are so significant that in order to provide for its ratification, certain reassuring statements were included in the text. Poland and the United Kingdom obtained an opt-out in an area that became effective with the establishment of the Treaty of Lisbon, which is the previously non-existent legal obligatory effect of the Charter of Fundamental Rights of the European Union. A similar opt-out was later enforced by Czech president Václav Klaus (which, however, the subsequent socialist government retracted).

2.8. Integration rhetoric

One possible way to look at the integration processes is to interpret them as a ‘conversion to true belief’. Such an interpretation of the rhetoric of integration has a number of followers.

The founding fathers of the European Community appear in most histories as the harbingers of a new order in which the nation no longer had a place... The start of the Community was an act of conversion. On one side stood the believers, on the other the heathen opposition. The history of the Community was a struggle between the forces of light and darkness. For the European saints it was the moment of rejection of the old order which was exalted as the most important moment of their lives, the conversion on the road to Damascus expected of all the Community’s labourers on earth, including those who wrote its history. (Milward, 2000: p.318)

One of the victories of the European project from this perspective was that it had been able to create its own myth (Booker and North, 2005). Monnet’s genius lay in his talent for behind-the-scenes negotiations and manipulation. He knew he would never be able to gain support for his plan if he advanced it openly and all at once. The goal could only have been achieved if he proceeded step by step and hid its true essence by downplaying its significance.

Placing political power in the hands of a bureaucrat or a bureaucratic politician means leading it astray (Laughland, 2016). The project of the European centralization undertaken in the name of the market became the project of political harmonisation and unification with distinct anti-liberal elements. It is a paradox that European centralization uses the language of liberalization to promote something completely different – the replacement of national control by supranational control.

But putting particular psychological pressure on people, while convincing them about membership of the EU, created beliefs that were not to be questioned, even by a rational-minded person. In the world of the media, policy and business corporations ‘entry into the EU’ became unquestionable orthodoxy. It was the source of an all-embracing feeling of ‘rightness’ that would be the driving force of so many events for decades (Bednář, 2003).

European politicians firmly believed in the transcendental meaning of their acts. It was almost their meaning of life (Booker and North, 2005). They were the ‘orthodox’, believing in their vision while walking on a long and hazardous road to pursue their distant, shining goal. This communitarian

ideology had the psychological signs of a secular religion – repeating the same articles of faith and burning alive those heretics that dared question it.

The advocates of European integration behaved as worshippers – similarly adopting a collective religious doctrine that bore the hallmarks of moral supremacy without debate. The symbolism of Europe based on altruistic thoughts of unselfish cooperation, ‘peace’, and ‘ever-tighter union’ has a clear religious inspiration (Gilbert, 2008).

To support the ‘European project’ was thus to be seen as ‘pro-European’, implying that this meant outward-looking, positive, internationalist, progressive, on the side of the future. Any ‘anti-European’ could be labelled as inward-looking, negative, narrowly nationalistic, fearful of change, belonging to the past... From within the ‘pro-European bubble’, even the most rational doubts directed at the ‘project’ condemned the doubter as ‘hysterical’, ‘embittered’, ‘fanatical’ or ‘swivel-eyed’. (Booker and North, 2005: p.434)

Critics of European integration repeatedly argued that legal authority in Europe had already been transferred from national to supranational level in many cases. European Union legislation had automatic precedence over that of individual member states. In cases of conflict between the law of member states and EU law, the states were to change their legislation. ‘Shared’ sovereignty, however, is a constitutional nonsense since for critics of integration sovereignty is absolute (Laughland, 2016).

According to those critics, European institutions cannot represent something that does not exist: European political nationhood. Political publicity should be created around common topics of European policy. The efforts to create it by a ‘top-down’ process through obligatory education towards Communitarianism resemble Rousseau’s concept of ‘educational dictatorship’, which tried to force citizens against their will to become interested in issues of common interest (Belling, 2009).

Since standard democratic policy remained on the national level and public debate is carried out in the local political context of each member state, there are no pan-European political parties, no real pan-European media, and no real pan-European politicians (Hampl, 2010). Instead of the integration of legal and political systems, ‘competition of jurisdictions’ would be a more useful term.

The rhetoric of advocates of deeper integration is clear, according to the critics of integration: if we are to head for European integration we must not let the slowest state determine the speed. The Union needs the dynamics of

member states willing and able to integrate and move ahead. The hard core is like a magnet attracting other countries. Europe will be able to keep together only if it is led properly (Laughland, 2016).

What we shall highlight is probably not one of the most frequently used, but certainly one of the most interesting and thought-provoking arguments critical of integration, is that enforcement of European law by the transference of decision-making competences to executive institutions poses the threat to the foundations of parliamentarianism. Obligatory implementation of directives forcing members of different parliaments to vote in a certain way due to international or community law commitments is not compatible with the principle of a mandate based on elections, and creates the conditions for a latent conflict with the will of national states as a source of legitimacy (Belling, 2009).

Probably the most traditional argument of the critics of integration is that the European Union suffers from a significant democratic deficit (Follesdal and Hix, 2006). The main characteristic of democratic regimes is that citizens can change the government. However, critics claim this is not true of the EU, since citizens have no possibility of removing any regulation or legislation adopted by the Commission. The transference of competences to the benefit of the Community strengthens its executive power to the detriment of national parliaments. The Council of Ministers, being a collective institution, is not accountable either. Moreover, it is patently clear that although individual members always bear political responsibility in their own political systems, their responsibility at European level is marginal.

The European Union functions as a union of states, which may preserve their formal sovereignty, all their basic political powers are performed by institutions over which the people in the member states have no control. The notions of authority and law are irrelevant for Communitarian ideology. This creates a risk that the heart of legal systems will be pulled out (Laughland, 2016).

European integration is not a spontaneous, automatic process of natural constitutional growth. The essence of European integration is a technocratic, artificial and purposeful contraction of a kind that is, as Edmund Burke argued, in contrast with the law and with traditional values. Therefore, as critics of integration claim, the EU faces declining competitiveness, mass unemployment and rigid, frequently corrupted, political structures.

If the system is to rely on the democratic legitimacy of decision-making in the future, it must rely on the collective identification of people within the political unit. If there is no such closed political unit, there is nothing to identify with and there is no assumption that the executors of power share identity with the group. Only the nation state is able to preserve the principle of collective political identity (Belling, 2009).

2.9. Rational critics of integration and the European nation

As we can see, there are two contradictory – even antagonistic – and difficult to reconcile views. The first one is the view of European integration involving rhetoric based on a sense of mission and peace-making. The second is critical, tending to portray it as a modern religion and denying it any rational content. This view sees integration as the mere taking of power by a group of non-elected political representatives.

In this regard, we shall say that the term ‘critics of integration’ has many layers. It contains several levels that comprise the goals of particular groups of critics. On one hand, we have ‘absolute’ critics, who define their goal as the complete disintegration of the European Union and a return to the pre-integration phase, which final state they usually describe in terms of ‘establishing (mutually beneficial) cooperation of sovereign states’. On the other hand, other groups talk more about the ‘freezing of political integration’ and the preservation of economic integration, whereby the extent of the freezing (or destruction) of political cooperation and the extent of the preservation of economic integration become the future criteria for those with vigorous specific free-flows.

An interesting fact is that the advocates of integration do not make any distinctions between these groups with their very different goals. This is, however, logical – if the advocacy of integration has the character of a ‘new religion’ then any questioning of the religion is still questioning, whether or not it pertains to the most or least fundamental principles. Therefore, whether or not the particular critic is conciliatory or totally negative in his approach is not important.

In the previous section we mentioned several arguments made by critics of European integration. Now it is appropriate to look at some of them in more detail and evaluate them from the perspective of public choice theory. One of the key statements is the affirmation that there is either absolute sovereignty or no sovereignty, i.e. sovereignty is indivisible. Therefore, it is

not possible to transfer a part of sovereignty to a supranational institution and claim the preservation of partial sovereignty (Laughland, 2016).

This argument is surprisingly abstract – in all cases too abstract in the context of a situation that is otherwise closely related to real policy. However, absolute sovereignty is an artificial notion and mere conceptual construct, since the essential aspect of sovereignty is whether or not it is perceived by public opinion and decisive forces in society as sufficient or appropriate. Its theoretical definition as absolute (indivisible) or not is totally irrelevant to the situation in the moment, and the specifics of reality.

We may deduce from historical experience that any limitation of sovereignty, though it may be accepted by the majority without any major problems at any particular moment, will almost always create a less stable situation. It seems that sovereignty is something perceived as lacking in cases of its long-term sacrifice and that sooner or later it starts to be missed by the majority. We may even speculate that full or absolute sovereignty is a value of a kind that enables the long-term existence of regimes that would otherwise be apparently totally incompatible with liberal democracy (eg North Korea, Cuba or Venezuela).

Nevertheless, returning to the main question of the validity of the criticism of European integration, a key aspect in deciding the legitimacy of the attitude of the critics may be seen in the question of whether or not there is an ‘European political nation’ (Legutko, 2016).

Reality shows that a European nation does not exist, in the sense that Europeans do not behave as one nation. The objectives and procedures of the Union are not formulated from the bottom up and are not generated by the will of a European nation as would be reflected in the elected political representation. The objectives and procedures and formulations are not even made on the premises of the European Parliament, and if we take a closer look at these issues from the perspective of objective as well as subjective national interest, it is clear how impossible it is for a European political nation to be constituted (at least in its present form; this is not to say that its constitution would not be possible at some future date, but it may be regarded as highly improbable) (Fiala and Pitrová, 2009).

In general, we may say that there exist some basic conditions for the constitution of the European nation. There are certain basic common cultural and historical foundations that might form a basis for constituting European identity under certain circumstances. This may be, in particular, a

commonly shared Judeo-Christian culture and religion, together with some other factors. Even here, however, we can see problems that might be very difficult to overcome since, for example, even the term ‘European history’ is problematic – its consistency suffers with each regional enlargement of the European Union. For example, it would be very a complicated task to define common moments of Spanish and Lithuanian history. (Legutko, 2016).

Similarly, the commonality of a Judeo-Christian cultural and religious identity is disappearing, particularly in the case of such distinct regions as the United Kingdom and Greece. If we take seriously the efforts to continue the integration processes in today’s candidate countries (Turkey, Macedonia, Montenegro, Serbia and Albania) then it is obvious that the notion of a European nation would suffer further serious setbacks that would be hard to manage, even if we were willing to acknowledge its existence.

Of course, we can still really speak about a political nation in principle only, since it is the only possible way. A European nation, in the ethnic sense of the word, is an absurd idea even if integration in the regional sense of the word stopped at the stage of the European Coal and Steel Community. The effort to establish a political nation, however, logically crumbles due to significant migration into the European Union, since it is not possible to overlook the increasing influence of inhabitants for whom the continental historical tradition, and Judeo-Christian traditions, are rather alien elements, and this is taken into consideration.

European politicians are thus accountable only within their own political system (since it is there that they run and will continue to run for office). As can be seen in the real world, the preferences of voters are governed by state or national topics, not by a European agenda. The ‘European Parliamentary elections’ do not and cannot have enough weight as an expression of a common (integrated) political system (Armstrong and Bulmer, 1998).

Constant conflict is therefore unavoidable. We may, with some exaggeration, consider the European Parliament to be an expression of the common political will of European voters. And within it are factions composed of the representatives of the individual national parties. To a certain extent those factions represent climates of opinion streams manifested in European countries via the number of supporting votes, and also found somewhat exaggeratedly in European society (though this concept is rather misleading and too optimistic, since the existence of European society and indeed of a European political nation could also be questioned).

Nevertheless, the European Parliament has only a limited role in the real decision-making processes of the European Union, even in its role of legislator. Its key act is the constitution of the European Commission as the representative of the executive power. Further interventions into the decision-making process are rather cosmetic, though it depends on the specific issues the decision-making processes pertain to. What we want to say is that even in the legislative sphere the European Parliament has only limited influence (Hix, 2008).

The real force of executive power in the European Union is distributed between the European Commission on the one hand and individual decision-making points associated with the representatives of national governments on the other. European Union mechanisms are thus far removed from parliament democracy. These facts have been described many times (Klaus, 2012). However, so far no logical conclusion about the obvious consequences of such a situation has been drawn. The use of the concept of national interest, together with the use of the public choice theory apparatus, is nevertheless worthy for further consideration.

Contradictory provisions of individual executive elements mean restrictions on the integration processes, not only because of different personalities or opinions, or criticisms of the integration processes, but mainly due to the constitution and the implementation of national interests. Tentatively we may say that if we define objective national interest as a set of requirements, e.g. safety, prosperity, and stability, then a lot can depend on the emphasis individual societies put on individual elements at particular times. This will mainly influence how subjective national interests will be formulated and defined at any given moment.

We live in a European Union environment composed of many diverse political systems (nation states) where the only common denominator, whether major or minor in tendency, is to liberal democracy (should the obvious fact of total or relative geographical proximity be omitted). The creation of subjective national interests in this environment of liberal democracy is very difficult and extremely time-consuming, as well as demanding in other regards (however, it is fundamentally democratic). What is more, liberal democracy inevitably means that subjective national interests may be formulated and constructed as diverse even within one nation (whether political or ethnic, although we may expect more diversity of such subjective interests in the phase of implementation within a political nation).

The balance of executive power between bodies established as a consequence of European elections and bodies established as a result of national elections must inevitably be accompanied by continuous conflicts arising from non-compliance with subjective national interests, as formulated in individual member states by the expression of the political will of their inhabitants – which is consequently materialized in the constitution of national political representations. We may say that in liberal democracies (and parliamentary democracies in particular) the establishment of political representation as a result of free elections is an act to determine which social opinion-streams, formulating subjective national interests, exert influence in society at the particular time that they realize their ideas in national policy that will then actually be implemented (Gillingham, 2003).

Do elections to the European Parliament that represent the corresponding act of the will of voters carry the same importance as national elections? Unfortunately not. In fact, elections to the European Parliament are an attempt to repeat national elections – no matter that they are usually held under different domestic political circumstances due to differences in time. Nevertheless this is not sufficient since, owing to the differing environment and function of the European Parliament in comparison with the common position of parliaments in parliamentary democracies, the repetition of the same elections at state and European levels is even more striking. If in previous sections, in some cases, we mentioned doubts about thought-constructs, here we must admit this is merely one such construct.

We may well point out that inhabitants of individual countries within the EU should have a different approach to European Parliament elections than to their national elections. Such warnings, however, are useless since the voter (as becomes obvious) may refuse to distinguish between the influence of the European Union and national institutions. We may say that inhabitants and voters are not clear about whether or not they should consider elections to the European Parliament as more important than any other election. Voters clearly do not understand why they should have to weigh up the respective proposals of the parties and make a choice according to different criteria than those used in elections to national bodies.

It is quite understandable that integration rhetoric is loath to confront the fact that regular voter turnout in elections to the European Parliament is far lower in all the states of the Union than voter turnout in national parliamentary elections. During the 2014 election to the European Parliament voter turnout in Slovakia was a mere 13% of eligible voters as compared with almost 60% in their 2016 parliamentary elections. In the

Czech Republic it was less than 20% (usual voter turnout in national parliamentary elections being 57-65% in the long term – 59.5% in 2013 and almost 61% in 2017). Throughout the whole European Union total voter turnover in 2014 was 43% on average, which is similar to the figure in 2009. This figure is 15-25 percentage points lower than the long-term average for voter turnover in national parliamentary elections.

A frequent argument of the architects of integration is that voters trust European institutions and therefore do not feel the need to intervene in the elections. Another explanation is that for some people the European Parliament is not understandable and that they therefore do not want to influence it. Critics of integration, probably quite legitimately, offer a contradictory explanation – namely that voters are aware of the fact that the European Parliament is part of a system that suffers from an absence of democratic processes. They know that their vote is not important and show it by not voting, since they feel that European institutions will continue in the same way regardless of election results.

The non-existence of a European political nation must inevitably cause stronger and more damaging conflicts that will only become more acute with growing pressure on European Union integration. This can be seen in the case of the migration crisis as well as in the many other conflicts that gradually led to the United Kingdom's decision to leave the Union through 'Brexit'. There is no agreement about which of the triad of fundamental objective national interests at least theoretically available in the European Union will be given absolute priority.

2.10. Summary

The declared objective of the European Economic Community was to establish a 'common market' between the six members based on four freedoms: the movement of goods, of services, of people, and of capital. This common market, however, was not conceived as a 'free trade zone'. The four freedoms were enforced through an increasingly stringent system of regulation. The founders of the EEC saw the Treaty of Rome as the first step toward a future 'European government'.

When Jacques Delors was elected President of the European Commission in 1985, plans began for a Treaty on the European Union. The document was so ambitious that it was divided into two separate treaties approved over a time span of five years. The first was the Single European Act, the second the Maastricht Treaty.

The Maastricht Treaty introduced the European Union and a common European currency. The Amsterdam Treaty and the Nice Treaty strengthened the supranational character of the Union. More and more issues in European institutions were decided by qualified majority voting instead of unanimity. Although the European constitution was rejected, its main ideas were incorporated into the Lisbon Treaty.

One of the victories of the European project from this perspective was that it had been able to create its own myth. Current economic problems within Europe, however, including the crisis of the eurozone, have indicated that European integration has reached its limits. It is becoming obvious that the idea of even tighter integration as a solution to European problems is unrealistic. Critics of tighter integration say that we will pay for over-regulation and an excessive welfare state with thin economic growth or even stagnation.

The principle of national interest assumes that the interest is defined from the bottom up as the prevailing interest of a certain society, a political nation. It is represented by a sufficiently sizeable and relatively homogeneous social group. A precondition for its implementation in a liberal democracy is sufficient political agreement on its formulation and procedures. This, however, is not possible in the European Union since there is not enough agreement among the states on the formulation of such interests, not to mention the procedures for the implementation of those interests.

On top of that, the migration crisis has resulted in the erosion of a problematic objective national interest, something common to all political or ethnic nations cohabitating in the region. Although objective national interest is defined in a very general way, it still reveals a growing conflict with regard to the priorities of its individual constituent components.

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CHAPTER 3

EC/EU ENLARGEMENT VS. EXITING

The concept of modern European integration has been idealistic from the very beginning. Not surprisingly, the idea of a ‘United Europe’ regained popularity after the end of the bipolar ‘East–West’ conflict. Post-communist countries were attracted by the ‘returning to Europe’ slogan, which led the EU to declare that it was ready to accept most countries of Central and Eastern Europe. Although the original concept was no doubt well intentioned as well as idealistic and without question – gradually the real interests of the actors (existing members as well as candidate countries and interest groups or supranational corporations) became apparent. The idea of a united Europe was captivating and seen as ‘beneficial’. However, it was not successful when faced with political and social reality.

After all, EU enlargement (as well as NATO enlargement) was not foreseen or recommended immediately after the end of the Cold War. The Maastricht Treaty supported deeper integration, but EU enlargement was not mentioned. Many people thought that the enlargement of the EU by a group of fragile Eastern democracies would be risky if not destabilizing. But despite all this the EU has been enlarged.

The process of EC/EU enlargement soon seemed to be almost unstoppable: indeed, the optimism of European politicians was unwavering. ‘Brexit’, however, changed this feeling. The threat of the withdrawal of some countries had been in the air for several years, but not even the political elites in Brussels took it seriously. The UK withdrawal from the EU revealed that not all members had been satisfied with the process of integration and enlargement.

This third chapter analyses the process of EC/EU enlargement versus exiting. The first section defines the theory and practice of EU membership. The second section describes the course of Western, Southern and Northern enlargements of the EC. The third section focuses on the Eastern enlargement of the EU. The fourth section inquires into the asymmetry between old and new members, the fifth section analyses institutional issues

within the European Union. The sixth section focuses on Brexit – the withdrawal of the UK from the European Union. The seventh section offers an analysis of development in some other countries; contemplating the possibility of other exits from the European Union. The concept of the exclusion of a member state from the EU is addressed.

3.1. EU membership – theory and practice

If we leave aside the revisions of the Treaties, the most important change in the institutional framework of the European Community has been the accession of new members. At first this may seem surprising since the aim of negotiations on accession is not to change the rules of the game. Nevertheless, even though the rules are not changed, the EU power structure, as well as EU membership costs and shared revenues do change, and therefore also the institutional structures.

EC/EU enlargement (or exiting) has been a historical process (Fiala and Pitrová, 2001). It has been a process connected with certain moments in history, geopolitical situations, developments of European structures, and stages of internal integration. This process, however, has followed some political and economic rules. From the perspective of rational choice theory we can say that the process of enlarging or exiting the Community would not have been carried out if it had not correlated with some interests or benefits to the main actors.

The European Community, and later the European Union, has gone through several phases of enlargement - sometimes called ‘waves’ (Gonč, 2002–2003). It is acceptable to talk about waves since the Community prefers the accession of groups of countries to the individual accession of one candidate country. On the other hand, the word ‘wave’ may also suggest the idea of spontaneity and repeated shock, which would be inaccurate. EC/EU enlargement is a meticulously calculated process on the part of the candidate countries as well as existing members wherein all actors have made efforts to maximize their respective benefits.

The first enlargement wave was in 1973 when the United Kingdom, Ireland, and Denmark acceded to the European Community. The second wave was in the 1980s when Greece in 1981 and Spain and Portugal in 1986 acceded. The accession of Finland, Sweden and Austria took place in the third wave of 1995. The 2004 Eastern wave of enlargement included Poland, the Czech Republic, Hungary, Slovenia, Slovakia, Estonia, Latvia, Lithuania, Cyprus and Malta, and later (in 2007 and 2013) Bulgaria, Romania and Croatia. In

2016 the process for exiting of one important Western member, the United Kingdom, was initiated.

A cynic would say that formal criteria exist to discourage those who are not welcomed (Hirsch and Almor, 1996). Goodwill on both sides does not mean that negotiations will not be tough. The candidate country attempts to avoid unfavourable provisions while the Union requires adoption of full *acquis communautaire* and *acquis politique* and the highest possible contributions to the budget. The negotiations and compromises, characteristic of the EU decision-making process, start even before the country becomes a member state.

Formal essential elements for accession to the EU include the application for EU membership submitted to the Council (Fiala and Pitrová, 2001). The Council then consults the Commission about the application, whereupon the Commission issues an opinion on the readiness of the candidate country for membership. This is a prerequisite for the commencement of negotiations. The length of the period for the Commission to formulate their opinion depends on the complexity and scope of necessary negotiations with the specific country. For example, Norway (even though it eventually did not become an EU member, having rejected membership in two referenda) had only four months to wait for an opinion, compared to almost three years in the cases of Malta, Turkey and Cyprus.

When the candidate country receives the opinion from the Commission, negotiations with the EU begin. Negotiations are completed after settling all disputed chapters, pertaining mostly to problematic areas of the candidate country. Next, a treaty on accession is signed and approved by the Council and the European Parliament, and must be ratified by all member countries as well as the candidate country (by referendum or a decision of the parliament).

The progress-strategy of the whole procedure and its negotiations is defined by an internal decision of the Council (Gonč, 2002–2003). In the case of a new member's accession, the Council and Commission hold opposite positions in terms of responsibility compared to other types of external relationships. The Council has a dominant position. However, the Commission, as the custodian of EU law, plays an important role as well.

Some have said that the EU is a highly insensitive institution where political goals (idealistic visions) squeeze out rational views of any matter. However,

if we talk about the accession procedure, we may say it is a highly logical mechanism set up with almost 'mechanical' precision.

All candidate countries must adopt *acquis communautaire* without any reservations (Dinan, 2005: p.149). Only exceptionally are permanent opt-outs or transition periods granted. The candidate country must adopt the communitarian legislation in compliance with primary law, case-law and the decisions of the European Court of Justice, and other acts adopted by the Community and international treaties pertaining to the activities of the Community signed by the member states.

Negotiations on accession focus on specific issues relating to the candidate country when adopting the *acquis*. There is a limited time for the process of harmonisation with a set deadline for the mutual removal of restrictions in the relations of both parties, all with the aim of facilitating the harmonisation of legal regulations. A prerequisite for enlargement is to minimise differences on the economic, political and legal levels between the EU and the candidate country.

In general the EU prefers negotiating with a group of candidate countries (not with individual countries), which makes the negotiation process more streamlined and economical. Since the process of enlargement is based on a consensus of all member states, conflicts over the enforcement of particular member states' interests are an integral part of the accession negotiations (Barnes and Barnes, 1995: p.395).

There are three general criteria for EU membership (Baldwin, 1994: p.155): 1. the economy of the candidate country should either be or become competitive within the EU reasonably fast and make a positive contribution to the EU budget, at least in the long term; 2. the candidate country must have enough administrative capacity to adopt and implement European laws and standards; 3. the candidate country must be willing to adopt *acquis politique*, including the compatibility of its own foreign policy with the EU member states' foreign policy.

The negotiations between the EU and the candidate country revolve around the following three points: the length of the transition period within which the new member must reach compliance with the *acquis communautaire*; the new member's contribution to the budget; the participation of the new member in EU institutions and policies (Nello and Smith, 1998: p.5-30).

Officially, all new members are required to adopt the *acquis communautaire* in full. Candidate countries have very little, if any, chance that prevailing

EU policies will change. However, they can successfully obtain opt-outs or a reference in the Treaty on Accession in which the EU acknowledges that their policies are different. Opt-outs are not only possible but their number have actually increased with the accession of new members to the EU and with the extension of EU powers. The *acquis communautaire* has changed in a certain way with every wave of enlargement independently of the institutional changes: the more countries that participate in the general policies and programmes, the more countries stand to benefit from EU expenses and shared costs (Artis, Banerjee and Marcellino, 2006).

In the case of contributions to the EU budget there is little room for negotiation. There are more options in the case of negotiations with new members about what they will receive from the EU budget. Support for regional development is provided from EU structural funds. The amount a particular country contributes to the EU budget depends on its size and economic power. The EU generates income from tolls, agricultural contributions, and contributions based on member states' GDP (Gonč, 2002–2003).

EU rules and policies are not uniform. When the EU was founded in 1991, Germany was granted a special clause in Article 92 of the Treaty that enabled it to provide state aid outside the scope of normal intensity to regions of the former East Germany. Similarly, special German legislation around citizenship existed. France was granted permission to support overseas *départements*. Denmark and the UK opted-out from participation in the monetary union. Sweden and Finland also wanted to opt out but were not successful. It is highly improbable that any future applicant state would be granted an opt-out from participation in the European Monetary Union (EMU) (Michelis and Koukouritakis, 2007).

3.2. Western, Southern and Northern enlargement

Enlargement of the European Communities (or European Union) took place in several phases: we distinguish the Western enlargement by the accession of the United Kingdom, Ireland and Denmark in 1973, the Southern with the accession of Greece, Spain and Portugal in 1986, the Northern with the accession of Austria, Finland and Sweden in 1995 and the Eastern with the accession of ten countries from Central and Eastern Europe in 2004 (Kaiser and Elvert, 2004), with the later addition of Bulgaria, Romania and Croatia.

3.2.1. Western enlargement (United Kingdom, Ireland, Denmark)

The first enlargement of the European Communities – the Western – took place on 1 January 1973, sixteen years after the Treaty of Rome was signed and more than twenty years after the European Coal and Steel Community was formed (Sychra, 2001: p.21–47). This enlargement included the United Kingdom, Denmark, and Ireland and the Treaties of Accession were signed by the Council of Ministers on 22 January 1972.

No other EC/EU enlargements were accompanied by such disputes as in the case of the United Kingdom, Ireland, and Denmark. The dispute over the membership of the United Kingdom had been a lengthy one since the UK had a unique position in Europe from the point of view of history, geography and power. The United Kingdom, France and Germany have always held different perspectives on the future of Europe.

UK membership within the EC was blocked twice by France, in 1963 and 1967, in both cases President de Gaulle using the veto (Sychra, 2001: p.36–38). Even after the accession of the UK to the EC in 1972 there were voices both for as well as against its membership. In March 1974 the Labour Prime Minister Harold Wilson initiated a referendum about whether or not the UK should continue its membership of the EC. The referendum took place on 5 June 1975 and the result was 67–33 for the UK to stay (Harrop, 1992: p.25).

In 2016, another referendum on UK membership in the EU was held. British Prime Minister David Cameron, in order to placate Eurosceptic critics in the Conservative Party and undermine the rise of the United Kingdom Independence Party (UKIP), promised to hold a new referendum on UK membership before the parliamentary elections of 2015. Cameron himself made efforts to convince the public to vote for UK membership, but the result turned against him.

Cameron negotiated an agreement with the European Union in order to convince the British nation of the benefits of staying in the EU. Cameron said that the UK had gained a special status quo within the EU. The UK was to get the best of both worlds: participation in what it enjoyed about the EU as well as an opt-out from other projects such as open borders, rescue and aid programmes, or the single currency. The British people should decide whether or not to stay in the reformed EU.

The UK referendum took place on 23 June 2016; by a 52% majority the British voted to leave. It is fair so say that the referendum sent shock waves

throughout the British political establishment: David Cameron, leader of the Conservative Party and Prime Minister, resigned. Changes also took place in the opposition Labour Party. Theresa May, the former Home Secretary, became the new leader of the Conservative Party and therefore Prime Minister. However, since she was subsequently unable to obtain the support of British Members of Parliament for a deal with the European Commission, she resigned and was replaced by Boris Johnson, the new Conservative Party leader.

In autumn 2019, Prime Minister Boris Johnson eventually succeeded in negotiating a new deal with the European Commission on the conditions of the exit of Britain from the EU. In December 2019, the conservatives won the parliamentary elections and gained a comfortable majority in the British parliament, which subsequently approved Johnson's Brexit deal. The United Kingdom left the European Union as of 31 January 2020.

Irish relationships with the EC were determined by the United Kingdom due to their close bilateral relationship. Ireland having applied for membership in the EC immediately after the United Kingdom. Doubts, however, were cast from Dublin as well as Brussels on the compatibility of Irish neutrality with membership in the EEA. Despite concerns regarding the loss of state sovereignty and the move to deeper political integration, the Irish Parliament approved the government proposal of Irish membership in the EC by 89 votes to 16. A referendum about the membership of Ireland in the EC took place on 10 May 1972 in which 83% of voters agreed with membership.

Similarly to Irish accession, Danish accession to the EC was also decided by national referendum. The campaign focused mainly on economic matters and not so much on the future development of the EC towards closer political union. More emphasis was put on Danish participation in the decision-making process than on the possibility of the right of veto. 63% of voters voted for accession to the EU in the 2 October 1972 referendum; Denmark duly became a member on 1 January 1973.

In relation to Danish accession a unique event took place fifteen years later – the first attempt to leave the EC. The Treaty of Rome did not provide for the possibility of any member state or part thereof leaving the EC. A referendum, however, did take place in Greenland (a self-governing territory of Denmark) on 23 February 1982 with a 52% majority against EC membership. Accordingly, The Danish Government initiated negotiations with the EC over conditions for a Greenlandic exit that became effective on

1 February 1985 (Sychra, 2001: p.43). It is in our opinion highly probable that in the early 2020s Greenland will gain independence and will cease to be an autonomous territory of the Danish Kingdom. At least, this is what recent developments in the political situation in Greenland have led us to believe, and the expiry of the Fisheries Partnership Agreement between the EU and Greenland in 2020 will have an additional impact.

3.2.2. Southern enlargement (Greece, Spain, Portugal)

After the first enlargement in 1973 the EC had to respond to the fact that non-democratic regimes in Greece, Spain and Portugal had collapsed (Nicholson and East, 1987). As time went by, those countries applied for membership. The southern EC enlargement was brought about by different types of issues than those the Community had faced during the accessions of the UK, Ireland, and Denmark. While the countries of the first wave were politically stable and, except for Ireland, more economically advanced, the Mediterranean countries were different (Svačina, 2001: p.48–95).

The situation of Greece was complex due to its geopolitical situation in the southern Balkans, and in particular in regard to the dispute with Turkey over Cyprus. Negotiations on the accession of Greece to the EC were concluded on 28 May 1979; the Athens Treaty was signed on 1 January 1981 and then ratified by the Greek Parliament and the parliaments of nine member states – this process being smooth in all countries except France.

In the Greek Parliament 193 votes were cast in favour of accession to the EC, against the 93 votes of the left-wing PASOK party and 11 votes of the Communist party. Critics of Greek member-status did not give up thereafter: upon the change of the Greek government similar initiatives were set up for exit from the EC as have occurred in the current UK. Greek Prime Minister Andreas Papandreou wanted to hold a referendum on EC membership and to renegotiate the Treaty on Accession. The referendum did not take place because only the President had the power to announce one (Svačina, 2001: p.59).

Spain first applied for the Association Agreement with the EEA and/or EC together with the UK's request for membership in 1961. It submitted a formal accession request on 28 July 1977 immediately after the Government of Adolfo Suárez was formed. In February 1978 a special Ministry devoted to EC relations was set up and Spain signed the free trade agreement with EFTA in December 1978 – but did not, however, become a member.

The process of negotiations between Spain and the European Communities started on 5 February 1979. Negotiations were suspended by the European Communities in February 1981 after an attempted coup d'état in Madrid, but were eventually resumed. The Treaty on Accession, drafted and approved by Parliament on 11 June 1985, was signed one day later and took effect on 1 January 1986 (Krutílek, 2001: p.73).

In Portugal the authoritarian regime that had ruled the state since 1926 finally collapsed in April 1974. Portugal was a founding member of NATO (1949), a member of the Organization for European Economic Cooperation (OEEC), and later also of the OECD. In March 1975 there was an unsuccessful attempted Communist coup, and a Supreme Revolutionary Council with exclusive powers was set up. Portugal joined the EC upon democratisation in 1982.

After the accession of Spain and Portugal a maximum seven-year transitional period was established. In the first three years tariffs and quotas in both states on the Iberian Peninsula relative to the European Communities were reduced by one half, and were removed completely in the remaining four years. Another maximum ten-year period was set up for fisheries and sensitive Mediterranean agricultural products.

3.2.3. Northern enlargement (Austria, Finland, Sweden)

The Northern enlargement of the EU took place on 1 January 1995. By that time it was termed the European Union (and not the Community) since the Maastricht Treaty had already been ratified in 1992. Sweden, Finland, Austria and Norway were to accede to the EU as part of the Northern wave (Kaniok, 2001: p.88–110). Norway, however, rejected EU accession in a referendum so only three candidate countries continued with their bids. In 1997 and 2001 two referendums, on the issue of whether it should hold a position as a potential EU candidate, were held in Switzerland, both producing a negative result.

Sweden and Austria had closer relations due to geopolitical circumstances. Both countries were founding members of the European Free Trade Association. In June 1990 negotiations began between the EC and the EFTA about the creation of the European Economic Area (EEA) that would interconnect both organisations. The EEA came into existence on 1 January 1994. Austria submitted its membership application in July 1989, Sweden two years later, and Finland in March 1992. Norway also applied for membership in November 1992.

In Finland voters decided on accession on 16 October 1994, with 57% of voters supporting membership. A peculiarity of the Finnish decision was that two referendums on EU accession were to take place. The Åland Islands exercised their right to announce a separate referendum, and this referendum was held on 20 November 1994 with the citizens, most of them Swedish-speaking, supported EU membership. The Finnish Parliament approved EU accession on 18 November 1994 (Kaniok, 2001: p.100).

In Sweden, efforts to swap EFTA membership for EC membership had started in the 1960s. Sweden submitted the application for association in 1961. In 1971 Sweden withdrew its application and focused on the free trade agreement between the EC and EFTA. Integration efforts in the 1960s were supported in particular by the conservative and business sector. Social democrats were against it because of the historic neutrality and the specific socio-political model of the country.

Not until July 1991 did the conservative government of Prime Minister Carlsson announce the country would apply for EU membership. A referendum on Swedish accession took place on 13 November 1994 which resulted in a positive 52% majority. Swedish accession, supported by the referendum, gained approval by Parliament on 15 December 1994. Similarly to other Nordic states, Sweden brought new areas of concern to the EU, such as gender equality and a heightened emphasis on the environment.

Norway was in the most difficult position among the candidate countries. Voters had already rejected EC membership in 1972 when only 47% of them voted for accession. The referendum caused the disintegration of the Labour government and since then EC membership had never been one of the main topics discussed in Norwegian politics. However, matters took a different turn in the late 1980s and by 25 November 1992 Norway had submitted an application for EC membership (Kaniok, 2001: p.102).

The Norwegian referendum was held on 28 November 1994 (see Table 3.1). This date was not chosen at random. Positive results of referenda in the other candidate states gave support to pro-European groups, which slightly influenced public opinion polls over opponents to membership. Most nationwide media took a positive stance on membership, although the trade unions were against. In the end Norwegian voters rejected membership by a narrow majority of 52–48.

Table 3.1 EC/EU membership referenda

State	Date	Subject matter of the referendum	For (%)	Against (%)	Turnout (%)
France	23/04/1972	EC enlargement with UK, Ireland, Denmark and Norway	68	32	61
Ireland	10/05/1972	EC membership	83	17	70
Norway	25/09/1972	EC membership	47	53	78
Denmark	02/10/1972	EC membership	63	37	90
United Kingdom	05/06/1975	Continue EC membership	67	33	65
Greenland	23/02/1982	Continue EC membership	48	52	75
Austria	12/06/1994	EU membership	66	34	81
Finland	16/10/1994	EU membership	57	43	74
Sweden	13/11/1994	EU membership	52	48	83
Norway	28/11/1994	EU membership	48	52	89
Switzerland	08/06/1997	EU candidature	26	74	35
Switzerland	04/05/2001	EU candidature	23	77	55
United Kingdom	23/06/2016	Continue EU membership	48	52	72

Source: Adapted from Fiala and Pitrová, 2001

Except for Haider's FPÖ, the Austrian political spectrum held a relatively consensual view on EU membership. Some opposition existed, however, even inside the two parties in government. The Austrian People's Party (ÖVP) had to overcome the powerful resistance of its agricultural wing. In the SPÖ some socialists objected to EU membership on the basis that it would be detrimental to Austrian neutrality. The Austrian referendum on EU membership took place in 1994, with similar result to that in Nordic countries in that 66% of votes cast were for membership.

Austria, Sweden and Finland concluded their negotiations at a meeting in Brussels held at the end of February/beginning of March 1994. The European Parliament approved their memberships by a clear majority in May 1994. The Treaties on the accessions of Sweden, Norway, Austria and Finland were all signed at the EU Council meeting held on the Greek island of Corfu on 24 June 1994. With the exception of Norway the treaties became effective as of 1 January 1995.

3.3. Eastern enlargement of the EU

The fourth wave of EC/EU enlargement that took place in 2004 has been the biggest enlargement ever in EC/EU history. The Treaty of Nice in December 2000 anticipated the first wave of enlargement by Poland, the Czech Republic, Hungary, Slovenia, Estonia and Cyprus. Later, Slovakia, Lithuania, Latvia and Malta joined. Bulgaria and Romania were left to accede in 2007.

There were significant doubts among the administrations of member states after 1989 concerning Eastern enlargement by the countries of Central and Eastern Europe. Despite the enthusiasm associated with the fall of the Iron Curtain, the risks – economic, political and safety – had not been brought under control on either side. Being aware of the risks, the European Communities adopted a significantly reserved attitude to the process of enlargement from the countries of Central and Eastern Europe (Artis, Banerjee and Marcellino, 2006).

This attitude corresponded with the attitudes of EU member states' citizens towards Eastern enlargement, probably due to the mixed experience of German unification. The citizens of long-term EU member states asked a logical question about what enlargement costs they would be expected to bear when a rich country such as West Germany was having big problems with the integration of East German people despite their cultural and linguistic compatibility.

After an initial peak of enthusiasm, connected with the opening up of new possibilities for closer relations between the EU and the Central and Eastern European countries, a rather more reserved attitude came about when those in post-communist countries began showing interest not only in establishing new political links, but also in furthering real economic integration in the form of EU membership (Keereman and Szekely, 2009). Most politicians in the post-communist countries saw full membership as the culmination of the transformation process.

It was not possible to implement a plan similar to the Marshall Plan, due to the lack of political will. Mutual economic relations were complicated by several protectionist barriers. A model of concentric circles around the EU 'hard core' was considered, based on the different types of treaties that would provide for the stabilization of Central and Eastern European countries without threatening the integration dynamics of the European Communities (Vojinovic, Oplotek and Próchniak, 2010).

The reserved attitude of the countries of the European Community to the immediate accession of new members was also strengthened by the aforementioned experience of the costly unification of Germany that had taken place on 3 October 1990, and is known as the 'early Eastern enlargement' of the EC (Sinn, 1999). From a fiscal point of view the reunification of Germany was maybe more beneficial for the new federal states, but it rather hindered the integration of Central and Eastern European countries. There were concerns about the inflow of labour from eastern to western regions (Barrell, Fitzgerald and Riley 2010).

The EU member states did not believe that Central and Eastern European countries would be able to fulfil all the commitments of full membership in the early 1990s. The European Communities wanted to contribute to the reconstruction and stabilization of a market economy and to democracy when adopting the goal of enlargement with the accession of Central and Eastern European countries. The EC already had had experienced a similar role in the 1980s with the accessions of Greece, Spain and Portugal.

The EU offered the Central and Eastern European countries the status of 'associated countries' instead of full membership. Associated Countries would have a 'privileged' relation with the European Communities in quite a broad sense of the word. EU association treaties were prepared for Central and Eastern European countries. Their aim was to create a framework for political dialogue, show commitment to prepare gradually for free trade, create the conditions for economic, cultural and social cooperation, and demonstrate cooperation in the prevention of crime (Dimitrova, 2004: p.8).

Part of the Association was a limited commitment to the four freedoms of the movement of goods, services, people, and capital. The extent of liberalization in some areas was adjusted. Significant barriers remained, in particular in the area of fisheries, agriculture and the free movement of labour. Financial cooperation included grant support via the PHARE programme and support offered by the European Investment Bank.

The EU considered the issue of enlargement at the European Council meeting held in Lisbon between 16–27 June 1992, where the possibility of the accession of Central and Eastern European countries was announced for the first time. A political breakthrough came at the Council meeting in Copenhagen between 21–22 June 1993, where the heads of the member states agreed that those countries that wished to do so might become members of the European Community – having first, however, had to meet certain criteria (Fiala and Pitrová, 2001).

The Copenhagen accession criteria were: 1. the stability of institutions guaranteeing democracy, including respect for and protection of minorities, 2. a functioning market economy, 3. the capacity to cope with competition and market forces inside the European Communities, 4. the ability to take on the obligations of membership as well as a commitment to the objective of political, economic and monetary union. These criteria were meant mainly to dissuade the less-welcomed candidates. Their interpretation has been rather subjective, having yielded, for example, differing perceptions of meeting the criteria in the case of countries such as Turkey, Cyprus, Estonia or Slovakia (Jovanovič, 2005: pp.826–827).

As the summary of events shows, the whole EU was faced with certain choices where all alternatives incurred direct or potential cost. Accession of the new post-communist countries meant an inevitable and immediate economic burden for the EU, since the real level of economy of the founding and newer members and the real level of economy of the candidate countries were at total variance. The EU had faced a similar situation during the Southern enlargement but not on so large a scale, and, as already mentioned, Germany had undergone a recent and very mixed experience with the integration of its Eastern part.

That is why the period prior to accession was used for intensive support of the candidate countries. In addition, a potential high-risk threat existed that could be condensed into a simple question: where would these would-be-member states with a ‘fragile democracy’ go if they did not enter the EU? The economic response was a natural consideration at almost all levels of society in member states, the second high-risk point becoming a concern mainly for the political representatives.

In December 2000, under the presidency of French President Jacques Chirac, the European Council met in Nice. The states agreed on the extension of majority voting, the change of allocation of seats in the European Commission (one Commissioner per country), and on the increase

of the number of seats in the European Parliament to 740 (CR 20). They also adjusted the distribution of votes in the Council of Ministers with a view to the number of future member states (CR 12). (Barsan and Tache, 2009). The EU leaders did not set any specific date for enlargement, but they expressed a clear intention to enlarge the EU with the best prepared countries in June 2004.

Table 3.2 Weight of votes in European institutions pursuant to the Treaty of Nice

Member state	European Council	European Parliament	European Committee of the Regions	European Economic and Social Committee
Germany	29	99	24	24
United Kingdom	29	72	24	24
France	29	72	24	24
Italy	29	72	24	24
Spain	27	50	21	21
Poland	27	50	21	21
Rumania	14	33	15	15
Netherlands	13	25	12	12
Greece	12	22	12	12
Czech Republic	12	20	12	12
Belgium	12	22	12	12
Hungary	12	20	12	12
Portugal	12	22	12	12

Sweden	10	18	12	12
Bulgaria	10	17	12	12
Austria	10	17	12	12
Slovakia	7	13	9	9
Denmark	7	13	9	9
Finland	7	13	9	9
Ireland	7	12	9	9
Lithuania	7	12	9	9
Latvia	4	8	7	7
Slovenia	4	7	7	7
Estonia	4	6	7	7
Cyprus	4	6	6	6
Luxemburg	4	6	6	6
Malta	3	5	5	5
Total	345	732	344	344

Source: Treaty of Nice in original wording (later weights of some counties were changed)

In Poland, accession to the EU had received relatively strong support since the early 1990s. However, it oscillated during the 1990s from 80% in 1995 to 50% in 1999. As well as employees from problematic industries such as the steel industry, farmers were the most sceptical since they were concerned that agricultural restructuring would be painful. The result of the referendum that took place between 6–8 March 2003 was 77–23 in favour of accession (Přikryl, 2005: p.141).

In the Czech Republic parliamentary political parties expressed strong support despite some critical voices from the right-wing Civic Democratic Party – ODS. Germany was the main supporter of Czech accession to the EU, as it was with Poland, although support was jeopardized from time to time by controversy over topics such as the Beneš decrees of the post-war Czechoslovak President (concerning the status of ethnic Germans in the country) or the safety of the Temelín nuclear power plant (which played an important role in the attitude of Austria). The result of the referendum held between 13–14 June 2003 was 77–23 for accession.

Negotiations on Hungarian accession started in March 1998 and progressed quickly. Although the Hungarian media was rather critical with regard to the benefits of EU internal reforms for Hungary (the Hungarian Minister of Foreign Affairs took a hostile stance towards the German–Austrian plan for a transitional period for the free movement of labour), the referendum held on 12 April 2003 produced a clear result of 84–16 for accession (Příkryl, 2005: p.152).

Of all the Eastern European countries, Slovenia was one of the wealthiest candidates for EU membership. With the exception of the Slovenian National Party, EU accession had broad support in the country. There were many sensitive topics, such as the ownership of real estate, state sovereignty, Austrian pressure on the closing of the Krško nuclear power plant and attempts at the revision of World War II history. The referendum held on 23 March 2003 supported membership 90–10 (Vohralíková, 2005: p.286).

The accession of Estonia, with approximately 1,330,000 inhabitants and the best economy of all the Baltic States, was problematic due to the ‘Law on the Status of the Estonian Language’ that, according to the EU, discriminated against the Russian minority of approximately 30% inhabitants. In 2000, an amendment to the act was adopted. Estonian membership was supported particularly by Denmark, Sweden and Finland. On 14 September, 2003 the voters opted for the accession of Estonia by 67–33 (Kuchyňková, 2005: p.240).

In comparison with the other Eastern enlargement candidate countries, Cyprus was a relatively rich country thanks to continuous growth, almost zero unemployment and over \$10,000 GDP per capita. Political representatives, as well as the citizens of the Greek part of the island, supported membership unanimously. Among member states the main advocate of Cyprian accession to the EC was Greece, followed by Italy and

France. A significant barrier to Cyprian accession was the division of the island.

Notwithstanding a common beginning, the Helsinki group was quite diverse (Bulgaria, Lithuania, Latvia, Malta, Romania, Slovakia). Bulgaria had the lowest GDP per capita of 23% of the EU average. This explains why the Helsinki Council meeting held in December 1999 ‘conditioned’ Bulgarian as well as Romanian accession. The EU was not even sure about the stability of democratic institutions in Bulgaria.

Lithuania, similarly to Estonia, came into the purview of the EU soon after the disintegration of the Soviet Union. There was much reflection on whether the objective of Lithuania and the other Baltic States was EU membership or whether that was merely an open door for NATO membership. The integration of Lithuania, Latvia and Estonia into EU structures, therefore, was considered very carefully. The referendum in Lithuania took place in March 2003 and support for accession was given 91–9 (Kuchyňková, 2005: p.201).

Latvia, which gained independence in 1991, was not invited to join the Helsinki group in December 1997 to negotiate accession upon the recommendation of the European Commission (and neither was Estonia). The reason, again, was the official language discrimination against the Russian minority of 24% inhabitants. An action plan, the Act on Citizenship and Program for Facilitating Naturalization of Minorities, was adopted. In the end, Latvia was included in the Eastern wave of enlargement in May 2004 (Kuchyňková, 2005: pp.265-266).

Malta, the smallest member state of only 378,000 inhabitants, provoked EU hesitation, in particular because of its foreign-political and military neutrality. Another reason for the lack of trust was excessive concentration of power at the state level and the protection of small enterprises. The attitudes of the two main parties, the National Party and Labour Party, were different, and the result of the referendum held in March 2003 was the tightest of all candidate countries of the Eastern wave of enlargement – 54–46 for accession with a 91% voter turnout (Vohralíková, 2005: p.300).

Slovakia was not invited to the Luxembourg group although it signed the Association Treaty and submitted its membership application at the same time as the Czech Republic, Poland and Hungary. The European Commission criticized Slovakia in 1997 for being the only candidate country not complying with the Copenhagen criteria, mainly in the area of

the stability of democratic institutions, relations between the government and opposition, and media independence. In the end, however, Slovakia was invited to the Eastern enlargement in May 2004 (Sedlár, 2005: p.188).

Political changes in Slovakia played an important role. The authoritarian and nationalist Vladimír Mečiar, of the HZDS Party, won the elections in 1998 again, but he was not able to form a government. The situation was repeated in 2002. In the meantime, coalition governments worked intensively on the fulfilment of EU conditions, which led the EU to change its attitude, as mentioned above. EU membership has been an integral part of internal Slovak policy for several years; the coalition parties made efforts to convince the public that their governments were the only guarantors of continued progress on EU convergence and that a potential handover of power to the opposition party would interrupt and reverse it.

Table 3.3 EU membership referenda in case of Eastern enlargement

Country	Date of referendum	Voting on	For (%)	Against (%)	Attendance (%)
Malta	08/03/2003	EU membership	54	46	91
Lithuania	10–11/03/2003	EU membership	91	9	63
Slovenia	23/03/2003	EU membership	90	10	60
Hungary	12/04/2003	EU membership	84	16	46
Slovakia	16–17/05/2003	EU membership	93	7	52
Poland	06–08/03/2003	EU membership	77	23	59
Czech Republic	13–14/06/2003	EU membership	77	23	55
Estonia	14/09/2003	EU membership	67	33	64

Latvia	20/09/2003	EU membership	67	33	73
Croatia	22/01/2012	EU membership	66	34	44

Source: Adapted from www.euroskop.cz

Romania submitted its official application for EU membership on 22 June 1995. Negotiations on accession started five years later. Romania was a poor country with 25% average GDP per capita of other EU countries. The European Council meeting held in Copenhagen in December 2002 decided that Romania might become an EU member in 2007. Together with Bulgaria, Romania signed the Accession Treaty on 25 April 2005.

Bulgaria began negotiations on accession in 2000. Due to lack of progress in preparations for membership Bulgaria was not included in the ten countries of the Eastern enlargement in 2002. Bulgaria signed the Accession Treaty in Luxembourg on 25 April 2005, together with Romania. Both countries became EU member states as of 1 January 2007. The then President Georgi Parvanov wanted to announce a referendum but in the end accession was approved by Parliament.

Croatia submitted its membership application on 21 February 2003. In December 2004 the European Council adopted a resolution that negotiations on accession would start in March 2005, provided Croatia cooperated with the International Criminal Tribunal for the former Yugoslavia. Croatia accepted the condition and the Accession Treaty was signed on 9 December 2011. In a referendum held in January 2012 Croatia saw 66% of its voters support membership in the EU and the country became an EU member on 1 July 2013.

The political elites in Central and Eastern Europe, for whom EU accession would be a significant international confirmation of their own legitimacy, did not take any risks by announcing referenda on EU membership (see Table 3. 3). The public was also clearly in favour of enlargement. We should note that referenda on NATO accession have been held in almost no countries.

What is symptomatic is the fact that EU enlargement has not been approved by a referendum in any existing member states (excepting Ireland – however, there the people voted on the whole Treaty of Nice, not on enlargement per se). We might interpret this in such a way that EU

enlargement could be seen as more in the interest of political elites than of individual citizens of the then EU member states.

Today, the following countries have the status of candidate country: Turkey, Macedonia, Montenegro, Serbia, and Albania. Debates over the potential membership of Turkey have been held for many years. Turkey submitted its official application for membership in 1987 but acquired official status only after the European Council meeting held in Helsinki in 1999. Negotiations on accession began on 3 October, 2005. The EU expects Turkey to normalize its relations with all neighbouring countries, in particular Greece, Cyprus, and Armenia, before becoming a member country of the EU.

The arguments supporting Turkish membership say that if the EU gives Ankara the status of a candidate country, it will have to accept Turkey as a full member once it has fulfilled all criteria; otherwise the EU might face allegations of lack of accountability. Turkey is an important NATO member. It has one of the fastest growing economies despite struggling with essential structural problems, having overall instability, high unemployment, an over-indebted private sector, high inflation and an unstable currency. The big advantage for Turkey is its young, dynamic population; but there is, however, an unemployment rate of 20%. Turkish membership might improve relations with Greece, contribute to a peaceful unification of Cyprus and increase stability in the Mediterranean.

The arguments against Turkish membership are that the European public is not in favour and in recent years the term 'is not in favour' could be replaced by 'is resistant'. Due to its size, Turkey would be a huge burden on the common EU budget. It would be the most populous state (greater than Germany) which would mean it would have the biggest influence in the European Council and the highest number of MEPs. With regard to its geography and culture, Muslim Turkey is more of a Near-Eastern and Asian than European country (Dixon, 2010).

Brussels needs Ankara to take steps in order to achieve an agreement on migrants within Turkey. Following the unsuccessful military coup d'état in July 2016 relations between the EU and Turkey cooled – the regime in Ankara purged soldiers, judges, police officers and teachers. Top representatives of the EU have announced that no country can become an EU member if they introduce capital punishment. The liberalization of visas for Turks has been cut back, although negotiations on accession have not been suspended.

Nevertheless, we may say that with the passage of time Turkish membership in the EU is becoming unrealistic. Nowadays there are no relevant political forces in EU member states that would risk fatal internal political problems by defending EU enlargement with a country that is considered somewhat non-democratic, risk-prone, and generally unstable.

In June 2014 Ukraine, Moldova and Georgia signed association treaties with the EU. When Viktor Yanukovych, the then Ukrainian President, refused to sign the Association Treaty in November 2013, huge demonstrations erupted that transformed into a crisis culminating in the annexation of the Ukrainian Peninsula of Crimea by the Russian Federation, a military act declared invalid by the West.

After Malaysian Airlines Flight 17 was shot down while flying over eastern Ukraine in July 2014, western sanctions against Russia were intensified. The United States Secret Service and the conclusions of international investigation committees argued that pro-Russian revolutionaries were responsible for the tragedy and that they used the Buk anti-aircraft system allegedly supplied by Russia. The EU restricted access to EU countries to more people and companies, and imposed an embargo on weapons, modern technologies, and the capital market.

The Association Treaty between Ukraine and the EU was approved by the European and Ukrainian Parliaments in September 2014. The aim of the treaty was to intensify mutual political and economic cooperation by creating a free-trade zone between Ukraine and the EU. Since Russia protested the Association Treaty, Kiev, Moscow and European Commission representatives agreed that the effect of the treaty would be postponed until January 2016.

In addition, we must point out that only with great difficulty would Ukraine be granted full EU membership and receive the support of political representatives within individual EU countries. Even if the European Commission and other EU institutions forcefully pushed for Ukrainian membership it is almost unimaginable that such a step would be implemented in a relatively short period of time. Support for Ukrainian membership in individual EU member states is very low.

On the other hand, the aforementioned argument about what would become of Ukraine if the EU was not forthcoming enough is equally valid. Political leaders of individual countries have therefore striven, and will probably continue to do so in the long term, to postpone any essential decisions on

this matter, and thus leave open the question of potential Ukrainian accession to the EU. Even if Ukraine were to be granted full accession it would give rise to an enormous change in the sphere of influence of individual countries – after Brexit, Ukraine would be the fifth most populated EU country with a weight corresponding to that of Poland or Spain.

3.4. Asymmetry between old and new members

We agree with Fiala and Pitrová (2001: pp.14–15) that negotiations on membership are characterised by asymmetry in the positions and roles of the main participants. The actors that set the ‘rules of the game’ (the enlargement scenario, the time frame, and conditions) are the EU member states. Those that want to accede to the EU are forced to adapt to the situation inside this group. This is a problem for candidate countries.

The problem has been intensified by the fact that accompanying every new member state has been a growing number of national interests that the EU has had to ‘harmonise’, and over which the new member state must also make accommodations. Linked to this are the increasing number of specific conditions for accession, which we can see very well in the relations between Slovenia, now a traditional member state, and Croatia, a member since 1 July 2013. Slovenia brought up several conditions of membership for its neighbouring country that were historical and economic in nature, one obstacle being the cross-border dispute over the Gulf of Piran. Slovenia therefore held up Croatian accession negotiations for approximately six months in 2009.

The EU is a relatively closed organisation that logically seeks maximum benefits for its members. If enlargement had not been in the interest of member states it would not have happened. The European Communities, therefore, have put pressure on candidate countries themselves to implement the main portion of reforms necessary for enlargement. Those countries, however, may not influence any rules inside the EC (Nello and Smith, 1998).

Similarly, candidate countries may only influence the policy and tools that form their relationship with the EU to a very limited extent. The more distant and complex, unclear and risky the economic, political and legal level of the candidate countries, in respect of the EU, the more acute has been the need of the European Communities to enforce the rules of the

game, particularly those points that are at odds with the interests of the candidate country (Fiala and Pitrová, 2001).

Central and Eastern European countries have also had to implement a 'harmonisation' of standards prior to their accession to the EU. It has been necessary to adapt to EU requirements in legal, economic and political spheres. The speed of change has been conditioned by the need to implement hundreds of amendments to those standards, and those candidate countries also identified as competitors were classified according to how well they were able to do their 'homework' (Artis, Banerjee and Marcellino, 2006).

In many cases, those changes did not reflect the candidate country's internal political decision-making processes and were not based on the requests, wishes and interests of the population as articulated within the political system of the time. On the contrary, the changes were the result of external pressures, lacked democratic legitimacy, and were *de facto* applied from the top. They incurred certain costs that were in some cases totally unnecessary. It was and remains difficult to forecast what political and social effects they will have and how effective they will be (Fiala and Pitrová, 2001).

Striving for rapid negotiations may bring unwanted consequences. Rules adopted only to achieve the faster harmonisation of legal orders do not take on board the social and economic impacts of amendments. Asymmetry in negotiations brings a risk that membership terms and conditions will be more in line with the interests of member states and their entities than those of the candidate countries. New rules bring about costs for the associated countries and their entities that increase the already high transformation costs (Preston, 1997).

We sometimes hear that EU enlargement and deeper internal integration are contradictory processes: the wider the community the smaller the chances of deeper internal integration. There is, however, justification by the EU for its remarkable inclination towards stronger centralisation via the act of enlargement: in order for the European institution to be operational, unanimous decision-making will have to be replaced more and more by majority voting (Seidelmann, 1996: pp.54–59).

It can therefore be logically supposed that without enlargement, integration within the EU would already have been faster. EU enlargement has thus become an effective barrier to integration. Supporters of the centralised model, however, take it as a pretext for promoting a federal system.

According to them the democratic deficit of the European institutions will be best removed not by weakening but rather strengthening their position.

Jan Zielonka (2004) argues that EU enlargement is the confirmation of EU 'imperial' control over the less stable half of the European continent. The interests of Western Europe through enlargement have not been financial or economic so much as political and geostrategic. The fact that enlargement has taken place after the end of the Cold War does not mean that the enlarged EU will operate without any problems.

Zielonka says that the EU still suffers from a democratic deficit and it is logical to worry that enlargement will intensify it. From the perspective of traditional member states enlargement may actually harm democracy since the EU will significantly widen its geographical area, thereby causing its decision-making processes to be much more distant from citizens than ever before. Any discussion among 25, 27 or even more diverse numbers of national representatives may come to a standstill or even descend into anarchy.

Nevertheless, higher diversity has not hindered efforts to create a common European state. Zielonka supposes that new members would not be willing to give up their newly acquired sovereignty: their watchword would be 'flexibility' instead of 'union' and 'convergence'. New members would reject powers being moved to the European level since they still remembered how decisions had been made in Moscow during the communist era.

The hypothesis of intensified democratic deficit in the enlarged EU has been confirmed, but on the other hand the assumption made regarding the significance of opposition of Central and Eastern European countries towards deeper integration is only partially confirmed – particularly with regard to the EU's opinion on migration. The United Kingdom, however, opposed integration much more than Eastern Europe. After the Eastern enlargement, even more efforts for centralisation in the European constitution culminated in the Lisbon Treaty.

At first the reasons for continuous enlargement of the European Union may look commonplace, but in fact the case is very interesting. It is difficult to find a common answer from the point of view of the former group of states that started the process of integration – the members of the European Coal and Steel Community – France, the then Federal Republic of Germany, Italy, Belgium, Luxembourg and the Netherlands. What were the objectives of enlargement? The first impulse was to create a union between Germany

and France that would prevent another war. It meant a union that would harmonise the common economic interests (and we may also say national interests) of both countries in order to prevent friction.

It can be argued that the first phase of integration fulfilled this objective, at least in the geographical meaning of the word. If that seemed insufficient with regard to the scope of harmonised national interests then it was facilitated by existing integrative elements such as Euratom and the EEA, and further unification has occurred within the European Community. Why then does the integration and enlargement of today's European Union continue with more and more states?

There are several official opinions given that verge close to conspiracy theories (we will not go into details since they are plentiful); however, we do not neglect the question of the reasons for enlargement and we have already made mention of particular economic and geopolitical reasons in this regard. In fact, these two are closely related.

Economic reasons clearly prevailed in the case of the Western enlargement, where we understand the word 'economic' not only to mean solving specific economic problems within the EU but rather to represent the joining of relatively compatible countries with important economies, thanks to which the common market substantially grew. This is particularly true for the United Kingdom. In respect of the three states of the Western enlargement, the United Kingdom, Ireland, and Denmark, the economic power of the then European Communities considerably increased with the addition of approximately 60 million consumers at that time.

This also had a certain geopolitical impact, and we must not disregard those aspects. The accession of the United Kingdom was a symbolic union of continental and offshore Europe and, in a way, it put an end to direct rivalry between the UK and France. If integration began in order to prevent potential future wars between France and Germany then these arguments could be extended to include the United Kingdom. A remarkable fact, however, is that the best guarantee of peace among the largest European democratic countries was the bipolar division of the world and the existence of NATO.

Southern enlargement (Greece, Portugal, Spain) was mainly undertaken for geopolitical reasons, despite the fact that it also brought a significant number of consumers into the common market – again, approximately 60 million. The EU gained influence (perhaps 'control') over the whole

northern shore of the Mediterranean Sea, excluding the then Yugoslavia which, of all the communist countries, was the biggest advocate of cooperation with the West, and minus the relatively small and unimportant shoreline of Albania. We must not forget the efforts to ‘stabilize’ those highly unstable states in the time preceding enlargement.

From an economic point of view, however, three ‘below-average’ countries acceded to the EU and enlargement brought about economic competition rather than economic strengthening for the EU. All in all, it is clear from today’s perspective that all states of the Southern enlargement still have problems with national debts in the late 2010s (more than thirty years after accession). And we do not overlook that after thirty years of membership Greece, Portugal, and Spain are still far below the EU average in terms of economic performance: data suggests an ‘improvement’ only after the Eastern enlargement and the accession of states that significantly reduced the EU average (data for EU28).

If we compare the states of the Western and Southern waves of enlargement, then the Western enlargement countries’ economic performances are clearly above average while those of the Southern countries are below. At the same time, and this is quite important, the countries of the Southern enlargement have not improved their position in any significant way, Greece being in the worst situation. In 2006 GDP per capita was 96% of the EU28 (including states that were not yet members). Eleven years later GDP per capita in purchasing-power parity was only 67% of the EU28. In the same comparison, Italy’s parity declined 108–96% and Portugal’s 83–77%. We may summarize that countries of the Southern enlargement developed slower than the EU28 as a whole, and that their living standards have also decreased in the last ten years.

The decision on the Northern enlargement with Austria, Sweden, and Finland can also be seen primarily as an economic one – it was clear that these three countries were already fully compatible with the EU at that time, with efficient above-average economies that particularly well enabled them to accede to the rest of the EU (in comparison to the EU28, including the states that were not members at that time but later acceded). This is all valid despite the relatively small impact of the Northern enlargement on the size of the internal market (at the time of accession the states brought only approximately 23 million consumers, albeit with considerable purchasing power). The newly acceded countries meant a stronger EU budget and the inclusion of the North from a geopolitical perspective. We may include Norway even though it is not a member: it is almost integrated in the internal

market and does contribute to the EU budget. Austrian accession also meant the union of the German-speaking countries, which in itself is significant, together with the fact that Germany gained an important ally in EU negotiations.

Eastern enlargement, again, was a decision based on clear geopolitical reasons. It took place in three phases (2004, 2007 and 2013) and was very risky in terms of economy. Compared with the Western and Northern enlargements, the EU accepted eastern states whose economic as well as political compatibility was in some cases very problematic. They did, however, have large voting power bases in their population. Altogether these 13 states numbered approximately 105 million inhabitants, more than half of them Poles and Romanians (38 and 20 million respectively). None of those states had economic performances comparable with the EU average: some of them did not even reach 50% average at the time of accession (most had a 55–65% performance against the average).

At the time the extension of the common market to include more than 100 million consumers was monumental in nominal value, but the low purchasing-power of these new Europeans held less importance. We will come back to that issue in the following chapter, on the Economics of European Integration.

3.5. European Union institutional issues

Several factors affecting continuous EC/EU enlargement meant that institutions were becoming more cumbersome (Goodman, 1996: pp.79–114), the main one being heterogeneity of the member states – economically as well as politically. This trend had been growing with every wave of enlargement. As a consequence, higher commitments were set for new member states and the result of their applications saw waves of increased integration dynamics within the institutions.

The waves of enlargement resulted in only partial adjustments which helped distribute the influence of the new member states in the European Council, Parliament, Commission, and other institutions (Richardson, 2001). Apart from those adjustments no more significant changes were made in order to increase the flexibility and legitimacy of the institutions, and that is what led to the oversized nature of the institutional system.

The main reasons for institutional reform were incompatibilities between ambitious political objectives and the tools available to European institutions,

the lack of transparency in the decision-making process, and the democratic deficit as well as the legitimacy of different levels of commitments of the member states already operative in the form of 'opt-outs'. The solution to issues over institutional reform was to be a multi-speed Europe.

There were concerns that older European institutions would not be able to deal with 25, 27 or 28 members and that it would therefore be necessary to replace the old institutions with a more flexible arrangement. The European Union is composed of 'hardcore' nations at the centre of political, economic and monetary union that have set up the institutional framework of a 'two-speed' or 'variable geometry' Europe.

Essential reshaping of the institutional structure of the Communities began with the adoption of the Maastricht Treaty on European Union. The agenda was broken down into one supranational and two intergovernmental pillars (Corbett, 2004). The European Parliament was strengthened in the first pillar since it became co-responsible for the election of the Commission and was given the right of veto in the legislative area as a part of the co-decision procedure. The supranational bodies in the second and third pillars were only part of further integration.

The European institutional structure combines and balances the intergovernmental principle of decision-making with supranational governance in selected areas. Most decisions must be approved by member states; however the supranational authority has power over the member states with an effective control that enforces commitments via the supreme European *acquis* (Galloway, 2001).

The European institutional framework does not observe the distinction between legislative and executive power more commonly seen in democratic systems. On the contrary, interconnection among individual European institutions is typical. The heart of institutional reforms is the triangle of the European Council, Commission, and Parliament. The Commissioners therefore become an important information channel for member states, even though we do not see them as representatives of specific countries (Fiala and Pitrová, 2001: p.171).

The Treaty of Nice brought about not only quantitative but also qualitative changes to the voting procedure (Stubb, 2002). Unanimous voting was cancelled in the case of the election of top EU representatives and in the area of policies. The Treaty of Nice drew on the Treaty of Amsterdam and laid down the double-majority rule for voting to reflect the number of

inhabitants. Contrary to the Treaty of Amsterdam that required unanimity, the Treaty of Nice allowed for the making of decisions on the breach of values only by a four-fifths majority. The Treaty also introduced a judicial cooperation unit – *Eurojust*.

The Treaty of Nice was a significant step towards the supra-nationalization of the Communities (Fiala and Pitrová, 2001: p.179). This became evident in qualified majority voting, in the increasing influence of the European Parliament in decision-making, the almost total withdrawal from unanimity in the case of the election of representatives, as well as the withdrawal from unanimity in the case of breaches of basic EU values. The Treaty of Nice may thus have removed obstacles for the enlargement of the Community, but it also intensified integration to an unacceptable level for many countries.

In late 2001 (14–15 December) the European Council met at Laeken where the Laeken Declaration, the basis for the Convention on the Future of Europe, was adopted. Presided over by Giscard D'Estaing, the Convention was to prepare the grounds for the following intergovernmental conference. The Convention meetings, even though candidate countries could participate, brought about an important change in accession conditions in comparison with previous terms. Where referenda were held in 2003 the candidate countries acceded to a different European Union than that with which they had begun their negotiations. It is therefore not surprising that many of them had reservations about the concept of the European Constitution.

The European Constitution was the biggest step towards one united European state (O'Neill, 2009). The EU would thus acquire not only a legal personality, but also core constitutional laws that, together with the EU legislation, would have precedence over the legislation of member states. 'Exclusive powers' and 'shared powers' are typical federal terms of reference. The EU would also have the symbolic personnel of a single state – a common president, and minister of foreign affairs.

The Treaty of Lisbon was an attempt to implement the European Constitution in a different way (Piris, 2010). Strictly speaking, it adopted the main ideas of the European Constitution – superiority of European law over national laws, the EU Charter of Fundamental Rights, the European President and European Minister of Foreign Affairs, *passerelle*, the division of power into exclusive and shared (familiar from the federal systems), and an extension of voting by a qualified majority.

The accession of Central and Eastern European countries to the EU increased the cost of reaching an agreement as well as the heterogeneity of needs and preferences. Never before was the gap between the income of old and new EU countries so wide, nor historical traditions so diverse. When the difference in the preferences of member states increased the required majority limit would increase as well, and not decrease.

Brexit has revealed that numerous EU members are not satisfied with the way the EU functions (Robejšek, 2016); of course it need not be seen as ‘catastrophic’ from this point of view (meaning EU disintegration) as it may even come to be perceived as an exemplary opportunity for EU reform. It is necessary to discuss seriously whether or not the powers the EU gained in the last twenty years should be returned to national level. The European Commission should forget its vision of ever closer Union – otherwise, as Robejšek says, it will face a rather different existence.

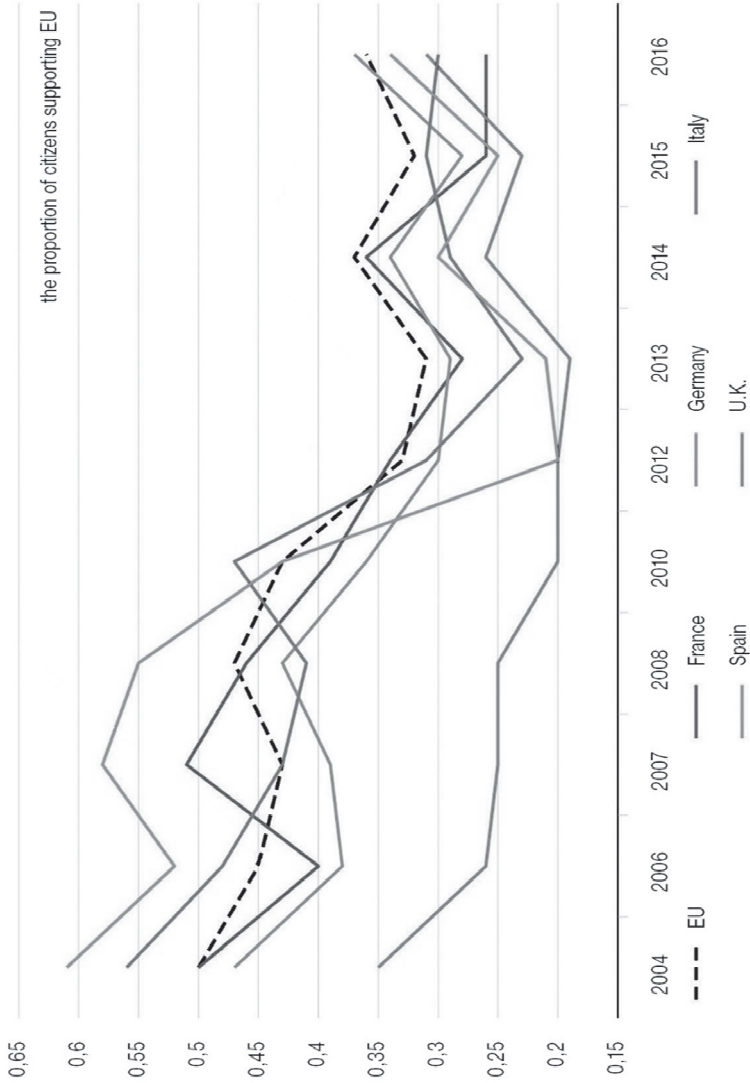
One specific issue is the trust of EU inhabitants in European institutions and the overall ‘benefit’ of the EU as such. Figure 3.1 shows long-term development in this area.

Over the last fifteen years, there has been a long-term decline of trust in the European Union. This decrease in trust has been apparent in all important EU member countries – France, Germany, Italy, and Spain, as well as the United Kingdom. In the late 2010s, however, trust increased slightly but this can be seen as quite irrelevant from a long-term perspective. In 2004, 50% of Europeans trusted the EU, whereas in 2016 the figure was only slightly above 35%.

Figure 3.2 shows the decline of trust in European institutions: the European Parliament, Commission, and Central Bank. While in 2004 57% of Europeans trusted the European Parliament, in 2016 the figure was only 40%. Similarly, in 2004, 53% of Europeans trusted the European Commission, whereas in 2016 this figure had dropped to only 37%. Lastly, in 2004, 50% of Europeans trusted the European Central Bank, but in 2016 the figure was only 33%. From this point of view, we may say that there has been a clear long-term decline of trust in European institutions, despite changes brought about after 2015 (Schout and Holderied 2018).

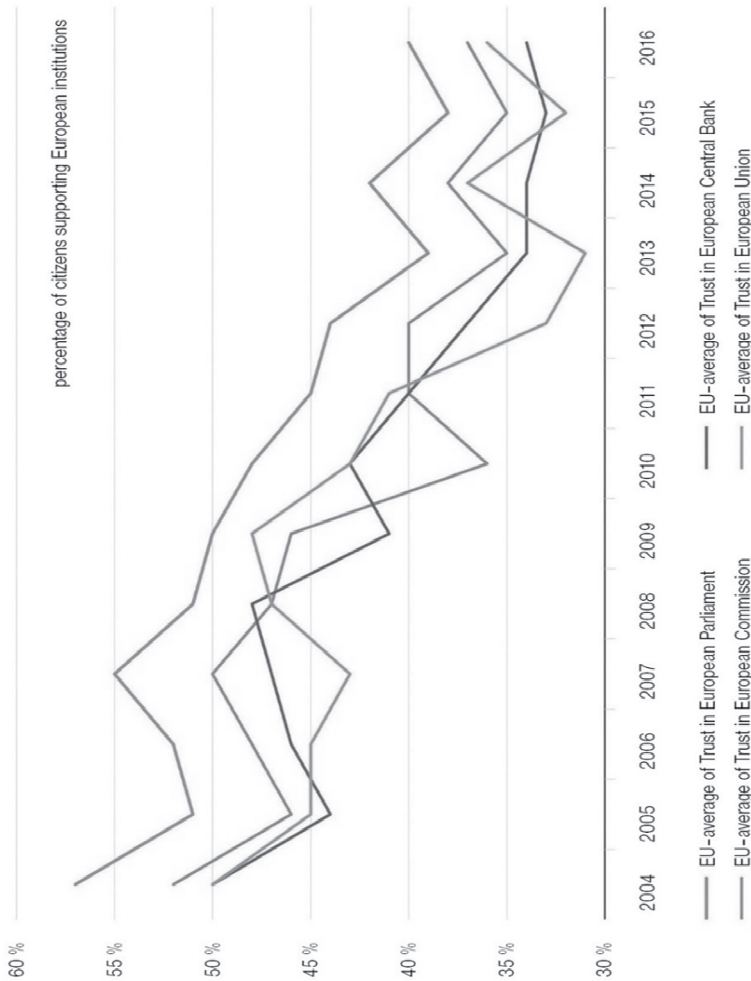
As we will see later, Brexit, the decision of the United Kingdom to withdraw from the EU, brought about a change that is perhaps at first sight not immediately discernible. We will discuss the consequences of Brexit on public opinion in the other EU member states in the following chapters.

Figure 3.1. Trust in European Union. *See centrefold for this image in colour.*



Source: Adapted from Schout and Holderied, 2018

Figure 3.2. Trust in European Institutions. *See centrefold for this image in colour.*



Source: Adapted from Schout and Holderied, 2018

Figure 3.2 shows a very interesting relationship between levels of trust in the European Parliament, European Commission (as government), European Union as a whole (as a state), and the European Central Bank (as representative of the single currency). In countries with a standard form of governance, an independent central bank and their own currency, it is

common that trust in the European Central Bank is higher than trust in other national institutions.

As can be seen, EU citizens on the other hand have had the highest level of trust in the European Parliament, considering it to be among the most influential European institutions – the institution may have some direct influence in terms of its composition. In contrast, reservations about the European Commission, the Union as a whole, and the European Central Bank are much greater. Numerous authors (see Follesdal and Hix, 2006) have written about the democratic deficit, and the structure of public trust in European institutions indicates that Europeans do indeed feel such deficit.

3.6. Brexit

Brexit started with a referendum on 23 June 2016 which turned around the process of EU enlargement. The process of withdrawal from the EU is laid down in Article 50 (2) of the Lisbon Treaty which states that a member state which decides to withdraw shall notify the European Council, which will then negotiate and conclude an agreement with the state, setting out the arrangements for its withdrawal, and taking into account the framework for its future relationship with the Union. On behalf of the Union, the agreement shall then be concluded by the Council, acting on the basis of a qualified majority, after obtaining the consent of the European Parliament.

Article 50(3) provides that all treaties shall cease to apply to the state in question from the date of the coming into force of the withdrawal agreement, or failing that, two years after the notification referred to in Paragraph 2, unless the European Council, in agreement with the member state concerned, unanimously decides to extend this period. The member of the European Council, or of the council representing the withdrawing member state, shall not participate in the discussions of the European Council or in decisions concerning it.

Only a very short period of time has elapsed since the Brexit referendum, so we are not able to evaluate how it will influence European integration. It is highly probable that we will only be able to evaluate its impact objectively after a relatively long period of time has elapsed (at least several years), not dating from the vote itself but following the conclusion of negotiations on mutual arrangements of relations between the European Union and the United Kingdom of Great Britain and Northern Ireland. We have intentionally highlighted the official name of the country – since one of the crucial problems which appeared during negotiations concerned the border

between the Republic of Ireland and Northern Ireland (as well as between Gibraltar and Spain).

All in all, Brexit has been the biggest geopolitical upheaval for the EU since the fall of the Iron Curtain in 1989. Whilst the vast majority of European citizens saw the disintegration of the communist bloc as a natural and positive phenomenon (despite some voices of calm in the general enthusiasm of the time), opinions on Brexit are considerably different. This is understandable because Brexit is about more than the simple contrast between negative and positive opinions – it is, in effect, much more shattered and splintered.

It is necessary to view Brexit from at least two different perspectives. Firstly, from the point of view of its impact on the European integration process it can be seen as a response from the citizens of a member country and their political representatives within the Brussels administration. The second perspective is how the United Kingdom will cope with the implementation of Brexit and its impacts – social, political and economic.

Brexit is the first visible manifestation of the possibility of leaving the European Union. German Chancellor Angela Merkel admitted that people have fundamental doubts concerning the direction of the European integration process. Before the referendum, President of the European Council Donald Tusk told the media: ‘As a historian I fear Brexit could be the beginning of the destruction of not only the EU but also Western political civilisation in its entirety.’ (Reuters, 2016)

Brexit confirmed the provocative potential of European topics from within the framework of an individual country’s national politics. Of course, anti-European rhetoric has already been used all over Europe; however, Brexit showed that in connection with the migration crisis and problems with the Greek, Italian or Spanish debt levels, as well as the low popularity of post-communist member countries among the citizens of traditional member states, the subject of Europe has a huge potential for impacting national politics.

It is highly likely that the aim of the above-quoted statement by Donald Tusk, cited first by the German newspaper *Bild* (and confirmed by the Reuters news agency) was to draw attention to this aspect of the situation, since EU representatives believe that the potential disintegration of the Union would lead to a new era of rivalry among European nations and potentially the most historical common solution to mutual problems: war. It

could be argued that this vision is too outlandish, but we should not overlook the fact that it has many supporters and many European voters believe it is not inconceivable. This is, perhaps, one of the reasons why many European nations responded to Brexit with a significant increase of trust in the Union.

The announcement of the British referendum results provoked several reactions. Predictably, integration advocates came out with a strong wave of statements about the need to speed up and intensify European unification. A common reaction of pro-European politicians was to highlight the need for further European integration as a ‘guarantee of economic prosperity’, economic benefits being stressed as a reason for their countries to stay in the Union.

Some time later, other responses to Brexit emerged, based on the need to intensify integration. This idea resuscitated the vision of a ‘two-speed’ or ‘multi-speed’ Europe after a certain hiatus. It seems illogical that at a time when an important country in the EU is preparing for withdrawal, the most developed states should accelerate further integration rather than continue to wait for the somewhat ‘breathless’ Central and Eastern European countries to catch up in terms of fulfilling the official criteria for full membership; the logic may not be obvious, but undoubtedly this question has become topical once again. Representatives of some of the more established EU countries believe that closer union of the ‘hard core’ (the traditional Coal and Steel Community countries, plus other more developed states) is the right response. They are of the opinion that ‘satellite’ countries were one of the key reasons for the United Kingdom’s withdrawal – and that does not only refer to the topical domestic issue of the ‘Polish plumber’ syndrome.

In this regard, both types of statements may be readily interpreted. The call for a ‘closer union as a response to their exit’ represents the standard implementation of public relations guidelines where emotive reactions must be stirred in order to promote a certain mood in society. By creating a picture of ‘British betrayers’ along with the preferred response of ‘greater efforts for unification’ a certain emotional drive is provoked. Pro-European politicians, who might be short of emotive power in this regard (since the Union does not offer much potential for awakening positive emotions) have grasped the opportunity offered by Brexit.

From this point of view, it comes as no surprise that European negotiators of the agreement with the United Kingdom have adopted a somewhat tough stance, instead of being keen to seek compromise arrangements over the

mutual future relations of London and Brussels. From a ‘continental’ perspective, it seems that (at least some members of the Union representatives) are quite happy to see that the political process in the United Kingdom for the two years after the official announcement of withdrawal from the EU, have been in a state of continuous crisis, including exterior manifestations in the form of reshuffles in Theresa May’s cabinet.

It could even be argued that the revival of the vision of a multi-speed Europe is not so illogical. The difficulties of the general British public with regard to foreigners played an important role in Brexit; the term ‘foreigners’ can be taken in this case to refer to citizens of the new EU countries (Central and Eastern European post-communist states).

The politicians of traditional EU states have shown, using the rhetoric of a multi-speed Europe and particularly in front of their own public, that they are aware of the issues with regard to the central and eastern territories of the Union, and have sought to resolve them. Pro-European politicians have thus far been quite successful, at least in terms of the defeat represented by Brexit, in attempting to anticipate a potential response within their own national states, e.g. to increase the call for the revision of the Union, or even its disintegration.

3.6.1. Brexit – future solution

The Brexit referendum was held on June 23 2016, but it is still not clear what position the UK will hold within the European arena and what sort of economic cooperation will be conducted within Europe. The only thing known for sure is that the UK will leave the EU. Theoretically, the UK might enter the European Economic Area, which comprises the EU, Norway, Liechtenstein and Iceland. Some British politicians, however, have announced they would limit the free movement of people. German Chancellor Merkel and French President Macron have declared that if the British want to have access to the EU single market they must respect the four core freedoms on the basis of which the current 28 member states function: the free movement of people, goods, services, and capital.

At this point the roles of Norway and Switzerland, whose relations with the EU have been given as an example, deserve a closer analysis. Both countries participate in the single market with goods, services and capital. However, this arrangement comes with certain pre-conditions. Firstly, they must adopt European regulations and standards without being able to influence them. Secondly, they must contribute to the EU budget. Both Norway and

Switzerland participate in the single European market, but in different ways (FAZ, 28 June 2016).

Norway is a member of the European Economic Area, where the four core freedoms are applied almost without limitation (there are some restrictions only in the case of agricultural products). However, Norway, as well as Iceland and Liechtenstein, pays contributions to the common EU budget for access to the single market.

Contributions to the EU Budget were negotiated to the amount of €2.8 billion for the period 2014–2021. Norway pays €388 million a year, and in total it will pay €2.7 billion. The last net annual contribution of the United Kingdom to the EU was €5 billion, calculated as the difference between the contributions to Brussels and EU subsidies. At first sight, €388 million may seem high, but to put it into context, it is only 0.13% of Norwegian GDP. If Norway acceded to the EU, the Norwegians would have to pay €3.5 billion; ten times that amount (Mach, 2012).

The objection that Norway must adopt all EU standards is only partially valid. For instance, between 2000 and 2013, the EU created 52,183 legal acts according to the EFTA Secretariat, and Norway adopted only 4,724 of them or 9% (even though they were the most important regulations). Between 1994 and 2014, Iceland adopted a total of 6,326 legal acts out of 62,809, which is a similar percentage (Hannan, 2016). All other EU member countries, however, must adopt 100% of the legislation.

Norwegians themselves have quite a realistic view of their situation. 80% of all exports from the five-million strong Norwegian Kingdom go to EU member countries; 60% of imports return. Norwegian sources say that between the establishment of the European Economic Area in 1994 and 2016, more than 10,000 acts and regulations were included in Norwegian legislation, which in practice means almost complete harmonisation of legislation in all economic, business and labour areas, i.e. all those areas that are related, even if only marginally, to the single market. A similar situation can be seen in Iceland and Liechtenstein. What is more, we should not forget that Norway, Iceland and Liechtenstein are also part of the Schengen Area, which may not be directly linked with the matter of economic relations, but does have some influence.

The Swiss, who rejected formal membership in the European Economic Area by a narrow majority in 1992, are also members of the Schengen Area, but have a different basis for their economic relationship with the EU. Until 1999, they had negotiated 120 bilateral agreements with Brussels pertaining

to the free movement of people, the elimination of trade barriers, research, agriculture, road and air traffic. However, there is no agreement about financial services, a matter of the utmost importance to the United Kingdom.

The Swiss pay a contribution to the EU budget as well, to the tune of €129 million a year. They impose one condition, however, that the money should not go to just any EU member country. The Swiss contribution is 0.036% of their GDP. The Swiss thus have been able to negotiate better conditions than the Norwegians (Mach, 2012).

The reason why the Norwegians or Swiss pay ‘protection money’ to the EU is commonplace: they are quite small countries and the EU community is many times stronger. The models of Switzerland or Norway, however, cannot be directly applied to the United Kingdom without reservations. Due to the relative importance of the United Kingdom, it is highly probable it will be able to negotiate its own agreement – the question is, exactly how successful this will prove in the long term. Since the UK does not want to be part of the European Economic Area, which would have been very difficult to implement anyway, it is possible it will negotiate an agreement on free trade similar to the one which the EU signed with Canada, with the *proviso* of curbing the conditional free movement of people.

Leaving the Customs Union would mean that the UK would be able to negotiate its own trade agreements with other countries all over the world. Since after Brexit, the UK would be relying only on World Trade Organisation (WTO) free trade agreements, prices of some products would inevitably increase due to customs payments. This price increase would, however, be bearable, since on average the EU applies 3% customs tariffs to industrial products from the USA (Sarrazin, 2016). The situation would also be influenced by the position the US holds with regard to free trade (and the steps Donald Trump takes in this area).

Theresa May’s cabinet spent two years negotiating the terms of Britain’s exit with the European Union. However, the British parliament rejected a deal with the European Commission several times. Since she had been unable to obtain the support of the House of Commons for any deal on Brexit terms and conditions, May subsequently resigned in July 2019, to be succeeded by Boris Johnson, the newly elected Chairman of the Conservative Party.

Prime Minister Johnson confirmed the intention to make sure that Britain leaves the Union as of 31 October 2019 – either with a new deal with the

EU or, if need be, without a deal. In September 2019, the British Parliament passed a law forbidding a hard no-deal Brexit. According to this law, the Prime Minister must request a three-month delay in Brexit if he is unable to reach a Brexit deal with Brussels by 19 October 2019, or persuade Parliament to agree a no-deal exit from the EU.

In autumn 2019, Boris Johnson succeeded in striking his own deal with the European Commission on the form of Brexit. After a triumphant victory in the parliamentary elections, the conservatives gained a majority consisting of 365 seats in the House of Commons, which enabled them to get Brexit done. The British parliament eventually approved both the Brexit deal and the related legislation. The United Kingdom left the European Union as of 31 January 2020.

Brexit will imply an economic, political, geopolitical as well as ideological loss for the EU. The Union will lose more than 64 million inhabitants (almost 13% of EU citizens), the second strongest member state (16% of the EU's GDP), a strong, competitive economy, and a Global Financial Centre as well as a strong and operational British army. In this sense of the word, Brexit will hit everyone who dreamt about the EU as a global power (Břicháček, 2016).

The withdrawal of the UK from the EU will also have an impact on the EU budget. After Germany, the United Kingdom was the second biggest contributor to the Brussels coffers, with a contribution of about 15%. After Brexit, average GDP in Europe will slightly decrease. However, the consequences of Brexit are not so dramatic for the Central and Eastern European countries, since even without Brexit after 2020 they will have less money.

If we talk about the optimistic model from the British perspective, we can say that Brexit may be costly in the short term since, due to uncertainty, investments may go down, economic performance may temporarily slow, and some sectors, such as the financial, may be affected. Nevertheless, these short-term effects will gradually fade away. The declines in the Stock Exchange recovered relatively quickly (Irwin, 2016). In addition, a weaker pound may help stimulate the future British economy. Thus, the long-term effects of Brexit might not be quite as detrimental as they may appear at first sight.

The withdrawal of the United Kingdom from the EU is not a calamity. As Henry Kissinger argued in his article about Brexit (*Wall Street Journal*, 28 June 2016), responsible statesmen do not thrive on suffering and mutual accusations, but rather are able to turn partial failures into opportunities.

After many decades, European integration has acquired a sclerotic character. If some countries have decided to leave, it may have a cathartic effect on the EU. In this case, perhaps The Union should not see the UK as a runaway but rather as a fellow compatriot.

There are voices sympathetic to Brexit even in Central and Eastern Europe. According to those countries, the United Kingdom is a self-confident country with its own identity, and with much longer-standing democratic traditions than the Union. It has been highlighted that the UK will remain an important NATO member and trading power with ties all over the world. Its economy is not dependent on the EU and it will certainly prosper as an independent country (Zlámálová, 2016).

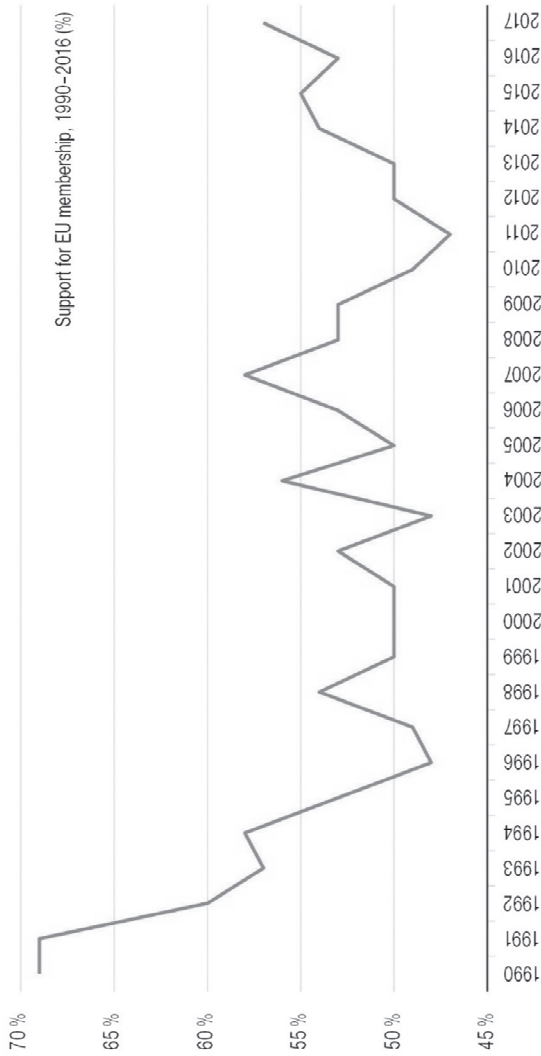
For all these reasons, Brexit might not signal the descent into chaos which many expect, but rather an opportunity for thorough EU reform. Critics of integration point to the fact that the method of central governance from Brussels is obsolete. It is possible that only after Brexit will political establishments in Brussels be willing to return competences to the national level, reduce the production of unnecessary standards and regulations and stop projecting their ambitious vision of a United States of Europe. In this regard, it could be argued that if London were to remain within the Union, Brussels would not initiate any real reforms.

3.7. Itexit, Czexit, Polexit...

First reactions referred to Brexit (or more exactly to the referendum results) as the 'opening shot' in the European Union's disintegration process. As time has passed, however, it has become clear that the matter has not been, and will not be, quite so simple.

A prerequisite of Brexit being the 'opening shot' lies in the thesis that there is a rising number of European citizens who do not desire further integration, and who share the belief that further integration would lead to greater rigidity and an increased sense of helplessness within the European Union. The results of elections in many countries (to a certain extent in Germany, Austria, clearly in Italy, as well as in many Central and Eastern European states – in the Czech Republic or on a long-term basis in Hungary), really do not show that efforts toward European integration have steady or increasing support.

Figure 3.3 Support for EU-membership 1990-2016



Source: Adapted from www.clingendael.org

Figure 3.3 shows the support for EU membership on a sample of all EU28 citizens, and we can see again its clear long-term decrease. To be able to

analyse potential further exits as a disintegration mechanism in more detail, it is necessary to look closer at the situation in some states. We questioned above whether or not the EU will ‘take a long hard look in the mirror’ after Brexit, something that would lead to important changes in efforts toward integration. Since such reflection would pre-suppose changes in essential personnel in key posts in the EU institutions, and given that such changes could not take place without extensive reorganization at national level inside most EU member states, then only a future that involves disintegration exists.

Despite being the most sceptical EU country, Italy is strongly dependent on the Union, owing to debts and an ailing economy. Although the results of the 2018 parliamentary elections revealed strong Euroscepticism, no political representation has had sufficient manoeuvring room to convince Italians seriously to consider withdrawal from the EU. It should be remembered that the situation in the United Kingdom, which has its own currency, is completely different from the situation in Italy which is tied to the Euro.

It may be true that the possibility of withdrawal from the Union could become an attractive tool for some political forces to use to increase their popularity. At a time of rising resistance to a ‘bureaucratic Brussels’, a perceived inability of the EU to manage the migration crisis can be a seductive message. Eurosceptic opinions have increased, even in groups that traditionally supported the European Union. It was, however, the traditional anti-European groups that played a major role in commenting upon, and attempting to use, Brexit in order to trigger EU disintegration.

In France, Marine Le Pen, president of the National Front, and in the Netherlands the politician Geert Wilders, showed equal interest in organising the same sort of referendum. Political forces in Sweden, Denmark, Austria and other countries also strove for referenda. It can be safely said that Eurosceptic parties exist in almost all Central and Eastern European countries, and in some of them even mainstream parties express relatively strong criticism of the Union.

This urge seems to be very powerful; nevertheless, election results of the main anti-European formations did not correspond (at least in the first years after the British referendum) to the volume of those urging for Union disintegration. The crushing defeat of Marine Le Pen in the second round of French presidential elections in 2017 was a big disappointment for Eurosceptics. Similarly, 94 mandates for Alternative für Deutschland in the

German elections to the Bundestag in 2017 could have been objectively seen as a big success, but the results were disappointing, at least from the perspective that Brexit might have changed the political map of Europe. Another election example, from Austria, revealed the reserved attitude of the country towards the European project – Sebastian Kurz, from the Austrian People's Party, helped confirm that reservation is 'within the law'.

Brexit influenced the opening of other 'Pandora's boxes', since it energized secessionist and separatist efforts all over Europe. First Minister of Scotland, Nicola Sturgeon, indicated several times that Scotland is ready to stay in the European Union and did not rule out a new referendum on the independence of Scotland from the United Kingdom. The Catalanian parliament took clear steps to make the region independent from Spain, which threw the country into a serious political crisis. Under such circumstances, Brussels was left in a very difficult position: Scotland and Catalonia are both bastions of Euro-optimism and are supportive of European integration.

In May 2018, the Scottish parliament voted 3:1 to do away with a government bill supporting the withdrawal of the United Kingdom from the EU. This did not mean that the law adopted by Parliament would not become effective, however, but another crisis emerged. Currently, Scotland has postponed deliberations about a referendum on withdrawal from the United Kingdom until such time as agreements between the UK and EU become better known. However, within the complex system of divided powers that is the United Kingdom, this matter is very sensitive and remarkably delicate.

The crisis has arisen due to the fact that, in the referendum, England voted for Brexit by 53.4%, whereas Scotland voted to stay in the EU by 62% (it is sometimes forgotten that Northern Ireland also supported staying in the Union by almost 56%, not to mention the 94% of Gibraltarians who voted against Brexit). Quite understandably, the citizens of these regions feel that the English have led them in a direction they did not want to go. In Scotland this can be translated into the strong political potential for a 'Scotexit' – a possible withdrawal of Scotland from the United Kingdom.

Brussels, however, has supported the integrity of existing countries and rejected the automatic accession of potential new states; it declared that membership would also be subject to the regular process of integration. All in all, these separatist regional efforts offer significant (and so far unused) opportunities to the advocates of integration.

The reserved attitude of Brussels is logical. An independent Scotland or Catalonia might provide fresh impetus for the disintegration of Belgium. It could also encourage North-Italian separatists who already strengthened their position after elections in 2018 irrespective of the fact that their demands had been reduced before the elections. One might ask if and where such developments will stop.

In any case, after Brexit, Germany and France have grown more in importance in the new EU. Chancellor Merkel is now the *de facto* leader of the Union (Parks, 2016). The largest European economy might actually strengthen its key position. The role of the English language, hitherto one of the main official languages, will most probably diminish after the British withdrawal. English will remain the language of communication, but it is likely that French and German will be heard more often at the meetings of the European institutions (*MF Dnes*, 29 June 2016).

The European Union (regardless of the fact that the trust of citizens has stopped decreasing) has therefore arrived at one of the most difficult moments in its history. Suddenly, it faces several crises (Ševčíková, 2015): migration, the eurozone, an institutional crisis, as well as the crisis induced by Brexit. It is possible that after almost seventy years of integration, we have entered the age of disintegration (Münchau, 2016), and that instead of globalization, localization and regionalization may now be a reality. This obviously does not necessarily mean that the EU will fall apart, but it may, as a result of such crises, be less active.

Brussels may, nevertheless, strive for greater European integration in the remaining member states. Jean-Claude Juncker, President of the European Commission, wants the situation after Brexit to involve an accelerated extension of the eurozone and the introduction of the Euro in all EU countries (*FAZ*, 27 June 2016). German Federal Minister of Defence, Ursula von de Leyen, has called for the introduction of a common defence policy.

From an integration perspective, that would be the point where the European Union would be composed of a 'hard core' group of the fastest integrationists, with all other countries at different stages of association with it. Two-speed integration has already happened, but this has so far only been manifested in certain areas such as the economic decisions that affect currency. If the process of integration continues and is not reversed, directly and from the centre, into a disintegration process, then sooner or later this

two-speed character will become more apparent, and it will start intervening in other spheres of decision-making inside the Union.

The exit potential of countries of the Eastern enlargement is worth deeper analysis, particularly regarding the relationship of their citizens (voters) to European matters and national matters (or European policies and domestic policies). If voters perceived substantial differences in how to approach one or the other area, such differences should manifest themselves in voting preferences. As an example, let us consider the Czech Republic, which is probably the most Eurosceptic country among the countries of Central and Eastern Europe. Elections to the European Parliament and elections to the national parliament have not shown substantial comparative differences, the results being almost a copy of surveys of general voting preferences carried out at that time. Citizens thus voted for those parties that they would have voted for in the case of national elections.

There are few political formations in the Czech Republic whose main political concern is their standpoint on the Union, and when these have existed they have had only marginal influence. The same applies to Euro-optimistic voters who seem satisfied with the traditional offers of political parties from left to right, which include several alternatives. This can be seen as a logical attitude of the public, but there is more: voters do not consider matters related to the European Union as crucially requiring anything extra from their political representatives, apart from general declarations about their stance on the Union. Thus, it is not surprising that the attitude of political representatives in European matters is as indifferent as the attitude of their voters.

This is a major warning sign and logical alarm for integration efforts. As we have already mentioned, the non-existence of any European national interest can be confirmed also by the fact that apart from factions in the European Parliament no European-focused political party has ever been formed. From this perspective, it is clear that although voters in some states show significant support for the European Union, such support cannot stop national communities from formulating subjective national interests. On the other hand, national interests are emphasized by the fact that voters choose their MEPs based on the same worldview as they choose members of national parliaments. Czech voters with strong anti-immigration attitudes therefore find enough support in parties that hold lukewarm anti-immigration attitudes not connected with total rejection of the EU itself.

Analysis of the situation in the Czech Republic has shown that Czech citizens do not perceive the EU as important enough to warrant specific political representation. In the parliamentary elections of 2017, the parties with clearly negative attitudes to the EU did not garner more than 20% of the vote, whereas most voters seemed to support the policies of parties that declared themselves to be ‘anti-immigration’; wishing to withdraw from the EU was insufficient. The October 2017 election results of those political groups which chose a negative standpoint on the EU as their main topic were fairly poor.

Roughly one third of legitimate voters’ choices in the national parliamentary elections were influenced by attitudes to the European Union (including the issue of the migration crisis). This becomes very clear when we compare election results with ordinary survey results among the citizens of the Czech Republic regarding their support of the European Union. The long-term ratio of yes-no answers has been around 60:40. The Eurosceptic parties, and parties promoting withdrawal from the Union, should therefore have received much higher support than 20–30%. As can be seen, there appears to be no particular appetite for a ‘Czexit’ in the Czech Republic. This is why none of the Central and Eastern European countries is likely to leave the EU.

3.8. Can you be excluded from the European Union?

The European Commission did proceed to make some internal political decisions and also, in the case of the migration crisis in the mid-to late 2010s, to take a tougher stance towards some Central European countries of the Eastern enlargement. Above all, it put pressure on Poland for its alleged breach of the principles of the rule of law. Hungary has also been in Brussels ‘bad books’ for a long time due, amongst other things, to the approach of Viktor Orbán’s government towards migration. The Commission has already launched infringement procedures with the European Court of Justice against Poland, Hungary, and the Czech Republic for being in breach of the relocation scheme. An interesting and not at all unreasonable question arises: would it be possible to exclude any country from the European Union under certain circumstances? This question is also essential in the context of the idea of a ‘multi-speed’ Europe, as mentioned several times already.

Christoph Meyer, of King’s College London, wrote an article in the *New York Times* (25 June 2007) arguing that the European Union needs a ‘kick-out’ clause. Meyer gives an example of what would happen if a political party in a member country gained power legitimately but then slowly eroded

the independence of the judiciary and media: elections would become farcical, their results unreliable. A kick-out clause is lacking for such a scenario.

This is not an abstruse academic debate, as demonstrated by the fact that in September 2016 Jean Asselborn, Luxembourg Minister of Foreign and European Affairs, requested the exclusion of Hungary from the European Union, stating that Hungary treated refugees ‘worse than animals’. Asselborn repeatedly criticized Hungary and other Central European countries for their insensitivity and inhumane attitude towards refugees. His request was rejected not only by the top representatives of the Visegrad countries but also by Austria and Germany (the Visegrad group is composed of the Czech Republic, Slovakia, Hungary and Poland).

Similarly, British left-wing journalist Owen Jones recently wrote in the *Guardian* that it is time for the European Union to kick Hungary out. Jones dislikes the law that has made claims for asylum almost impossible in Hungary and actually criminalised the act of helping migrants, or imposed 25% tax on foreign funding of NGOs that support immigration. ‘We have a member state, casually flouting basic democratic norms and human rights, swiftly evolving into an authoritarian nightmare,’ claimed Jones (*Guardian*, 22 June 2018).

The question of whether or not any state can be excluded from the EU is, therefore, no trivial matter. While the exit clause was introduced into European law by the Treaty of Lisbon, there is no exclusion clause. The statutes of some international organisations make it possible to exclude a member that continuously and essentially breaches basic obligations of membership. For instance, the Charter of the United Nations stipulates that a member state which has persistently violated its ‘Principles’ may be expelled by the General Assembly upon the recommendation of the Security Council.

However, the EU Treaties do not allow for such a procedure. This means that no member state may be excluded upon a decision of any EU institution or the other member states. Therefore, EU membership of any member state may not be rescinded against the will of that member state. This does not mean, however, that breaches of membership cannot be penalized in other ways.

There is a classical infringement procedure whereby the ECJ decides upon a complaint or request submitted by the Commission or, under exceptional

circumstances, by another member state against a fellow member state. In these extreme cases, the procedure may lead to a financial sanction in the form of a one-off fine or penalty imposed by the ECJ upon the recommendation of the Commission.

Article 7 of the Treaty on European Union contains a special mechanism which may be employed against a state that violates the EU values listed in Article 2. Firstly, there is a preventive procedure wherein the Council, after obtaining the consent of the European Parliament, on a proposal by one third of the Member States, by the European Parliament or by the European Commission, and acting by a majority of four fifths of its members, “may determine that there is a clear risk of a serious breach by a Member State of the values referred to in Article 2 TEU” (Art. 7.1 TEU).

Secondly, there is a sanctions procedure by which the European Council, after obtaining the consent of the European Parliament on a proposal by one third of the Member States or by the Commission acting in unanimity “may determine the existence of a serious and persistent breach of the values” (Art. 7.2 TEU). Upon the decision of the European Council, the Council, acting by a qualified majority, “may decide to suspend certain of the rights deriving from the application of the Treaties to the Member State in question, including voting rights of the representative of the government of that Member State in the Council”, while its obligations under the Treaties continue to be binding (Article 7.3, TEU). Even such a serious case does not provide grounds for exclusion of the member state from the EU. The Council, acting by a qualified majority, may determine to change or cancel such measures if the situation that caused their adoption is changed.

In December 2017, the Commission proposed to apply Article 7 for the first time in its history against Poland, currently in its less strict and preventative form (Art. 7.1). The Commission was worried about the politicisation of the judiciary, the forced replacement of judges and the centralization of powers over and above the judiciary chiefly in the hands of one person, the Minister of Justice. In September 2018, the European Parliament recommended the Commission apply a similar procedure against Hungary.

Nevertheless, it is highly improbable that a four-fifths voting majority could be achieved in the Council to determine a serious breach. It seems, therefore, that the activation of the sanctions procedure is in reality an impossibility since, per the decision-making process pursuant to Art. 7.2, every member state has the power to block it in the European Council. Hungary has already announced that it would veto such a decision in the procedure against

Poland, and the procedure against Hungary would be similarly vetoed by Poland, and possibly the Czech Republic as well.

The EU supervision of the ‘rule of law’ is a highly sensitive political agenda, worthy of our utmost attention and caution. Czech lawyer Tomáš Břicháček (2014) argues that this is an illustrative example of EU institutions seeking to expand their powers and activities at all costs, where the rule of law is merely a ‘wildcard’ topic. According to Břicháček, this is not about the rule of law but about the ‘rule of Brussels’.

The European Union was not founded with the objective of controlling and enforcing the rule of law. The values of Article 2 of the Treaty on European Union were designed by the authors of the Treaty as a body of conditions for member states to promote ‘a decent society’ and not as a series of parameters to be checked by EU institutions on a regular basis. It is arguably unreasonable that member states should be held responsible for adhering to the principles of the rule of law in front of the Commission as the executive and administrative body of the Union instead of their own constitutional court judges.

The European Commission, however, may significantly complicate life for the countries in the Visegrad group. According to the proposed EU budget for 2021–27, European funds that after the 2004 enlargement were mainly earmarked for the Central and Eastern European countries, were instead directed to those member states in the south (Italy, Spain, Greece and Portugal) which were harder hit by the economic crisis and had a greater exposure to the migration crisis. For objectivity’s sake, it is apposite to mention that debates on changing the main budgetary flow had already begun before the escalation of the relationship between Hungary, Poland and the Czech Republic and the EU institutions. This escalation of tension, however, may lead to a situation whereby the efforts of the above countries to reduce this ‘redirection’ will not be successful. The Visegrad countries will probably remain in the Union, but they will be significantly punished in financial terms.

3.9. Summary

The third chapter detailed the course of enlargement of and withdrawal from the EC/EU, from its inception until now. First, the notion of, and procedure for, acceding to the EU were defined and outlined. Formal criteria of membership are in place to dissuade those not welcome. Despite the fact that there are material conditions set for fulfilling the membership criteria

(economic or legislative), in actual fact the accession of a new member to the EU is a political decision.

The first historic EC enlargement included the United Kingdom, Ireland, and Denmark in the 1970s. Greece, Spain and Portugal acceded as part of the Southern enlargement in the 1980s. The Northern enlargement saw Austria, Finland and Sweden accede to the EU in the 1990s. The Eastern enlargement was the biggest in the history of the EU, in which the following countries acceded: Poland, the Czech Republic, Slovakia, Hungary, Estonia, Slovenia, Cyprus, Lithuania, Latvia, and Malta; later complemented by Romania, Bulgaria and Croatia.

EU enlargement has been a difficult and complex process. Some candidates have been persistently rejected (e.g. Turkey), whereas others have refused to become members (Norway and Switzerland), although the Union would welcome them. Brexit shows that some members already feel that the costs are greater than the benefits. The enlargement of the Union, or deeper integration, creates no 'greater good' since it is primarily based on the interests of the main players or core nations.

The European Union faces permanent institutional problems. On the one hand, there has been a tension between deeper integration and enlargement of the communities, whereas on the other hand, continuous EC/EU enlargement has rendered institutions more cumbersome, which has reinforced the argument for expanding decision-making by a majority in the Union, from which larger countries would particularly benefit. There has been a long discussion about the democratic deficit of European institutions; however the situation is far from being solved.

Brexit has been the biggest geopolitical shake-up in Europe since 1989, when the Iron Curtain finally fell. The forthcoming withdrawal of the United Kingdom has demonstrated that people have fundamental doubts about the direction of the European integration process. The EU suddenly faces four crises: migration, the eurozone, an institutional crisis, and the crisis induced by Brexit. We cannot exclude the possibility that after seventy years of European integration, the era of disintegration is finally upon us. However, the real impact of Brexit on European integration will only be known after it is clear how it will affect the economy of the United Kingdom and the standard of living of its citizens.

We can speculate on whether or not Brexit will have an impact on further integration efforts within the Union. Nevertheless, it does not appear that

countries such as the Czech Republic, Poland or other Central and Eastern European countries are likely to arrive at a political situation leading to a Czexit or Polesit in the near future. The migration crisis, however, and relationships with foreigners, emotive topics in the late 2010s, have brought about significant disintegrative elements which have exacerbated the mismatch between common and prevailing social attitudes in the Western and Northern part of the Union and those in the Central and Eastern European member states. From this perspective, it seems that Eastern enlargement was probably an important factor in integration efforts, but only in a negative way.

What is more, the debate on a ‘multi-speed Europe’ has been reopened in the context of the situation in the late 2010s. In fact, admitting that the EU could divide the ‘core of integration’ countries from the economically problematic Southern States and the politically unreliable countries of the Eastern enlargement, would imply an admission that the integration process in its original form has failed. No wonder then, that there is increased urgency in the setting out of future questions about the European Union which, apart from reinforcing the mechanism for the adoption of new members, would focus also on the possibility of how to exclude member states.

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CHAPTER 4

ECONOMICS OF EUROPEAN INTEGRATION

Some commentators (including politicians) use strongly-worded statements when describing globalization: the nation state is passé; borders have disappeared; distances are not insurmountable; domestic policies are replaced by new forms of representation that transcend national boundaries. Legislative power has moved from the national lawmakers into the hands of the European networks of regulators. The decisions shaping our lives are now made by large multinational corporations or supranational bureaucrats (Rodrik, 2012).

These, and similar statements, have not gone unnoticed, for they announce the dawn of a new era of global governance. The issue, however, is considerably more complex. Although we may think that we live in a world whose governance has been radically transformed by globalization, the principle of the existence of states stipulates that final responsibility for most things still lies with domestic policy-makers, whether or not their powers are derived from democratic elections or from less democratic or completely undemocratic procedures.

Even in an era of globalization, the claim that the nation state is in gradual deterioration should therefore be challenged. Although it is possible to understand this one-sided statement when confronted with the largely unseen interconnection of individual elements of our world, this primarily remains a quantitative rather than a qualitative external phenomenon. A limited perception of the quantitative principle and at the same time an overestimation of the qualitative aspect of changes which have taken place makes the discussion difficult.

Similarly, any rational discussion about the importance of the nation state is hindered by the idea that globalization is, by definition, a 'positive' phenomenon that represents progress, whereas nation states can be dismissed as a 'residue of the past', or an obsolete stage of development.

A parallel can be drawn with the gradually changing perception of the ‘global village’ – a notion introduced in the field of media by Marshall McLuhan (McLuhan, 1964, 1968). The author understood the term to mean a space interconnected by electronic media, where we experience certain ‘retribalizations’ thanks to common media perceptions. Today, interpretations of this notion tend to be more cautious. It is true that information-sharing on a global scale has surpassed all conceivable expectations, but there is still great diversity in perceptions of the information and its social impact (on regions or other geographically defined units).

In fact, any pressures, such as those perceived by globalization, are balanced by counter-pressures (put simply, the nation state). It is possible, therefore, quite easy to envisage a situation emerge where European integration, which can be considered part of globalization, will be followed by disintegration. In this respect we must go back to the idea of national interest. If globalization, no matter how difficult it is to define, does not best suit national interests (now seen as objectively existing), it will be rejected by the individual nations, and even if this might be seen to be ‘reactionary’ or ‘resisting progress’, it will hardly alter the fact that such nations will choose political representation which challenges the phenomena typically associated with the process of globalization.

For that reason, it is still true that although European economies are controlled by a large number of international agencies and European institutions, its nation states do not cease to exist and operate (Rodrik, 2012).

The second and third chapters embrace the concept of European integration somewhat descriptively; the fourth focuses more on theory and tries to cover the economics of European integration. First of all, we outline approaches to European integration. Next, we explain Moravcsik’s rationalist model of intergovernmental bargaining. We also look into the process of deepening European integration, analysing the costs and benefits of EU enlargement, its benefits for politicians and citizens, and we point out the impact of interest groups.

4.1. Approaches to European integration

Until recently, political science has been unable to grasp the European Union in terms of existing terminology and it has been classified as a body *sui generis*. Sometimes it is called an “institutional and constitutional hybrid” (Pitrová, 1999: p.9). In any case, the European Union is a

continuously evolving entity whose institutional development is not yet finished. The most famous contributions to the theory of European integration were made by Michelmann and Soldatos (1994), Moravcsik (1998), Williams (2001), Rosamund (2000), Molle (2006), Baldwin and Wyplosz (2013), Wiener and Diez (2009), and Guisan (2012).

Throughout the process of European integration, there has existed a rivalry between two basic concepts of European integration process: federalism and inter-governmentalism. The dividing rule is the extent to which politicians and citizens demand that the nation state be prioritized in the decision-making process, or whether they accept or recommend the delegation of certain powers to supranational bodies – or even if they have flirted with the idea of a common European state (Spolaore, 2013).

4.1.1. Federalism

There are certain differences between federalist ideas. Some, such as those of Altiero Spinelli, have promoted a step change, a sort of a ‘constitutional coup’ that would fundamentally transform the European political scene and replace discredited nation states with a European federation (Kratochvíl, 2008: pp.55–56). These hard-core federalists want to implement change by ‘radical democracy’, i.e. via the citizens of Europe themselves rather than politicians and diplomats.

Other federalists, such as Jean Monnet, wanted to form a federation by gradual steps. After the failure of radical European federalism, a more moderate approach started to gain ground in both academia and politics, which was characterized by the gradualist method – a gradual shift towards a federation. Although federalism was an obsolete theory in the 1970s, it reappeared in the 1980s along with the deepening of integration after the Single European Act.

Federalism has been intrinsically ambivalent (Kratochvíl, 2008: pp.59–60). On the one hand, it has shown a mistrust of the modern state of the Westphalian type, even though the supranational unit that federalists want to form ultimately resembles this state. In other words, therefore, the state is perceived as a source of dysfunctional international relations in Europe, yet on the other hand its replication on a higher scale should suffice to eliminate this dysfunction. From many perspectives, such optimism is naturally difficult to accept.

Both concepts of federalization, the revolutionary and the gradually changing, have their own inherent drawbacks. Revolutionary federalism ignores the role of political elites from nation states that would, due to federalization, lose much of their influence. Relying on direct democracy can even be considered naïve. The difficulty with gradual federalism is that it is utterly unclear what this future federalist arrangement should look like (Kratochvíl, 2008: p.60).

An additional doubt is uncertainty regarding the form of the end state. In fact, it is not even clear how the change from a community or union to a federation should be implemented. Doubts concern the mechanism itself rather than the ideology (where the doubts are of course absolutely justified).

Criticism of the fundamental importance of federalization can be based on the following logical assumption: all previous disputes between European states originated from the disparities between national interests as defined by individual nation states. It can also be assumed that the national interest is objective, i.e. that at a given time and in a given territory it is a predominant interest which is, in its more or less sophisticated form, embraced by the vast majority of the given nation.

If a nation state is ‘dissolved’ in a multinational organization, which we will now call a federation, does it mean that the national interests of the antecedent nation state have ceased to exist? Presumably not. National interests will still be present, but their direct enforcement, in the form of the international policies of the given nation state, will be impossible (while it should be emphasized that it does not really matter whether ‘nation state’ is understood in the ethnic or political sense).

A ‘federation’ obviously does not mean that the individually federated parts of a higher unit cease to have political representation through spokespersons in the national interest. These representations will continue to have a mandate that promotes national interests in international fields, although these fields may have federal characteristics. This necessarily means that the national interests being expressed through political representations will inevitably interfere with the federation, their aims being met through the main political priorities of the political representations of the individual parts of a larger federal unit.

In the ‘pre-federal’ period national interests clash at the level of the states’ foreign policies (at best) or in open conflicts (at worse); in the federal

period, however, there would be a tendency to harmonise and balance national interests within that federation.

A federation, therefore, does not necessarily seem to imply greater stability and security. It is more about giving an impression of stability and security for one simple reason: both these values are provided only by the power of the centre, which only works if that power is stronger and more efficient than the strengths and ‘active capabilities’ of the different or contradictory national interests.

In other words, a ‘critical mass of contradictions’ can be created both when it comes to relationships between nation states as fully sovereign units, and also when the federal parts of a higher unit are examined. Indeed, European history in the last three decades has undoubtedly shown evidence of a very strong integration process in the creation of a wider and more federal European Union. However, it has also shown things of quite a contradictory sort – namely the breakup of Yugoslavia and Czechoslovakia, repeated calls for the breakup of Belgium, and the irredentist efforts in Catalonia, Scotland, and northern Italy. With some exaggeration, we can also mention the dissolution of the Union of Soviet Socialist Republics, although that was actually a purely formal federation.

It is therefore possible to make the claim that the idea of a federation, in and of itself, is neither essentially positive nor negative. A federation does not necessarily ensure stability and security because, given persistent contradictions between the national interests of individual member states of the federation, stability and security are constantly in jeopardy. From an economic point of view, we may argue that the issue is also connected with the costs of the arrangement sought (these need not only be financial but may also include a variety of transferred or mediated costs). In any case, if the costs of maintaining the arrangement (balancing individual national interests) exceed the benefits gained, the system may be eroded. It is also true that the stronger the resistance to this corrosion from diverse national interests, the more explosive the result will be. This was clearly demonstrated during the breakup of Yugoslavia and the subsequent wars. In contrast, in Czechoslovakia there was no major dynamic resistance to the idea of the division of the country. There was a peaceful and orderly split.

While federalists may often claim that ‘a federation of European states will foster prosperity and security for European nations’, their argument is clearly wide of the mark, and is based on a misunderstanding of (or deliberate disregard for) ideas first expressed by Immanuel Kant in his work

Perpetual Peace (Kant, [1795] 1917). The federalists fail to point out that ‘peace’ is synonymous with stability and security and has a number of conditions that must be fulfilled before it can be put into one framework (which may be federative). For Kant, the first and most decisive element of peace among nations is the civic establishment of those states in order to maintain peace.

Kant first defines a number of conditions, among which particular emphasis should be placed upon the republican constitution, constitutionality, the strict separation of powers (legislative and executive), representation, and several others (Kant, 1917: pp.107–115). From this point of view, it can be summarized that Kant claims that a precondition for peace among states (perpetual peace) is their liberal democratic character, with full constitutionality and representativeness. Such states can then coexist in perpetual peace, but will have to face the constant risk of an outbreak of war with other states. Kant then specifies additional conditions and circumstances, including space for ‘business spirit’ which he thinks is the most effective prevention of war: this could be understood as free trade. Business benefits (in the simplest meaning of the term) must therefore be of greater value than the costs of harmonizing national interests (moderating the nation’s requirements).

We could draw even more parallels from Kant’s idea as embodied in the longer title of his political essay, *Perpetual Peace and European Integration*, if the latter is driven by the desire to achieve a federal arrangement of the EU. The meaning and, above all, the contradiction is however very clear: in fact, federation is the result of conditions but it is not a goal in itself. Reconciliation of national interests then depends not on the existence of a federation but on the permanent existence and validity of peace conditions. Economic conditions (fulfilment of the business spirit) are fundamental conditions that cannot be circumvented. Federation itself (although the meaning of Kant’s term ‘federation’ is different from today’s meaning [cf. Kant, 1917, pp.128–137]) is rather a natural and long-term fulfilment of the conditions of perpetual peace than an institutional condition of that peace. At first glance the difference seems small, but it is actually fundamental.

We can use it to reject clearly the idea of a federation as a condition for perpetual peace. Although it may not be evident at first glance, this polemic is grounded in economics. In fact, the elementary condition for perpetual peace is free trade (space for business spirit). True free trade exists without any barriers and constraints and can only be pursued by states that are fully

liberal, constitutional, and with the highest degree of representativeness. Others can trade, often within a very free regime, but not with complete freedom because states in which the conditions of liberalism are not all fulfilled do not have free economic systems either. If, however, free trade is undertaken between a highly liberal, fully constitutional and fully representative state on the one hand and a state which does not fulfil these conditions on the other, their exchange will always be burdened by significant elements of imbalance and instability, and free trade will consequently start to clash with the national interests of these states.

It should be noted that an exemplar of such a situation is the business relationship between the United States and China. Incidentally, albeit to a lesser extent for obvious reasons, a similar problem seems to be emerging in the relationship between the United States and the European Union.

4.1.2. Intergovernmental approach

The intergovernmental approach (intergovernmentalism) is a counterbalance to federalism. Advocates of the intergovernmental approach consider nation states to be the main stakeholders in international affairs. In their opinion, rapid changes in the integration process can only be made if they are consistent and compatible with the national interests of individual states. Advocates of intergovernmentalism are concerned about furthering integration in that it could lead to a loss of national sovereignty (Spolaore, 2013).

In Europe, the intergovernmental approach is traditionally promoted mainly by countries such as the United Kingdom and some Scandinavian countries. The approach favours the creation of a free market that allows for intergovernmental cooperation only at the political and foreign-policy level, while sovereignty of individual states is fully preserved. These countries refuse to participate in a political union and many of them also refuse to adopt the single European currency (Alesina and Perotti, 2004).

One of the weaknesses of the intergovernmental approach may be the fact that European integration has now reached a stage where it can no longer be simply explained as the fulfilment of the wishes of member states. European institutions have become so powerful that they are even able to implement European integration relatively successfully against the will of member states. Integration is enforced by political elites even against the will of its citizens, as demonstrated by the impact of the referendum on the European Constitution in France and the Netherlands (Klaus, 2011).

In contrast to Kant's idea of perpetual peace, however, intergovernmentalism can be considered as a much more natural process – at least if the purpose of nations' cooperation on one continent is to search for a way to obtain perpetual peace.

Throughout history, both approaches – federal and intergovernmental – have alternated or even merged (Fiala and Pítrová, 2009). Individual political representatives have claimed that the EU's future was linked with one approach or the other, each of which has left its mark on European institutions. After more than sixty years of European integration, its institutional structure is a composite of both models.

The European Union has long been a special unit that exists in the interface between an international organization and a supranational entity (Williams, 1991). Any changes in the Community's institutional structure must be assessed in the light of the differing views of the member states on the goal of integration, which stem from the merging of integration paradigms of federalism and intergovernmentalism. Until recently, however, supranationalism has clearly prevailed.

From 1952 until now, the Community has seen gradual waves of a dominant advance in supranational features. The prevalence of supranational features over intergovernmental ones has been particularly evident in the area of policies. A continuation of the common market should have encompassed the adoption of a single currency which, as the highest stage of economic integration, was seen as an appropriate means by which political union could be built.

A breakthrough came in 1992 with the Treaty of Maastricht, in which member states declared their interest in building the Community's foreign-political unity, its defence strategy, and a unified governance of internal affairs (Haller, 2008). The original aims of the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community were thus many times exceeded.

It is no longer necessary to pretend that member states continue to superintend the integration process. European institutions have gained such strong standing that they can enforce important political changes using their own power. European integration is pushed forward by European institutions even against the will of (some) member states. Both the European Commission and European Parliament are initiators of new

actions and advocates of the further deepening of integration (Alesina and Perotti, 2004).

4.2. Rationalist model of interstate negotiations

The opinion that member states are the ‘masters of treaties’ controlling the development of European integration is endorsed primarily by Andrew Moravcsik, Professor of Internal Relations at Princeton University. While the neofunctional theory applied to the European Union focuses on the role of ‘supranational’ stakeholders in overcoming transaction costs of interstate negotiations, the theory of rational choice emphasizes that the results of interstate negotiations are mainly generated by the relative strength of the main stakeholders.

Although neofunctionalism claims to be neutral and professional, in reality it assumes a certain historical teleology, according to which the ultimate purpose of history is a united Europe. Technocratic visions and European idealism, however, did not constitute the decisive force in key historic decisions. Moravcsik’s (1998) core argument is that European decision-making can be best explained as a series of rational decisions made by national stakeholders.

Moravcsik applies his ‘rationalist’ approach to the development of European integration. Examining five important events in the European integration process (negotiations over the Treaty of Rome, debates over the customs union and the negotiation of the Common Agricultural Policy, the creation of the single currency, negotiations over the Single European Act, and negotiations over the Maastricht Treaty), he concludes that the key role was always played by member states.

His model can be summarized in several points. Within states interested associations first compete for influence on state policy. The states then meet at international summits to promote their interests. The greater the state’s interest in a particular issue, the more the state will be willing to negotiate concessions in other areas. The result is compromise: fulfilment of the states’ obligations is then supervised by integration institutions which the states created for this purpose (Kratochvíl, 2008: pp.163–64).

Moravcsik’s model assumes that states act rationally or instrumentally to protect their interests and preferences during negotiations. This is a reaction to criticisms of earlier theories of European integration that emphasize the role of shared values. This rational behavior has three stages: 1. the creation

of national preferences, 2. interstate negotiations, and 3. the emergence of international institutions (Moravcsik, 1998: p.20).

1. When explaining the outcome of the EU's decision-making, the first step is to uncover national preferences. They can be defined as a sorted set of values related to various future situations that may arise from international interactions. Preferences take into account the objectives of the domestic groups that affect the state apparatus. When explaining national preferences, the relative weight of economic interests and geopolitical interests can be discussed.

Geopolitical interests reflect perceived (military or ideological) threats to national sovereignty or territorial integrity. According to the geopolitical interpretation, security and potential 'security externalities' are at the top of the hierarchy of national interests (Moravcsik, 1998: p.27). Economic interests reflect returns from mutual trade or capital flows, or fiscal redistribution.

2. In the second stage of the analysis of European politics, negotiations are explored, which can be seen as a 'game'. The configuration of national preferences creates a 'negotiation space' for potentially ratifiable agreements that have certain distributional implications. Since negotiations impose different gains and losses on the countries, governments are rarely indifferent about them. There are arguments, therefore, about the precise terms and conditions of these agreements and the amount of any side-payments.

The negotiation process has the following dimensions – efficiency and profit distribution. It is important to work out if interstate negotiations are Pareto-efficient. According to the Coase theorem, in a world of zero transaction costs, private bargaining will yield a Pareto-efficient result. Any rational government will then refuse any agreement that would be worse for the country than the existing situation unless it is sufficiently compensated.

Nash's model of bargaining predicts that countries most pushing for a change will make the biggest concessions and provide the greatest compensations in order to achieve their goal. On the other hand, governments with attractive unilateral or coalition alternatives will see the agreement as less valuable, and they will be less willing to make concessions and compromises. Nash's balance therefore reproduces the existing division of power and satisfaction (Moravcsik, 1998: p.51).

It would be short-sighted to use the weaknesses of Pareto-efficient intergovernmental bargaining to support the supranationalist arrangement. Centre-based decision-making about what is good or bad for each country leads to great information asymmetry because the centre cannot have information about the preferences of all stakeholders. The supranational dictate is therefore less efficient in an effort to satisfy all preferences than imperfect intergovernmental negotiations.

3. The third stage of the rationalist approach to the EU is the establishment of institutions: when and why do the member or candidate governments delegate or share the competences of supranational institutions? Why do they not preserve the right to make future decisions purely unilaterally? The European Union consists of the Council of Ministers, the Commission, the European Parliament and the Court of Justice of the EU. These institutions go beyond the coordination rules and administrative secretariats in international organizations; they clearly interfere with national sovereignty (Moravcsik, 1998: p.67).

Sovereignty is generally restricted in two ways: through being shared or delegated. Sovereignty is shared when governments agree to decide on future issues using voting procedures other than unanimity. In the European legislative process, decisions are usually taken by qualified majority in the Council of Ministers. Sovereignty is delegated when the right to decide autonomously in certain matters is transferred to supranational stakeholders, without any state being allowed to use its right of veto.

According to the rationalist approach to European integration, the role of institutions is not to manage or further deepen the integration, which is what federalists and functionalists would claim, but primarily to perform specifically defined control functions that are attributed to them by member states. The establishment of European institutions can therefore be seen as the third stage that follows the formation of preferences and interstate negotiations (Moravcsik, 1998).

Moravcsik's model assumes that the primary political instrument used by individuals and groups to influence international bargaining is the nation state, which acts from the outside as a united and rational stakeholder on behalf of the desires of its participants. In Moravcsik's opinion, the history of European integration sufficiently proves that the assumptions of rational behaviour of states correspond to the real behaviour of governments in the negotiation process.

The assumption of the rational behaviour of states does not mean that there is a single internal policy. 'National' preferences regarding different international situations are formed by domestic political groups according to the constitutional rules of each country. The assumption only means that when specific objectives arise from domestic political competition, then states act as united stakeholders in negotiations with other states in order to achieve their goals.

The assumption of a rational stakeholder – a state – in international relations does not mean that states are united; they only act 'as if' they were united. This is in line with the instrumentalist methodological position in economics and the social sciences. Similarly, it can be legitimately assumed that governments or central banks, which are made up of many members with different opinions, are also rational units trying to achieve certain objectives by means of their decision-making.

State preferences can naturally change based on the economic, ideological, or geopolitical environment within the European Union or individual countries. Preferences must not be confused with material drivers because they are partly based on ideas. In fact, during negotiations, competition between domestic political groups leads to the creation of a set of preferences regarding various international situations, which are then supported by the nation states.

Although Moravcsik's model is driven by a sympathetic effort to support the model of interstate bargaining, several objections can be made to it. First, we cannot agree with Moravcsik (1998: p.7) that the result of bargaining within the EU is generally Pareto-efficient. European integration has reached a stage where clearly not all decisions at the European level are taken unanimously; there are also various forms of majority voting. In such cases, it may happen that circumstances within certain states may change for the worse due to decisions taken.

Second, even with unanimous decision-making, Pareto-efficiency at the European level is not guaranteed if we take into account the political cycle at the national level. It can easily come about that the government of one country approves a certain measure, but is later replaced by another government which does not agree with such a decision. However, it is no longer able to change the decision and may even be bound by it. In such a case, the theory of Pareto-efficiency is unacceptable (or, more precisely, it is acceptable only on condition of time-limitation).

In a simplified manner, we can say that in such a situation, the decision-making process in the EU is essentially irreversible. If sufficient consensus is reached (especially when consensus is absolute) and a measure is adopted, the way to its abolition or at least its revision is virtually impossible when it comes to more complex issues, and unexpectedly complicated in the case of simpler and less important ones.

Once achieved, moreover, the consensus of a state becomes the ‘property’ of integrative institutions which subsequently fulfil the consensus. The possibility of individual states, or a group of states, influencing the ‘fulfilment’ of the consensus reached is very limited or even impossible.

Due to the combination of these two circumstances, the European Union has become a vehicle that can only move in one direction. If the chosen path turns out to be inappropriate or unacceptable for one state or multiple states, there is in principle no way to leave this path and choose a different one.

Third, negotiating at meetings of the European Council does not really correspond to the model outlined by Moravcsik. Negotiations in the European Council do not follow the order whereby substantive issues (such as the amount of subsidies or agricultural policy) are addressed first, and institutions are only discussed afterwards. In most cases, the two kinds of issues are discussed concurrently, and issues are mixed up and interwoven. Paradoxically, the greatest attention is paid to EU institutions (Kratochvíl, 2008: pp.173–74).

Fourth, Moravcsik focuses on breakthrough events such as negotiations on new treaties in which the role of states is clear. He fails, however, to look at the day-to-day functioning of the EU. For example, the long periods between revisions of treaties adopted by the European Commission are absolutely crucial. The Commission not only has the right to initiate legislation, but also manages a number of policies in which it is extremely difficult for member states to intervene (Kratochvíl, 2008: pp.174–75).

The institutions that favour integration show a considerable degree of resistance to changes that would be to their detriment. On the other hand, they are very well equipped to strengthen their own competences. Although these institutions originally met the needs of states, they gradually escaped their control, and today they play a crucial role in the process of European centralization. It is therefore somewhat inaccurate to claim that European integration mirrors the preferences of states.

4.3. Deepening of European integration

From the conventional perspective, European integration boosts the efficiency of the European economy, attracts foreign investors, and generally makes Europe a better place to invest. Additional investments increase productivity. Optimists say that European integration leads to additional economic growth by creating sound rules and institutions that support the economy (Baldwin and Wyplosz 2015). However, no economic data are available to justify this assumption.

On the one hand, the creation of a larger economic space, or market expansion, and the free movement of goods and services, people and capital, has allowed for greater division of labour and production specialization and has brought about economies of scale. On the other hand, the European Union acts (at least partly in pursuit of deepening integration) as a regulator – it has started massively to intervene, manage, regulate, check, and dictate. This second administrative component in Brussels, on the contrary, slows down economic growth.

Václav Klaus (2012) draws attention to extremely successful and prosperous small countries (Singapore and Switzerland) and contrasts them with great empires whose functioning was extremely impaired. Economic openness to trade and capital-flows is different from the expansion of an administrative unit. The growing size of an institutionally interconnected territory may lead to problems with ‘governance’ in the search for that heterogeneity.

The law of decreasing marginal yields also works for integration: greater does not bring more; beyond a certain limit it brings less, or even nothing at all. The benefit of economic integration has not been well understood in the European Union. The benefit of territorial market expansion has already reached its limits (and may even lead to suboptimal solutions that are typical for regional integration) (Klaus, 2012).

Alesina, Spolaore and Wacziarg (2000) show an interesting paradox between economic integration and political disintegration. In 1871 there were 64 independent states in the world; now there are over 200 of them. 87 countries in the world now have populations of less than five million, 58 have populations of less than 2.5 million and 35 states have less than 500,000. At the same time, the share of international trade in GDP has increased considerably.

In the authors’ opinion, the process of political separatism and disintegration of larger units goes hand in hand with the growing openness of most

countries to international trade. The process of the establishment of nation states since the first half of the 19th century can be interpreted as an indirect relationship between revenues gained from market size and the costs of political heterogeneity. They claim that openness to trade and political separatism work in tandem.

The emergence of colonial empires at the end of the 19th century can be perceived as a reaction to the stagnation of trade among European powers and as a need to expand markets when protectionism was on the rise. The existence of colonies allowed the European powers to create larger markets without having to bear the costs of heterogeneity because colonies often did not share the same institutions (and they were not given the right to participate in the political processes of the colonial powers) (Alesina, Spolaroe and Wacziarg, 2000).

In the interwar period, borders remained ‘frozen’; therefore, no country gained independence and international trade saw a drop due to protectionist policies and the Great Depression. In contrast, after World War II trade restrictions declined and the number of countries sharply increased. Due to the growth in the number of independent states, the world now consists of a large number of relatively small states.

According to Alesina, Spolaroe and Wacziarg (2000), only European integration seems to buck this trend. The authors do not believe that the EU could one day become a federal state in the usual meaning of the term. Although integration goes on at the European level, there are strong regional separatist pressures in a number of member states (Spain, Britain, and Italy). The nation state in Europe is therefore being jeopardized from the top because of the establishment of European institutions and, at the same time, from the bottom due to imminent regional separatism.

Contrary to the previous argument, however, it could be asserted that separatist tendencies, for example in Scotland or Catalonia (or in the Basque Country, northern Italy, or Belgium), are a confirmation of the idea of the nation state rather than a threat to it – although they are of course a threat to the integrity of the relevant states themselves. Paradoxically, it could be argued that the nation state is being jeopardized from the top by establishment of European institutions, and yet reinforced from the bottom by efforts to form new nation states.

Ronald Vaubel (2009) shows how and why European institutions are trying to centralize. The European Commission is not only the ‘Guardian of the

Treaties'. It also introduces legislation, spends money, conducts quasi-judicial proceedings, and has the privilege of initiating draft legal acts of the European Union. This combination of executive, legislative and judicial functions contradicts the principle of the division of power. On the contrary, it embodies dangerous accumulations of power.

The most striking anomaly is the Commission's monopoly of legislative initiative... The Commissioners are chosen by the governments, confirmed by the European Parliament and appointed by the European Council. They decide behind closed doors and, if necessary, by simple majority. Their voting record is not published. Thus, all EU legislation has to be proposed by a body that is neither elected by a parliament nor accountable to the public. (Vaubel, 2009: pp.26–27)

Similarly, the European Parliament does not reflect the citizens' preferences regarding European political integration (Vaubel, 2009). Since no European government is supported by a winning coalition, political responsibility is lacking. Thanks to their own inalienable interests and the interest in further centralization, Members of the European Parliament (MEPs) of all parties are equally biased. The author concludes from this that the European Parliament only represents itself.

This conclusion, however, may be too harsh. In fact, it is evident that individual factions have very different views on integration (as well as on many other topics) and give different levels of support to integration efforts, ranging from greater or smaller degrees of integration enforcement to resistance. Generally speaking, individual MEPs mostly express and represent the interests of their political formations, that is, the interests of their actual national voters.

From this perspective, the opinion that the European Parliament only represents itself is exaggerated, and resembles a media statement more than a rational assessment. It cannot, however, be rejected outright because the negotiating methods and the overall organization of the European Parliament are so limiting that they effectively minimize any space for individual policies to be discussed at the plenary or in committees.

The European Parliament is too big. After the Chinese parliament, which has 3,000 statutory members, it is the second largest parliament in the world. Following the accession of Bulgaria and Romania in 2007, the number of seats rose to 782. The new parliament elected in 2014 had 766 members, i.e. it was reduced by less than 2%. The European Parliament also does not

have the powers that parliaments usually have. It is probably the only parliament in the world without the right to draft legislation.

Many members of the Council, ministers and prime ministers of the member states, also support European centralization (Vaubel, 2009). They are more interested in European centralization than the MPs of their parties because they have direct legislative powers at the EU level. The European Union largely allows national ministers to gain legislative power at the expense of members of their national parliament.

Legislation in the EU is not publicly adopted under the supervision of its citizens, but is enacted during ‘backstage’ meetings that are not officially recorded, especially within bureaucratic bodies such as COREPER (Committee of Permanent Representatives), the key component of the Council (Lipovská, 2015). Non-elected officials in COREPER prepare 70–90% of all decisions even before the Council starts discussing them.

If COREPER reaches a consensus, and the President of the Council deems that there will be a qualified majority in the Council required for approval of a proposal, the proposal is marked as an ‘I-point’ and sent for an automatic approval to any EU Council formation. The former British permanent representative in the EU, Jon Cunliffe, admitted that in practice an economic proposal could be approved by the Council of Ministers of Education, or the Council of Health Ministers (Lipovská, 2015).

European centralization is also a focus of interest for members of the European Court of Justice, which is considered the ‘driving force’ of European integration. It has come up with various doctrines, such as the doctrine of superiority of EU law over national law and the doctrine of direct effect of EU law – which are not contained in the founding treaties. Experts appointed to the ECJ are lawyers who believe in centralization rather than subsidiarity.

The more powers are vested in European institutions, the wider the scope of EU legislation and administration, and the more important and interesting the cases on which the judges of the ECJ are entitled to decide (Vaubel, 2009). Just like Commissioners and MEPs, judges of the ECJ may also have an interest in European centralization because it boosts their influence and prestige.

Federico Fabbrini (2016) confirms that there is permanent centralization of power in the EU. Although EMU reforms have been inspired by the effort to preserve the fiscal sovereignty of member states, in terms of budget the

power is actually shifting from the states to the EU, much more markedly even than in the USA. For example, the Fiscal Compact stipulated that the basic parameters of state budgets were to be approved in Brussels.

Paradoxically, individual states of the USA now have greater budgetary autonomy than EU member states. While national governments in the EU have systematically reduced their calls for federal arrangements for the EMU in order to preserve their national sovereignty, they have created an economic governance regime that sacrifices state sovereignty far more than what is allowed in a federal system (Fabbrini, 2016).

Not only was the EU established as an anti-hegemonic project, but its institutional system traditionally gave more weight to states' equality than a fully-fledged federal system. Yet, in the US, despite the strong asymmetries in economic might and size of the population between the states, a balance has been maintained between the states through a complex system of separated institutions sharing power. In the EU, instead, the rise of intergovernmental modes of decision-making promised on the idea of 'one state, one vote' have opened the door toward the domination of larger, richer states over smaller, economically weaker sisters. (Fabbrini, 2016: p.148)

Centralization at the international level increases the costs of political awareness for voters. For most voters, the seat of an international organization is far more distant than their capital city. International organizations also use foreign languages that most voters do not understand. Moreover, international decision-making is opaque because it involves complex and abstract questions, and decisions about these questions are made behind closed doors.

Building a European federation based on the US model is a utopian idea. In the USA, the constitution, federal government, federal courts, and a large number of national regulatory authorities ensure that markets are genuinely nationwide despite the many differences in regulatory and tax laws across states. The USA, however, is one political nation that speaks (at least formally) one language.

European centralization or any other move towards global governance in any form would necessarily require a significant reduction in national sovereignty. National governments would not completely disappear, but their powers would be greatly restricted by supranational rule-making and enforcement bodies that would be equipped (and limited) with democratic legitimacy (Rodrik, 2012).

The historical experience of the USA shows how difficult establishing and maintaining a political union can be vis-à-vis the great differences between the individual parts of the union. The rough development of political institutions in the EU and persistent complaints about their lack of democracy also show up related difficulties – even in cases where the union is composed of a group of nations with similar income and similar historical trajectories (Rodrik, 2012).

4.4. Costs and benefits of EU enlargement

The evolution of the European Community or the European Union is characterized by two simultaneous processes: the deepening of integration and the process of enlargement (Seidelmann, 1996: p.54–59). The two processes interact. Theoretically, it would seem, the wider the community the lower the chances of deepening integration (a trade-off relationship between enlargement and deepening of integration). Enlargement, however, can be an argument for the further deepening of integration.

Probably the most comprehensive theory that can be applied to the expansion of an international organization is the ‘theory of clubs’. According to the theory of clubs originated by James Buchanan (1965), an organization expands its institutions and membership if the marginal benefits of enlargement exceed the marginal costs for both members and candidates. Free bargaining between members and candidates will therefore lead to an optimal size of the organization.

Moravcsik (1998: p.5) provides inspiration for the interpretation of enlargement from the perspective of rational choice theory. In a world where governments behave rationally and instrumentally enlargement can be seen as a process based on the preferences of stakeholders and on negotiations about the conditions for accession of individual countries. In Moravcsik’s view, European integration is the result of the rational fulfilment of the interests of individual countries.

Schimmelfennig (2001) argues that the normative institutional environment of the EU may enable stakeholders to favour enlargement for selfish reasons, but to use institutional standards in an instrumental way. Such ‘rhetorical behaviour’ increases bargaining power, which allows stakeholders to humiliate restrained members who are more interested in their reputations than in enlargement.

The outcome of an organization's enlargement depends on the negotiating power and formal rules of the organization. The enlargement does not necessarily need to be advantageous for all members. In fact, enlargement results from unequal bargaining power among stakeholders. The members expecting net enlargement losses may agree with enlargement if the bargaining power is sufficient to gain some compensation through side-payments.

In the early 1990s defenders of the Eastern enlargement of the EU represented only a minority because they could not persuade the more restrained governments of the benefits of unilateral or coalition agreements with countries outside the EU. Association – the original outcome of the enlargement process – corresponds with the Nash equilibrium that protected those countries which had lost out from trade costs and budget competition and became more beneficial than the *status quo ante* for others.

Although an analysis of the process of enlargement or entry into the EU using costs and benefits could be popular, not many theoretical economists acknowledge it. Most studies focus on the description of the state of the country before joining the EU (Urban, 2003) or slip into normative reflections on the benefits of accession (Klvačová, 2003). Few authors bring an analytical approach to enlargement.

Schimmelfennig and Seidelman (2001) distinguish two types of EU enlargement costs: transaction and political costs. Transaction costs arise for member states because the acceptance of new members requires an organizational infrastructure that would allow for communication within the organization and the implementation of decisions. New members usually increase the organization's heterogeneity, and the costs of centralized decision-making grow when more and more countries join.

Political costs that arise for original members of the Union are really the costs of crowding out because they are forced to share public funds with new members in the enlarged organization. For participants, political costs include member contributions and adjustments made to domestic policies. New members get the benefit of new member contributions and candidate countries can expect that they will profit from participation in the club. Although this division is interesting, its interpretation and quantification is more complex.

We cannot agree with the opinion of Mayhew (1998: p.180) that EU enlargement will bring to both groups 'huge objective benefits that will

clearly outweigh the costs.’ Above all, it is not true that all member countries will receive the same level of benefits; certain individuals and groups in all countries may feel disadvantaged. Enlargement is influenced not only by ideas but also by the activities of groups that are gaining or losing from the process.

Politicians in the EU believe that candidate countries profit particularly well from the benefits of enlargement while existing members bear all the costs (Baldwin, Francois and Portes 1997), but things are not quite that simple. The accession of poorer countries, however, was driven by pressure on structural and agricultural funds which were being reformed at the same time. The budget is drafted several years ahead. The existing member states have different tools that ensure that they will not lose too much from enlargement.

EU officials support enlargement, as it will increase the prestige and power of the EU on the world stage and in international organizations. EU enlargement is perceived as extending the security and stability of Central and Eastern Europe. Although the arrival of new members from Central and Eastern Europe does not boost the EU economically, it means a lot in terms of the overall population and will ultimately expand the EU’s influence on other world trade and political blocs (Gallizo, Saladrigues and Salvador, 2010).

The economic benefits for existing members from the Eastern enlargement came from three sources: firstly, an additional 150 million consumers whose purchasing power is not high, but who serve to expand the manoeuvring space of western companies; secondly, new members are a potential space for manufacturing and the establishment of low-cost businesses; thirdly, the entry of new member countries brings more competition to the Community’s existing markets (Halas and Tzeremes, 2009).

The political benefits of membership for candidate countries consist in their becoming part of an organization that adopts key decisions in the western and central part of the European continent, and lends political and economic weight to international negotiations as one of three powerful business blocs. By acceding to the EU, however, new members also run the risk of unwillingly entering into conflict with other blocs.

EU enlargement and the entry of candidates into the EU cannot be performed using a cost-benefit analysis because there are in fact no ‘costs’ or ‘benefits’ for those countries as a whole. Different groups and individuals

are affected by the enlargement to a varying degree. What can, however, be compared is the fiscal impacts of accession on both the existing and candidate countries. The estimates, however, are relatively diverse – from optimistic to pessimistic (Niebuhr and Schlitte, 2009).

The most difficult topics related to EU enlargement have always included funding. A relatively generous interpretation of the financial resolution adopted at the 1999 Berlin Summit (Agenda 2000) has remained unchanged; however, the originally planned number of accession countries has increased. The accession of the 10 new members exceeded plans for the first wave of enlargement from Nice (i.e. of 6 candidates). The candidate countries were thus left with smaller funds.

Although Poland has approximately the same population, it eventually received at most half of level of funds Spain has thus far received. As far as the thresholds set in Brussels are concerned (which were not met in reality), Poland's is not more than €67 per person, Hungary's is €49, Slovenia's is €41 and the Czech Republic's is €29 per person. This is in stark contrast to the subsidies drawn by existing members (Greece: €437 per person, Ireland: €418, Portugal: €211, Spain: €126) (Mach, 2003: p.82).

Wealthier states considered as absolutely offensive the need to increase structural funds while maintaining the existing rules. The allocation of a particular amount to the newly acceding countries, without corresponding to that which other states had been receiving from structural and other funds in the mid-1980s, was thus a harsh solution that Central and Eastern European politicians and citizens had to accept if they wanted to join the EU (Breuss, Egger and Pfaffermayr, 2010).

The notion that structural funds greatly accelerate economic growth is, however, somewhat deceptive. When it comes to subsidies, meaningful projects beneficial for economic development, such as transport infrastructure, are not given any preference. The main beneficiaries of EU subsidies were and still are farmers. Subsidies are spent on all sorts of projects, both reasonable and unreasonable – bicycle paths and golf courses, private hotels and restaurants, as well as pseudo-scientific projects. Most of these public funds are tangled in a cobweb of bureaucracy, administration and corruption (Klaus et al, 2013).

Between 1989 and 2006 Greece and Portugal received subsidies corresponding to almost 3% of their annual GDP. The effect of those vast resources on the economic systems of the subsidy beneficiaries was generally unfavourable.

It stimulated the inefficient allocation of resources and looting, created an atmosphere and mentality of passivity, living beyond one's means and relying on the government. It demotivated entrepreneurship and activity while eliminating productivity and competitiveness.

4.4.1. Impacts of enlargement and convergence success

When we compare the Southern and Eastern enlargements, one really interesting picture emerges – basically all the countries in the Eastern enlargement achieved very dynamic growth numbers, which indicates their growing importance as consumers within the common market. In 2006, Poland reported an average of 51% GDP per capita of the EU28 in purchasing-power parity, whereas by 2017 it had reached 70%. Similarly, Romania started at a mere 39% and then reached 63%, and the Czech Republic began at 79% and reached 89% (Eurostat, 2018).

On the other hand, it is worth noting that Portugal, Spain and Greece showed exceptionally sound economic data in the early years after their accessions. There was a significant increase in wages; (dramatically high) transfers from shared budgets improved the infrastructure and quality of life, but with the increasing length of their respective memberships, space constraints concerning the economic policies of all three countries have increased and made an impact. It should be noted, albeit very marginally, that although Italy is truly a founding member of the Union and a co-sponsor of European integration, its economic destiny in many ways resembles that of the Southern enlargement countries.

It is quite possible (and there is not enough space to discuss this further here) that the main breaking point in the development of the Southern enlargement countries, including Italy, was the adoption of the single currency (euro), primarily as a cash currency, in January 2002. A particularly interesting question in this regard is how the euro affects the creditworthiness of these countries. In addition, of course, the reduced capacity of the said economies to cope with the consequences of the economic crisis between 2007 and 2012 is also worthy of further discussion. On the other hand, it could be argued that, having adopted the single currency, these countries exceeded the limits of their capacity to take advantage of the positive potentials of integration.

This can be illustrated using a selection of several countries: to take as examples Germany and the UK from the group of the most advanced economies, then Italy and the three countries from the Southern

enlargement, and compare them with the Czech Republic, Slovakia, Lithuania and Romania as countries from the Eastern enlargement. The benchmark will be World Bank data (2018) on GDP per capita (a constant \$2000).

If we then take a look at the status of the selected indicator in 2017 (Fig. 4.1), both Germany and the UK show a better result, i.e. a higher performance of their economies than that achieved at the outbreak of the crisis in 2008.

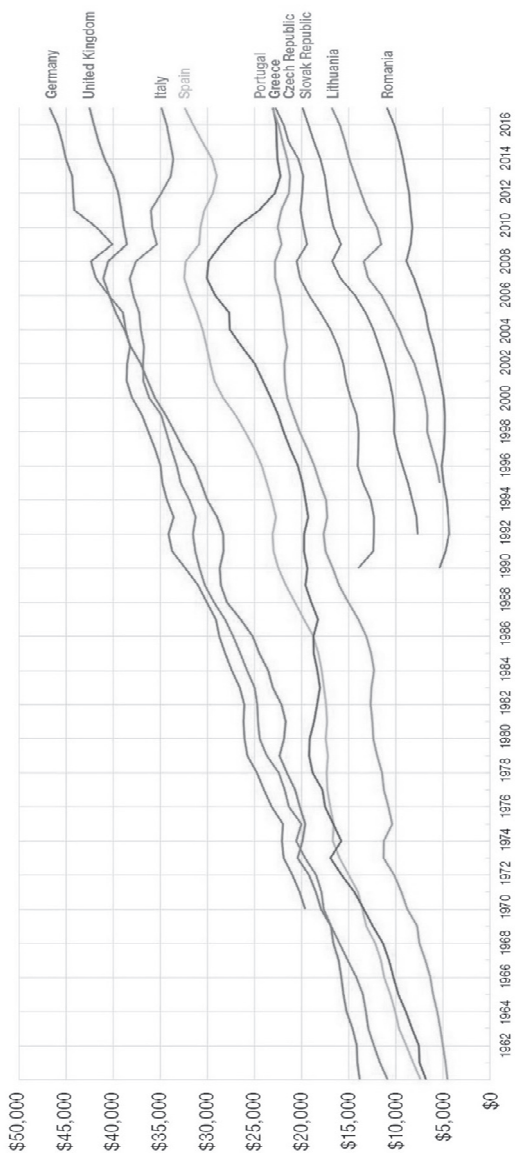
The same improvement can be seen in the countries of the Eastern enlargement, i.e. the Czech Republic, the Slovak Republic, Lithuania and Romania. In 2017, however, the countries of the Southern enlargement (plus Italy) showed results that were worse than or, at best, identical with those before the economic crisis between 2007 and 2012. In addition, a more careful analysis of the data shows that in 2017 Italy and Greece generated a lower GDP per capita than in 2002, i.e. at the moment of full adoption of the single currency.

When we consider the question concerning reasons for enlargement through the same prism, we have to conclude, especially in the case of the Southern enlargement, that this apparently simple question is actually very involved. Whereas at the time of the accession of Spain, Portugal and Greece, the geopolitical response could be seen as sufficient, given the relatively significant divergence of GDP per capita development in traditional countries and Southern enlargement countries since that time, the rationale becomes problematic.

Taking into account the aforementioned data on EU income per capita in the Southern and Eastern enlargement countries, at first glance a somewhat surprising, albeit quite logical conclusion can be drawn: the extreme subsidies directed to the countries of the Southern enlargement have led to greater instability and greater corruption of the economic system, rather than long-term healthy growth.

From some perspectives we can conclude that this result represents a major setback in the efforts toward European integration. Development funds and grant redistributions should have led to a massive equalization of individual countries so as to create an increasingly homogeneous space suitable for stronger integration. Although federalists in many ways rely heavily on the strength of institutions, they obviously cannot ignore the point that at different levels member states act as major obstacles to a higher degree of

Figure 4.1 GDP per capita (constant \$2000). *See centrefold for this image in colour.*



Source: Adapted from World Bank, 2018

integration. The way to settle these differences should lie in massive redistributions of the EU budget. After more than 30 years of significant efforts to harmonise the levels of countries (as measured by the Southern enlargement), the architects of this project should necessarily admit to having failed – in 2018 the differences between countries at the front and the back of the peloton are the same or bigger than at the time of their accession to the EU.

If measured by the fact that the countries of the Eastern enlargement have drawn significantly lower amounts of EU funds per capita, then the access to markets, free trade and free movement of capital within the EU, have had significantly more impact in terms of incentivization for their economies and living standards.

The convergence of CEE countries towards becoming wealthier EU member states, something it was believed would occur after their accession to the EU, did not have the same pace and intensity in all countries. When comparison is made with the EU average, some countries made considerable improvement over the first ten years of EU membership (2004–2013) – for example, Lithuania by 20 percentage points, Slovakia by 19 p.p., Romania by 18.5 p.p., Latvia by 17.6 p.p., Poland by 16.3 p.p., Estonia by 13.9 p.p. and Bulgaria by 12.9 p.p. The wealthier new members, however, seemed to stand still: when compared to the EU average, the Czech Republic improved its position by a mere 2.8 p.p., Hungary by 3.6 p.p. and Slovenia even dropped by 2.9 p.p. (Eurostat, 2014). The Czech Republic, for instance, achieved the best convergence results only after 2013. Much more space, however, would be required to interpret these facts, as there are many different opinions on the matter.

One view adopted by Mayhew (1998, p.196) seems to show a slight bias, as he believes that the adoption of regulations pertaining to the EU market economy is also a benefit for the new candidate countries. It is conceivable that the adoption of certain regulations in the whole of the EU can be very profitable in terms of business costs. This applies, for example, to standards that allow for the obtaining of one single certificate valid for the whole of the common market: an electronic appliance manufacturer, for example, does not have to apply for product certification for each and every EU member state, which would of course be extremely demanding and costly; and one certificate will be valid not only within the EU but also in some other countries. Likewise, fruit producers do not have to sort their product according to local regulations when exporting to any given country and they

can work within one EU-wide system (incidentally governed by a directive that is often derisively referred to as the ‘bendy banana law’).

On the other hand, a number of regulations bring about quantities of restrictions beyond those that particular countries would adopt of their own free will. An example may include environmental and economic constraints on the generation of pollution. The ratio of pros and cons of these regulations is difficult to measure precisely even if it were feasible to do so. The debate on whether the adoption of a regulatory EU framework is beneficial will therefore be to some extent speculative and opinion-based.

Similarly speculative is the opinion of Klvačová (2003: p.240) that even if the Czech Republic did not receive a single euro from structural funds, accession to the EU would clearly be of benefit because accession means the right to enter an area where the rules of the European-style state apply, of which the EU is a successor.

This principle is based on the otherwise indisputably accurate idea that the quality of state administration, law enforcement, contract enforcement and other ‘legal’ attributes of the market are essential conditions for its functioning. In this respect, it is difficult to argue – if only because the most economically efficient countries (those with the highest GDP per capita) can actually be ranked among the countries that have the best legal and economic environment (Arltová, Smrčka et al, 2016). However, if we look at the development of the legal and economic environment of the Czech Republic in the international context, we will conclude that although there has been interesting progress achieved during the approach to, and subsequent membership in, the EU in a number of areas, the position of the Czech Republic has not shown any major improvement compared to other countries.

The significance of the Eastern enlargement of the EU resembles German reunification (Sinn, 2002). While German reunification led to an increase of one quarter in the population of the Federal Republic, the Eastern enlargement by ten new countries increased the population of the EU by 28%. Sinn was afraid that due to wage gaps between Eastern and Western European countries, massive migration from east to west could be expected.

Sinn also points out that the countries facing budgetary constraints caused by immigration will reduce social benefits for fear of becoming a magnet that attracts immigrants. Their motto will be fairness, but less generosity, for immigrants. As all governments will act in the same way, social benefits

will gradually be reduced. The process of changing political values will take a little longer because the political climate has a degree of inertia.

A traditional welfare state creates a strong incentive for people to avoid occupational engagement. Social benefits are usually provided when one does not work, and entitlement to the benefits expires as soon as one finds a job. According to Sinn, this type of maintenance creates dependency on the state. A country that gives to the poor and forces the rich to fund them may encourage the rich to leave and – conversely – induce the poor to arrive.

According to Sinn, the problem is not migration as such, but rather western European welfare states that create excessive incentives to migrate. His prognosis, that there would be massive migration from east to west, eventually proved correct – not from all countries of the Eastern enlargement but still in an extreme and intensive way. Sinn was also right that migration could cause competition among western countries to discourage potential migrants, which would tend to contradict the perception of the generous welfare state in Europe.

He failed, however, to appreciate the aspect of time. While mass east-west migration took place and is still taking place, very intensively and consistently, at the end of the second decade of our century, the response from social systems has been very slow. Among other things, this is due to the complexity of decision-making processes in all areas related to social security and the ‘conveniences’ of the welfare state. In essence, decisions could only be adopted when the population of a particular nation state began to perceive migration from east to west as an issue. Although Sinn assumed adjustments would follow immigration after a delay, in reality the delay was much longer than expected.

A different phenomenon, however, occurred: as already mentioned, east-west migration had a great impact on the decision-making of UK citizens regarding Brexit. The reality of the situation, in this respect, significantly exceeded Sinn’s expectations. Of course, we are not able to measure accurately the impact of the ‘Polish plumber’ on the Brexit vote, but we can assume that the extent of influence on the vote was significantly greater than anyone had previously imagined.

4.5. Benefits of EU enlargement for citizens and politicians

To explain EU enlargement from the viewpoint of public choice theory, the concept of utility in terms of the functions of citizens and politicians must

be utilised. In this section, we define the benefits that arise from EU enlargement for citizens and politicians and explain the related differences. We believe that explaining EU enlargement by means of a ‘higher’ (public or European) interest is not in line with the standard approach of economic and social sciences.

The benefit of EU enlargement for a citizen (a consumer and a voter) can be described using standard microeconomic theories. The consumer has a basket of goods marked X ($X_1, X_2 \dots X_m$). The benefit derived from the basket for an individual can be marked B_i ($X_1, X_2 \dots X_m$). The utility from EU enlargement for a politician is given by the function:

$$U_i (X^+, R^+, E^+, G),$$

where X is the basket of consumer commodities, R is the politician’s reputation, E are the chances for re-election and G are the political goals.

Let us assume reputation depends on the size of the community that the politician represents, so that when the community grows, reputation will rise – as will the benefit for the politician. This, however, will not apply to political goals (G). The benefit for ‘Eurosceptic’ politicians post-enlargement (including after the deepening of integration) may decrease and the benefit for ‘Europhile’ politicians may increase. However, it is clear from the definition that if a politician does not expect his usefulness to be enhanced after EU enlargement it will not be supported.

When compared to citizens, political elites have a greater tendency to support EU enlargement. If the tendency to enlarge is dependent upon a change of income (ΔI), then we can assume that the politician in a candidate country is not likely to lose his job due to enlargement; a new decision-making level will arise while the existing levels will remain in place, which increases his chances of being elected to an EU institution or re-elected to a national body because of reduced competition among political insiders.

This corresponds to the empirical observation that the tendency to support enlargement among the longer-established EU population appears not particularly strong (as confirmed by sociological surveys), while western political elites are more prone to enlargement. This phenomenon can be explained by our analysis: for politicians in existing member states, EU enlargement represents an opportunity to increase their power over a larger political unit, provided that they sit in an EU institution or comply with the demand for EU enlargement of the European political elite.

Although not all politicians in existing member states hold offices in EU institutions, the influence of the ‘EU lobby’ in their respective countries is so strong that they do not dare to protest actively against enlargement. For example, a finance minister in Spain may increase his chances of being re-elected not by supporting EU enlargement but rather by minimizing the costs of enlargement for his home country.

EU enlargement can be viewed from the viewpoint of game theory – either as a co-operative game in which existing member states and candidate countries negotiate accession conditions with the aim of enlarging, or as a non-cooperative game in which some interest groups play in a way that would lead to non-enlargement (circles of nationalists, etc). The dilemma of political rhetoric in the acceding countries and the existing member states is shown in Table 4.1.

Table 4.1 The prisoner’s dilemma of political rhetoric

		Position of the candidates towards EU accession	
		Enthusiasm	Scepticism
Existing members: EU enlargement	Accelerate	-3.3	-1.4
	Delay	-4.1	-1.1

Source: Authors

The efforts of politicians in existing member states to accelerate EU enlargement, along with the ‘enthusiasm’ of the acceding candidates, could bring a fairly favourable outcome to the international situation (3.3). The problem is that there are ‘free riders’ on both sides of the political elite: some politicians in existing member states, but also some in candidate countries, who may be tempted to protract negotiations in order to improve their bargaining position within their home country during enlargement.

Situation (4.1) occurs when politicians in the existing member states ‘misuse’ the enthusiasm of their colleagues in the east and dictate disadvantageous or even humiliating terms of accession. On the other hand, situation (1.4) may indicate that politicians in the candidate countries ‘defeat’ their colleagues in the west and negotiate more suitable terms for

their country. If both parties play in a non-cooperative way, however, their game could end up in a situation that is disadvantageous for both (1.1).

Whether or not partners play in a cooperative or non-cooperative way is also something about which politicians speculate within their own national political elite. Table 4.1 shows that scepticism, or the delaying of enlargement, does not necessarily imply that politicians inherently do not wish to join or enlarge the EU. Sometimes delaying tactics may be used to improve accession terms in order to take political advantage at home.

Table 4.2. Differing interests in the course of accession negotiations

Candidate countries	Existing Member States
↑ Transfers (TR)	↓ Transfers (TR)
↑ Taxes (TX)	↓ Taxes (TX)

Source: Authors

Table 4.2 shows that with forthcoming enlargements, there is pressure within existing member states to reduce subsidies and limit transfers to new member states so that additional taxes for their citizens can be reduced and enlargement can occur. Thus, the benefits for candidate countries are likely to be smaller than those originally envisaged (limited agricultural subsidies, minimum transfers, restricted movement of labour, etc). There is the advantage of the free market which was obviously in existence before enlargement.

The results of the negotiations will therefore focus on existing members not 'losing' too much and on new members not getting too much (Loužek, 2005). Fiscal redistribution is, under the best of conditions, a zero-sum game; under the worst of conditions, a negative-sum game because of the dead weight resulting from redistribution: nation states pay contributions to the Brussels centre, whereupon they are redistributed to a variety of agricultural programmes, structural programmes, etc. The cost of redistribution does not equal zero.

The perceived loss of sovereignty was a highly sensitive issue in CEE countries due to their previous experiences under communist regimes: it was believed that once they re-established real power and began to build their future in stable democracies, they would once again establish legislative, executive and judicial powers, but only at a level where they would be

allowed to make merely partial decisions or even no decisions at all (Klaus, 2012).

4.5.1. The prisoner's dilemma and the current form of the EU

The prisoner's dilemma is one of those games where it is essential to determine whether one is playing a one-time (unique) game or a repeated (multi-play) game. In the case of a unique game, the best solution for both sides is cooperation; however, in reality, people prefer non-cooperation (betrayal of the other offender) i.e. promoting their own interest consistently. Non-cooperation brings them either freedom – if unilateral cooperation is involved and the other prisoner tries to cooperate (i.e. remains silent) – or, at the very least, they receive not the maximum but rather an extended sentence of imprisonment if both prisoners testify (i.e. they do not cooperate – in other words, turn traitor). Cooperation (if two-sided) ensures a short sentence for both prisoners. And vice versa – in the case of one-sided betrayal by the accomplice – the longest sentence possible. In that scenario, the accomplice is set free.

Experiments have shown that during a one-time game, less than 40% of players prefer to cooperate; that is, most of them decide not to cooperate. A significant change occurs, however, when the game is repeated. Cooperation becomes preferable with repetitive games. The principle of the prisoner's dilemma structure necessarily implies that cooperation is the best solution for the best result to be achieved overall. If years spent in the prisoner's dilemma system are taken as costs shared by both offenders, then bilateral cooperation means the total cost will be four years (both offenders will be punished with two years of imprisonment, the cost being symmetrically divided). If one prisoner is a betrayer and the other is not, then the cost rises to 10 years: the non-cooperating offender willing to testify gets zero penalty, but the co-operating (i.e. silent) offender will receive ten years imprisonment; the cost is therefore as asymmetrical as it can be. If neither cooperates and both testify, then the cost rises to 12 years (each prisoner is punished with 6 years of imprisonment, the cost again being divided symmetrically).

Therefore, the one-time prisoner's dilemma denies cooperation. On the other hand, repeating the game clearly leads to more frequent cooperation, and is of course influenced by the establishment of mutual trust. The longer the game, the more abundant the space for the players to build a relationship based on primary trust. If the 'criminal aspect' of the prisoner's dilemma game is put to one side, then it seems that the longer a relationship exists

between a group of neighbouring states (with a reasonably similar system of government based on liberal democracy), the more likely it is that their mutual interactions will be based on coordination and cooperation. This, in fact, fully corresponds with the conclusions earlier stated by Kant.

Therefore, both federalists and advocates of the EU in its current form deduce that even if their 'opponents' managed to break the EU, it would inevitably be rebuilt because various studies show that, in the long term, cooperation is the most efficient model of sharing space by entities that can win mutual trust. These arguments are based primarily on research and work carried out by Robert Axelrod (Axelrod, 1980, 1981, 1987; Wu & Axelrod, 1995).

There is one fundamental flaw in arguing in defence of the current form of the EU by referring to the results of a series of experiments based on variations of the prisoner's dilemma and, in particular, the final conclusion – namely that the emergence of the EU is a logical outcome of the coexistence of a number of politically, constitutionally and economically similar states on one continent. The term 'European Union' must not be confused with the notion of 'cooperation', since that term is immensely broader and more comprehensive than the term 'European Union'. In other words, the only legitimate conclusion from Axelrod's basic research, as well as a series of his subsequent analyses, is that the eventual break-up of the EU would not mean the beginning of an era of 'non-cooperation', but merely one of continued cooperation using different (apparently less formal and institutionalized) mechanisms.

It is certainly possible to conclude that the existence of a number of different states in one area (on one continent) and the fulfilment of a basic requirement for their mutual trust (arising from a sufficiently liberal dispensation, the constitutional character of the states, and sufficiently liberal economic arrangements) will, in all probability, lead to a significant development in their cooperation. This cooperation will be very close and deep and can be expected to lead to natural harmonisation of certain regulations, standards, provisions and legislation, as the case may be. This process will naturally and primarily follow the reduction of the transaction costs of economic entities, the expansion of the space for free cooperation and the development of sharing of national cultural and social traditions.

At the same time, none of the above constitute grounds for assuming that this process should continue to lead towards further integration, towards the abolition of states' sovereignty and their merger into something federal.

Wishes and precise research are not necessarily the same thing. It is clear, then, that a federation may naturally arise from the development and constant replaying of the game, but fostering significant trust and broad cooperation between nations does not necessarily mean the setting up of a federal form of government.

The optimism of federalists, also supported so they believe by game-theory research, seems to ignore a number of clearly obvious and undisputed facts. These include the issue of the non-homogeneity of particular players. In the prisoner's dilemma, all players are fully homogeneous in that they may suffer from inner confusions, may feel emotional, sense betrayal and strive for revenge, but these feelings are necessarily short-lived and outweighed in the long game, i.e. by a preference for cooperation. States, however, are not homogeneous: their political representations change and are naturally altered, based on the immediate mood and preferences of their citizens. As a result, these same countries may repeatedly come to 'play' but using different sets of player-orientations.

Federalists make the assumption that this restriction would be eliminated by the mere fact that a federation exists and that the set-up of federal representatives would not alter the way the players (states) create change. Changes in the mood of one, two, or several countries would not alter the overall set-up of federal representatives because the relative influence of these countries would then be outweighed, eliminated, minimized or at least significantly reduced by others. The system would 'wait it out' by allowing the episode to pass and for voters from the given part of the federation to change their mood again (or would support the change in the mood via redistribution processes) and carry on without any major alterations.

However, in reality, such a presumption is wrong, because it underestimates the motivational factors within nations (identified either as political or ethnic units) and their interests. It is based on the *a priori* notion that a situation can be reached wherein the federation (or perhaps a monetary union) will be perceived as being in the national interest of each particular nation in the EU. So far, however, there does not seem to have been any such development.

4.5.2. National interest as a natural obstacle to the federation

The nations in the EU do not share a uniform vision of a federation or of deeper integration that is in their national interests. Brexit, of course, was the most obvious example of this refusal, but it is definitely not the only

doubt to be cast on the idea that a federation would be ‘suitable for polling’ (i.e. if an EU-wide referendum was held with the question ‘*Do you want to live in a European federation?*’ there would be a clearly positive answer). In fact, as has earlier been shown, in a number of countries, support of the current EU is just at or even below the level of a popular majority. Support for a much more integrated EU would certainly be far smaller.

From the viewpoint of national interests (and at this particular moment it is not important whether or not the interests are objective or subjective), it must also be considered how in the current version of an integrated EU these interests are defined, created, what space is available to put them into effect, or even how they are to be suppressed. And if we look at the issue through the prism of rational choice theory, we must definitely consider the impact of politicians’ and opinion-makers’ individual interests on the way these national interests are defined and, above all, promoted. Even for individual sovereign states, it is very difficult to detect clearly which mechanisms are applied when subjective national interests emerge, and to see the real-life ways in which decisions leading to the promotion of national interests are made. Just how complex must such mechanisms be in an organization such as the EU?

To explain this issue, we should consider it from the viewpoint of the situation of modern liberal democracies. Some changes have taken place in liberal democracies concerning how people perceive their position in society. In theory, they were persuaded that they contributed significantly to the way their society was managed. Their share in power was defined in a similar way, meaning that it was possible for any person to delegate power to a selected individual or political party and subsequently, in the case of dissatisfaction, to transfer it to a different individual or political party. Of course, any person has the opportunity to apply for a direct share in power by standing for election, and from this formal point of view liberal democracy offers maximum opportunities – at least when compared with all previous systems.

Paradoxically, this freedom (at least formally the best-known in history) is definitely not perceived as ‘their own’ by all groups and individuals in society. On the contrary, it is instead perceived as ‘other people’s freedom’: even at the national level many citizens conclude that their influence on politics and actual decision-making is virtually negligible. Consequently, many cannot be bothered to exert their political right (as proven by the trend of low election turnouts in EU countries which continues in a consistent, albeit gradual, long-term dip (Franklin, 2004)).

This also applies to EU countries other than those reporting the highest election turnouts in the late 1970s. The biggest decline in willingness to exercise the right to vote in elections has been observed in Switzerland; other non-EU European countries have reported similar findings. The United States has also been struggling with dipping voter turnout. In 2008 (Barack Obama's first presidency) 58.2% of eligible voters voted to choose their president, falling slightly in 2012 (Obama's second presidency) to 57%. In 2016, when Donald Trump was elected president, only 55% of all eligible voters participated in the election. It is an issue affecting all established democratic systems.

If voters from EU member states keep losing faith in their possibility to make an effective change with their votes, how then can they possibly have faith in a federal union where their vote would in fact carry much less weight? This issue would be particularly pertinent for those voters in smaller nations.

The fact that the EU does not have a single 'transnational' political party is one of the great factual defeats of federalists and those advocating continuous integration. Even the factions that appear in the European Parliament have quite bland names, only partially related to the parties that people would recognize within their home countries.

In 2018, the European Parliament comprised the following factions: European People's Party group, European Democrats, the group of the Progressive Alliance of Socialists and Democrats, the group of the Alliance of Liberals and Democrats for Europe, the group of the Greens/European Free Alliance, European Conservatives and Reformists Group, Confederal Group of the European United Left/Nordic Green Left, and Europe of Freedom and Democracy. It is likely that only those citizens extraordinarily interested in political affairs would be able to guess the name of their elected MEPs, let alone to which of these seven groups they were affiliated.

In a situation where a citizen of a particular state finds it very difficult to identify himself/herself with his/her own representatives in the European Parliament, it must surely be only incurable optimists who would believe that the same citizen could identify a national interest perceived as being an integral element of a pan-European interest. The EU is now reaping the outcomes of the methods in which integration has been undertaken in the agreements and treaties of the last thirty years. This integration progress did not stem from a mandate given by citizens to their own political representatives. These representations did not promote a 'pathway to

federation' or a 'deeper integration of the European Union' (formerly the EC) as an electoral theme in their home countries. National elections tackle national issues which give the resulting political representatives sufficient space to be creative and achieve their own goals rather than commit to the fulfilment of pre-election promises and programmes.

4.6. Pressure by interest groups

Until now, it has been assumed that the main stakeholders of European integration were government officials and EU institutions. The theory of public choice, however, brings to the stage important additional stakeholders – interest groups (Greenwood, 2007). The conventional theory of competition among interest groups according to Becker (1983) assumes that policies are adopted primarily for the benefit of those groups whose interests are relatively concentrated, e.g. producers, rather than fragmented or undetermined, e.g. consumers.

Direct lobbying is based on establishing personal relationships and keeping in touch in order to serve several terms of office. Lobbyists present themselves as experts in a given field; lobbying is based on an understanding of mutual trust. Direct lobbying includes personal contacts and information, public testimony before a committee or court, or the publishing of expert opinions. Full-scale lobbying involves educational or letter-writing campaigns. An information campaign includes paid campaigns or civil disobedience (Laboutková, 2009).

Brussels and Strasbourg are most often approached by industrial associations, movements, firms and consultants, parties and trade unions. The easiest to reach are the Council of Ministers' working groups because they have little publicity. In the European Parliament, most lobbying takes place in special committees: lobbyists choose rapporteurs, chairpersons of parliamentary committees or administrative parliamentary structures as their strategic target (Laboutková, 2009). The Commission plays a key role in developing new legislation.

In Brussels, interest groups have enormous influence. If a draft regulation needs to be prepared, a Brussels official will not turn to the EP, political parties, state administration bodies or the governments of the member states (certainly not in a non-binding way), but to a Directorate-General which will initiate consultations and public hearings with the purpose of obtaining as many comments as possible from the stakeholders concerned. The interest groups fill a certain gap caused by information isolation (Laboutková, 2009).

The most effective means of communication include written documents; the least effective are telephone calls.

The EU budget is still small (slightly exceeding 1% of GDP) and all of it is spent on three items: the Common Agricultural Policy, Commission-managed expenditures, and the structural funds that support weaker regions – regardless of whether or not they have been affected by a shock. The largest part of the EU budget is consumed by farmers. Whilst in 1970 the CAP swallowed 90% of the EC budget, now it accounts for 40% (Baldwin and Wyplosz, 2015).

Although the number of farmers is small (around 5% of the labour force), their political power has been and still is immense. The EU's total budget for 2007–2013 included payments to farmers that amounted to €330 billion. There are 12.6 million people working in agriculture. If this money was distributed equally, every farmer would be entitled to €26,000 – certainly an amount worth fighting for (Baldwin and Wyplosz, 2015).

The core CAP issue is overproduction and the over-intensification of agriculture, which is further affected by the fact that minimum price levels are above the global average. Reforms of the CAP seem to be the plaything of technocrats within special interest groups that gather to divide the pie they believe to be rightly theirs (Baldwin and Wyplosz, 2015).

Most of the money is swallowed by farm owners; consequently, the owners of the largest agricultural enterprises – a total of 70% of all subsidies is paid to a mere tenth of these farm owners. For these lucky few, the CAP is a goldmine. European politicians have to 'bribe' farmers in order to make CAP reforms which are meant to benefit the EU as a whole.

In the 1980s, lobbying activities exploded in Brussels. Many European federations, companies and multinational associations have settled in Brussels. Interest groups are natural stakeholders that compensate for a deficit of democratic decision-making in the EU (Laboutková, 2009). Due to the lack of information, and in the absence of democracy, the engagement of non-governmental bodies in decision-making is enormous.

Vaubel (2009) argues that independent bureaucracies, especially international ones, are very often indifferent to the financial issues that affect them and are prone to corruption. In particular, the Commission is very much open to individual interest groups' requirements. The College of Commissioners is a relatively small body: it is much easier for lobbyists to win over 28 commissioners than 766 members of the European Parliament. The

Commission is also an easier target because it decides by a simple majority, while most Council decisions require a qualified majority or even unanimity.

The issue is further aggravated by the fact that officials do not have to stand for re-election. Politicians are more cautious when dealing with interest groups, because such favours could cost them votes. Officials in the Commission, however, are not bound by elections. By increasing the indifference of voters European political centralization enhances the importance of organized interest groups. Nowadays, at least 15,000 private lobbyists operate in Brussels, and the total number of lobbyists, including various governmental and non-governmental organizations, is estimated at 55,000 (Warner, 2007).

Officials also share an interest in European centralization. Officials in standard international organizations are numbered in the order of hundreds, but major global organizations may employ thousands of officials. The UN and the EU go far beyond these figures. Whereas the United Nations employs 43,000 officials, the EU employs around 48,000 people of whom 38,000 work in the European Commission (Karlas, 2015).

Influential interest groups also include non-governmental non-profit institutions, i.e. civic associations with a gender-focused or environmental agenda, which usually have a European or even global base. They include non-elected pressure groups responsible only to themselves that have tremendous influence because they pretend to speak on behalf of the whole of humankind – just as many in the past claimed to speak in the name of the workers or the people (Laboutková, 2009).

No official, whether in a nation state or in Brussels, has the capacity to be able to listen to the voices of all interest groups. When searching for information, therefore, they must choose the most representative sources. The Commission chooses those interest-based institutions that are not merely symbolic, loose unions of their members but who instead rely on sound organizational structures and on experts who are able to cooperate with the Commission (Cihelková and Jakš, 2006).

The Commission promotes selected interest groups because officials and lobbyists have shared goals. They give preference to political centralization, which makes it possible to escape the attention of voters. The Commission and interest groups are allied against voters – against democratic controls (Vaubel, 2009). Also, members of the European Parliament represent

interest groups rather than voters. Two thirds of European Parliament members are involved with organized interest groups.

The Council is also not resistant to the pressures of lobbying (Vaubel, 2009). Ministers meeting in the Council are dependent on the support of well-organized interest groups (farmers, industry, trade unions, etc). Voters do not like to see how the wishes of interest groups are being accommodated. Politicians therefore feel the urge to cover up such 'dirty tricks' by delegating to international organizations.

Many ministers of member states, and the majority of MPs who stand behind them in their home countries, have fostered an interest in EU-wide tax and regulatory cartels. The VAT Directive of 1992 speaks for itself: the German government, which did not have a sufficient majority in the Parliament to force through an increase in VAT, instead promoted the minimum European rate of VAT in order that it would be higher than the existing VAT rate in Germany.

Majority voting allows interest groups and governments of member states with high levels of regulation to expand the applicability of their own regulations to other member states. Andersen and Eliassen (1991) compared the impact of interest groups at the EU level and in member states and concluded that the EU system is more lobbying-oriented than any other national European system.

Ministers and officials find membership of international organizations attractive because they permit them to travel, attract media attention, and keep themselves busy (Vaubel, 2009). The Council of the EU is essentially a club of ministers and state secretaries; being a member of the club means all sorts of benefits and prestige, especially for representatives from smaller and poorer countries. The Council is a club for ministers in office seeking re-election.

Despite the fact that in some cases the impact of interest groups on decision-making processes within the EU may be beneficial, the arrangement reveals shortcomings in the system's democracy. Among European voters, it also underlines a feeling of alienation from the EU and an inability to change, for themselves, anything using their own votes. Whilst the influence of supranational interest groups is aimed towards federation and deeper integration of the EU, the fact is that this influence is actually known to voters (regardless of whether the mechanism by which the influence functions is understood or whether it is merely a sense that such influence

exists and is in effect more powerful than the citizens' opinion). This acts as a catalyst **for** resistance to federalization and to deeper integration.

4.7. Costs of political awareness and the issue of information asymmetry

All of the aforementioned processes result in higher costs of political awareness and higher information asymmetry: any citizen who wished to fully inform themselves about EU institutions' activities would find such a task daunting and ultimately futile. It is not because the institutions are so anxious to keep information on issues under discussion to themselves alone – although some of them undoubtedly may be – but because bargaining mechanisms and actual procedures are created within such a chaotic framework that no voter is able to bear the transaction costs needed to obtain such knowledge.

We might even suspect that in many ways the same applies to national political representations, although they should certainly have an absolutely clear overview of the work of EU bodies and institutions, but in many cases this assertion is probably too optimistic. Information asymmetry between EU institutions and national governments clearly exists. Information asymmetry between EU institutions and the EU constituency seems to be almost bottomless.

Topics high on the EU agenda pass through integrative institutions, the Commission in particular, involving a number of concepts, proposals and projects that are constantly developed and pre-prepared for discussion with other bodies. They will most likely receive approval if at least some member states are prepared to sign up for them. Subsequently, necessary majorities are usually formed in the course of further negotiations, while exchanging concessions and agreements with countries in areas that they find pertinent. If a group of countries needs support from another group to promote their topics, which is quite normal, then they exchange support under 'item A' for support under 'item B'. Consequently, the achievement of required majorities becomes the subject of continuous bartering.

It is only natural that such situations provoke the further alienation of voters from the EU as a whole. Inhabitants of the Eastern enlargement countries have followed a series of decisions adopted at the European level with enormous unease, perceiving them as beyond the natural sphere of influence of their own lives. Measures and decisions based, for example, on the preferences of Scandinavian societies (e.g. steps toward the reduction of

plastic material consumption), are only grudgingly accepted in Eastern countries and are seen as unnecessary, extraneous or even extreme. The explanation, of course, is simple – if EU legislation interferes with areas related to common consumer practices, then in societies sensitive to these topics, such legislation, will be accepted with great understanding and consent, but in societies dealing with completely different issues they will merely be seen as inappropriate incursions into local customs and traditions. What some perceive as a reasonable ‘fix’ within a society may be understood by others as an external diktat.

This ‘integration’ of Europe has penetrated into areas that are not concerned with free trade, the common market or the (undoubtedly problematic) prevention of tax competition – which are the layers that do not directly affect the everyday life of every citizen but are, rather, the space where (at least theoretically) room for more efficient cooperation and lower transaction costs is being created. Many decisions concerning integration, however, have already been implemented: social customs and views shared by some states affect lives in other states. In this respect, EU integration has crossed the line which necessarily provokes active opposition on the part (often a substantial part) of the inhabitants of the countries concerned.

The number of sticking points seems to be on the rise, and if integration mechanisms continue to operate, then these sticking points will inevitably increase in number. We have already mentioned the issue of a multi-speed Europe as one of the possible responses that reduces the willingness of some countries to work together on integration and towards some form of federative arrangement. The issue of interference with one’s *ordinary everyday life* will sooner or later play a crucial role in these considerations. Indeed, it is hard to imagine that the implementation of social standards from one group of countries across another group of countries would not generate significant negative responses. And in ‘donor countries’ these negative responses will inevitably raise questions about whether or not a society rejecting these ‘good things’ is a society suitable for the pan-European idea.

4.8. Summary

The fourth chapter dealt with two fundamental political approaches to European integration: federalism and the intergovernmental approach. After over half a century the institutional structure of the EU is a composite of both models. In practice, however, European integration and ever closer centralization of the continent are intensifying. Centralization at the

international level increases the costs of political awareness for voters. Decisions made at higher levels are subject to fewer democratic controls.

Moravcsik's 'rationalist' model of interstate bargaining was introduced, which explains European integration as a series of rational decisions made by national stakeholders. In reality, Pareto-efficiency of European decision-making is not guaranteed because countries can be outvoted (in majority decision-making), or change their minds about an issue when their national governments change.

Integrative institutions show a considerable degree of resistance to changes that would be to their detriment. Indeed, the opposite might well be the case: they may very easily be in a position to strengthen their own competences. Although these institutions were originally responsive to the needs of the states, these have gradually slipped beyond their control and now play a crucial role in the process of European centralization. To claim, therefore, that European integration mirrors the preferences of the member states is somewhat inaccurate.

EU enlargement makes integration slower, but not significantly so. Politicians in candidate countries support EU enlargement because it undoubtedly gives some the chance of a 'cushy job' in EU institutions, or increases their chances of being re-elected at the national level (smaller competition among political insiders). For politicians in existing member states, EU enlargement represents an opportunity to consolidate power over a larger political unit, provided that they sit in an EU institution or comply with the demands for EU enlargement made by the European political elite.

Independent bureaucracy, especially at the international level, is very much prone to the pressure of interest groups and susceptible to corruption. In particular, the Commission is very much open to interest groups' requirements. Officials do not have to stand for re-election. Ministers and officials find membership in international organizations attractive because of the travel opportunities, increased media attention, and in order to be kept busy.

There is a growing conflict between efforts for deeper integration or the federalization of the EU, and objectively perceived national interests.

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CHAPTER 5

THE ECONOMICS OF GLOBALIZATION

The extreme dynamics of technological development have enabled us to connect in many remarkable and inexpensive ways. When looking through the lens of technological development, it is easy to believe that globalization is an unavoidable one-way ride, that distances are becoming ever shorter, that frontiers between nations are slowly dissolving, and that we are living in a global common market in goods, services, capital, and labour. However, such an interpretation would be too simplistic.

Globalization is a complex and multi-layered phenomenon. Certain political changes in the late 2010s have, perhaps, drawn new boundaries in the globalization process. In particular, these include the election of Donald Trump as U.S. president and the United Kingdom's European Union membership referendum (yet many more examples could be presented here). The political forces opposing globalization have gained significant power and become relevant during the second decade of the 21st century: when compared with the previous decade, this has truly been a substantial shift. Even if there have always been anti-globalization forces, or at least climates of opinion questioning the benefits of globalization, they have become so powerful during the second decade as to have begun shaping not only the politics of individual countries but also the very structure of international relations.

In short, the processes that are typically referred to as globalization have been questioned – not in terms of their existence, but in the way in which their development is interpreted. Whereas a certain fatalism characterised mainstream attitudes towards globalization in the first decade of the millennium (whereby globalization was accepted by the majority and by any and all relevant forces as a *de facto* and unstoppable process), nearly ten years on, a very different atmosphere has developed. We can refer to it as a period of globalization revisionism.

Is globalization therefore inevitable or can it be reversed? Is it shaped by economic development, and cultural evolution, or is it rather a technological

progression? Should one embrace international integration or remain vigilant? And above all, is globalization a process that has been taking place since the beginning of history, destined, in spite of occasional deviations, to culminate in an ‘integrated’ global supremacy, or is it merely a phenomenon determined by the technologies of the 20th and 21st centuries?

These are truly fundamental questions. The goal of this chapter is to provide a sketch of the economic theory of globalization. The concept of globalization is defined in the first part. The second part outlines the relationship between economic growth and national sovereignty. The third part discusses the paradox of globalization according to Rodrik, who holds that globalization may give rise to a political response that refuses to endorse the process. In the fourth part, we examine Joseph Stiglitz’s arguments for and against globalization. The ways globalization is shaped by technological progress are studied in the fifth part and, finally, the sixth part asks whether or not big or small nations are leaner and better prepared to succeed in global competition.

5.1. The concept of globalization

Above all, globalization is a highly fashionable term. It refers to certain objective processes that in reality can be considered indisputable and unquestionable. At the same time, the term as such tends to be used to refer to relatively variable contents. And the content of the term (however differently treated) is debatable in terms of whether the processes referred to as globalization really represent a fundamental qualitative change.

Both proponents and critics use the term globalization in many different ways, a fact that complicates subsequent debates. Globalization tends to be defined as a long-term economic, cultural and political process that deepens and accelerates the movement of goods, people, and ideas across the borders of states and continents (Lemert, 2016). Some hold that globalization today (and for approximately the past 50–70 years) is a revolutionary turn and a break in human history – a fundamental qualitative change.

It is a struggle to define the driving force of the globalization process: conflict underlies the ambiguity of the term. Quite often, and rather naively from our perspective, globalization tends to be understood as a long-term endeavour that brings together people from across the entire planet. Here, the process is (usually) seen *a priori* as a positive phenomenon, one that produces benefits worldwide as long as it arises out of a vision of mutual understanding, respect, influence, and people’s inherent desire to collaborate.

According to this cultural belief of sorts, globalization is supposed to eliminate (slowly and gradually, of course) the differences between nations or races. What is meant here are cultural and social differences, not those bestowed biologically – although even the latter should recede in the long run. In this sense of the term, globalization is, at least to some extent, related to multiculturalism, in that it has a defining vision for the future of political nations.

An economic perspective, however, must be different and, in a way, even opposed in its consequences to the above. This is because globalization, from this perspective, results from the existence of comparative advantages (Torrens 1815, Ricardo, 1817) combined with the fact that the development of technology and communication renders those advantages increasingly beneficial.

Despite its ambiguous content, globalization has become one of the most frequently used terms of our time, used by philosophers, economists, sociologists, ecologists, theologians, and journalists. The world is referred to as a ‘global village’ (McLuhan, 1968), humanity is faced with ‘global challenges’ and fashionable terms have popped up such as ‘global culture’ or ‘global markets’ (Rolný and Lacina, 2008).

It is in the cultural vision of globalization that a special struggle occurs: many have a perception that globalization is linked with helplessness and chaos and see it as an anonymous, mysterious, elusive force. Since globalization results from the activities of billions of people across continents, it cannot actually be controlled from a single command centre. That is why it is often viewed as unmanageable by numerous social groups around the world.

It would only be somewhat overstating the case to say that this trend (or feeling) is accommodated by political forces, who claim (for whatever motive) that they are able to regulate globalization. Such declarations may take different forms – from a belief that humanity can meet the aforementioned ‘global challenges’ through an elaborate set of adequate measures (in order to ‘curb global warming’), to a thesis that globalization can be stopped, reversed or fundamentally moderated. Politicians often argue they can artificially, by means of laws and regulations, ‘distribute’ the benefits of globalization into certain countries or prevent its costs from affecting those same countries and societies.

The fact that important social groups in many countries are either doubtful about, or reject outright, globalization (whether seen as an objective phenomenon or as a term) is a paradox. The worst losers in the contemporary world (in terms of growth of living standards) are recruited from among those left behind by globalization, rather than those exposed to it (Norberg, 2006).

In any case, the global economy represents a diverse and somewhat contradictory whole (Acemoglu and Yared, 2010). On one hand, integration processes and a deepening international division of labour are underway, whereas on the other hand disintegration is taking place. What we mean in this context, among other things, is not only that some states are falling apart, but also that the dynamics of integration are faster in supranational spaces that share some cultural, national and regional affinity. Typically referred to as regionalization, such accelerated integration of regional blocs could also be seen as an ‘anti-globalization’ process.

Regionalization has given rise to three key centres of the global economy: Europe, America, and Asia. Such regional centres integrate their markets even faster than the global economy as a whole – a fact remarkably exemplified by the European Union. Such groupings often introduce protectionist measures to shield their newly formed markets that have counterproductive effects on international trade (Rolný and Lacina, 2008). Strictly speaking, the very principle of these economic groupings, namely the provision of important advantages to the partners in one’s bloc as opposed to other partners, is also a form of protectionism. The wave of trade conflicts associated with Donald Trump’s administration in the U.S. suggests the emergence of a new dimension of regionalization.

In contrast, it is important to note that globalization is encouraged by the advancement of information technologies which have reduced the costs of international transportation and communication (Jeníček, 2002). The minimization or even marginalization of transportation costs, even at very long distances, has helped break trade barriers.

5.1.1. Our definition of globalization

It is necessary to support the extended analysis detailed in the pages and chapters which follow by expanding our definition of globalization – in order for it to be correctly understood. Firstly, globalization can be viewed as a continuous economic process which has far-reaching effects on society – affecting the population’s psychology, the destruction of traditional

family/social ties, social issues, political preferences and a host of other areas.

Secondly, globalization is driven by a gradual and long-term shift in the distribution of cooperative ties from the regional to supraregional and thence, in the current phase, to the truly global. This distribution change is continuously enabled by technological progress; the patterns of distribution have historically been affected by all important inventions, including the printing press, the steam engine, computerization and digitization.

Thirdly, comparative advantages form the economic basis of globalization. As long as alternative options are available or there is a potential to change the existing options, the system tends to reach the most effective state by maximizing the use of comparative advantage.

Fourthly, globalization tends to form an environment that continuously reduces or even minimises transaction costs and, in turn, minimises opportunity costs.

5.1.2. Globalization as a continuum and as a qualitative jump

There are at least two opposing schools of thought concerning the principles of globalization. The first is the belief that what is taking place today is a qualitative transition that justifies the use of the new term *globalization* – in other words, that we are experiencing a qualitative jump. The second view builds on the belief that recent years and decades represent a mere continuation of previous integration tendencies (Židek, 2009).

In other words, globalization from the first perspective is seen as a high peak in the opening up of markets in goods and services, and in financial markets (Fischer, 2003). This can be referred to as Globalization Shock Theory.

The opposing perspective can be referred to as Continuous Globalization Theory. Here, globalization is viewed as an age-old natural process which necessarily takes place as people's cooperative abilities grow (not biologically, in terms of the evolution of the human species, but as a skill bolstered by technology, communication and other possibilities). According to proponents of this perspective, globalization is shaped by forces that have always been present in the global economy and are part of its very substance and therefore it represents a continuous process.

Importantly, the forces behind globalization as a continuous process are assumed to be primarily economic in nature. Rather than an abstract human

desire for greater integration, as seen in ‘cultural’ theories, what is at stake here is a permanent tendency (despite interruptions) to maximize the effectiveness of relations, to reach the highest possible level of cooperation (or division of labour).

This, however, leads to the logical conclusion that just as globalization is a continuous process fuelled by the economic decisions of billions of individuals, the process must also be continuously opposed to some of the non-economic wishes, desires and goals of those same billions of individuals. Then, attitudes to globalization become highly individualized, based on the specific personality traits of each person.

On this issue, we are inclined to side with the second theory (as is apparent in our definition above) and to consider globalization as a more or less continuous process. We emphasize, however, that over the long term it may be interrupted by important disintegration phases. At the same time, we are firmly convinced that globalization is driven by economic forces.

We consider the arguments for the continuous economic theory put forward thus far to be stronger. For example, evidence and statistical data interpreted by its proponents demonstrate that economies at the turn of the 19th and 20th centuries were, in many respects, just as open and integrated as today. The percentage share of foreign trade on many countries’ products is not markedly higher than one hundred years ago. While capital flows are faster, foreign investment as a percentage of GDP at the end of the 19th century was approximately equal to current figures. In this approach, it is not correct to look at the phenomenon of globalization as completely unique, as something that has never before emerged in human history.

Experience and history, however, have taught us that when globalization is treated as a long-term process that has occurred ‘since the dawn of history’, it quickly becomes clear that it cannot be treated as a uniform or linear process. We believe it possible to argue, without further proof, that there have been historic waves during which globalization strengthened and troughs when it deteriorated. Therefore, one needs to distinguish between globalization and localization periods (Livesey, 2017), or between phases of integration and disintegration. At the same time, we are convinced that these waves are related to the fact that economically driven globalization is somewhat hostile to cultural differences and historically-rooted ties, customs, social traditions and, indeed, national interests.

5.1.3. Characteristic traits of globalization

In order better to understand globalization as a long-term and permanent trend, we can summarize traits that externally represent the process and arise out of its inherent laws. Globalization deepens the interdependence, as well as the trade, investment and financial activities of national economies (Romer, 2010); and thereby makes the world appear to be shrinking. The global economy can be characterized as a worldwide economic area in which individuals and firms conduct business, collaborate or compete with one another. Globalization makes the world smaller and time faster (Jeníček, 2002).

Some authors argue that globalization is primarily driven by multinational corporations, portfolio investors, and speculators (Lane and Milesi-Ferretti, 2008). Loans, foreign exchange market operations, and direct/portfolio investments are among the most typical forms of international mobility. The liberalization of financial markets has enabled considerable growth in international capital flow by eliminating obstacles to the free movement of capital between national economies (Rolný and Lacina, 2008).

However, rather than being the result of a ‘wise decision’ by world leaders, such liberalization was merely a necessary step toward satisfying economic interests and needs. Nor did those interests and needs arise in an *ad hoc* way, but rather from the possibilities that technological progress made available to capital. The use of new communication potentials, among other things, enabled a more liberalized flow of finance: it was the only logical solution.

It is worth mentioning in this respect that, whereas the amount of direct investment as a percentage of overall economic performance has not grown considerably over the past hundred years or so, and an exact measurement of that parameter has been possible, this is absolutely not the case with portfolio investments, financial or other speculative transactions. In this specific area, which can to an extent be considered quasi-economic, a qualitative turn has taken place enabled by new technologies. In this sense, the liberalization of capital flow is merely an environment. This aspect of globalization will become more relevant later: we will discuss the growth in resistance by anti-globalization forces.

Generally speaking, globalization is facilitated by technological and scientific development. An ever-growing part of developed countries’ economies consists of intangible information services and, especially, operations related to information-gathering and storage. Information technologies

bolster our welfare. Globalization has created a world that is increasingly shaped by information and communication technologies (Jeníček, 2002).

The growing efficiency of comparative advantage is a remarkable characteristic of the contemporary stage of globalization, one that has become dominant. The related shift of emphasis from traditional industries to technologies and services has reorganized the world into different layers or territorial arrangements. Developed countries control a much larger share of management processes and cooperation functions, while medium, lower and low-performance countries are increasingly represented in industrial sectors of the economy. The development of multinational corporations is a characteristic trait, with the sociological consequence that people are ever more strongly gripped by the impression (as opposed to the objective reality) that globalization is widening the gap between rich and poor – both in terms of people and countries.

However journalistic the argument is, it is worth pointing out that as recently as the 1950s or 1960s, Siemens could be referred to as a German company, whereas today it must today be necessarily characterized as a German-based multinational corporation. The processes of globalization are inevitably accompanied by a widening gap between gross domestic product and gross national product or other indicators that take cross-border flows into account.

5.2. Economic growth versus national sovereignty

As suggested above, it seems that globalization is an incongruity: on the one hand, it is a strong driver of economic growth, technological development, and rising standards of living around the world (Wolf, 2004), but on the other hand it is controversial because it damages or restricts national sovereignty and undermines local cultures and traditions.

Globalization has thus enabled, and is likely to continue to enable, a historically unprecedented satisfaction of people's vital needs; it has helped in the attainment of the highest living standards of all time and has satisfied the desire for material goods (Grossman and Helpman, 2015). These benefits of globalization have been attained at the cost of environmental degradation in the broad sense of the term – the natural environment as well as social relations, ties within nations and traditional cultural contexts. The logic of this model suggests that as long as a growing portion of the ties of cooperation are oriented beyond the host community, region, country, or

even continent, then ties to that very community, region, country and, to some extent, continent will be necessarily weakened.

At the same time, both elements of this incongruity are difficult to measure. As far as economic results and their effects on the living standards of the Earth's population are concerned, there is undoubtedly an abundance of data available, as demonstrated below, although the interpretation of any evidence is always subjective. In other words, our ability to define the economic benefits of globalization in terms of rising standards of living (based on fully objective indicators such as average life expectancy) does not provide the slightest guarantee for such an interpretation to be universally accepted. The typical argument is that certain developments, such as an increasing average life expectancy – based on growing standards of living and, above all, the advancement of medicine – would have occurred without globalization.

One point most relevant to further discussion about anti-globalization pressures, and representative of a fairly general occurrence throughout the world, is that rational arguments have begun to lose their weight. Instead of reason, many people's decisions and orientations have been dependent upon the emotional qualities of the issue at hand. When decisions are based on emotions, the acceptance of reasoning that suggests life expectancy would have grown even without globalization is fully satisfactory. Yet evidence contradicts this notion: among other things, globalization has led to an unprecedented extension of the sharing of ideas between countries and continents, including scientific collaboration. Therefore, medical advances are quite certainly and precisely associated with globalization. This is not to argue that no progress would have taken place without globalization, but we are certain that it would have been slower, and so would its international dissemination.

Globalization is often blamed for the destruction of traditional societies and national sovereignty: these phenomena being strongly and causally related to globalization. However, we want to highlight the issue of a causal or indirect relationship (meaning the more globalization the less tradition). As for the destruction of society, this is something that each succeeding generation feels strongly about. At the same time, every new generation considers the following generation to be certain to bring total chaos to the world.

The following quote is typically attributed to Socrates, who is presumed to have said it sometime in the 5th century BCE: “The children now love

luxury. They have bad manners, contempt for authority, they show disrespect to their elders... They no longer rise when elders enter the room. They contradict their parents, chatter before company, gobble up dainties at the table". Thus, the issue of the destruction of social ties can be relativized by arguing that this is a traditional grievance that probably belongs to every 'now'. The question of the weakening importance of national or state sovereignty, however, remains unanswered especially when we ask to what extent it is related to globalization per se. Indeed, such a relationship is not only likely, but especially logical. The family, the clan, the community and the region have traditionally been cemented by existing interdependent and mutually economic ties. Yet, for more than two hundred years since the dawn of the industrial revolution, those traditional relations have been consistently eroded, relativized and broken, due in particular to the effects of mass migration of rural populations to dynamically developing urban centres. The breakdown of clans has led to an erosion of communities. Big cities can have the effect of undermining the sense of community between neighbours, while the mechanization and industrialization of agriculture have long since rendered the individual peasant replaceable. These processes began in the 19th century but were dramatically accelerated in the 20th – such traditional ties are practically unknown to contemporary urbanites.

We can therefore take it for granted that globalization suppresses national characteristics (including cultural specifics) and national interests. Yet, reality shows us that there are ways to preserve the benefits of globalization while simultaneously avoiding at least some of its maladies. For example, in the realm of culture, globalization has given rise to global stars and worldwide phenomena. Producers of Hollywood blockbusters now have to think beyond, and include audiences outside, the U.S. or Europe – true economic success depends on capturing viewers in China or Japan as well. At the same time the regionalization of culture is underway and local projects are thriving. These trends neither seem necessarily competitive nor contradictory.

At first sight, the destruction of national sovereignty is an inevitable and logical extension of the growing importance of continent-wide and intercontinental cooperation. National sovereignty seems to stand in the way of cooperation between individuals and businesses across continents, a point that initially sounds coherent and irrefutable: surely this kind of cooperation should be easier in an environment that is harmonised and homogeneous in terms of laws, regulations and other factors. Undoubtedly, the more homogeneous the environment of two regions, countries, or continental

blocs, the lower the transaction costs incurred by the parties within the ties of cooperation (whether they involve trade or any other economic activity).

Yet, one must beware of fallacious argumentations. An increasing homogenization of the environment does not necessarily mean that states must be homogenized or transformed into a supranational state. As we shall demonstrate below, a highly homogeneous environment of the sort which would probably be formed by a supranational state would not necessarily guarantee the quality of that environment, the level of administrative burden, the extent of regulations, or other fundamental parameters such as the enforceability of contracts and the rule of law.

Having formulated the thesis that globalization is a continuous process consisting of different developmental stages, with alternating trends of strong integration and disintegration (although the latter is less important in terms of its consequences), we would note the following about the relationship between globalization and the loss of national sovereignty: namely, that such a relationship is certainly strong, as exemplified by the European Union and its development, but that at the same time globalization as such does not necessarily lead to the destruction of the nation state. What is destructive in this sense are social engineering trends, such as intentional efforts to 'manage' or 'adapt to' globalization. Yet globalization, in terms of the elimination of obstacles to cooperative relations, can also very well take place in the context of nation states.

In the real world, however, nation states are under pressure from international organizations (the EU is the most conspicuous example, but the United Nations, the International Monetary Fund and others behave in similar ways). Thus, it remains unclear whether countries (nation states) can keep their 'habitats' under control or whether states as we know them will fall victim to globalization (Jeníček, 2002).

Globalization elicits negative emotions in many people. In the context of the extreme acceleration of information-sharing, permanent technological change, and the concentration of immense wealth in the hands of a relatively small group of people (all characteristic traits of globalization), feelings of displacement, irrelevance and hopelessness have come to reflect the feeling of a sizeable share of the planet's population.

Yet, one must admit that from the perspective of some (surely a considerable percentage in every society), these emotional aspects are complemented by a real, practical problem. For example, technological change can cause

damage: some traditional jobs have been lost (and these losses are likely to accelerate in the future), while others are being created. Often (probably quite often) it is the case that people who were well-suited to their earlier occupations, find themselves unable or unprepared to function in emerging occupations and may find themselves in a highly unenviable position in the labour market even at times of high labour demand. While painful changes of this type are commonplace in every market economy, they have been exacerbated and accelerated by globalization (Židek, 2009).

The aforementioned negative emotions co-exist alongside a highly valid, completely rational and evidence-based argument which supports the ‘anti-globalist’ cause. Again, in order to understand the argument correctly, things need to be seen in perspective. We have described globalization as an economic process characterized by advanced redistribution at the level of cooperative ties that are no longer limited by frontiers and which can basically be established on a worldwide basis. Globalization enables a disproportionately higher amount of economic processes based on comparative advantage, which increases its overall effectiveness.

At the same time, despite the unquestionably positive effects of globalization on the growth of global wealth (a fact closely related to its economic nature), globalization also presents us with the threat of extreme economic and social instability, which is accompanied by both great prosperity and great risk. For example, in the case of the movement of capital and portfolio/speculative transactions, this ‘risk’ aspect gives rise to a societal response that can be referred to as anti-globalization. This is based on a real, rational argument supporting the often emotional attitudes held against globalization.

Other rational arguments also query the positive effects of globalization. Many argue that globalization contributes to widening gaps in society. Developing countries decry their limited share in the prosperity hitherto enjoyed by western countries. Others believe that the world’s increasing dependence on US or Chinese prosperity represents the greatest danger of globalization (Jeníček, 2002). A global economic depression may result from any slowdown or recession on the part of these leaders, which may in turn be triggered by a stock market decline, a crisis of consumer confidence or increase in interest rates.

The immense importance of risks in the globalization process surfaced during the great economic crisis of 2008–2011 which also gave rise to an extremely robust anti-globalization movement. And it is precisely due to the

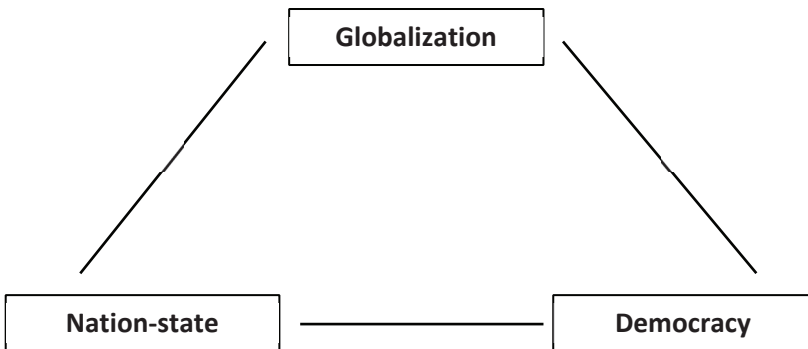
remarkable influence of these anti-globalization activities, along with certain shifts in the attitudes of political leadership in some of the most developed countries, that the following question has come to the fore: as much as globalization is a spontaneous process, is it necessarily also inevitable and irreversible?

5.3. Rodrik's globalization paradox

In his book *The Globalization Paradox* Dani Rodrik, professor of international political economy at Harvard University, presents a system of relations he refers to as the 'political trilemma of the global economy'. He argues that we cannot have deep economic integration (which he calls 'hyperglobalization'), national sovereignty (the nation state) and democracy simultaneously, but can only have two of these three things.

If we want true international economic integration, we are obliged to give up either the nation state or democratic politics. If we want to preserve liberal democracy, we face a choice between international economic integration and the nation state. And if we want to keep the nation state, we must sacrifice either democracy or international economic integration (Figure 5.1).

Figure 5.1. The political trilemma of the global economy



Source: Adapted from Rodrik, 2012

Why such a stark incompatibility of options? Perhaps it is helpful to imagine a hypothetical fully globalized world economy in which all transaction costs have been eliminated and frontiers no longer prevent the exchange of goods,

services, or capital: could nation states exist in such a world? They could, but only if they were to focus exclusively on promoting economic globalization and making themselves attractive for international investors and traders. The nation state's sovereignty would therefore be greatly limited.

Why does it sometimes appear that democracy must be given up in order to attain a fully globalized world economy? A supranational bureaucracy would take the place of democratic politics. Politics would shift to the global level and, in the absence of sufficient accountability and legitimacy mechanisms, it would largely lose its democratic character (Rodrik, 2012).

According to Rodrik, democracy cannot be sacrificed for political reasons. The nation state should therefore not be given up in the quest for excessive economic integration or hyperglobalization, but instead be embraced. Global standards and regulations are not only impractical but also undesirable. Democratic legitimacy ensures that global governance be reduced to the lowest common denominator, namely a regime of weak and loose rules (Rodrik, 2012).

Rodrik (2012) is sceptical about the possibilities of global governance. The world is simply too diverse to be made to fit into a set of common rules, even if they were somehow produced by democratic processes. Lack of clear accountability and legitimacy is the Achilles heel of global governance. In a nation state, voters are the foundation of a political mandate and elections are the main instrument that holds that state accountable. A politician who fails to respond to his/her voters' expectations and desires will be voted out. There is practically zero electoral accountability of this type at the global level.

As Rodrik (2012) argues, EU institutions only seem democratic. The directly elected European Parliament mostly operates as a discussion forum rather than a source of legislative initiative or legislative oversight. Actual power lies in the hands of the Council, a collective of ministers from national governments. The urgent issue of instituting and maintaining democratic legitimacy and accountability for extensive European governance has been on the agenda for a long time.

New forms of global governance are extremely interesting and worth developing, but they are ultimately faced with certain basic limitations: political identities continue to be associated with nation states; political communities tend to be organized on the domestic rather than global stage;

truly global norms have been formulated in narrowly defined select areas only; around the world there remains a vast diversity of views on the most desirable institutional arrangement.

The nation state lives, and even if not entirely healthy, remains essentially the only game in town. The quest for global governance is a fool's errand, both because national governments are unlikely to cede significant control to transnational institutions and because harmonizing rules would not benefit societies with diverse needs and preferences... A world with a moderate globalization would be a far better place to live in than one mired in the quixotic pursuit of hyperglobalization. (Rodrik, 2012: pp.237–9)

Historical precedence shows us that when domestic needs run up against the demands of a global economy, the former will eventually prevail. Democratic nations and in-depth globalization are incompatible. Hyperglobalization indeed requires the minimizing of domestic politics and the need to isolate technocrats from the demands of popular groups (Rodrik, 2012).

The Achilles heel of the global economy, therefore, is not a lack of international cooperation but rather the failure to acknowledge one simple idea: that the extent of global markets should be limited by the scope of jurisdiction of (mostly national) governance. As long as the rules of the road are correct, the global economy can run pretty well evenly with nation states behind the wheel. This may sound paradoxical, but it is not: giving more power back to national democracies is a precondition for, and not an obstacle to, an open global economy.

The recent and growing rise of anti-globalization sentiment is universal. For example, Brexit has made it clear that tightening measures towards European integration does not enjoy support among many of the citizens of a number of European countries. U.S. president Donald Trump ensured the United States backed out of the Trans-Pacific Partnership (TPP) and the Transatlantic Free Trade Agreement (TAFTA). Beforehand, Rodrik believed that people would rather give up their sovereign state than democracy. Today, it looks as if economic integration is more likely to take the hit (Rodrik, 2016).

Economists have likened global trade negotiations to a bicycle ride: when the pedalling stops the bicycle falls. From this perspective, the breakdown of TAFTA or TPP would be a source of concern. But we doubt whether cycling is the best metaphor here. The frustration of middle- and lower-income groups arises out of the impression that political elites have made

the priorities of the global economy superior to domestic needs (Rodrik, 2016).

A conventional perspective on globalization assumes that suppression of the nation state is a natural tendency of capitalist development and, more specifically, of its internationalization. In other words, internationalization of the economy is supposed to be indirectly related to nation-state development: the more internationalization, the less nation state. Yet a historic overview suggests otherwise (Louzek 2017).

At the beginnings of capitalism, the planet was very far from the world of nation states that it has become today. Although new supranational institutions have certainly been established latterly, they have not pushed out the nation state but rather assigned it new roles – sometimes even new instruments and powers. The European nation state (in contrast with Asian empires, for instance) cemented the foundation of capitalism because Europe was arranged as a multiplicity of different states, rather than a single umbrella empire.

5.4. Globalization and its critics

Globalization (the anonymous symbol of the global economic order) was the target of attacks even before the global crisis of the late 2000s. Global affairs, such as trade quotas or international finance, used to be discussed at monotonous meetings of impersonal technocrats; now they are accompanied by street riots and, more or less, mass demonstrations. Well-orchestrated action by left-wing radicals and anarchists turned the protests against the meetings of the World Trade Organization in Seattle in 1999, or the International Monetary Fund a year later in Prague, into uproar.

Since then, the anti-globalization movement has grown stronger, especially in the context of the crisis, broadening its ideological foundation to include neo-Marxism, neo-Trotskyism and others, on the one hand, as well as neo-conservatism, radical conservatism, schools of thought associated with the Tea Party movement in the U.S., and others on the other. In short, the movement has in part become so radical that a number of major IMF, WB or WTO meetings have been accompanied by conflicts and chaos. In part, however, the movement has also been embraced by the political mainstream. In many countries, anti-globalist leaders are now directly involved in government or have a significant share in power.

As Joseph Stiglitz reminds us in his books on globalization (2017, 2006, 2002), it was almost overnight that globalization became the most pressing issue of our time, one that is everywhere on the agenda, from corporate boards to TV studios to schools. Stiglitz asks why globalization, a phenomenon that has produced so many benefits, should have become so controversial. By opening themselves to international trade, many countries have achieved a much faster growth than they could ever have hoped for. International trade has bolstered economic development. Thanks to globalization, many people around the world have benefited from longer life expectancy and considerably higher standards of living.

Some people, however, hate globalization. It has come to symbolize the worst aspects of modern capitalism. According to Stiglitz, critics tend to demonize globalization overtly whilst simultaneously ignoring its benefits. Yet, the typical argument offered by the champions of globalization is even less balanced, mistaking the process for the adoption of a triumphant U.S.-style capitalism which they view as synonymous with progress. Developing countries must adopt it in order to achieve growth and effectively eliminate corruption (Stiglitz, 2006).

Protesters see globalization in a completely different light to that of trade ministers in the U.S. or in any other developed country. The critics of globalization see western countries as guilty of hypocrisy (Stiglitz, 2006): the latter have forced developing countries to eliminate trade barriers whilst keeping their own. In this way they have undermined agricultural production in poor countries, stripping them of much-needed sources of export revenue.

What is the substance of globalization, a phenomenon that has been subject to so much praise and so much defamation at the same time? It basically consists of closer integration of the people living on our planet, made possible by the immense reduction in the costs of transportation and information-exchange, and by the elimination of man-made obstacles to the cross-border movement of goods, services, capital, knowledge and, to a lesser extent, people. Thanks to globalization, what someone utters in one part of the world may instantly spread around the globe, so that political ideas that emerge in any one country may exert tremendous influence on others (Švihlíková, 2010).

There is nothing inherently good or bad about globalization. It comes with the potential for benefits but also has its pitfalls and downsides (Stiglitz, 2006). Today's globalization process is associated with the reduction of

transportation costs and the elimination of man-made obstacles to the free movement of goods, services and capital, although serious obstacles to the free movement of labour continue to be firmly in place. As such, it actually has a lot in common with the earlier process of the formation and integration of 'national economies'.

Both the IMF and the World Bank were formed during World War II as a result of the July 1944 monetary and financial conference convened in Bretton Woods, New Hampshire. They were part of a shared effort to fund the post-war reconstruction of Europe and protect the world from future economic depressions. This mission is reflected in the name of the latter institution – International Bank for Reconstruction and Development (the term development was an afterthought). The International Monetary Fund was entrusted with preventing the next global crisis (Stiglitz, 2002).

Practically all of the IMF's and WB's activities take place in the developing world, but both institutions are managed by representatives of developed countries. Europeans tend to be appointed as heads of the IMF, Americans as heads of the WB. The selection process normally takes place behind closed doors. Possession of any experience from the developing world has never been considered an essential requirement. It is for these reasons, Stiglitz argues, that the policies of international institutions are too often associated with the trade and financial interests of developed countries.

The IMF is convinced it has been doing a good job in its mission, which is to promote global stability and to assist transitioning and developing countries to achieve not only stability but also growth. Both leading international institutions have divided their roles as follows: the IMF focuses on the maintenance of monetary stability and the WB on the fight against poverty; however, as Stiglitz (2002) argues, the Fund has repeatedly failed in its mission and its failures have not been merely coincidental – the excessively restrictive monetary policies it has recommended are to blame.

It is an inviolable law of international accounting that the sum of all trade deficits equals the sum of surpluses. As long as China and Japan keep making surpluses, other countries are bound to experience deficits. According to Stiglitz (2002), destabilization should be blamed on both groups of countries.

In a standard market economy, a creditor who concludes a bad credit contract will bear the consequences. The debtor may easily go bankrupt, and states have laws governing the settlement process. This is the market

economy. In contrast, IMF programmes keep providing loans to governments to buy out western creditors. Since the latter have come to rely on the eventual IMF bailout, they no longer make a reasonable effort to ensure that their loans can be paid back.

Reflecting on the IMF's failures and the calls for limiting its role, the Fund's First Deputy Managing Director Stanley Fischer proposed in 1999 that it expand its responsibilities to become the lender of last resort. Just as central banks operate at country level as lenders of last resort providing loans to commercial banks that are solvent but lack liquidity, so the IMF should do the same at the international level (Fischer, 2003).

IMF loans come with certain advantages: the Fund will often provide money even if capital markets refuse to do so. Some states, however, have paid a high price for this 'cheap' money: the IMF is the preferred creditor if the national economy is in bad condition and there is a risk of insolvency. The Fund is also the first to get paid, while others (e.g. foreign creditors) must wait and may eventually lose their money. The more money that comes from the IMF's pocket the less tends to be left for private-sector lenders.

Stiglitz is able to understand why the populations of many countries around the globe have been so hostile towards the IMF and the strategies it has offered. The billions of dollars it has provided have been used for things such as the short-term stabilization of exchange rates – rates that may already have reached untenable levels. The Fund's recommended fiscal and rather restrictive monetary policies may often choke economies. We can better understand the IMF's policies if we view them as motivated by the creditors' interests (Stiglitz, 2006).

Stiglitz argues that globalization today does not operate for the benefit of a considerable number of the poorer people on our planet and that it has failed to improve global economic stability. It would be too radical, however, just to reject globalization outright; this is neither feasible nor desirable. After all, globalization has been tremendously beneficial in broadening trade opportunities and improving access to better technologies. Stiglitz considers globalization to be irreversible, a fact that must be taken into account. The question is how it can be changed in order to improve its workings (Stiglitz, 2006).

The problem is not with globalization as such, but rather with the ways in which it has been governed. The IMF, WB, WTO and other international institutions that have been involved in formulating the rules of the game are

part of the problem. They have been working in ways that raise the suspicion that they do not primarily serve the interests of the developing world, but rather those of more advanced industrial countries or particular interests inside those countries (Azzimonti, Francisco and Quadrini, 2014). Yet dismantling the IMF would be short-sighted because it would most likely be soon replaced by something similar.

Whereas financial interests control IMF policies, those of the World Trade Organization (WTO) tend to be dominated by commercial interests. The IMF may show little concern for the interests of the poor; but trade, however, is its top priority. International institutions like to present themselves as acting in the common interest. Trade and finance ministers think that the liberalization of trade and the capital market will ultimately be of benefit to all. Their belief is so strong, Stiglitz argues, that they are willing to vote for measures that promote and even force reforms upon states by any means necessary even if they are not supported by the general public.

Among other things, globalization has been attacked for subverting traditional values. Such conflicts are real and, to an extent, inevitable. Economic growth associated with globalization results in urbanization and undermines traditional agrarian communities. Those in charge of managing globalization like to emphasize its positive effects, while ignoring the downsides – the ways globalization jeopardizes cultural identities and values (Stiglitz, 2017).

Discontent with globalization has been on the rise around the globe – and rightly so, according to Stiglitz. Globalization has helped hundreds of millions of people to achieve such high standards of living that even economists of recent times find it hard to credit. Globalization has facilitated the search for new markets for products and bolstered foreign investment. Then again, it has brought nothing to many other millions of people. Some are undoubtedly worse off because they have lost their jobs and their security in life has deteriorated (Stiglitz, 2017).

Faced with these uncontrollable forces, some people are increasingly prone to a sense of hopelessness. They have witnessed the destruction both of democratic values and traditional culture. If globalization continues in the same direction, then it will not only cease to be instrumental for development but will instead exacerbate poverty and instability. Without certain necessary reforms globalization will be met with increasing resistance and fear (Stiglitz, 2002).

It is from this perspective that globalization can be viewed as a continuation of the relativist traditions of the Enlightenment and the French Revolution. More and more, traditional ties and links are being replaced with new ones. Imports across neighbouring borders are being replaced with ones from countries that are thousands or even tens of thousands of kilometres away.

Developing countries must assume responsibility for their own future and prosperity. Development policies are not intended to make a handful of people rich or to support only a select few manufacturing industries, the benefits of which can then be tapped by the country's ruling elite. Instead, they should eliminate protectionist barriers that sometimes generate profits for a handful of rich individuals at the expense of consumers. Of course, developing countries have the right to expect respect for their specific economic and cultural differences.

The developed world needs to do its part to reform the international institutions that govern globalization. We set up these institutions and we need to work to fix them. If we are to address the legitimate concerns of those who have expressed a discontent with globalization, if we are to make globalization work for the billions of people for who it has not, if we are to make globalization with a human face to succeed, then our voices must be raised. (Stiglitz, 2002: p.252)

Changing the status quo is never easy. Just like individuals, bureaucratic structures may succumb to bad habits, and the necessary changes may be painful. Yet international institutions must undergo this treatment to play the role that has legitimately been ascribed to them, so that globalization finally starts working not only for the benefit of small cliques of affluent individuals and for advanced countries, but also for the benefit of those without property and for developing countries.

The question is not really whether globalization is either good or bad: it is a powerful force that has benefited millions. Yet millions of other people have been unable to reap any benefits, and others still are now worse off (Stiglitz, 2017). The challenge of today, therefore, is to reform globalization so that it benefits not only rich advanced countries but also poor ones. The good news, according to Stiglitz, is that the problems of globalization have come to be taken seriously in all parts of the world.

5.4.1. Objections to Stiglitz's critique of globalization

In the works mentioned and quoted above, Stiglitz formulates a series of very interesting insights into globalization issues. We find, however, that

many aspects of his discussion are debatable. Let us, for instance, examine his argument that globalization is associated with growing inequalities between rich and poor countries.

There is evidence of a decrease in the number of people living in poverty over the past two decades. In the years 1980–2008 the absolute number of people living in poverty dropped by 500 million. Prior to that, the percentage of people living in poverty was also in decline, whereas the absolute number of global population grew significantly. Over the past thirty years the number of people living in poverty has decreased even in absolute terms despite the continued growth of the global population (Oatley, 2015).

Instead of poverty and income inequality exacerbated through globalization, contemporary international political economy shows us that participation in the global economy has accelerated growth and reduced poverty (Fischer, 2003). Although critics decry an unequal distribution of the growing global income, empirical evidence demonstrates that income inequality has stabilized and poverty has declined (Oatley, 2015).

This can be attributed to the proven association between globalization and the increase in income. Between the years 1960 and 2000, the global economy grew at an annual rate of 3.5%, compared with only 1% in the mid-19th century (Oatley, 2015). The growth of gross world product in the past forty years has been faster than in the 19th century or the first half of the 20th century. When considering the tremendous increase in the quality of goods consumed, we can reject Stiglitz's repeated assertions and instead argue that globalization is associated with the unprecedented growth of human wealth.

Of course, one could raise questions about the notion of managing and shaping globalization. In fact, globalization is an objective result of the efforts of billions of people and hundreds of millions of economic operators. The notion of 'managing' in this context is an exaggeration: we are inclined to speak more humbly of 'attempts to regulate processes associated with globalization'. Such attempts are indeed being made and the results have been either questionable or clearly negative.

Globalization shares certain characteristics with a number of other processes that result from people's and corporations' economic behaviour: such processes are difficult to manage. One can support them by forming a stable environment with a high level of contract compliance, high-quality

law enforcement, and a low level of regulation. The very process of globalization can surely be regulated in certain ways (such as restrictions in the movement of short-term investments, direct investments, etc.), but this always results in higher cost and lower efficiency likely followed by the emergence of imbalances and quite possibly stagnation or economic depression. Finally, the process of globalization can be affected politically insofar as one or more countries can isolate themselves and try to exit the process through such measures as those that curb foreign trade. If a larger group of countries simultaneously proceeded in this way, globalization might indeed slow down and a disintegration process would likely ensue. The question is, however, how long such a deviation might last or, more precisely, how long it would take for the situation to return to the status quo before globalization slowdown?

In contrast, we fully side with Stiglitz's remark that globalization exacerbates certain structural changes in the economy. The market economy is indeed associated with new risks. Of course, losing a job is never a pleasant experience – self-confidence may suffer. Then again, this risk is incomparable with the stresses experienced by people in past eras who were unable even to earn their daily bread and whose livelihoods were devastated by droughts and floods (Norberg, 2016).

Trade frees up one's time and resources to do the things one is best at. Productivity makes us richer. And specialization is what makes us productive. Specialization is made possible by trade. Markets create a new, more efficient order while discarding the old order. This is not a pleasant process, especially for people and firms used to previous arrangements. It can safely be said, however, that international trade increases general wealth (Wheelan, 2010).

Protests against globalization (especially those motivated by anarchist or leftist ideas) build on the assumption that global trade is something rich countries have forced upon developing ones. By this logic, when trade is mostly good for America it must be mostly bad for someone else. In economics, thinking in terms of a zero-sum game is usually a fallacy. Global trade pushes the machinery of specialization forward, whilst protectionism slows it down (Wheelan, 2010). After all, almost two hundred years have elapsed since Bastiat (1845) exposed mercantilism as a fatally invalid concept of economic relations in his *Petition from the Manufacturers of Candles*.

Stiglitz's complaint that globalization has exacerbated environmental degradation in developing countries is also unsubstantiated. Almost every economic activity produces waste in the short run. When we produce more, we are bound to pollute more; however, as we become richer we also tend to take the environment into account. Developed countries care more about environmental quality and they therefore have larger resources to address pollution at their disposal (Wheelan, 2010).

The World Bank (WB), the International Monetary Fund (IMF), and other similar institutions, especially the World Trade Organization (WTO), constitute a specific area of critique. Stiglitz's argument is certainly justified, although none of the institutions has held on to the same strategies and defined the same priority of solutions in the long term. Moreover, the WTO is far from being a standard institution capable of enlisting its own means and strategies in pursuit of some specific economic policies, vis-à-vis individual countries or regions. The WTO itself has no powers, except for some particularized ones in international trade dispute resolution. The WTO's procedural content is always informed by agreements reached at the most recently concluded round of negotiations, and those negotiations are multilateral. Without its members' cooperation, the WTO cannot adopt any agreements or measures beyond the scope defined by the most recently concluded round of discussions.

A rational critique of the WB and IMF might probably build on the bizarre fact that taxpayers have to pay for speculators' mistakes. It is a key principle of market economics that unsuccessful investors bear the cost of their mistakes (Norberg, 2016). Debt relief, including that provided by the WB and IMF, should not be automatic; it should only be offered to countries choosing democracy. A "one strike and you're out" policy would help. Debt would be cancelled to reform-oriented governments of poor countries with the clear message, as Norberg stresses, that there will be no future debt relief ever again.

Western policies towards developing countries, overemphasize development aid at the expense of free trade. Development aid has been provided to Africa since the beginning of the 1960s: it is six times larger than the amount paid by the U.S. under the post-WWII Marshall Plan. While the western world has declared support for free trade, it has done little to help spread it: the steepest barriers have been imposed on its trade with developing countries (Norberg, 2016).

What is often at stake is agriculture, the key sector of many countries from the bottom section of the list of countries ranked by economic success and, at the same time, the largest recipient of subsidies and a well-protected sector in the European Union (as well in the United States and a number of other developed countries). Developed countries have sacrificed trade with developing ones to better protect their own agriculture from competition.

5.5. Effects of technological progress on globalization

Stephen King (2017), too, analyzes globalization from different perspectives, reaching remarkable conclusions that need to be considered. He argues that economic progress that crosses borders is in no way inevitable. Globalization can easily be reversed by an opposing process: technology may be enabling as well as destructive. The international institutions that help manage the process of globalization are losing credibility, regardless of whether or not this perspective is justified. Globalization is increasingly perceived as beneficial for a small number of people, rather than the majority. The feeling is prevalent that the benefits of globalization certainly cannot be reaped by all.

King (2017) considers it illusory to think that the world is evolving towards a universal system of values and that an end of history is near. Instead of universal values, we are seeing values in different parts of the world increasingly shaped by histories, geographies and religious beliefs. Insofar as religious systems differ from one another, the future of a western-led globalization mission suddenly seems a fragile idea – these differences could potentially weaken economic progress as well as political institutions.

The current wave of worldwide migration is exceeding the capacities of nation states. Since nation states typically define themselves as political and economic ‘clubs’ (where the choice of whom to exclude is just as important as the choice of whom to accept), it hardly comes as a surprise that irrespective of the factors encouraging migration, immigrants are not always welcomed in their host countries. Sometimes, the imbalance between the supply of, and the demand for, migrants may bolster isolationist, anti-globalization attitudes (King, 2017).

Attitudes to globalization are necessarily shaped by different historic perspectives. The western view is based, among other things, on the dissemination of western values across the rest of the world. It is somewhat ideological. Other parts of the world with competing histories and mythologies were not initially so excited about globalization. The then

Chinese president Xi's Davos speech in January 2017 showed that even 'non-western' powers may adopt globalization. Nevertheless, this perspective on globalization can be called 'pragmatic' (although that may be an over-simplistic term). This pragmatism rests upon the belief that globalization is a means to an end (an environment that facilitates and will continue to facilitate) and that contributes to the growth of living standards of those from less-developed countries, all this while considering the benefits that governmental power can derive from it.

Economic and political power (again, subject to much simplification) are shifting eastwards: China and, to some extent, India are the new heavyweights of the global economy. The high standards of living in Japan, South Korea and Taiwan are, on average, just as good as those enjoyed by European countries. From their perspective, western values are certainly not universal geographically or temporally; after all, the imperialist attitudes of the 19th century, for example, are hardly in line with 20th-century self-determination.

King questions the notion of the 'international community' as an actor. In this uncertain and sometimes chaotic world, nations typically act in their own interests, form temporary alliances that can last weeks, months, years or decades but are always at risk of falling apart. At the same time, each country's own interest is shaped by its mythology and history and the ways those come to be reinterpreted over time.

During the Cold War, these competing histories and mythologies were pushed into the background by the ideological conflict between capitalism and communism. In the 21st century, they have resurfaced and increasingly become a factor in nation states' frequent decisions to suppress globalization or turn it into a reverse process. We are heading back towards the old world of territorial conflicts, competing ideologies and volatile alliances (King, 2017).

Thanks to technology, the world seems to be shrinking. The decreasing price of telecommunications has connected citizens, countries and continents in previously unimaginable ways. Such extreme interconnectedness suggests that technology and globalization are fellow travellers on the same path. In a similar way to Moore's Law, which predicts that computer performance will double every 18–24 months, it may be easy to imagine a virtual world in which geographical remoteness no longer plays a role. Sovereign borders will vanish when confronted with the power of digitization.

Austrian economist Joseph Schumpeter (1942) used the term ‘creative destruction’ to describe the constant need for new inventions. Capitalism is built on change. Companies that keep doing the same old thing will eventually go under – the discovery of new things is key to survival. Far from embracing fashionable slogans like ‘Industry 4.0’, we should seek technological development as a factor of economic growth.

In their article ‘Why Globalization Stalled’, Nobel Laureate in Economics Michael Spence and his colleague Fred Hu explain that modern technologies do not eliminate jobs across the board, but only those in certain types of occupations. In the short run, automation may render some occupations redundant, but eventually machines increase productivity, driving up income and prosperity. Machines and labour are not substitutes, but rather complements.

The concern that new technologies (such as robots) will take people’s jobs is unfounded. As long as 150 years ago, Karl Marx predicted that the introduction of machines in manufacturing would lead to layoffs and dispatch workers into the reserve army of labour. In fact, however, unemployment in the western world did not increase after the introduction of machines. The lowest unemployment levels are exhibited by the USA and Japan, the world’s leaders in information technology and scientific development.

Technology is beneficial but, at the same time, causes a breakdown (King, 2017). The innovations we have seen in transportation are amazing. The distances did not change but the available technology created the impression of an imploding world. Information spreads at breath-taking speeds around the globe, although it is what people do with that information that matters most. For example, the Internet may help disseminate knowledge and information but has also been instrumental in the spread of hate or terrorism.

The replacement of 20th-century mass warfare by cyber-attacks and cyber-crime has fortunately led to dramatic reductions in battlefield deaths, although it has fuelled mistrust between the world’s superpowers and created threats to individual privacy, intellectual property and, ultimately, national security. Whilst technology may have helped eliminate frontiers, it has also supported the rebuilding of those very same frontiers.

To sum up, technological progress itself has proven to be the catalyst of globalization, accelerating the process. Although revolutionary changes in technology were and continue to be instrumental in stepping up the pace of

globalization, they are, however, not a primary condition thereof. The priority condition is that globalization allows a more effective working of cooperative ties and a better use of comparative advantages, for this is what helps us better satisfy people's needs. New technologies help us accelerate such processes, but globalization as a principle exists and will continue to exist – in any case, as long as new co-operations and new uses of comparative advantage lead to increased effectiveness.

5.6. Globalization risks

Globalization tends to increase effectiveness and maximize the utility of comparative advantage and, in this sense, it represents an objective process towards maximizing common benefit. This, however, does not mean that globalization is necessary or inevitable in all its consequences and effects.

International economic arrangements were once considered to be a perfect product of enlightened reason. At the beginning of the 21st century, however, we are viewing them with increasing suspicion and concern. Donald Trump has already withdrawn the USA from certain international treaties, including the Paris Agreement on climate, and the Trans-Pacific Partnership. The Transatlantic Free Trade Agreement has also been met with resistance in continental Europe. The workings of the EU are derided by many voters – not only in the United Kingdom but elsewhere in Europe.

European 'unity' is, or at least was until June 23 2016, perceived to be a one-way street towards a European state, one that 'has no alternative' in the long term. Brexit marks a trend change (no matter what the outcome of the process will be). It suggests that European countries no longer have to stay on the path towards a United States of Europe. Centralization and unification are not unchangeable.

Globalisation has its pitfalls. Without globalisation, the coronavirus would hardly spread at such lightning speed as we have witnessed. The coronavirus contributed to the closing of borders, even if only on a short-term basis. Politicians all around the world who swore by globalisation prefer national interests to lofty slogans about international integration when faced with a security and health risk. The politicians of the EU Member States who sang praises about the free movement of persons, goods, services and capital are closing borders when confronted with a security and medical threat.

King (2017) argues that any new form of globalization will inevitably require a compromise between the benefits of openness and sovereignty.

Such a compromise will shape the mutual relations between nation states and, in an extreme case, will cause the redrawing of those states' very frontiers and force international institutions to restructure and return some of their responsibilities to nation states.

Many Europeans have shown discontent with the politicians who supported European integration, open borders and the dissolution of national sovereignty. Now they have embraced a deep desire to strengthen nation states, often despite the risk of short-term negative economic impacts arising from such a process. The renationalization of Europe may be the best hope for the continent. The founding fathers of the EU believed they would guarantee a stable and prosperous Europe – and for a while, they seemed to have succeeded. Yet now that the EU has raised its bureaucratic barriers, it has, rather, become a source of instability (Grygiel, 2016).

Fully sovereign European states may be better suited to tackle threats on the external border. Where the EU has failed, the nation state may work better. Patriotism is the only force of such magnitude to mobilize European citizens. People are much more willing to fight for their own country – for its history, soil, shared religious identity – than for an abstract and distant set of European values (Grygiel, 2016).

The return of nation states need not lead Europe to revert to an anarchic jumble of quarrelling governments. Increased autonomy won't stop Europe's states from trading or negotiating with one another. Just as supranationalism does not guarantee harmony, sovereignty does not require hostility among nations... Europe will be able to meet its most pressing security challenges only when it abandons the fantasy of continental unity and embrace its geopolitical pluralism. (Grygiel, 2016: p.101)

Nevertheless, the issue has other manifestations that are more direct and apparent. One frequently mentioned trait that is associated with globalization consists of the long-term growth of large companies, of mergers and expansions, of international investments (in terms of acquisitions, joint ventures, establishment of manufacturing plants or distribution networks in new countries, etc). It should not escape our attention that such projects are increasingly coming under criticism from governments or political representatives of these countries; some are even being halted by means of existing or new laws. At the end of the second decade of the 21st century, developed countries have seen an entire wave of resistance against investments from certain foreign countries. Perhaps the most especially affected are the China–US and China–EU vectors (with Germany playing a highly active role). Canada has shown a lot of resistance, as well as the UK.

Aside from China, investment projects originating in Russia and a few other countries have also been targeted (irrespective of the sanctions following the annexation of Crimea).

In this sense, the shoe is now on the other foot because it is Russia and China, among others, who have a long-term record of preventing investment attempts from developed countries and then only allowing entry into certain industries on joint ventures with local companies – or even with local authorities. Moreover, a host of other countries protect their mining or energy industries from investments. Indeed, an entire front against globalization has been activated in this respect.

The definition and protection of national interest is the common denominator (however much denied) of these extreme anti-globalization procedures. This usually refers to ‘security risks’, a category which also extends to foreign investors’ acquisition of technologies for use outside the originating territory. Such protectionist actions are often taken by governments which are otherwise clearly on the side of globalization or which have been traditional champions of free trade.

We name only a few examples from the abundant cases that have emerged in the years 2016–2018:

- Canyon Bridge Capital Partners, a company controlled by Chinese investors, intended to acquire U.S. microchip manufacturer Lattice Semiconductor Corporation for \$1.2 billion: the transaction was blocked by the Trump administration;
- After a Chinese investor took over the promising robot manufacturer Kuka AG, Germany adopted stricter legislation and one of the results in the energy sector was the blocking of the acquisition of 50 Hertz by China’s State Grid;
- Another Chinese investor, Fujian Grand Chip Investment Fund, wanted to acquire the U.S. subsidiary of German semiconductor manufacturer Aixtron SE. The United States blocked the transaction on the basis of national security considerations (during the Obama administration);
- A project to sell Leifel Metal Spinning, manufacturer of materials for the aeronautics, space and nuclear industries, was blocked by a direct intervention of German government.

An extensive list of these cases, both major and minor, would be too long to include here. What is important, however, is that practically all developed

countries have seen pieces of legislation that have allowed governments strongly to regulate foreign activities in cases where national security has been concerned. It must be noted that national security is understood in extremely broad terms here, not only militarily or, more generally, strategically but in terms of anything at all that might pose a threat to economic stability. Particularly stringent assessment tends to be imposed on the financial, banking and insurance sectors.

5.7. Globalization: big or small nations

The unfulfilled secession referendum in Catalonia, the similar Scottish plebiscite of 2014, and the Brexit referendum have brought forward the question of the economic effects of political integration and disintegration (Špecián, 2017). When each nation has its own state, internal conflict becomes less likely. The larger a state, the more likely it is to include minorities whose wishes might be ignored by central government.

Opponents of secession tend to argue that newly established nation states such as Catalonia or Scotland would not automatically assume the former state's membership of international organizations and contracts. This is especially the case with EU membership and access to its internal market, something the new state would first have to apply for and something that could only be obtained with the consent of other members. Given the legal difficulties and complicated nature of secession, it is rather the effort to preserve the status quo that has prevailed (Felbermayr and Braml 2017).

Yet the formation and dissolution of states is a process that has been constantly repeated throughout history. To insist on a status quo would be a futile effort to stop the course of history: at the beginning of World War I, there were only 57 state entities around the globe; that list grew to approximately 100 independent countries after World War I and the current number, after the decline of colonialism and the fall of the Iron Curtain, has reached 194 (the exact count depends on the perspective taken and how one defines the threshold of sovereignty). At the end of the 2010s, a total of 203 states recognized by at least one member of the UN, and as many as 209 other territories, are usually stated to be technically in compliance with the definition of sovereignty.

The size of a state entity is associated with certain advantages and disadvantages. Market opportunity and military power are among the most natural advantages of large state size. In addition, the costs of centralization must be borne by the state's population. The needs of the citizens become

harder to satisfy with the growth in the size of a country. To determine the optimum state size, one must weigh the advantages associated with size against the costs incurred in maintaining homogeneity. The larger a country, the more heterogeneous it is and the higher the potential for internal conflict.

Bagus and Marquart (2017) have queried the argument that giant political entities, such as the EU or the UN's global governance structures, are a necessary condition for meeting the demands of an increasingly globalized world. The opposite could even be the case, in the sense that smaller states enjoy more flexibility and mobility on the international stage.

Bureaucracies flourish in large states, whereas the risks of wasting resources grow with community size. Individuals do not need anybody else to manage their expenses. To avoid a painful crash, they must responsibly use their resources. At the level of family, too, it is easy to keep track of expenditure and make rational choices. The difficulty arises at community, city or country level. Ultimately, the idea of rational decision-making at the EU level appears almost grotesque to many critics (Bagus and Marquart, 2017).

Political representatives can rarely be entirely sure what citizens really want. In the absence of such essential intelligence, their actions can appear biased or irresponsible. The lack of accountability becomes more problematic in larger political entities. Those making decisions at EU level are bound to do so with little accountability because they are not aware of the price of their decisions – and they will not be personally affected, unlike EU citizens, if any error of judgment arises on their part.

The size of the political entity plays a fundamental role in the globalization process. Larger states not only enjoy larger playing fields but there is less accountability for wasted resources. According to critics, growing distances are associated with looser control, and conditions more conducive to bribes and corruption. Corruption of this type cannot take place in the case of an individual, who can peacefully pursue his/her interests with the support of his/her friends (Bagus and Marquart, 2017).

Bureaucrats entrusted with channelling major funds make ideal prey for lobbyists of all kinds. Understandably, there are few lobbyists in places where only small amounts of money are distributed. Conversely, the presence of large funds attracts a crowd of lobbyists, who make themselves at home in these places in an ongoing effort to obtain optimal benefits for their clients. Brussels has become the second largest lobbying centre in the world.

If a 'United States of Europe' became a reality, then only three major state entities would remain visible in the northern hemisphere: the United States, Russia, and a unified Europe. Yet large powers never stop short of demonstrating their capability and asserting their power demands. Large states, Bagus and Marquart (2017) argue, pose a bigger threat than small states.

Large states behave like a bull in a china shop – even in the absence of bad intentions, the danger is still there. All they need is to lose a little of their balance or succumb to the desire of doing 'big politics'. Small states tend to be finer-tuned and more peaceful in their nature. As the aforementioned French economist Frédéric Bastiat explained, when goods no longer cross borders, soldiers will. Small states must pursue an open-border policy and an exchange of goods represents one of the essential conditions for their survival (mercantilism was an especially influential and leading school of thought in large states at the time).

Absolute independence is unfeasible. Small states cannot produce everything on their own and have to import goods from their neighbours and more distant countries. They must subscribe to free trade. Smaller states are much more vitally dependent on undisturbed trade than bigger ones, which can, more or less, effectively produce just about anything inside their large territories. In contrast, in the past when closed borders undercut access to vital raw materials, the movement of soldiers was often the solution. Therefore, small states have made the world more peaceful.

Big states are associated with big politics – the world affairs. That is the claim of the major powers, and this claim is also being developed by the EU, which wants to see itself on par with Russia, China and, above all, the USA. With world politics, however, come new problems that do not arise in small states. The political leaders of great powers have the opportunity, and often the desire, to enter history books. And suddenly, at the other end of the world, one gets mixed up in the affairs of completely unknown people. (Bagus and Marquart, 2017: p.124)

U.S. presidents who did not lead their country to war are typically much less popular than wartime presidents, and historic memory often recalls them as weak leaders. In 2015 the country's military budget was \$595 billion. Thus, the average U.S. citizen contributed \$1,850 to military expenditure, twice as much as their French counterparts and three times as much as the Swiss.

A country's borders are an extremely important institution. The more clearly they are drawn, the better. It is certainly not a good idea for some

despotic leader to force his citizens to join somebody else. Fortunately, borders between countries also define boundaries for politicians. The closer a border, the easier it is to defend citizens from unwanted overlords. It is essential for a small country to project friendship rather than aggression as its fundamental orientation, for a lot depends on good relations with its neighbours and other nations. Its citizens could not otherwise prosper, and they would suffer from hunger, as in North Korea.

According to Felbermayr and Braml (2017), a frequent argument against secession is that smaller states can barely survive economically. The EU, which has been able to realize the above-mentioned advantages of size at a supranational level, continues to build on the assumption that a larger whole is more prosperous than a smaller one; however, there is no statistically significant relationship between state size and GDP per capita. Large and small countries can be prosperous alike. All of the EU's richest countries are small: Luxembourg, Ireland, Austria and the Netherlands (Germany being the largest member state). Two of Europe's richest national economies exist outside the EU, namely Switzerland and Norway. These two are not only very small but even completely independent (Felbermayr and Braml, 2017).

The two successor states of Czechoslovakia represent a surprising example. Since the establishment of the country in 1918, Slovakia was always the poorer part of the country, perceived by Czechs as their needy appendix. The permanent government from 1918 to 1992 did little to close that gap. When the Czechoslovak federation split in the beginning of 1992, the per capita economic performance of Slovakia was about 60% of the Czech figure. Over the following 25 years, however, the difference was reduced by 30 percentage points, so that Slovakia today has 90% of the Czech Republic's GDP per capita. Instead of exacerbating tensions, the split instead reduced the animosity between both countries, which are nowadays deemed to be close political allies.

Legalists often refer to the wording of constitutions that do not anticipate the secession of different parts of the country. While legal positivism can be considered an important attribute of democratic government, its application here is futile. If the legalists of their time had won support for their truths, Switzerland would still be German and the Netherlands would belong to Spain (both seceded in 1648), Poland would not exist, and the United States would still be a colony of the British Empire (Felbermayr and Braml, 2017).

Frontiers in Europe are not untouchable. The continent's nations are not and cannot be deprived of their freedom for future self-determination. History shows us that the seeming inviolability of borders is nothing more than a hypertrophy of the status quo, and that the shifting of borders might as well reflect free will and the right of nations to self-determination. To oppose any shifting of borders is a democratic nonsense.

Frontiers can be redrawn in peaceful ways. For example, the union of Sweden and Norway was dissolved following a mutual agreement in 1905; Czechoslovakia, too, split peacefully in 1992. Even the most totalitarian state the world has ever known, the Soviet Union, avoided war when splitting into a number of new states (although, in a historically short time period, this was followed by a series of major or minor incidents, mostly related to ethnic issues). The belief that the establishment of new small states will lead to anarchy and chaos is fundamentally flawed. The formation of new states may result in brutal violence, as in the Yugoslavia of the 1990s, but the process may equally well be very civilized and amicable, as exemplified by Czechoslovakia in the same time period.

All in all, the issue of globalization is quite unrelated to the number and size of states. Formation of a federal Europe is by no means a precondition for continued globalization – and it might even pose an obstacle to such development.

5.8. Summary

The economic theory of globalization provides us with a number of significant findings. Dani Rodrik draws attention to a globalization paradox that he refers to as the 'political trilemma of the global economy'. He argues that we cannot have deep economic integration, the nation state, and democracy at the same time. Since democracy cannot be sacrificed for political reasons, we should return to the nation state and give up excessive economic integration (or hyperglobalization).

Globalization has its proponents as well as critics. According to Joseph Stiglitz, the critics tend to demonize globalization while ignoring its benefits, while the proponents' arguments are usually even more imbalanced. It would, however, be too radical simply to reject globalization: this is neither feasible nor desirable. Globalization is irreversible, something we must count on. The question is how we can change it to improve the way it works.

Difficult-to-manage migration flows remain the only threat to globalization today, while they are probably also one of its side effects. Technology has the capacity to enable as well as destroy globalization. The international institutions that are helping manage the globalization process are losing credibility – whether or not this is justified. Globalization is increasingly perceived to be beneficial for a few people and not the majority. The feeling has prevailed that the benefits of globalization certainly cannot be reaped by all.

The size of a state entity is associated with certain advantages and disadvantages. Market size and military power are among the natural advantages of large states. Then there are the costs of centralization that must be borne by the state's population, since the needs of citizens become more difficult to satisfy as a state grows in size. Small states have certain advantages over large ones, enjoying more flexibility and mobility in the international arena.

European integration and other forms of globalization are not irreversible. For every action, there is an equal and opposite reaction. It remains a possibility that, after several decades of European integration, we are now entering an era of disintegration. Many Europeans are discontent with the politicians who supported European integration, open borders and the dissolution of national sovereignty. Now they have embraced a deep desire to strengthen nation states. The renationalization of Europe is a real possibility. Such a process of renationalization, however, would not necessarily put an end to globalization as an objective economic process. It is a systematic fallacy to associate the existence of globalization with the concept of a unified or somehow institutionally integrated Europe.

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CHAPTER 6

INDICATORS OF VOTING POWER IN THE EU

Political power in European institutions possessed by existing EU members or acceding countries can be analyzed in different ways. One of the options is through qualitative analysis based on historic, socio-economic or institutional approaches. This chapter builds on public choice theory and demonstrates that the political power of countries within the EU can be investigated using quantitative methods as well.

The model we develop here seeks to identify and quantify the voting power individual countries have within the EU both before and after enlargement. The first section defines various indicators of voting power. The second section summarizes the data. The third section presents empirical results on voting power indicators before and after EU enlargement under different scenarios. The fourth section examines the relationships between the voting indicators and tests some hypotheses.

6.1. The model

There are different ways to define the concept of power (see Dahl, 1957). Power tends to be distinguished from neighbouring terms such as authority and violence. Weber defined power as the ability of an agent in a social relation to achieve his/her own intentions in that relation. In this chapter, we focus on a specific narrow term, voting power, drawing on the extensive literature on voting-power measurement (e.g. Shapley and Shubik, 1954; Banzhaf, 1965; Coleman, 1971; Widgren, 1995; Machover and Felsenthal, 1998).

Two approaches can be employed to define the power of actors in voting games: focusing on the outcome, or on specific actors. In large voting bodies where an individual's influence is close to negligible, the latter approach would suggest that no one has any power. In contrast, every person is able to influence decisions in smaller voting bodies.

There are many ways to reach a collective decision. One option is to have a dictator setting the rules and results for all other actors. Another option is to divide the community between ‘full members’, who have the right to vote, and others on whose behalf the vote occurs. In this chapter, we assume a democratic community comprising full members only, where each member has a defined number of votes and decisions are taken by some kind of majority vote (simple or qualified).

Various quantitative indicators have been developed to determine voting power within voting bodies constructed in this way. The literature typically offers four indicators (cf. Taylor 1995; Brams 1976):

- A. simple relative power
- B. the Shapley-Shubik index
- C. the Banzhaf index
- D. the Coleman index.

While defining the Shapley-Shubik index, we note some of its weaknesses and add our own indicator – a country’s share in (simple) majority coalitions. In the following section, we are going to define the basic voting power indicators and exemplify their calculation on small voting bodies.

- A. Simple relative power refers to the number of votes that a member of the community has as a proportion of the total number of all votes. Definition: If h_i is the number of votes possessed by the i th member of the community, then his relative power R_i may be expressed thus:

$$R_i = \frac{h_i}{\sum_{i=1}^n h_i}$$

This voting power indicator seems to have the advantage of computing voting power simply and elegantly, according to the number of votes. One problem is that simple relative power only takes the nominal number of votes into account, not their real share in winning coalitions. Some members can be silent and their relative power can depend on participation in different voting combinations. Additional voting power indices have therefore been developed.

It is better to start with mathematical basics. Let there be n people ($p_1, p_2, p_3, \dots, p_n$) where n is a natural number. How many different ways of ordering

those people can there be? We can form groups in which the order of elements is important (variations) or groups in which the order is not important (combinations). As we are going to demonstrate, the number of combinations is more appropriate here because it does not matter whether person p_1 precedes p_2 or vice versa – what matters is whether they are both members of the same coalition. Still, there is a voting power indicator that does rely on variations.

B. The Shapley-Shubik Index of Power represents the proportion of variations for which p_1 is the pivotal actor (see Taylor, 1995). Its values can vary from 0 to 1. There can be majority variations (where the sum of members' votes exceeds a simple majority) or non-majority ones (where a simple majority is not exceeded). An actor that changes a non-majority variation into a majority one can be referred to as a pivotal actor. Political power, therefore, critically depends on the extent to which actors assume the pivotal role.

Let p_i be an actor in a yes/no voting system and X be the set of all voters. Then the Shapley-Shubik index $SI(p_i)$ is defined as follows:

$$SI(p_i) = \frac{V_{p_i}}{V}$$

where V_{p_i} is the number of variations in which p_i is the pivotal actor and the denominator V equals the total number of variations of n elements.

If there are n voters, then $V = n!$. For every voter, $0 \leq SI(p_i) \leq 1$. If there are voters $p_1 \dots p_n$ then $SI(p_1) + \dots + SI(p_n) = 1$. Intuitively, $SI(p_i)$ can be understood as the 'share in power' possessed by voter i . Let there be, for instance, a three-member voting body in which p_1 has 50 votes, p_2 49 votes, and p_3 a single vote. There are six possible variations ($3! = 3 \times 2 \times 1 = 6$) that can be graphically arranged as follows:

p_1 (50)	p_2 (49)	p_3 (1)
p_1 (50)	p_3 (1)	p_2 (49)
p_2 (49)	p_1 (50)	p_3 (1)
p_2 (49)	p_3 (1)	p_1 (50)
p_3 (1)	p_1 (50)	p_2 (49)
p_3 (1)	p_2 (49)	p_1 (50)

Elements that are pivotal to the existence of a simple majority are marked in bold. Since p_1 is pivotal in four out of six cases, then his SI (p_1) = $4/6 = 2/3$. Since p_2 is pivotal in a single case, SI (p_2) = $1/6$. Equally, p_3 is pivotal in a single case and his SI (p_3) = $1/6$. Note that while p_2 has forty-nine times more votes than p_3 , their power shares are equal (at least judging by this particular measurement method).

The total number of variations V shall be calculated as follows. The number of combinations of k elements that can be made with n elements without repetition is represented thus:

$$V(k,n) = \frac{n!}{(n-k)!}$$

The Shapley-Shubik index uses variations of n elements made with n elements, i.e. permutations:

$$V(n,n) = \frac{n!}{(n-n)!} = n!$$

In reality, however, there is no reason to count variations of n elements only, and instead one should consider any coalitions of k members where $k = 1, 2 \dots n$. Then, the total number of variations will be expressed as:

$$V^A = \sum_{k=1}^n \frac{n!}{(n-k)!} = \frac{n!}{(n-1)!} + \frac{n!}{(n-2)!} + \frac{n!}{(n-3)!} \dots \frac{n!}{(n-n)!} = n + n(n-1) + n(n-1)(n-2) + \dots n!$$

Of all the variations, we select those in which the members' total number of votes exceeds 50%. In other words, if v_i is the number of votes possessed by the i th member then majority variations are those to which the following applies:

$$\sum_{i=1}^k h_i > \frac{\sum_{i=1}^n h_i}{2}, \text{ where } k \leq n.$$

The advantage of the Shapley-Shubik index, compared to simple relative power, is that it goes beyond the nominal number of votes as a proportion of total votes, and instead seeks to establish the share of each member in the

possible arrangements these members can form. One disadvantage is that it counts variations, i.e. arrangements, in which the order of elements is important (cf. Dennis, 2002). In reality a coalition consisting of the same two, three or fifteen elements is always the same coalition, irrespective of whether an element is shifted 'ahead' or 'behind' others. We therefore prefer other voting power indicators.

Let us complement this indicator with the share in majority coalitions (SM), which refers to the simple number of coalitions in which p_i is a member as a proportion of all majority coalitions. Share in majority coalitions is represented thus:

$$SM = \frac{MC_i}{MC},$$

Where MC_i is the number of majority coalitions in which p_i is a member and MC is the total number of majority coalitions.

A coalition is a combination of elements. The number of combinations of k elements made with n elements without repetition is expressed:

$$C(k,n) = \frac{n!}{(n-k)! \cdot k!} = \binom{n}{k}$$

The number of combinations of n elements made with n elements is expressed:

$$C(n,n) = \frac{n!}{(n-n)! \cdot n!} = 1.$$

The number of combinations of 1 element made with n elements is expressed:

$$C(1,n) = \frac{n!}{(n-1)! \cdot 1!} = n$$

When adding these combinations, the following applies:

$$\binom{n}{k} = \binom{n}{n-k}$$

In other words, there is always a pair of combinatorial numbers that are equal. For example, the number of single-member combinations of 15 elements is the same as the number of 14-member ones, the number of 2-member combinations equals that of 13-member ones, etc. The addition of combinatorial numbers can be effected using the following formula:

$$\binom{n}{k} + \binom{n}{k+1} = \binom{n+1}{k+1}$$

Then, the total number of all combinations of n elements without repetition is expressed:

$$C^A = \sum_{k=1}^n \frac{n!}{(n-k)! \cdot k!} = \sum_{i=1}^n \binom{n}{k}$$

Only majority coalitions are being selected, to which the following applies:

$$\sum_{i=1}^k h_i > \frac{\sum_{i=1}^n h_i}{2} \quad \text{where } k \leq n.$$

Example: in a three-member body, let p1 have 50 votes, p2 49 votes, and p3 one vote. The three majority coalitions are C1 = (p1, p2, p3), C2 = (p1, p2), and C3 = (p1, p3). If the first member participates in three coalitions, the second one in two and the third one in one, then $SM(p1) = 3 \div 3 = 1$, $SM(p2) = \frac{2}{3}$ and $SM(p3) = \frac{1}{3}$.

If all members are equally strong, then each of them will have a 50% share in majority coalitions. This is because they are equally likely to be or not to be present in a coalition. If members differ in their power then each of them will have a share in majority coalitions slightly above 50%, depending on their particular power.

The set of coalitions in which the element p_1 is present ranges from those with slightly above 50% of votes to relatively numerous unanimous coalitions. The disadvantage of this index is that some of the majority coalitions considered here are ‘redundant’, which deforms the statistic: stronger members will tend to form coalitions of relatively few members to reduce the transaction cost of decision-making. Attempts to eliminate this disadvantage are represented by the Banzhaf and Coleman indices.

C. The Banzhaf Index of Power (BI) calibrates the number of winning coalitions where the majority would be lost if one of the members defected as a proportion of the total number of critical defections. This measurement of power was developed by John F. Banzhaf in his 1960s analysis of electoral rules in a New York district. Suppose that p_i is a voter in a yes/no voting system. Then his Banzhaf power, denoted here by $BP(p_i)$, is the number of coalitions C satisfying the following three conditions:

- p_i is a member of C
- C is a winning coalition
- if p_i is deleted from C , the resulting coalition ceases to be a winning one

The Banzhaf index is defined as follows:

$$BI(p_i) = \frac{BP_i}{BP_1 + \dots + BP_n} = \frac{BP_i}{\sum_{i=1}^n BP_i}$$

Note that $0 \leq BI(p_i) \leq 1$.

$\sum_{i=1}^n BI(p_i) = 1$ because if the Banzhaf index equals:

$\frac{BP_i}{\sum_{i=1}^n BP_i}$ then the sum of all Banzhaf indices in a community equals:

$$\begin{aligned} \sum_{i=1}^n \frac{BP_i}{\sum_{i=1}^n BP_i} &= \frac{BP_1}{\sum_{i=1}^n BP_i} + \frac{BP_2}{\sum_{i=1}^n BP_i} \cdots \frac{BP_n}{\sum_{i=1}^n BP_i} \\ &= \frac{\sum_{i=1}^n BP_i}{\sum_{i=1}^n BP_i} = 1 \end{aligned}$$

Example: In a three-member voting body, let p_1 have 50 votes, p_2 49 votes, and p_3 one vote. Then there are winning coalitions $C_1 = (p_1, p_2, p_3)$, $C_2 = (p_1, p_2)$ and $C_3 = (p_1, p_3)$. Their Banzhaf powers are $BP(p_1) = 3$, $BP(p_2) = 1$, $BP(p_3) = 1$. Provided a simple majority is required, the Banzhaf indices in the three-member body (50, 49, 1) are:

- $BI(p_1) = 3 \div (3 + 1 + 1) = \frac{3}{5}$
- $BI(p_2) = 1 \div (3 + 1 + 1) = \frac{1}{5}$
- $BI(p_3) = 1 \div (3 + 1 + 1) = \frac{1}{5}$

Note that the third member's Banzhaf index equals that of the second member even if the latter possess 49 times more relative power than the former. The advantage of the Banzhaf index is that it uses combinations (rather than variations) of elements for calculating their shares in minimal winning coalitions. The Banzhaf index, however, calculates the individual members' critical defections and subsequently expresses them as fractions of one. A question might be asked about the proportion of minimum majority coalitions to which the member's defection was 'critical' as well, and this is what the Coleman index tells us.

D. The Coleman Index considers a member's voting power to be linked to their ability to prevent the passage of a motion. Like Banzhaf, Coleman relates this ability to a member's critical defections. Unlike Banzhaf, however, who calculates the number of critical defections of each member, Coleman uses the share of minimal winning coalitions in which the defection of member p_i is critical.

Definition: Minimal winning coalitions (MWC) are coalitions satisfying the following three conditions:

- p_i is a member of winning coalitions
- p_i is 'the biggest' member in the coalition
- if p_i is deleted from the winning coalition, the coalition ceases to be winning

Theoretically, minimal winning coalitions can be also defined by a p_i that is 'medium-ranking', 'the smallest', or any other member of the winning coalition. Our definition is based on the biggest member. Let p_i be a voter in a yes/no voting system. That Coleman index will then be:

$CI(p_i) = \frac{BP_i}{MWC}$ where BP_i is his Banzhaf power and MWC is the number of minimal winning coalitions. It is generally not true that:

$$\sum_{i=1}^n CI(p_i) = 1$$

because:

$\sum_{i=1}^n BP_i$ need not equal MWC and neither need:

$\sum_{i=1}^n \frac{BP_i}{MWC}$ equal one.

The Coleman index is always a multiple of the Banzhaf index.

Proof: We want to demonstrate that for every p_i of a given community, $CI(p_i) = g \times BI(p_i)$ where g is a real number and p_i denotes a member of the community.

His Coleman index is $CI(p_i) = \frac{BP_i}{MWC}$.

His Banzhaf index $BI(p_i) = \frac{BP_i}{\sum_{i=1}^n BP_i}$.

The ratio between the Coleman and Banzhaf indices is:

$$\frac{CI(p_i)}{BI(p_i)} = \frac{\frac{BP(p_i)}{MWC}}{\frac{BP(p_i)}{\sum_{i=1}^n BP_i}} = \frac{\sum_{i=1}^n BP_i}{MWC}$$

We can see that the ratio between the Coleman and Banzhaf indices does not depend on the member's voting power indicators because $\sum_{i=1}^n BP$ and MWC are given. Therefore, the equation $CI(p_i) = g \times BI(p_i)$ applies to every p_i , which was to be proven.

In a three-member voting body, let p_1 have 50 votes, p_2 49 votes, and p_3 one vote. The winning coalitions are $C_1 = (p_1, p_2, p_3)$, $C_2 = (p_1, p_2)$, and $C_3 = (p_1, p_3)$. All these coalitions can be referred to as MWC because even C_1 is minimal with respect to its largest element, p_1 (it would cease to be a majority coalition if p_1 defected). The number of coalitions in which one's defection would be critical equals three for p_1 , one for p_2 and again one for the third element. Since the number of minimal winning coalitions is three, then the Coleman indices under the rule of a simple majority (51 out of 100) are as follows:

- $CI(p_1) = 3 \div 3 = 1$
- $CI(p_2) = 1 \div 3 = \frac{1}{3}$
- $CI(p_3) = 1 \div 3 = \frac{1}{3}$

The Coleman index has its advantages as well as disadvantages. If every member of an n -member body has the right of veto (as in most court cases where a tribunal unanimously decides), then the Coleman index ascribes the voting power of one to each member because the defection of any member would be critical to the united winning coalition (of all members). On the other hand, the Banzhaf index would still ascribe the voting power of $\frac{1}{n}$ (as before) because each member's defection is critical to the same number of minimal winning coalitions. According to Coleman, however, each member's voting power will exceed $\frac{1}{2}$ because every member is an element of more than one-half of all minimal winning coalitions where their defection is also 'critical'.

The Coleman index is more susceptible to the decision rule than the Banzhaf. Although both indices are based on the same idea (the ability of members to cast critical votes and thereby block action through their defection from minimal winning coalitions), they summarize information about this ability in different ways. The Banzhaf index, where the sum of all members' voting powers always equals one, highlights the share of total voting power possessed by different members of the voting body. The Coleman index, by contrast, does not highlight a member's share of the total power but emphasizes their ability to block or prevent action by their defection.

In effect, the Banzhaf index assumes a zero-sum game (voting power can only be redistributed by a change in the decision rule or member weights), whereas the Coleman index assumes a variable-sum game in which everybody's power may simultaneously go up or down. Despite the different conceptualizations of power, both indices share the same paradoxical feature of voting power.

Table 6.1 Indicators of voting power in a body (50, 49, 1)

	Votes	R	SM	BI	CI
$p1$	50	0.5	1	0.6	1
$p2$	49	0.49	0.66	0.2	0.33
$p3$	1	0.01	0.33	0.2	0.33

Source: Adapted from Taylor, 1995

Table 6.1 demonstrates that in terms of simple relative power (R) based on number of votes the three members have the voting powers of 0.5, 0.49 and 0.01 respectively while the other indicators provide a different picture of the distribution of voting power. The respective shares in majority coalitions are 1, 0.66 and 0.33. This means that the first member is indispensable, the second member takes part in two-thirds of all majority coalitions and the third member participates in one-third of all majority coalitions.

The Banzhaf indices for the same voting body are 0.6, 0.2 and 0.2 and the Coleman index ascribes the powers of 1, $\frac{1}{3}$ and $\frac{1}{3}$ respectively. The Coleman index informs us that member p1 is indispensable for all minimal winning coalitions while members p2 and p3 each have a one-third share in MWCs (for example, if p2 defected there is a 1:3 likelihood that the MWC would fall apart). Interestingly, while member p3 has a relative power of 0.01 his practical ability to prevent decisions in terms of the Banzhaf and Coleman indices equals that of member p2 whose relative power is 0.49.

6.2. The data

Despite Garrett and Tsebelis' (1999) doubts about the application of voting power indicators on the European Union, there have been several successful attempts to calculate them (Widgren, 1994; Raunio and Wiberg, 1998; Winkler, 1998; Berg, 1999; Fedeli and Forte 2001). This chapter follows up on those attempts by quantifying the voting power indicators and applying them directly to the 2004 EU enlargement process.

We will quantify the voting power indicators in line with the definitions provided above. Our calculation is based on the EU's voting structure as established by the Nice Treaty (December 2000) and on seven algorithms for different enlargement scenarios. The goal is to establish the voting powers of existing EU members and the candidate countries under different scenarios of an enlarged/unenlarged EU. We are going to examine not only simple relative power but also members' participation in various simple majority or minimal winning coalitions.

Table 6.2 EU structure according to the Nice Treaty (December 2000)

Element	Votes in Council	Votes in EP	Country
A	29	99	Germany
B	29	72	UK
C	29	72	France
D	29	72	Italy
E	27	50	Spain
F	13	25	The Netherlands
G	12	22	Greece
H	12	22	Belgium
I	12	22	Portugal
J	10	18	Sweden
K	10	17	Austria
L	7	13	Denmark
M	7	13	Finland
N	7	12	Ireland
O	4	6	Luxembourg
Total	237	535	15
Simple majority	118.5	267.5	8

Source: Authors

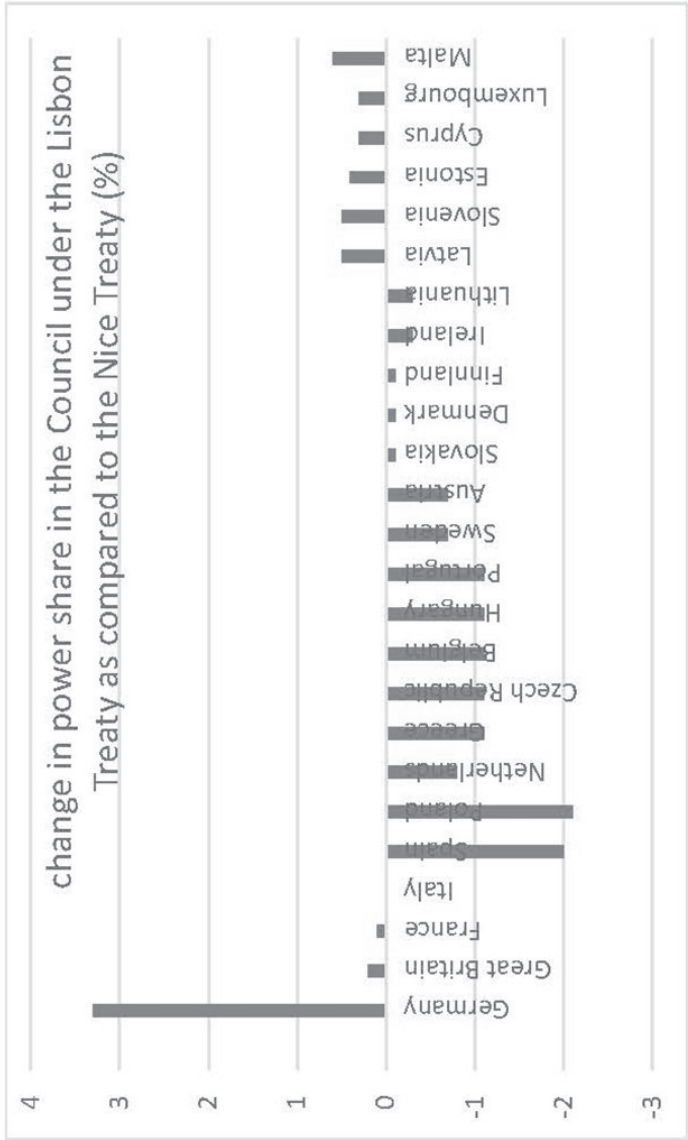
Table 6.3 Candidate countries – potential power

Element	Votes in Council	Votes in EP	Country
P	27	50	Poland
Q	14	33	(Romania)
R	12	20	Czech Republic
S	12	20	Hungary
T	10	17	(Bulgaria)
U	7	13	Slovakia
V	7	12	Lithuania
W	4	8	Latvia
X	4	7	Slovenia
Y	4	6	Estonia
Z	4	6	Cyprus
Z'	3	5	Malta
Total*	345	732	27
Simple majority	172.5	366	14
Qualified majority	258 (74.8%)	X	X

Source: Authors, * Including existing EU members.

Whereas the Nice Treaty considerably strengthened the position of large states at the expense of the EU's smallest members, the Lisbon Treaty slightly rectified that imbalance by increasing the power share of the smallest member states (Baldwin and Wyplosz, 2015). At the same time, however, it assigned a much stronger voting power to Germany. Spain and Poland were the biggest losers under the new Lisbon Treaty rules, while the position of other medium-sized countries also worsened (see Figure 6.1).

Figure 6.1. The voting percentage gains and losses of countries in the Council under the Lisbon Treaty as compared to the Nice Treaty



Source: Adapted from Baldwin and Wyplosz, 2015

Although the new decision rules have been in force since 2014, their application was not obligatory until 2017. More specifically, a Polish motion was passed that allowed member states to apply for an ad hoc suspension of the new rules and instead decide under the rules of the Nice Treaty. Therefore, this chapter is based on the Nice Treaty decision rules.

We formulate seven different algorithms in accordance with the following situations:

1. Structure of votes in the European Parliament (EP), former EU (before enlargement), and simple majority rule
2. EP structure of votes, enlarged EU, simple majority
3. Council structure of votes, pre-enlargement EU, simple majority of both countries and Council members
4. Council structure of votes, enlarged EU, simple majority of both countries and Council members
5. Council structure of votes, enlarged EU, qualified majority
6. EP structure of votes, partially enlarged EU (with Poland, the Czech Republic, Hungary, Slovenia, Estonia and Cyprus), simple majority
7. Council structure of votes, partially enlarged EU (with Poland, the Czech Republic, Hungary, Slovenia, Estonia and Cyprus), qualified majority.

6.3. Empirical results

The following voting power indicators are established:

- simple relative power
- share in majority coalitions (SM)
- the Banzhaf index (BI)
- the Coleman index (CI).

Given the immense number of combinations and variations that can be assembled with the different countries, the exercise could not be solved without a relatively complex computer algorithm (see attached).

A majority coalition is defined as a coalition of countries whose total number of votes exceeds a simple (or qualified) majority by one vote. Minimal majority coalitions are defined as combinations (not variations) of countries whose total number of votes exceeds a simple majority when that majority would be lost if any member defected (eliminating 'redundant' majorities).

6.3.1. Simple relative power

Simple relative power is the first indicator of voting power. It represents the number of votes possessed by a country as a proportion of the total number of votes (this is the only indicator that can be calculated by a simple division).

Table 6.4 Relative power – country vote shares (percentages)

	Algor. 1	Algor. 2	Algor. 3	Algor. 4	Algor. 5	Algor. 6	Algor. 7
Germany	18.5	13.52	12.24	8.4	8.4	15.37	9.66
UK	13.46	9.83	12.24	8.4	8.4	11.18	9.66
France	13.46	9.83	12.24	8.4	8.4	11.18	9.66
Italy	13.46	9.83	12.24	8.4	8.4	11.18	9.66
Spain	9.35	6.83	11.39	7.82	7.82	7.76	9
Netherlands	4.67	3.41	5.49	3.76	3.76	3.88	4.33
Greece	4.11	3.01	5.06	3.47	3.47	3.41	4
Belgium	4.11	3.01	5.06	3.47	3.47	3.41	4
Portugal	4.11	3.01	5.06	3.47	3.47	3.41	4
Sweden	3.36	2.46	4.22	2.89	2.89	2.79	3.33
Austria	3.18	2.32	4.22	2.89	2.89	2.63	3.33
Denmark	2.43	1.77	2.95	2.02	2.02	2.01	2.33
Finland	2.43	1.77	2.95	2.02	2.02	2.01	2.33
Ireland	2.24	1.63	2.95	2.02	2.02	1.86	2.33
Luxembourg	1.12	0.81	1.69	1.15	1.15	0.93	1.33
Poland	0	6.83	0	7.82	7.82	7.76	9
(Romania)	0	4.51	0	4.05	4.05	0	0

Czech Republic	0	2.73	0	3.47	3.47	3.1	4
Hungary	0	2.73	0	3.47	3.47	3.1	4
(Bulgaria)	0	2.32	0	2.89	2.89	0	0
Slovakia	0	1.77	0	2.02	2.02	0	0
Lithuania	0	1.63	0	2.02	2.02	0	0
Latvia	0	1.09	0	1.15	1.15	0	0
Slovenia	0	0.95	0	1.15	1.15	1.08	1.33
Estonia	0	0.81	0	1.15	1.15	0.93	1.33
Cyprus	0	0.81	0	1.15	1.15	0.93	1.33
Malta	0	0.68	0	0.86	0.86	0	0
Total (%)	100	100	100	100	100	100	100
Total votes	535	732	237	345	345	644	300

Source: Authors

Algorithm 1 shows simple relative vote shares of countries in the European Parliament before enlargement. Germany possessed 18.5% of the mandates while the UK, France, and Italy had 13.5% each. Other countries had even fewer mandates – Luxembourg appears at the bottom of the list with 1.1%. The second column measures countries' relative shares in EP mandates after enlargement. The numbers are generally lower after the candidate countries obtained their new shares. Detailed information is provided in columns 3 and 4, this time based on votes in the Council. Here, Germany had the same vote share as France, the UK, and Italy, while the other countries had smaller shares.

Column 5 repeats column 4, only this time based on qualified majority in the Council. Column 6 measures country shares in EP mandates following partial enlargement by six new countries (Poland, the Czech Republic, Hungary, Slovenia, Estonia and Cyprus). The original countries have lower shares compared with 'full' enlargement. Column 7 represents a special case, measuring country shares in Council votes following partial enlargement from six countries.

6.3.2. Share in majority coalitions (SM)

The second voting power indicator represents a country's share in (all) majority coalitions. Table 6.5 shows the results.

Table 6.5 Country shares in majority coalitions (percentages)

	Algor. 1	Algor. 2	Algor. 3	Algor. 4	Algor. 5	Algor. 6	Algor. 7
Germany	74.05	72.31	66.43	63.33	91.51	72.96	90.45
UK	66.3	65.22	66.43	63.33	91.51	65.57	90.45
France	66.3	65.22	66.43	63.33	91.51	65.57	90.45
Italy	66.3	65.22	66.43	63.33	91.51	65.57	90.45
Spain	61.66	60.31	65.67	62.73	89.7	60.51	88.54
Netherlands	55.12	55.08	60.8	58.57	71.58	55.21	70.56
Greece	54.64	54.47	60.31	58.3	70.03	54.57	69.02
Belgium	54.64	54.47	60.31	58.3	70.03	54.57	69.02
Portugal	54.64	54.47	60.31	58.3	70.03	54.57	69.02
Sweden	53.73	53.65	59.71	57.76	66.85	53.74	65.87
Austria	53.51	53.45	59.71	57.76	66.85	53.53	65.87
Denmark	52.73	52.63	58.57	56.93	61.91	52.7	61.34
Finland	52.73	52.63	58.57	56.93	61.91	52.7	61.34
Ireland	52.55	52.43	58.57	56.93	61.91	52.49	61.34
Luxembourg	51.14	51.21	57.6	56.12	56.87	51.24	56.51
Poland	0	60.31	0	62.73	89.7	60.51	88.54
(Romania)	0	56.74	0	58.84	73.17	0	0
Czech Republic	0	54.06	0	58.3	70.03	54.16	69.02
Hungary	0	54.06	0	58.3	70.03	54.16	69.02

(Bulgaria)	0	53.45	0	57.76	66.85	0	0
Slovakia	0	52.63	0	56.93	61.91	0	0
Lithuania	0	52.43	0	56.93	61.91	0	0
Latvia	0	51.62	0	56.12	56.87	0	0
Slovenia	0	51.417	0	56.12	56.87	51.45	56.51
Estonia	0	51.21	0	56.1221	56.87	51.24	56.51
Cyprus	0	51.21	0	56.12	56.87	51.24	56.51
Malta	0	51.01	0	55.84	55.13	0	0
MC*	16,384	66,837,454	13,511	55,475,483	2,080,525	1,044,204	54,486

Source: Authors, * Majority coalitions

All countries have shares in majority coalitions that exceed their respective or relative power. For example, Germany has 18.5% of the EP mandates and participated in 74% of all majority coalitions, whereas Denmark, with only 2.4% of the mandates, has a 53% share in majority coalitions. The country shares in majority coalitions approximate to 50% under all algorithms. This can be interpreted as every country either being or not being in a majority coalition (even smaller countries can easily be integrated in majority coalitions).

The shares in majority coalitions are slightly reduced following the enlargement of the European Parliament (algorithm 2) and the simple enlargement of the Council (algorithm 4). For example, the British, French and Italian shares of 66.3% in the pre-enlargement EU decrease to 65.2% following full enlargement – a rather small incremental change. According to this voting indicator, the former member states do not ‘lose’ too much from enlargement.

Full enlargement of the Council (algorithm 5) or partial enlargement (algorithm 7) increases the country shares in majority coalitions, which is a result of the decision rule (qualified majority of both votes and countries). For example, Greece’s, Belgium’s and Portugal’s shares of 54.5% in the former Council grew to 70% in the enlarged EU with qualified majority voting. Thus, existing members did not necessarily lose their power through enlargement – at least according to the SM indicator of voting power.

6.3.3. The Banzhaf Index of Power

As the third indicator of voting power applied to the European Union in this study, the Banzhaf index measures the number of minimal winning coalitions (ones that would lose the majority if any member defected) as a proportion of the total number of critical defections for all members. The results of the index using this definition are shown in Table 6.6.

Table 6.6 Banzhaf indices (percentages)

	Algor. 1	Algor. 2	Algor. 3	Algor. 4	Algor. 5	Algor. 6	Algor. 7
Germany	20.03	15	12.78	8.55	8.07	16.99	9.42
UK	13.58	10.19	12.78	8.55	8.07	11.47	9.42
France	13.58	10.19	12.78	8.55	8.07	11.47	9.42
Italy	13.58	10.19	12.78	8.55	8.07	11.47	9.42
Spain	9.71	6.86	11.83	7.9	7.71	7.69	8.96
Netherlands	4.27	3.31	5.4	3.73	4.02	3.73	4.58
Greece	3.87	2.89	4.79	3.44	3.71	3.26	4.22
Belgium	3.87	2.89	4.79	3.44	3.71	3.26	4.22
Portugal	3.87	2.89	4.79	3.44	3.71	3.26	4.22
Sweden	3.11	2.34	4.03	2.87	3.06	2.64	3.47
Austria	2.92	2.2	4.03	2.87	3.06	2.48	3.47
Denmark	2.27	1.65	2.64	2.01	2.06	1.86	2.34
Finland	2.27	1.65	2.64	2.01	2.06	1.86	2.34
Ireland	2.12	1.51	2.64	2.01	2.06	1.7	2.34

Luxembourg	0.95	0.69	1.32	1.15	1.04	0.77	1.19
Poland	0	6.86	0	7.9	7.71	7.69	8.96
(Romania)	0	4.43	0	4.02	4.34	0	0
Czech Republic	0	2.62	0	3.44	3.71	2.95	4.22
Hungary	0	2.62	0	3.44	3.71	2.95	4.22
(Bulgaria)	0	2.2	0	2.87	3.06	0	0
Slovakia	0	1.65	0	2.01	2.06	0	0
Lithuania	0	1.51	0	2.01	2.06	0	0
Latvia	0	0.96	0	1.15	1.04	0	0
Slovenia	0	0.82	0	1.15	1.04	0.93	1.19
Estonia	0	0.69	0	1.15	1.04	0.77	1.19
Cyprus	0	0.69	0	1.15	1.04	0.77	1.19
Malta	0	0.55	0	0.86	0.69	0	0
$\Sigma BP_i(\%)$	100	100	100	100	100	100	100
ΣBP_i (Abs.)	39,342	1.97 × 1008	28,493	1.38 × 1008	21,156,211	2,796,428	462,149

Source: Authors

The values of the Banzhaf index grow with country size, which is in line with the expectations and behaviours of other voting power indicators. There is, however, an interesting difference between the Banzhaf indices and simple relative power: the index generally inflates the voting power of larger countries and slightly deflates that of smaller countries. For example, until May 2004 Germany possessed 18.5% of the EP mandates and a 20%

share of all critical defections for all members, whereas Luxembourg had 1.1% of the mandates and 0.95% of critical defections.

All the Banzhaf indices decreased after EU enlargement. For example, those of the UK, France, and Italy dropped from 13.6% to 10.2%. A similar post-enlargement decrease in the share of critical defections from minimal winning coalitions can be observed in the Council. For example, the Banzhaf indices of Sweden and Austria dropped to 2.87% after the simple enlargement of the Council.

A natural decrease of Banzhaf index values occurs after the partial and otherwise symbolic enlargement of the European Parliament. The more extensive the enlargement, the steeper the decline of the Banzhaf index. For example, after partial enlargement Ireland's share of minimal majority coalitions in the EP dropped from 2.1% to 1.7%.

6.3.4. The Coleman Index

Another perspective on the same subject, the Coleman index, also grows with the number of EU members. In contrast to the Banzhaf index, however, the sum of Coleman indices in a column does not equal one. Enlargement leads to a decrease of the Coleman index, yet not a considerable one. For example, Germany's value drops from 65% to 62.4%, which is not too radical. Therefore, according to the Coleman index, existing EU members do not lose much of their voting power – see Table 6.7.

Table 6.7 Coleman indices (percentages) – results

	Algor. 1	Algor. 2	Algor. 3	Algor. 4	Algor. 5	Algor. 6	Algor. 7
Germany	69.58	68.2	54.78	51.04	90.81	68.77	89.5
UK	47.16	46.34	54.78	51.04	90.81	46.44	89.5
France	47.16	46.34	54.78	51.04	90.81	46.44	89.5
Italy	47.16	46.34	54.78	51.04	90.81	46.44	89.5
Spain	33.74	31.18	50.73	47.2	86.66	31.14	85.14
Netherlands	14.81	15.05	23.16	22.27	45.22	15.11	43.53
Greece	13.44	13.15	20.54	20.55	41.72	13.2	40.04
Belgium	13.44	13.15	20.54	20.55	41.72	13.2	40.04
Portugal	13.44	13.15	20.54	20.55	41.72	13.2	40.04
Sweden	10.79	10.64	17.29	17.12	34.43	10.67	32.94

Austria	10.15	10.01	17.29	17.12	34.43	10.05	32.94
Denmark	7.89	7.5	11.3	12	23.19	7.52	22.2
Finland	7.89	7.5	11.3	12	23.19	7.52	22.2
Ireland	7.36	6.87	11.3	12	23.19	6.89	22.2
Luxembourg	3.3	3.12	5.67	6.89	11.68	3.13	11.33
Poland	0	31.18	0	47.2	86.66	31.14	85.14
(Romania)	0	20.16	0	24.02	48.79	0	0
Czech Republic	0	11.89	0	20.55	41.72	11.94	40.04
Hungary	0	11.89	0	20.55	41.72	11.94	40.04
(Bulgaria)	0	10.01	0	17.12	34.43	0	0
Slovakia	0	7.5	0	12	23.19	0	0
Lithuania	0	6.87	0	12	23.19	0	0
Latvia	0	4.37	0	6.89	11.68	0	0
Slovenia	0	3.75	0	6.89	11.68	3.76	11.33
Estonia	0	3.12	0	6.89	11.68	3.13	11.33
Cyprus	0	3.12	0	6.89	11.68	3.13	11.33
Malta	0	2.5	0	5.16	7.81	0	0
MWC*	11,328	43,330,354	6,645	23,107,924	1,881,096	690,912	48,657

Source: Authors, *MWC when deducing the largest coalition element

The first column contains critical cases of ‘broken’ majority coalitions in the European Parliament. It can be interpreted as the likelihood of a minimal majority coalition falling apart if a country leaves it. Germany has the largest share, being indispensable to almost 70% of minimal majority coalitions. This is a much larger share than Germany’s simple relative power based on the number of EP votes (18.5%). Other countries have larger shares, too: for example, the UK, France, and Italy exhibit Coleman indices of almost 47% although they each possess only 13.5% of the mandates. Luxembourg has 1.1% of the EP mandates and has a Coleman index of 3.3%.

The second algorithm represents the Coleman indices after full EU enlargement based on votes in the EP. Germany is able to defect from fewer majority coalitions than in the original EU, but it retains a substantial share (68%). In fact, according to this voting power indicator, the importance of Germany as well as other countries in EU votes is only marginally reduced by enlargement. Other countries, too, experience non-substantial losses of

their importance by forming MWCs. For example, France, Italy, and the UK reach 46%, which is very close to half of the MWCs. Accession countries obtain new shares: Poland participates in one third of MWCs, Romania in one fifth, the Czech Republic and Hungary each take part in 12% of MWCs. These indicators suggest that a country's actual importance is higher than its simple relative power.

Algorithm 3 presents the Coleman indices for Council voting. The MWC shares for Germany, France, Italy, and the UK are equally 54.8%. Spain participates in 51% of minimal majority coalitions. The shares of other countries are slightly lower than those established for the European Parliament.

The fourth column stands for critical defections from Council MWCs following enlargement. The shares of Germany, France, the UK, and Italy in broken MWCs decrease rather considerably to 51%. The new members obtain their first shares: Poland has 47%, Hungary and the Czech Republic 21%, Slovenia and Estonia 7%.

The fifth column shows the Coleman indices for qualified majority coalitions in the Council following full EU enlargement. These shares are considerably larger than those in column 4 because the algorithm calculates coalitions with a qualified majority of three fourths of all votes and countries, instead of simple majority coalitions. Germany, the UK, France, and Italy participate in 91% of the MWCs constructed in this way. In other words, these four countries are almost indispensable for passing a Council decision in nine out of ten cases. Countries like Denmark, Finland, or Ireland participate in 23% of broken MWCs. Poland is once again important, with an 87% share in Council decisions following enlargement, compared with 42% in the Czech and Hungarian cases. Even small countries like Luxembourg have their influence in this situation as they participate in 12% of cases of critical defections from MWCs.

Algorithm 6 provides the Coleman indices for the European Parliament after partial enlargement (Poland, the Czech Republic, Hungary, Slovenia, Estonia and Cyprus). The existing members' shares in broken MWCs decline much less steeply than in the fully enlarged EU. Poland's new share in broken MWCs is 32%, compared with 13% for the Czech Republic and Hungary, 4% for Slovenia, and 3% for Estonia.

The seventh column presents analytical results for the Council in a partially enlarged Union. Every country has high importance in forming qualified majorities, including small states such as Ireland, Slovenia, or Estonia.

6.3.5. Relationship between the national and political perspectives

The above calculations and interpretations can be critiqued from an elementary perspective which draws its validity - especially - at the level of the European Parliament and to some extent also at the Council level. They are based on the principle that individual voters (a number of the country's MEPs and its one representative in the Council) primarily align themselves in voting groups based on country of origin (the national principle) rather than their political orientation.

In Section 3.6.2, we mentioned that hardly any of the existing Europe-wide political parties is seen as 'natural' by the population, running in elections across all member states. While this is 100% true, one must concede the formal existence of European parties, not only as political groups in the European Parliament (some of these parties are simultaneously EP groups, others are members of groups). However, their influence on national political events is marginal.

These parties include, among others, the European People's Party (EPP), the Alliance of Liberals and Democrats for Europe Party (ALDE), the Party of European Socialists (PES), the Alliance of Conservatives and Reformists in Europe (ACRE) or the Party of the European Left (PEL). Usually, such 'parties' are considered to be 'embryonic' or 'preparatory' stages before the formation of a truly 'pan-European' political entity; the different national member parties are, however, taking no real steps towards that end. A peculiar occurrence is that several parties from the same country are members of the same European party: for example, three Dutch political parties or two parties in Belgium are affiliated with the EPP. In other words the EPP brings together parties that compete at the national level. It is hard, however, to imagine how a 'pan-European' party could be formed when the different members are not ready to merge even at that national level. From this perspective, a 'national' approach to the voting mechanism is justified. The individual MEPs (who have one vote each) are separated by national affiliation, i.e. by the country whose voters they represent.

In spite of this, political preferences and, more specifically, membership of different political groups or European parties play an important role in the

real world, especially in the European Parliament. After all, MEPs from the same political nation or state rarely vote in unison.

Nor can votes in the Council be understood simply as expressions of national interest, even if seats on the Council are automatically guaranteed to prime ministers or presidents (as in France, Cyprus, Lithuania, and Romania). Individual prime ministers or presidents have their powers based on their country's constitutional rules and typically must at least take into account the multiple opinion-streams that they come to represent (and vote for) in the Council. Council members do not have a 'national' mandate *per se*, but rather one that is dependent on consensus within the national-level political coalition represented. In any case, the established rule is one vote per Council member (except for the Council President and the Commission President – also represented in the Council and who do not have voting rights but only such influence as derives from their status). On the one hand, European Parliament results should be treated with extreme caution because it is highly unlikely for MEPs from the same country to vote *en bloc* given their different political affiliations. This is not absolutely out of the question, especially in cases when national results of EP elections may favour that option. On the other hand, the results of our investigation of voting power indicators for the Council constitute a considerably more valid reflection of real-life situations.

Nevertheless, we have to conclude that even if the above calculations assume national voting models and decision-making processes (which is often not the case, especially in the European Parliament), this is in no way detrimental to the importance of the findings above or below, because they primarily represent a theoretical model and remain fully valid under that model. The fact that decision-making processes and coalition-formation in the real world can depend on factors other than numbers of members per country, is relevant for concrete decision-making processes (and the concretising of votes); in any case, however, the power of individual states to influence potential decisions has been transformed in the course of the EU's institutional changes and enlargement. To conclude, the models may not be indicative of concrete events, but provide an exact account of the institutional changes as such.

6.4. Relationships between the voting indicators

Certain relationships exist or may exist between the resulting indicators of voting power – simple relative power (R), share in majority coalitions (SM), the Banzhaf index (BI), and the Coleman index (CI). Those relationships

will be tested using standard statistical methods, including correlation and regression analysis.

6.4.1. Hypotheses

- Hypothesis 1 – when comparing any two algorithms, the ratio of countries' relative powers should be constant:

$$\frac{R_j}{R_k} = \text{const. for all EU members where } j \text{ and } k \text{ are algorithm numbers } 1, 2 \dots 9$$

- Hypothesis 2 – a country's share in majority coalitions, Banzhaf index and Coleman index for the European Parliament and the Council depend on the country's relative power:

$$\begin{aligned} BI_{ij} &= a_1 + b_1 \times R_{ij} \\ CI_{ij} &= a_2 + b_2 \times R_{ij} \\ SM_{ij} &= a_3 + b_3 \times R_{ij} \end{aligned}$$

where a_1 , a_2 , a_3 are constants and b_1 , b_2 and b_3 are regression coefficients, which should be greater than zero

- Hypothesis 3 – voting power indicators after EU enlargement should be positively correlated with pre-enlargement voting power indicators:

$$\begin{aligned} SM_i &= c_1 + d_1 \times SM_j \\ BI_i &= c_2 + d_2 \times BI_j \\ CI_i &= c_3 + d_3 \times CI_j \end{aligned}$$

where SM_i , BI_i and CI_i are voting power indicators after EU enlargement, SM_j , BI_j and CI_j are voting power indicators before EU enlargement, c_1 , c_2 and c_3 are constants and d_1 , d_2 and d_3 are regression coefficients

- Hypothesis 4 – the Coleman index should be a multiple of the Banzhaf index in a given community and this should not differ by country. In mathematical terms, the relationship $CI_{ij} = g \times BI_{ij}$ applies to all countries i in column (algorithm) j .

6.4.2. Testing

According to Hypothesis 1, the ratio of relative powers remains constant for the different countries, i.e. the ratio of (simple) relative powers remains equal under the different algorithms. In mathematical terms, we examine whether $\frac{R_j}{R_k} = const.$ for all EU members where j and k are algorithm numbers 1, 2 ... 9.

The ratios of relative powers under the different scenarios are shown in Table 6.8.

Table 6.8 Relative power shares in different EU enlargement scenarios

	Full enlargement, EP	Full enlargement, Council	Partial enlargement, EP	Partial enlargement, Council, qual. majority
	$\frac{R_2}{R_1}$	$\frac{R_4}{R_3}$	$\frac{R_6}{R_1}$	$\frac{R_7}{R_3}$
Germany	0.731	0.689	0.831	0.792
UK	0.73	0.689	0.831	0.792
France	0.73	0.689	0.831	0.792
Italy	0.73	0.689	0.831	0.792
Spain	0.73	0.686	0.83	0.789
Netherlands	0.73	0.684	0.831	0.787
Greece	0.732	0.68	0.83	0.784
Belgium	0.732	0.68	0.83	0.784
Portugal	0.732	0.68	0.83	0.784
Sweden	0.732	0.688	0.83	0.793
Austria	0.73	0.688	0.827	0.793
Denmark	0.728	0.673	0.827	0.777
Finland	0.728	0.673	0.827	0.777
Ireland	0.728	0.673	0.83	0.777
Luxembourg	0.723	0.676	0.83	0.782

Source: Authors

Table 6.8 indicates the ratios between each EU member's new relative power and old relative power in terms of number of votes in the European Parliament and the Council. It comes as little surprise that the ratios in each column oscillate around the same value – because EU enlargement implies an equal weakening of relative power for all long-established members. These differences result from the respective post-enlargement numbers of votes assigned by the Nice Treaty, which must be integers by definition. The data supports the hypothesis that the ratio of countries' relative powers remains constant under the different scenarios.

After full EU enlargement, the relative power of all old members in the EP decreased to about 0.73 times the previous value. The decline was even more pronounced in the Council, where it reached 0.68 times the previous power. Following partial EU enlargement, longer-established members lost approximately 17% of their vote share in the EP (reaching 83% of the previous level) and 22% in the Council (reaching 78%).

According to Hypothesis 2 *SM*, *BI* and *CI* depend on relative power in the EP and Council. In other words countries' shares in (minimal) majority coalitions under the different enlargement scenarios are positively correlated with their relative power in the Parliament and in the Council.

Table 6.9 Dependence of SM, BI and CI on relative power – a summary view

Data		Constant	Regression coefficient (t-statistic)	Coefficient of determination (%)	Correlation coefficient
Independent variable	Dependent variable				
<i>R</i>	<i>SM</i>	53.81	1.495 (10.53)	37.56%	0.61
	<i>BI</i>	- 0.28	1.059 (217.86)	99.61%	0.998
	<i>CI</i>	4.95	4.561 (16.89)	60.79%	0.78

Source: Authors

As for the overall relationship, all results fall within the 99% confidence interval. For the Banzhaf index, the model provides a perfect explanation of the dependent variable. The coefficients of determination are lower for shares in majority coalitions and the Coleman index (38% and 61%,

respectively), which suggests that the model does not fully explain the variation in the dependent variable. The correlation coefficients for the relationships of shares in majority coalitions and the Coleman index with relative power are 0.6 and 0.78 respectively, which suggests a considerable but not markedly strong relationship between the variables. The dependence of the Banzhaf index on relative power is apparent with a coefficient of determination of almost 100% and a correlation coefficient equal to one. As for the Coleman index and shares in majority coalitions, the results fall within the 99% confidence interval but there is a higher level of variance of residuals. This should warrant caution when using simple relative power to calculate the Coleman index or countries' shares in majority coalitions.

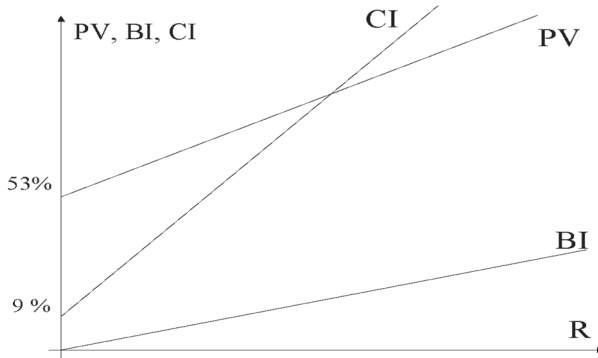
Figure 6.2 shows the dependence of SM , BI and CI on relative power. It is apparent that the relationship is positive and linear (a result of statistical regression) in all three cases. The higher the relative strength, the higher the voting power indicator. Whereas the Banzhaf index grows at a relatively weak pace ($BI = 1.1 \times R$), the share in majority coalitions grows somewhat faster ($SM = 54 + 1.5 \times R$). Finally, the regression line is the steepest for the Coleman index ($CI = 5 + 4.5 \times R$). This graph is a simplification and does not show the voting power indicators' deviations from the trend resulting from the statistical analysis.

According to Hypothesis 3, there is a relationship between SM , BI and CI before and after EU enlargement, i.e. countries' post-enlargement shares in majority coalitions and Banzhaf and Coleman indices depend on those existing before EU enlargement.

This hypothesis was tested on data sets divided into five groups:

- effect of SM , BI and CI before European Parliament enlargement on SM , BI and CI after European Parliament enlargement
- effect of SM , BI and CI before Council enlargement on SM , BI and CI after Council enlargement
- effect of SM , BI and CI before Council enlargement on SM , BI and CI after Council enlargement with qualified majority
- effect of SM , BI and CI before Council enlargement on SM , BI and CI after partial Council enlargement with qualified majority
- effect of SM , BI and CI before European Parliament enlargement on SM , BI and CI after partial European Parliament enlargement.

Figure 6.2 Dependence of SM, BI and CI on relative power (R)



Source: Authors

Table 6.10 Dependence of SM, BI and CI before and after EU enlargement – linear regression

Data				Constant	Regression coefficient (t-statistic)
Independent variable		Dependent variable			
A ₁	SM (alg. 1)	A ₂	SM (alg. 2)	4.22	0.919 (135.94)
	BI (alg. 1)		BI (alg. 2)	-0.03	0.748 (138.32)
	CI (alg. 1)		CI (alg. 2)	-0.12	0.980 (135.78)
A ₃	SM (alg. 3)	A ₄	SM (alg. 4)	8.87	0.820 (203.86)
	BI (alg. 3)		BI (alg. 4)	0.31	0.645 (338.66)
	CI (alg. 3)		CI (alg. 4)	1.84	0.898 (326.80)
A ₃	SM (alg. 3)	A ₅	SM (alg. 5)	-157.99	3.763 (56.26)
	BI (alg. 3)		BI (alg. 5)	0.64	0.589 (51.48)
	CI (alg. 3)		CI (alg. 5)	7.2	1.545 (51.97)
A ₃	SM (alg. 3)	A ₇	SM (alg. 7)	-155.73	3.711 (68.15)
	BI (alg. 3)		BI (alg. 7)	0.64	0.694 (61.31)
	CI (alg. 3)		CI (alg. 7)	6.03	1.539 (62.14)
A ₁	SM (alg. 1)	A ₆	SM (alg. 6)	3.02	0.943 (125.90)
	BI (alg. 1)		BI (alg. 6)	-0.04	0.845 (126.52)
	CI (alg. 1)		CI (alg. 6)	-0.16	0.985 (125.69)

Source: Authors

The results confirm the hypothesis that the voting power indicators before and after EU enlargement are closely correlated. The coefficient of determination exceeds 99% in all cases. All regressions are significant in the 99% confidence interval. The correlation coefficient indicated equals one. In short, the voting power indicators before and after EU enlargement go ‘hand in hand’.

According to Hypothesis 4 the Coleman index is a multiple of the Banzhaf index. Whereas an exact proof of this relationship has been furnished in the theory section, Table 6.11 shows empirical evidence of the same.

Table 6.11 The ratio between the Coleman and Banzhaf indices

	Algor. 1	Algor. 2	Algor. 3	Algor. 4	Algor. 5	Algor. 6	Algor. 7
Germany	3.47	4.55	4.29	5.97	11.25	4.05	9.5
UK	3.47	4.55	4.29	5.97	11.25	4.05	9.5
France	3.47	4.55	4.29	5.97	11.25	4.05	9.5
Italy	3.47	4.55	4.29	5.97	11.25	4.05	9.5
Spain	3.47	4.55	4.29	5.97	11.24	4.05	9.5
Netherlands	3.47	4.55	4.29	5.97	11.25	4.05	9.5
Greece	3.47	4.55	4.29	5.97	11.25	4.05	9.49
Belgium	3.47	4.55	4.29	5.97	11.25	4.05	9.49
Portugal	3.47	4.55	4.29	5.97	11.25	4.05	9.49
Sweden	3.47	4.55	4.29	5.97	11.25	4.04	9.49
Austria	3.47	4.55	4.29	5.97	11.25	4.05	9.49
Denmark	3.48	4.55	4.28	5.97	11.26	4.04	9.49
Finland	3.48	4.55	4.28	5.97	11.26	4.04	9.49
Ireland	3.47	4.55	4.28	5.97	11.26	4.05	9.49
Luxembourg	3.47	4.52	4.3	5.99	11.23	4.06	9.52
Poland	x	4.55	x	5.97	11.24	4.05	9.5
(Romania)	x	4.55	x	5.98	11.24	x	x
Czech Republic	x	4.54	x	5.97	11.26	4.05	9.49

Hungary	x	4.54	x	5.97	11.25	4.05	9.49
(Bulgaria)	x	4.55	x	5.97	11.25	x	x
Slovakia	x	4.55	x	5.97	11.26	x	x
Lithuania	x	4.55	x	5.97	11.26	x	x
Latvia	x	4.55	x	5.99	11.23	x	x
Slovenia	x	4.57	x	5.99	11.23	4.04	9.52
Estonia	x	4.52	x	5.99	11.23	4.06	9.52
Cyprus	x	4.52	x	5.99	11.23	4.06	9.52
Malta	x	4.55	x	6	11.32	x	x

Source: Authors

It is apparent from Table 6.11 that the ratios between the Coleman and Banzhaf indices in a column are always equal. Thus, the relationship $CI_{ij} = g \times BI_{ij}$ applies to all countries i and columns (algorithms) j . For example, the Coleman index is approximately 3.5 times the Banzhaf index in the original European Parliament; it is 4–4.5 times larger in the partially and fully enlarged European Parliament; the ratio is 6:1 in the enlarged Council and as much as 11:1 when the decision rule is considered. Finally, the Coleman index is approximately 9.5 times the Banzhaf index in the partially enlarged Council when considering the decision rule.

6.5. Summary

There are different ways to analyze the political power of existing or new members of the EU. As opposed to qualitative analyses based on historical, social-economic or institutional approaches, our study has demonstrated that the political power of EU countries can be examined using quantitative methods. Such an approach is, to be sure, only concerned with one side of the process, albeit a side that is significant and expands our knowledge of the behaviour of political phenomena.

A range of so-called voting power indicators were defined to determine the political power of EU members and candidate countries: 1. simple relative power, 2. the Shapley-Shubik index, 3. country shares in majority coalitions, 4. the Banzhaf index, and 5. the Coleman index. The strengths and weaknesses of those indicators were assessed.

Relative power is a simple and easy-to-understand indicator, but it does not consider participation in the sense that coalition members can form. A weakness of the Shapley-Shubik index is that it calculates variations, not combinations of elements (coalitions). The Banzhaf index either overestimates or underestimates voting power, compared with relative power. The Coleman index measures the ability of an EU member or candidate country to prevent a collective decision by defecting from a coalition, which importantly increases the country's power compared to simple relative power.

In the empirical section, we calculated four indicators of voting power in the EU: relative power, country shares in majority coalitions, the Banzhaf index, and the Coleman index. We demonstrated that relative power decreases proportionally with any enlargement of the European Parliament or Council. The fact that all country shares in majority coalitions exceed 50% is in line with Lane and Berg's (1999) hypothesis that voting power indices tend towards a relatively equal distribution of power among actors.

The values of the Banzhaf index supported the hypothesis of Raunio and Wiberg (1998) that large countries would lose relatively less from EU enlargement than smaller countries. Measuring a country's voting power by its participation in minimal winning coalitions, the Coleman index showed that enlargement does not result in such a radical reduction of the original members' voting power as might be suggested by simple relative power. The high values of the Coleman index substantiate Fedeli and Forte's (2001) concern that enlargement of the Union would decrease the effectiveness of its decision-making.

The most important finding of the quantitative analysis is that voting power in terms of coalition indicators may differ substantially from simple relative power. Enlargement does not necessarily undermine existing members' ability to influence (or block) decisions in the EU. The coalition indicators did diminish after European Parliament or Council enlargement, but their decline was much less steep than that of relative power.

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CHAPTER 7

THE EUROZONE CRISIS

Thus far we have discussed the forces of integration and possible disintegration of the EU in a range of economic and political contexts, while ignoring one aspect which is arguably the most dominant factor: the euro. The project that has played and continues to play such a key role in the minds and plans of those who support the European Union in its present representation will possibly, in the relatively near future, become Europe's Achilles' heel.

Such an eventuality would be highly ironic, considering the fact that the single currency was supposed to unite countries in unprecedented ways. With reference to federalist cognitive models, for example, it seems indisputable that a single currency requires an extremely high level of homogenisation of individual countries' laws, taxes, regulations, standards and practically all areas of life – not only at the economic level but also at social and other levels. From this perspective, the euro was supposed to cement the Union together more than anything else.

However, with the benefit of hindsight and experience, it has become clear that this supposition appears to have very serious drawbacks. The eurozone crisis is not an empty or artificial concept. On the contrary, it is a situation which the Union has been facing, to a greater or lesser extent, for a long time and is, furthermore, a situation that has grown in severity.

The driving force behind European monetary unification has been solely political and not economical (Klaus, 2012). There was always one overriding political ambition, namely that no one should separate a union that the euro had joined together. The euro was regarded as a useful tool to forge political union. When looking at the economic performance of the eurozone during the first twenty years of its existence, even pro-European activists have had to admit that the high expectations for overall economic recovery were not met and that the visions of the euro fundamentally increasing the rate of economic growth were ultimately not realised.

The goal of this chapter is to analyse the current eurozone crisis. In the first section we discuss why the eurozone is not an optimum currency area. The second section analyses the eurozone's economic performance. The third section analyses the eurozone as an area of natural moral hazard, namely the debt crisis. The fourth section describes the situation of Greece and the EU's southern region and sketches the potential problems of Italy. The fifth section brings attention to the euro as an intensifier of the business cycle. The sixth section examines the eurozone's internal tension. Finally, the seventh section inquires whether or not the euro is suitable for Central and Eastern European countries.

7.1. Is the eurozone an optimum currency area?

Several articles published in the 1960s (Mundell, 1961, McKinnon, 1963) laid the foundation of the optimum currency area theory and clarified the criteria for the choice of currency regime. Friedman ([1953] 1970) argued that floating exchange rates are better than fixed rates for many reasons, primarily because a flexible rate can effectively absorb shocks affecting the economy. Since prices and wages are typically inflexible in the downward direction, a shock affecting an economy with fixed rates will result in lower productivity and higher unemployment.

Mundell (1961) generalized Friedman's arguments about the choice of currency regime and pointed out that real currency areas are often different from optimum ones (Horváth, 2006). He therefore recommended other mechanisms beyond exchange rates to help better absorb asymmetrical shocks (these include labour market mobility, a system of fiscal transfers, and nominal flexibility of prices and wages).

According to Mundell, individual states would form an optimum currency area if the following conditions were met: 1) a high level of mutual labour mobility, 2) salaries with downward flexibility, 3) intensive mutual trade, 4) symmetry in exogenous positive and negative shocks, and 5) an adequate mechanism of fiscal compensations (Jager and Hafner, 2013).

The debate on whether or not the eurozone represents an optimum currency area is not new, but the prevailing opinion is that the above conditions are not being met in contemporary Europe (Lacina, 2007). In Europe, the mobility of labour is relatively low and the necessary downward flexibility of salaries and prices is virtually non-existent. The rigidity of the European labour market is sufficiently well-known. Asymmetric positive and negative shocks have constantly re-occurred, which is not at all surprising given that

eurozone countries are indeed different (Klaus, 2004) and that, above all, their start positions at the introduction of the euro were extremely disparate.

The size of budget transfers at eurozone level is very small. There is a certain degree of international solidarity among the EU member states, but its level is incomparable with the degree of solidarity inside nation states.

Moreover, accession to the eurozone does not mean adoption of a 'world currency', but merely a regional currency, hence the exchange rate risk continues to exist. More specifically, currency risk is eliminated within the currency area, including countries whose currencies are pegged to the euro, but risk continues to affect relations with all other partners (Prokopijevic, 2010). It is also worth noting that many of these partners are involved in the common market (including the historic example of the United Kingdom - and also the Czech Republic, Poland, etc). This anomaly, however, does not seem to cause any major problems in practice.

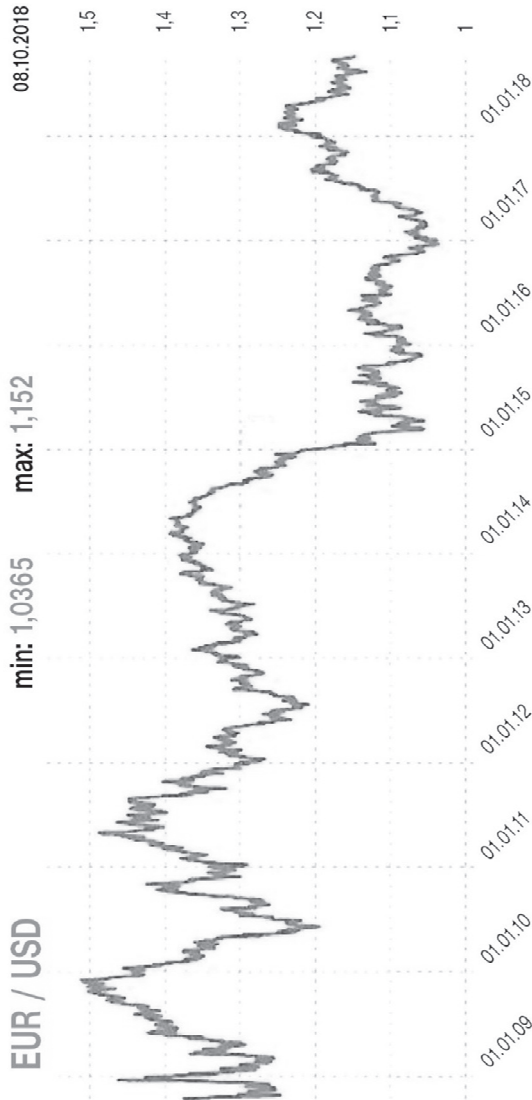
Mundell's theory of the optimum currency area was violated multiple times upon the introduction of the euro (Feldstein, 2012). If the euro had been introduced with respect to economic theory, countries such as Ireland, Spain, Portugal, Italy, Greece, Lithuania, and Latvia or Estonia would not even have thought of adopting the single currency. A quick comparison of the starting positions of Germany or the Netherlands with Portugal or Lithuania suffices to confirm this point. An optimum currency area requires, among other things, a high level of flexibility in salaries and prices, including the possibility of downward changes (Kohout, 2010).

Mundell considers the emergence of a single European currency to be a significant turning point in the entire international system. In his opinion, the euro would disrupt the strong position of the dollar. The introduction of the euro could even be considered the most important change since the dollar replaced the British pound as the dominant world currency following World War I. Mundell considers the USD/EUR exchange rate to be the most important price in the world (Mundell, 1998).

7.1.1. Volatility of the euro

One more reason for euro architects to be concerned is the euro's relatively high volatility against the dollar, as shown in Figure 7.1. In just short of ten years from January 2009 to October 2018 the central value of the exchange rate was \$1.274 per euro. The euro was sold for \$1.0365 at its weakest point and for \$1.512 dollars at its strongest. With a high degree of simplification

Figure 7.1 Evolution of the EUR/USD exchange rate from January 2009 to October 2018



Source: Adapted from Kurzy.cz

it can be concluded that over that relevant time period the dollar–euro exchange rate oscillated within a range of approximately 19% against the central value. During that same time period the curve intersected the central value seven times. In fact, there would be more intersections if we looked for day-by-day or hour-by-hour changes; nevertheless, the trend is what matters here. A closer and more thorough trend analysis would of course reveal three basic time periods that could be referred to as the era of euro dominance from 2009–2013; the turning point of 2014; and the era of dollar dominance from 2015–2018. This can be illustrated by the fact that the euro was at its strongest in late 2009 and weakest towards the end of 2016.

While this issue certainly deserves more attention, we intend to emphasize the fact that the co-existence of two remarkable strong world currencies (or a dominant currency, the dollar, and a subdominant one, the euro) has not resulted in a balanced relationship, but instead exhibits a high level of turbulence.

The dramatic character of the trend would be even more obvious if the entire lifespan of the euro were taken into consideration, including its ‘virtual currency’ stage before January 2002. Its maximum value hit \$1.599 per Euro in July 2008 and its minimum value fell to \$0.825 per Euro in October 2000 (the latter still under the virtual currency regime). Interestingly, the starting exchange rate in January 1999 was \$1.1789 per Euro, which is very similar to the October 2018 value.

This fact might be used to substantiate the argument that the euro was supposed to attain a long-term strengthening of the currency (against the most important other currency) from the pre-euro level, but this clearly did not happen; long-term comparison shows that the euro retained the same rate against the dollar that it held at its inception.

By using one comparison or another, the euro appears to be more volatile (or practically equally volatile, in the longer, but objectively distorted, time sequence) against the US dollar than the German Mark. Therefore, whereas the currency risk within the eurozone indeed ceased to exist following the introduction of the single currency, the risk outside the eurozone remained at least at the same level or even measurably increased.

7.1.2. Benefits and costs of monetary union

Irrespective of the above considerations, monetary unions have their costs and benefits (De Grauwe 2014). The following benefits of currency integration

tend to be mentioned: reduced transaction costs, reduced speculative capital flows, reduced exchange rate fluctuation, stronger trade, or lower interest rates. Reduced transaction costs are related to the fact that traders no longer exchange European currencies. The reduction of speculative capital flows is based on the assumption that higher fluctuations attract speculative investors. Reduction of exchange rate fluctuation supposedly increases certainty for businesses. Currency integration might boost mutual trade and attract higher foreign investment. Lower interest rates are associated with lower risk premiums as new member states of the currency area become more credible as partners (Mandel and Durčáková, 2016).

The advantages of currency integration as outlined above should not be overestimated. From the layman's point of view, lower transaction costs may be of interest to frequent travellers but tend to be negligible for ordinary citizens who may spend two or three weeks a year vacationing abroad. They can also be significant for the business environment, but the question is whether or not this is a fundamental effect. Speculative capital flows may arise at practically any time, even under fixed exchange rates – for example, when investors conclude that a currency's rate has deviated from its fundamental value. Under floating exchange rates, it is easy for businesses to hedge against fluctuation (even if such hedging entails additional transaction cost) (Wallace 2016).

Moreover, the formation of a monetary union only eliminates the variability of nominal exchange rates, whereas it has limited effects on the evolution of real exchange rates (Lacina, 2007). According to critics of the monetary union, investors are primarily concerned about the country's reputation, tax rates, institutional quality and cheapness of labour, and not the currency used by the country. Expansionary central bank policies, rather than monetary unions, are responsible for lower interest rates, which decreased even in countries that have not adopted any single currency.

The costs of a monetary union include: losing the exchange rate as an instrument of economic policy, losing monetary policy autonomy, possibly losing fiscal autonomy, or losing seigniorage revenue (Kučerová, 2005). Losing the exchange rate is crucial – as shown by a multitude of cases in recent years. The effect is that the economy cannot use the exchange rate as a means of adaptation in the case of exogenous imbalance. Losing monetary policy autonomy means that no member country can independently decide whether or when to implement monetary expansion or restriction. The loss of fiscal autonomy derives from the fact that a monetary union requires some degree of fiscal redistribution or fiscal integration/coordination.

Loss of monetary and exchange rate autonomy is undoubtedly the most significant cost of a monetary union. A country that gives up its own currency and adopts the euro, loses exchange rates as a unique means of balancing the flow of money between the national and foreign economies. When a risk of asymmetric shock arises and there are no sufficient adaptation mechanisms in lieu of the exchange rate, it is not rational for the candidate country to rush into monetary union (Lacina, 2007).

7.2. Economic performance and the main problems of the eurozone

According to the original concept, the euro was supposed to ensure two basic trends (Mody, 2018). Firstly, it was expected to accelerate economic growth in the currency area. This assumption was based on the belief that the euro would bring about a further significant decline in transaction costs, accelerate investment flows and reduce information asymmetry, thus improving capital allocation and generally contributing to a better and more effective use of the common market's opportunities. There is no doubt that these assumptions were theoretically correct, yet it has come to light that in practice, a number of additional vital considerations had been overlooked, which were actually important enough to preclude the realisation of the aforementioned basic expectations. Another trend that was expected to accompany the eurozone's establishment was convergence of economies within the area (Stiglitz 2016).

It was probably never completely clear how that expectation was arrived at, especially as different countries adopted the euro from vastly divergent starting positions. The basic difference was, of course, based on labour productivity, which might roughly approximate the parameter of GDP per capita. Additional lines could be drawn in terms of wage levels and related highly divergent price levels. Somewhat related also were the differences in institutional quality, legal environment, rule of law, level of corruption (and, consequently, the effectiveness of public spending), as well as wide gaps in levels of social security, healthcare, pension systems and many other more or less important areas. Interestingly, when one refers back to the conditions for euro adoption (whether in the original version or those implemented later), none of the conditions were in principle directly associated with the above differences between national economies.

One can theorize that the Euro not only failed to bring about convergence, but even increased the differences between countries (Mody, 2018). The

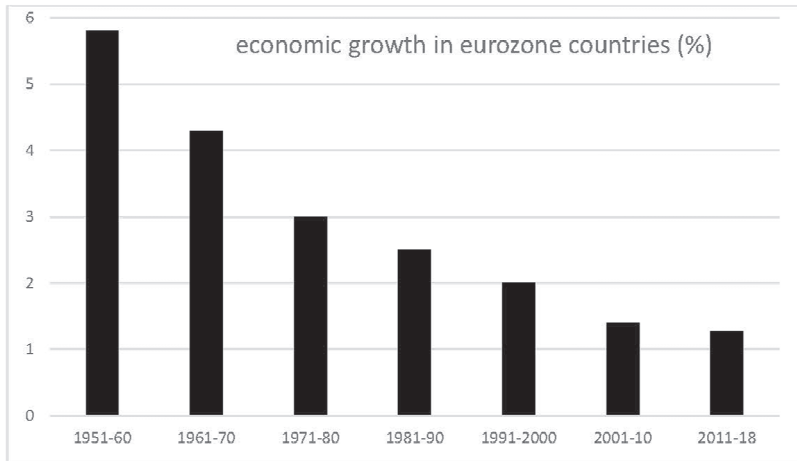
pre-euro redistribution flows across the Union did practically nothing to change the structural differences between national economies and align their starting positions. Any convergence achieved was temporary, effective only while the redistribution processes lasted. In very simple terms, the economically fragile parameter of ‘standard of living’ in the would-be eurozone countries did exhibit some convergence. The countries at the top and bottom of the list came closer to one another in part because the weaker countries profited from the common market (due, among other factors, to lower price levels and the related change in capital allocation), and in particular due to the redistribution processes across the Union. Nevertheless, the structural differences between the economies were not eliminated; institutional quality, and a number of other parameters, did not align (at least not fundamentally). When redistribution was redirected ‘from south to east’ (partially before and especially after the Eastern enlargement), governments of the southern region came under pressure that was alleviated only by their growing dependence on loans.

7.2.1. The question of economic growth in the eurozone

The question arises as to whether or not the failure to accelerate (or even tendency to decelerate) economic growth in eurozone countries should be viewed as coincidental or as a consequence of the single currency zone. We are not inclined to believe in chance, so we do not think this was caused by unforeseeable exogenous influences. Since its inception, the rate of growth in the eurozone was substantially lower than in, for example, the USA or in the longer-established EU countries that temporarily refused the Euro. According to the European Central Bank, the long-term potential rate of growth of the eurozone is just above 1.2%. That is not miraculous growth – that is a snail’s pace (Eichengreen, 2011).

Figure 7.2 shows the economic growth in the European Union where integration has been underway on an ongoing basis. Eurostat constituted data for the fifteen countries of the future eurozone from the 1950s-onwards. Whereas the average economic growth of Western European countries was 5.8% in the 1950s, 4.3% in the 1960s, 3.0% in the 1970s and 2.5% in the 1980s, it was only 1.4 % in the 2000s and fell as low as 1.1% in the years 2010–18. The declining economic dynamic is absolutely evident.

Figure 7.2 Economic growth in the continuously integrating EU



Source: Adapted from Eurostat, 2019

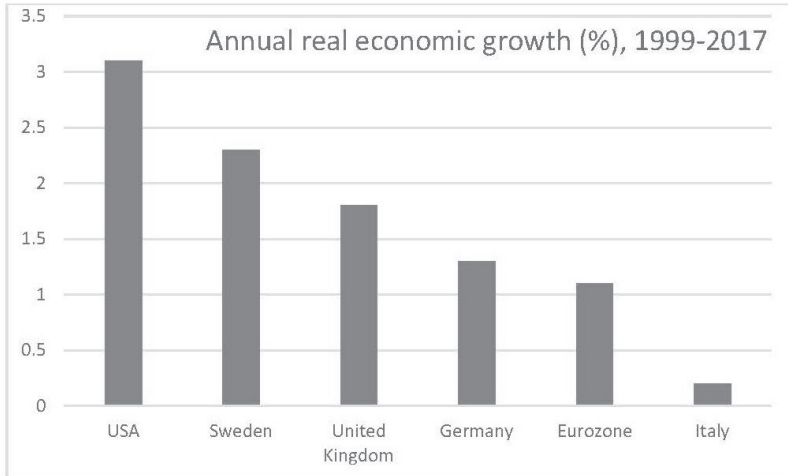
Of course, a number of arguments could be put forward in support of a ‘random’ theory. For example, the growth rate of the 1950s, a period of fundamental post-war recovery in both Europe and a large part of the world, cannot be compared to rates achieved at present. This critique is undoubtedly valid, but it fails to explain the fact that many regions and developed countries are currently achieving stronger average medium-term growth than the eurozone.

Most non-eurozone countries are among the countries with the lowest bases for growth, which technically enables them to achieve higher growth rates under similar stimuli (thanks to the fact that labour productivity in such countries also grows from a relatively low base). Such an explanation seems to be supported by the case of Slovakia which joined the eurozone as early as 2009 and still continues to achieve very high growth rates – according to Eurostat data the average GDP growth of the Slovak Republic was 2.5% in the years 2011–2015; real GDP grew by 3.3% in 2016, and 3.4% in 2017.

Figure 7.3 shows an average annual growth of real GDP in selected EU countries for the time period of 1999–2015. Non-eurozone countries, such as the UK or Sweden are growing considerably faster than the eurozone as a whole, or even Germany, leaving far behind the unfortunate case of Italy with its near-zero growth. From this perspective, the choice of countries

such as the UK, Sweden, or Denmark not to join the single currency appears quite rational.

Figure 7.3 Annual real growth in eurozone and non-eurozone countries (%)



Source: Adapted from Eurostat, 2018

We should, therefore, be able to formulate, albeit somewhat tentatively, a sketch of a theory: by sharing the common market with considerably more-developed countries, less-developed countries were able to achieve higher growth rates, whereas the more-developed ones were instead faced with a slowdown. One might further assume that the single currency area, the eurozone, as a variant of the common market, may further strengthen that relationship. Nevertheless, the theory suggested would require much more thorough data analysis, as well as much more precise elaboration with regard to the situation in the EU as a whole, the situation in the eurozone, and the specifics of individual countries – including their development, share in redistribution, electoral results and many other factors.

Economic development in the eurozone is associated by some authors with lower birth rates and a relatively fast-ageing demographic; both arguments against the negative influence of the currency itself. These are somewhat problematic arguments, since whereas eurozone countries do exhibit very low birth rates, their figures are certainly not measurably lower than those of EU member states outside the eurozone (e.g. Poland, Hungary, or the Czech Republic). Furthermore, low birth rates and a higher average age also

exist in other developed countries (which indeed may have negative effects on consumption and domestic product – as demonstrated by Japan). However, we do not consider this argument to be of any fundamental help in explaining sluggish economic development. While the association between lower birth rates and economic development (in terms of its dynamic) can in all probability be formally demonstrated, the question is whether there is an arguable cause-effect relationship between those phenomena. We are rather inclined to view them as parallel phenomena, both taking place in the context of other, more influential factors. Objectively, highly developed countries have experienced long-term economic slowdown, considerably so in the case of eurozone countries. At the same time, developed countries objectively exhibit very low birth rates. Yet low birth rates might also, perhaps more than anything else, be a result of those countries' high standards of living.

The case of demographic ageing is similar. This trend is determined by substantial advances in medicine and healthcare, the long-term absence of war, improvements in the quality of food and the environment, and a number of other circumstances. There is no reason to assume that medium-term economic slowdown (in the eurozone, the EU and developed countries in general) is a result of a higher average age in the population.

The following tentative statements can be made with regard to economic growth in the eurozone:

- the dynamic of growth is weaker than in other EU countries (see Table 7.1) and weaker than in other developed countries
- the slowdown in today's eurozone countries is long-term and the process started even before the eurozone was established (see Figure 7.3)
- the eurozone's slowdown was not affected by the introduction of the single currency because the pre- and post-euro developments are highly similar
- the euro did not boost growth, at least not to such an extent to reverse the existing trend.

7.2.2. The question of inflation in the eurozone

Just as in other western economies, inflation in the eurozone was kept at low levels (quite recently, deflation appeared to be more of an issue). However, inflation was not reduced by meeting the Maastricht criteria – the same reduction was experienced by the United States and, to a much larger and

longer-term extent, by Japan. Although the introduction of the single currency was followed by price stabilization and lower interest rates, these factors did not galvanise economic growth in the eurozone, the very indicator that is under such close scrutiny both by governments of member states and their citizens (Lacina, 2007).

As for actual convergence of the participating economies, the single currency did not meet expectations. The same applies to growth and inflation rates (Janáčková, 2010). The general expectation was for a gradual yet relatively quick convergence of price levels. The notion of narrowing price gaps was linked to the expectation that thanks to the euro, lower-performing countries would catch up relatively quickly with the higher-performing ones. This would be accompanied by a dynamic growth of the income of people living in upward-converging countries, which would be reflected, given the common market and the single currency area, in an overall convergence of economies. The reality, however, fell short of expectations.

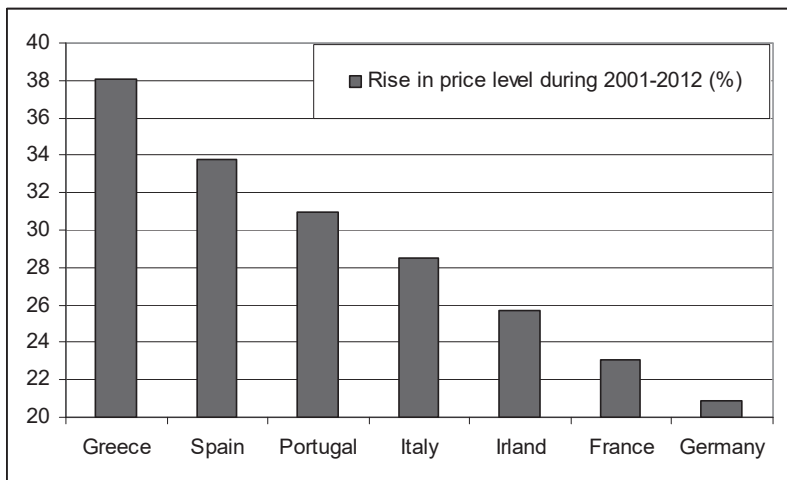
This can hardly come as a surprise. Some eurozone countries stopped complying with the public finance stability criteria enshrined in the Stability and Growth Pact (later the Fiscal Compact). A number of countries did not even meet the Maastricht inflation criterion. By contrast, candidate countries (those seeking to adopt the single currency) were strictly required to meet the inflation criterion (Coenen, Straub and Trabant, 2012).

A closer examination of the subject of inflation reveals that the euro as a principle (a single currency) comes with a profound and difficult-to-solve dilemma. On one hand, it was expected to result in a convergence of the participating economies. Yet, given their considerable differences in terms of starting 'effectiveness' (stated simply as GDP per capita, whether nominal or by purchasing power parity), how exactly was this process supposed to happen? Necessarily, there was supposed to be a time period of undefined length in which economies would begin convergence: the weaker ones would grow faster than the most developed ones. This, however, would be accompanied by an increase in price levels which were also (theoretically) supposed to converge – as could be logically expected of a single market and a single currency area. Consequently, this meant that the euro could not bring about the other desired effect, namely the stabilization and convergence of inflation. Indeed, it is simply impossible to have both effects simultaneously.

No wonder many authors have noticed the divergent inflation rates in the eurozone (Janáčková, 2004). Some have even emphasized remarkable divergences of the different countries' inflation levels that occurred soon after the launch of the eurozone. They identify two groups of countries that emerged, one with long-term inflation rates under the Eurozone average (Germany, France, Belgium, Austria) and the other one above the average – which applies to all other eurozone members except Finland (Bohn and Jong, 2011).

Above all, the notion of the eurozone as an area of constant convergence of economies, including price indices, proves erroneous. Although the common market and the single currency are important convergence elements, other specific characteristics of countries' economies and the current economic situation represent stronger and more significant factors. At the same time, Slovakia's price index was apparently well below that of Germany (which can be applied in general, and very much so in the case of salaries, i.e. labour costs). Similarly, the Czech Republic's price index was well below the UK's (again, this is generally the case, not only for consumer prices but also for the price of labour).

Figure 7.4 Inflation in the Union's periphery



Source: Adapted from Eurostat, 2015

In any case, the fact is that inflation in the eurozone as a whole was not much different from that in other EU countries, and this casts doubt on the

significance of euro for inflation – a rather surprising fact. In any case, some aspects of the phenomena associated with inflation developments can be explained (at least theoretically) as unrelated to the existence of the euro. Technically speaking, countries with overall lower levels of effectiveness, participation in the division of labour and investment, along with other limitations, should tend to increase inflation rates in the medium term. In line with the above-mentioned effect, there should be a (long-term) convergence of price indices in economies integrated by the area of the common market and single currency. The question remains, however, as to how to explain the cited case of five years of inflationary developments in Slovakia and Germany.

Furthermore, we can declare at least theoretically that different real interest rates (which can be somewhat independent of the ECB's reference rates and policies) set economic processes in motion which are extremely difficult to control. Low or even negative real interest rates result in the overheating of the economies of some countries and in excessive investments – the structure of which, on top of it all, may be erroneous (even if, of course, it is only by economic reality, and not merely through analysis, that 'erroneous' or 'correct' investments can be determined). The overheating of economies, especially at the turn of the millennium and in the early 2000s, created a tendency to increase inflation rates and nominal wages in these countries (Tomšík, Šároch and Srholec, 2005).

The real increase of prices (including the price of labour, which must always be kept in mind in this respect because its role is, in a way, crucial) rendered the affected countries uncompetitive, as the bubble inflated prices, and wages exceeded levels that would allow for sustainable economic development without dependence on foreign loans. Various studies emphasized that the current account deficits of the southern-region countries grew continuously for many years, and their hunger for foreign credit to finance those deficits grew accordingly. All worked smoothly as long as the markets were willing to finance the deficits. When the funding ran dry in the summer of 2007, the crisis emerged (Sinn, 2014). Of course, one might make a case, probably with some justification, against the ways these critical studies treat the context of time and the entire development of imbalances in the eurozone. Yet, this would make little difference to the fact that such imbalances both existed and were only poorly concealed by the expansion that took place during most of the 2010s.

In any case, the differences in real interest rates result from increasing gaps between current accounts of the balance of payments of the individual

eurozone members. Considerable deficits or, conversely, surpluses of current accounts are gradually accumulating inside the monetary union and this has resulted in the profiling of debtor and creditor countries within the eurozone. In debtor countries, excessive credit expansion and erroneous capital allocation have taken place. This has been observed in Greece, Spain, Portugal, or Ireland (Giavazzi, 2010) and, of course, in Italy – the most problematic country in the second decade of the millennium. Without casting doubt on Giavazzi's (2010) conclusions, we should add that Ireland's debt problem was largely based on macro- and microeconomic causes other than those of the Union's southern region. The consequences, however, were similar.

7.2.3. The relationship between the euro and the indebtedness of eurozone countries

As suggested above, inflation should not be seen as the only cause of the growing imbalances in the eurozone and, by extension, in the European Union. While inflation is a factor that can explain some situations, its effects are clearly somewhat limited. Data on the deficits and surpluses of the government sector provide us with much better options for explanations.

The size of government and other public agency budgets, and especially the deficits, are good indicators of the 'responsibility' of political leadership. The common market, and particularly the Eurozone, reduces the room for manoeuvre of national economic policies by introducing a number of regulations (for example by considerably suppressing tax competition). This strips countries of the advantageous option of shaping the exchange rate of their own currency (through their central banks but, by implication, their governments) and balancing the system through devaluation – even if this is associated with high political cost. The developments of the past two decades, however, have revealed one important and unexpected advantage that the euro provided for the eurozone's less developed countries (relatively to other eurozone countries but not in the global or continental context): the benevolent acceptance by markets of new debt incurred by eurozone countries. This included those that would have found it much more difficult to finance their policies if they had relied only on their own currency – they would have paid a higher price for their debt.

Such 'benevolence' deserves closer attention and thorough analysis. In short, Eurobonds issued by otherwise rather 'suspicious' governments were met with certain bonuses (were given lower prices by the markets). Euro debts of otherwise toxic countries of the currency area were assessed by the

markets as safer than debts in those countries' own currencies. The markets assumed that the eurozone as a whole was responsible for such debt.

This assumption relied, and continues to rely, on a fairly rational foundation. There is an enormous level of integration between the countries of any currency zone. Instability of one element (or country) necessarily destabilizes other elements and, in turn, the system as a whole. Any costs connected with the problem affect not only the debtor country but also the companion countries. The latter are faced with a choice between two types of costs that must be borne: taking responsibility for the toxic country's debt, or incurring the cost of system instability (both types are difficult to separate). In a way, the entire real lifespan of the eurozone can be viewed as a time period in which the participants in this experiment (the majority) tried somehow to eliminate irresponsible behaviour on the part of some other participants (the minority), while the economic reality was always faster-moving and more imposing than most participants' willingness to act. As a result, regulations intended to prevent debtors' moral hazard were ineffective. Moreover, a number of 'responsible' countries were themselves forced or became willing to cross the line towards 'irresponsibility' (Mody, 2018).

Moral hazard is one of the key terms and determinants of the eurozone's operation. National governments of eurozone countries have been faced with difficult dilemmas: they lost their exchange rate as an instrument to safeguard their economies against imbalances. For different reasons, (often entirely irrational and political ones) countries joined the eurozone in circumstances when their economy was far from compliant with accepted criteria (in the case of Greece statistical evidence was forged to conceal the country's under-preparedness); then again, they obtained easier ways of funding their debt. Thus, the eurozone experiment allowed a number of governments to undertake a further experiment, namely that of exporting the political cost of unpopular decisions. Instead of the economically correct procedure (lower competitiveness should be followed by lower prices, *ergo* pressure against inflation, *ergo* pressure to increase competitiveness via lower cost), those governments proceeded to expand their expenditure with a view to boosting growth and 'outrun' the consequences of their behaviour. Debt was supposed to be paid for by better growth. The bonus for those governments was that their 'experiment' did not incur immediate political cost at the national level because fiscal expansion helped boost the standard of living. The simultaneous growth of debt was not paid sufficient attention to (especially by domestic voters). The risks, therefore, of such an 'internal

experiment' (of failure to repay the loans) were exported to other more responsible countries within the eurozone.

There were other ways in which this exportation took place. Euro government bond markets were dominated by domestic banks domiciled in eurozone countries. This is a logical enough result precisely because the banks incurred no exchange rate risk for those bonds. Government loans that would have otherwise been assessed by the markets as risky to toxic were, therefore, acknowledged as acceptable thanks to eurozone membership and the tacit collective guarantee. They amassed especially in the portfolios of banks operating in the zone, for which the euro was, naturally, their basic currency. In addition to the risk of systemic instability, therefore, the governments of Eurozone countries had to face another risk: the debt of toxic eurozone countries held the potential to harm or even cause the disintegration of their domestic banking systems.

To sum up, currency integration became the proverbial 'white elephant' for Europe. If currency integration had never taken place, then the debt crisis of the early 2010s would arguably not have been so profound. Many loans simply would have been impossible to take on, because under decentralized currency systems, market conditions would not have permitted such high levels of debt to governments, businesses or individuals in economically weaker eurozone countries (Hampl, 2012). The question then arises as to whether moral hazard is a logical result of establishing a monetary union, since any such union allows for the potential to externalize one's problems to other member states.

It was only logical that the issue of moral hazard and debt should slowly emerge as the eurozone's greatest problem. This is why we will examine it more thoroughly in the next chapter. An important fact is that even if Greek, Portuguese, Spanish, Italian or Irish politicians are typically depicted as big moral gamblers, the first significant violations of the Stability and Growth Pact were committed by countries that are typically seen as highly or at least relatively responsible.

7.3. The problem of moral hazard and the debt crisis

The global financial crisis that broke out in the summer of 2007 and which took place mostly in the years 2008–2009 is typically considered as the trigger and predecessor of the debt crisis (e.g. Reinhart and Rogoff, 2009). Whereas the global financial crisis likely did indeed, to a certain extent, 'trigger' the eurozone's debt crisis, the latter would most probably have

occurred anyway. Some countries' debts were being debated by experts even before the problems in the US mortgage market resurfaced and the Lehman Brothers went bankrupt. It was only a question of time before the markets would respond to those debates by imposing stricter conditions on some eurozone states. We are able to assume, therefore, and can produce significant arguments in support of the assumption that the debt crisis would have occurred even without the global financial crisis. It would have been perhaps easier to control, and would not have affected some countries such as Ireland and Iceland in quite so fundamental a way, but the real problem of Greece's insolvency was not caused by the economic crisis but by the unmanageable character of the Greek debt. Instead of causing the eurozone crisis, the financial crisis merely contributed to its escalation.

The global financial crisis gave rise to the strongest assault on industrialized countries' economies since the Great Depression seventy years earlier. The crisis was a dynamic shock that spread a financial-economic malaise across countries and continents. As noted above, once a country joins a monetary union, it loses one of its two key macroeconomic instruments – monetary policy. The other instrument, fiscal policy, remains under its responsibility, although it is far from certain that that is a good enough substitute for monetary policy. Fiscal policy measures may be used for different purposes when governments ignore the need to maintain a balanced budget. Fiscal policy is like a super-tanker – a vessel that only changes its course extremely slowly (Baldwin and Wyplosz, 2015).

The introduction of the euro eliminated exchange rate risk, but EU institutions downplayed the risk of sovereign default which emerged in its place. At the same time, the Maastricht Treaty's provision against financial assistance (Article 125 of the Treaty on the Functioning of the European Union, TFEU) clearly stated that investors would have to accept financial loss on investments if governments were unable to repay their debts (Sinn, 2014).

7.3.1. Escalation of moral hazard and the debt ceiling

It was, ironically, only Germany (along with France) that succeeded in ignoring the aforementioned rules whilst simultaneously avoiding punishment (Singer, 2011). Although Germany's deviation from the rules was indeed temporary and relatively minor, the fact that the violation did not result in any sanction against the perpetrator suggested that the eurozone's willingness to enforce discipline strictly, irrespective of the extent of violation and the size of the perpetrator, was inadequate. Moreover, it

continues to be the case that however marginal those violations by the Union's and eurozone's largest states may be, the absence of sanctions sent a message to other states that they were able to make considerably more room for their own economic policy by not taking the Stability and Growth Pact literally.

It is also important to emphasize here that the Maastricht criteria were based on the doubtless correct idea that countries in a monetary union must have healthy public finances and that there should be no excessive differences among their inflation levels. Fiscal discipline and convergence of inflation levels are necessary conditions for any group of countries that wish to benefit from common monetary policy. Thus, many asked the logical question: is it rational to enter a monetary union whose members are unable to abide by those conditions? (Janáčková, 2010)

It is indeed alarming that not only were the Maastricht criteria no longer abided by (Wolf, 2012), but that all five criteria (as defined in 1997) were actually met by only two out of the eleven countries that joined the eurozone in 1999. Repeated difficulties in meeting the limits of government deficit were exhibited by large countries as well – not only the above-mentioned Germany and France but also Italy. Those states even successfully pushed for amendments to the Stability and Growth Pact to the extent that some analysts considered the Pact to be dead (Wittmann, 2011).

It is apparent that the issue of moral hazard existed practically throughout the lifespan of the single currency. This can be attributed to the above-mentioned conflict between a political desire to 'cement' the Union, and the economic definition of rules, effectively to safeguard convergence of economies and institute enforceable checks on irresponsible behaviour. This conflict eventually produced a clear winner, since much the strictness needed for the single currency's stability had been sacrificed for political success. The fact is, however, that the debt crisis, as a result of the 'political' prevailing over the 'economical', worked at least as a stimulus for eurozone states to stop debating and launch real reforms. Yet the question remains as to whether those actions served, and continue to serve at the end of the second decade, merely to mask the disease – or whether they at least have some chance of success.

The system initiated is referred to as the Fiscal Treaty (officially The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union). Signed by 25 EU member states in 2012 (excluding the United Kingdom and the Czech Republic; Croatia did not sign it even after its

accession to the Union) and entered into force in 2013, its main principle is to define a maximum level of structural deficit for government budgets.

According to the Treaty, the annual structural deficit should not exceed 0.5% of nominal GDP (it may reach up to 1% of GDP for the few countries with a debt below 60% of GDP). In extraordinary circumstances (such as economic depressions), fiscal policies can be implemented to counter the business cycle by increasing the deficit (the measure is often referred to as the 'debt brake', sometimes as the 'golden rule'). The European Court of Justice oversees the introduction and implementation of this rule: a state that violates the Fiscal Treaty can be sued by other member states or Union bodies. In addition, those which do not comply will not obtain European funding. Violations can be subject to penalties, and the document foresees other enforcement mechanisms as well. According to the Fiscal Treaty, government budgets are (to some extent) subject to approval by Brussels. Another measure is that the signatories to the Fiscal Compact must enshrine in their national laws debt-ceiling provisions in line with or stricter than the Compact (Wallace 2016).

The debt ceiling is not a novel idea. In *The Power to Tax: Analytical Foundations of a Fiscal Constitution*, the founding fathers of constitutional economics Geoffrey Brennan and James Buchanan formulated a number of theses that were to be enshrined in the constitutions of those countries whose citizens sought to limit their governments' possible irresponsibility (Brennan and Buchanan, 1980). While they focused primarily on constitutional limits to taxation, they also formulated two additional rules: 1) limits to the inflation tax (printing money), and 2) limits to government loans (fiscal deficits). In developed countries, central banks are typically responsible for the first rule in their government-independent constitutional role in maintaining monetary stability. This is in order to prevent (and it usually succeeds in preventing) the excessive issuance of money, which would give rise to inflation above defined inflation targets. The second rule, the authors argue, cannot be left to the discretion of governments, since they may act irresponsibly and tap new loans to meet short-term objectives. There is, however, the option to define a debt ceiling in order to assist government (public) finance and enshrine that ceiling, whenever possible, directly in the state's constitutional documents.

The history of enforcing debt ceilings is an interesting and stimulating subject in its own right, however there is no room here for further analysis. Of greater relevance from the perspective of European integration studies is that the global financial crisis and the subsequent debt crisis in the eurozone,

even before the Fiscal Compact was concluded, caused concern in a number of countries. Citizens started effectively demanding their own constitutional protections against excessive debt. After all, this may be why there were demands that a debt ceiling be included in the foundations of the new regime, that every signatory country must institute its own debt ceiling at least at the level of the common ceiling, and that this should be directly enshrined in the treaty. The few countries that wrote different debt ceiling variants into their constitutional documents, either before or virtually simultaneously with the Fiscal Compact negotiations, were Germany, Austria, Spain, Poland, and Slovakia (Baldwin and Wyplocz, 2015). Estonia is usually also included in the list, but this is due to a prevalent myth: Estonia, in fact, did not have any debt ceiling at that time, constitutionally enshrined or otherwise. Estonian public opinion, however, provided a much more important safeguard: the voters were so vigorously opposed to deficit financing, that the country's public debt before the financial crisis reached as little as 6% of GDP.

Angela Merkel pushed Germany's debt ceiling through as early as 2009, namely in terms of a maximum government deficit of 0.35% a year. The rule only became formally effective in 2016, but this was preceded by a long period of *de facto* compliance (as shown in Table 7.3 the government sector had been in surplus since 2014). The German system is relatively well-elaborated and provides for recession emergencies: the deficit may climb up to 1.85% of GDP provided it falls back below 0.35% the following year. In case of other emergencies, such as disasters, the option is provided to take emergency credit. Its approval, however, must be accompanied by a debt-management plan and other specific requirements. The German pressure for the Fiscal Compact to contain a debt ceiling that would be as effective as possible was a key factor during the Fiscal Treaty negotiations.

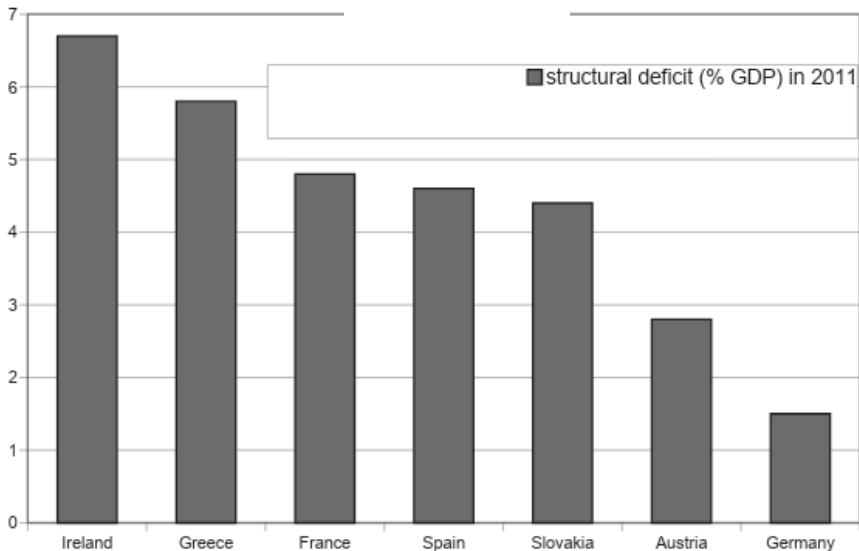
The issue of a constitutionally or otherwise enshrined debt ceiling became fundamental to further considerations about the future of monetary union, in effect after it was learned that a wave of governmental irresponsibility *vis-à-vis* their own spending, i.e. towards taking loans, was the easiest way to break up the monetary union. The eurozone-level result – specifically the golden rule of maximum structural deficit and the requirement for individual states to institute debt ceilings – reveals several problematic aspects.

The first issue is that the deficit limit of 0.5% of GDP can be seen both as a limit and as a permitted target. While this distinction may appear insignificant, it is very important with regard to its real-life consequences.

Constant utilization of the entire interval may result in the slow but long-term growth of debt. This can be illustrated by the long-term development of Poland's government finance. In 1997 Poland adopted a constitutional act that made it illegal to take loans resulting in a debt higher than three-fifths of GDP. The ceiling was set as a percentage of domestic product. This was followed by thirteen years of constant debt growth, until the very threshold of 60% of GDP was reached.

The second issue is the concept of 'structural' deficit itself. This is a construct, not a 'hard', measurable quantity. Structural deficit has a seemingly simple definition: it is the total budget deficit after deducting cyclical effects and extraordinary factors. At the theoretical level, it may be considered useful to view government deficit as a quantity that consists of a cyclical and a structural element. Yet a completely different situation emerges when structural deficit is presented as exact, indisputable evidence underlying the administration of economic sanctions. To maintain that a structural deficit can be measured in exact terms is simply an econometric fiction (Janáčková, 2010).

Figure 7.5 Structural deficits in the EU



Source: Adapted from European Commission, 2012

The third issue is that the fiscal ceiling was already included among the Maastricht criteria, but practically no one complied with it. This was partly due to the absence of enforcement mechanisms, due to some extent to political concerns – other countries backed the violating country when taking into consideration, for instance, its domestic political situation.

According to critics of the Fiscal Compact, practically the same threat is imminent, and the enforcement mechanisms are as weak now as before the debt crisis. Some have even reached the conclusion that the Fiscal Compact is merely a declaratory debt ceiling and not the real countermeasure that had been presented to the people (Sinn, 2014).

If those critics are right – and it will show during the Union's next major economic slowdown – then the ensuing political situation will necessarily become extremely complicated. The process of introducing debt ceilings to all the countries' constitutional frameworks is very protracted and often subject to very passionate debates within the individual countries. The fact is that if fiscal expansions are made impossible during a crisis, or sanctions resulting from violations of the Fiscal Treaty have an impact, this may still be interpreted by political leaders in a number of countries as being 'dictated to by Brussels'. That would imply growing tensions within the Union and especially within the eurozone – this is, after all, similar to what happened during the debt crisis. The Fiscal Treaty itself really does not seem capable of solving that problem because the opportunity to export one's problems to the rest of the monetary union by incurring new debts will never cease to be an attractive option. In short, it often appears as a preferred solution which compels other political leaderships to share political costs. Consuming the monetary union's benefits is very pleasant but it may prove extremely difficult to make those same consumers pay the price, especially when the benefits are often borne by a different political leadership than that in charge at the time of increased spending. It is precisely this attitude that can be identified in the actions of the political leaders of Greece, Iceland, and other countries during the debt crisis, and it is hard to believe that the situation would be radically different during another crisis.

The basic line of argument of the critics of the Fiscal Compact is the simple fact (however tacit it often remains) that moral hazard cannot be removed by a treaty because, in the case of so-called 'problem' countries, only those political representatives who directly adopted the treaty will be accountable for its provisions to their citizens. Other politicians in the same country may find it easy to give up that accountability whenever the drawbacks exceed the bonuses. A classic illustration of this is provided by the above-

mentioned cases of Estonia and Poland. Although Estonia never had a constitutional debt ceiling in the past, it complied with extremely strict fiscal rules because its population (voters) considered this to be in the national interest. In contrast, Poland introduced a debt ceiling into its constitutional framework, the only result being to reach the defined threshold value as quickly as possible.

Therefore, true fiscal responsibility in individual countries cannot be enforced by the Fiscal Compact and its rules, but only by implementing those rules in the different countries' constitutional regimes, i.e. transferring responsibility for sound government finance directly to the nation state. This means the euro is in a strange situation. Although its promoters aspire to 'cement' the Union and advance convergence between economies of the Union (the currency area), its stability in reality depends, despite all supranational institutions and all the authority that the European Central Bank possesses, only on nation states' resisting moral hazard and building sufficiently strong checks into their respective constitutional mechanisms.

7.3.2. Criticism of eurozone development after the Fiscal Compact and criticism of ECB actions

This is, perhaps, a suitable moment to pay more detailed attention to some critical voices that gradually emerged after the debt crisis, and those that accompanied the effort to solve it.

The decision of the ECB Governing Council to purchase government bonds was subject to broad debate and criticism. The basic issue was that the decision contravened Article 123 of TFEU, which prohibits the monetary financing of governments (directly or in a way that circumvents the prohibition), and the prohibition of financial assistance in Article 125. Germany demanded both these provisions as a basic condition for signing the Maastricht Treaty and giving up the German mark. The President of the Bundesbank protested against that decision and eventually resigned.

The collectivization of debt relations under the target system, and the elevation of ordinary creditor-debtor eurozone conflicts to the international level have also often been criticized. In a market economy, creditor-debtor relations are addressed at the microeconomic level and civil law usually provides the means of conflict settlement. There is no such principle at the international level. There is no court through which debtors could be sued and receivables collected. This is why the conflict between creditor and debtor countries of the EU is going to continue (Sinn, 2014).

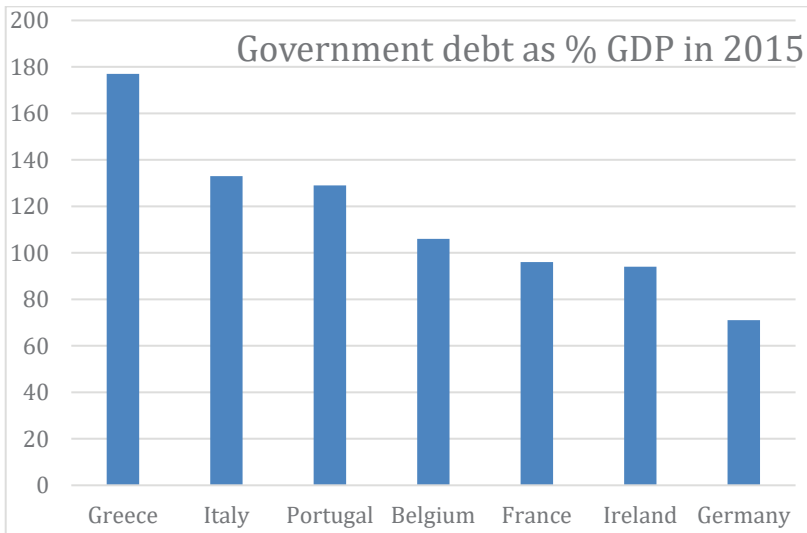
Another common source of criticism is the eurozone's systemic incentives for members to become indebted that take the form of various channels of fiscal non-discipline. In a monetary union with a common monetary policy and different national fiscal policies in naturally divergent areas, the euro proves to be a channel of fiscal free-riding. Governments know that it pays to use deficit and debt to partly transfer the funding of their programmes to others (Gonda, 2013).

It is understandable that in its pursuit of looser monetary policy, the ECB should keep within the limits of the strictly defined legal authority it has been granted whereas, in fact, it pursues regional fiscal policy that practically subsidizes the capital flows from northern to southern Europe by providing free insurance of those flows. Such actions will deform optimum allocation of resources and hamper growth in Europe, preventing the eurozone from catching up with other regions in the world (Sinn, 2014).

Capital allocation choices in Europe are no longer taken by owners and managers, but rather by political forces. This fact not only has serious negative repercussions for the continent's dynamic and effectiveness, but also gives rise to centres of political power that may undermine democracy. It is true that the ECB was established on the basis of democratic decisions, yet its current decisions are made by a technocratic body whose voting rules are incompatible with the democratic idea that every citizen has the same power in the decision-making process and, at the same time, that minority rights are protected (Maier, 2013).

After all, French President Nicolas Sarkozy admitted in December 2011 that the threat of the eurozone's disintegration had never been graver. German Chancellor Angela Merkel admitted to the euro's low credibility (Drudi, Durré and Mongelli, 2012). Clearly the new fiscal treaty was pushed through, including automatic sanctions against fiscal discipline violations, new fiscal rules and debt ceilings, and a permanent European Stability Mechanism (ESM). However, its effectiveness has been questioned as stated above (Sinn, 2014), and we largely concur with those questions.

Figure 7.6 EU's largest debtors



Source: Adapted from Eurostat, 2016

Eurobonds, which some financial markets see as a solution to the debt crisis, have serious pitfalls (Sinn, Berg and Carstensen, 2011). Even if the EU wanted to build a federal state, it would not be meaningful to introduce shared liability for the public debts of eurozone member states. Even in the USA, which constitutes one nation, a state is not liable for the financial management of other states. The absence of collective liability for the public debts of individual states is indeed the reason why American federalism works (Muellbauer, 2013).

Eurobonds will probably result in more lending because countries borrowing excessive amounts know that capital markets can no longer penalize them by demanding higher returns. The insolvency of some parts of the EU will cause the repeated emergence of crises, which will only be contained in order to avert a disaster. Eventually it will become inevitable for the eurozone to change into a transfer union (Sinn, 2014).

Even under such circumstances, the necessary steps will be decided democratically, by existing legislatures. Yet, given the path dependency of policy-making, the room for manoeuvre will narrow considerably. What seems to be a democratic decision will actually be the result of prior choices taken by the ECB Governing Council. Parliaments will be reduced to mere

agents of the Governing Council, which is the true ruler of the eurozone (Bagus, 2011).

It is unlikely that the Euro will break down completely and become a thing of the past (Dědek, 2013). Too much political capital has been invested into it for governments to abandon their project. Nevertheless, the system is at risk of fragmentation, of being left by both stronger and weaker countries, which might introduce their own currency of sorts to serve their economic needs better (Marsh, 2009).

There is no solution to the eurozone's problems. The single currency was a mistake from its inception (Stiglitz, 2016). Europe does not need the euro to maintain economic or political cooperation. The end of the single currency would not signify the end of the European project. An amicable divorce and a flexible euro, with a stronger northern euro and a softer southern euro, would resolve a lot of issues. In future, Europe may have to give up the euro in its current form to preserve the European project.

Some critics go one step further, reminding us that economic theory has long posed the question as to whether or not a monetary union can work smoothly without a fiscal union. Czechs and Slovaks have valuable experience in this respect. After the division of Czechoslovakia and the stoppage of fiscal transfers, efforts to maintain a monetary union between Czechia and Slovakia were successful for only five weeks. How long the eurozone will last is an exciting question that every rational economist is asking.

The eurozone crisis clearly demonstrates that policy cannot operate without long-term respect for economic laws. The fact that economic principles will always prevail eventually is also illustrated by the fall of communism, where central planning could not work because it contradicted market principles. The longer the eurozone ignores economic laws, the higher the bill future generations will be forced to pay (Wallace, 2016).

As we have demonstrated, the eurozone and its development after the debt crisis have been criticized in diverse ways, and a number of diverse potential solutions have been put forward. Some of those solutions are highly theoretical. For example, the idea of introducing a northern euro and a southern euro simultaneously is undoubtedly rational economically, at least at first sight, but probably politically untenable. Moreover, it is hard to imagine safeguarding the coexistence of two Euros in a single market with other currencies existing in that same area; it is similarly difficult to draw

up a mechanism under such a regime that would preserve the benefits of the absence of internal exchange rate risk.

7.4. The Greek crisis and criticism of quantitative easing

In discussing the future of the eurozone, it will be very useful to review the greatest challenge the monetary union has faced thus far: the Greek default. It was stated as early as the time of the global financial crisis that the possibility could not be ruled out that Greece's sovereign default would also drag down with it other countries within the periphery of the eurozone, resulting in the disintegration of the entire monetary union (Marsh, 2009). After the interest rates of government bonds of the southern countries of the EU increased, the ECB started to buy them and by doing so ceased to be an independent institution entrusted with overseeing a stable currency. Instead it changed into a politicised organisation that actively intervenes in the fiscal matters of problem states, although the treaties had hitherto forbidden this.

Greece's very accession to the European Monetary Union was an accident in the history of integration (Sarrazin, 2012). The only explanation is that faced with political needs, European institutions did not take the convergence criteria seriously. The admission of Italy, with its debt of 122% of GDP in 1998, was already a clear violation of the rules; the admission of Greece in 2000 was merely a logical consequence. The development of the Greek government deficit exceeded even the most pessimistic expectations (Pavoncello, 2011).

The Greek insolvency had been a reality for a long time. The government debt amounted to 99% of GDP in 2008 (and likely was much higher, considering the dubious circumstances of Greek government statistics) and grew to 177% of GDP in 2015. The country's government was obliged to make drastic austerity cuts (and continues to do so even at the end of the second decade of the millennium). Financial markets refused to buy more Greek bonds, despite the currency being euros. A disadvantage of government debt is that it often has to be 'rolled over' – maturing emissions must be replaced by new ones (Kouretas and Vlamis, 2010). Optimists say that had there been no eurozone membership, Greece would have collapsed by now. Realists note that the financial crisis in Greece might have never emerged without eurozone membership (Kohout, 2010).

Let us add a pessimistic argument: Greek default would have occurred in any case, even if the drachma had been kept, because to some extent, the euro merely accelerated, rather than caused, the Greek problem. The

country's troubles were largely shaped by a generous stream of structural subsidies and the low effectiveness of their implementation. The Eastern enlargement hit Greece hard as the main flow of subsidies was redirected to new member states. Habituated to constant massive financial infusions, Greece found itself unable to exist independently. Its subsequent euro accession exposed the country's tragically low competitiveness, a result of its absurd social welfare system combined with excessive wages, rampant corruption, and the unsustainable structure of the national economy.

The awareness of special risks affecting the government bonds of Euro countries only spread among investors when the Greek crisis began (De Grauwe and Ji, 2013). This led them to reassess the risks not only of Greek bonds but also those of other countries, with special vigilance toward eurozone bonds. If Greece had ceased to repay its debts and related interest Greek banks would, in the absence of accompanying measures, have become insolvent; but it would likely have been cheaper for the ECB to save Greek banks by supplying capital or guarantees than by assisting the Greek government (Sarrazin, 2012).

The eurozone found itself in an unprecedented crisis where one of its members was facing acute risk of sovereign default. More importantly, it was understood that the crisis could easily spread: after breaking out in Greece, for various reasons it could also occur in other countries of the eurozone (Ireland, Portugal, Spain, later Italy and possibly also Belgium). In any case, the crisis would have been exacerbated if the financial markets had been shocked by an uncontrolled sovereign default on Greece's part (Dědek, 2013).

In May 2010, the leaders of the eurozone countries approved a plan according to which the over-indebted Greece would receive another €110 billion in the form of cheap loans from the European Rescue Fund and through the waiving of some of the debts by private investors. Private holders of Greek government bonds voluntarily waived 21% of the value of these securities. Also, the maturity period of the bonds was extended to thirty years (Welfens, 2011).

In October 2011, the Union decided to recapitalise European banks (in order to increase the capital adequacy ratio to 9%), and to strengthen the credit capacity of the European Rescue Fund to €1 trillion. It was agreed that banks would write off half the Greek debts. Thus, Greece actually found itself in default. Thanks to the Greek write-offs, the Athenian debt decreased by

€100 billion. The ECB, IMF and the European Commission all agreed with these arrangements (Rusek, 2012).

In February 2012, the EU provided Greece with a loan of €130 billion from the European Financial Stability Fund (EFSF) until 2014. This loan exceeded the extent of the former assistance provided in May 2010 (€110 billion) as well as the extent of the voluntary write-off of Greek debt. From private debts, creditors voluntarily wrote off 70%. The European Central Bank, however, does not intend to write off Greek debt owed to it to the amount of €50 billion (Whelan, 2013).

In February 2012, the ECB also announced that it would newly release up to €1 trillion into the system. On a three-year loan to commercial banks, the ECB demanded 1% interest and even the lower-quality government bonds of Spain and Italy, or mortgages, could be used as security (Maier 2013). The third rescue package of €85 billion was agreed in July 2015, with a perspective until 2018. In sum, international creditors lent €325 billion to Greece.

On 20 August 2018, the rescue plan for Greece officially ended and the country fully returned to financial markets. At first sight the plan had been successful. The Greek budget has seen surpluses (see Table 7.3) and after an unprecedented decline (–26% between 2007–2014), the economy has grown again (1.4% in 2017, 1.9% in 2018, 2.3% in 2020) and unemployment has somewhat subsided (19% in July 2018 compared with 27.9% in July 2013). In spite of that, the Greek hazard should still serve as a warning. Even though the rescue plan has ended, its conditions continue to apply, including the requirement of relatively high permanent budget surpluses. The International Monetary Fund repeatedly stated that this will lead to further under-funding of the economy and that any fluctuation of Europe's growth will bring the crisis back to a similar extent.

As is already known, the debt crisis was never solely a 'Greek' crisis – even if it became the 'flagship' country. Neither was it limited to 'southern' countries: Ireland should be added to the list (even if the reasons behind its sovereign default were somewhat different), as well as Iceland (even if this is not a eurozone or even a European Union member state).

Importantly, the economic situation of Greece, Spain, Portugal and Ireland revealed, and continues to reveal, the more general and long-term problem of the eurozone's economic incoherence (Tomšík, Šaroch and Srholec, 2005). Italy can also added to the list, as an especially exemplary warning

given the size of its economy compared with the above countries, and in particular comparison with the much smaller Greek economy. There is a very real suspicion that Italy's debt-financing problem would have succumbed to failure a long time ago if it had not been for the ECB's long-term and permanent assistance. The consequences without such a development are unimaginable. The markets are aware of the absurd instability of Italy's financial (and banking) system. They are therefore strongly inclined to respond vigorously to any political change in the EU's third-largest economy (Marco, 2014). Yet the domestic political situation in Italy has traditionally been tense (the pessimists with whom we also side would say that this has been the case since the end of WWII).

It is unacceptable that countries which are too afraid of exiting the union, or deny that option outright, continue to take funding from other countries for granted (Bagus, 2011), for how else can one interpret the fact that those countries' government debt was, or even continues to be, financed only thanks to the large-scale interventions of the ECB? Eurozone membership does not come with the right to draw foreign transfers in case a country loses its competitiveness. Although the Maastricht Treaty defined the legal preconditions for membership quite clearly (Ševčíková, 2015), cases keep emerging of eurozone members being bailed out in times of crisis.

In this respect, it is well worth pointing out the differential treatment by the Union and, after all, by international institutions too, of Greece on the one hand, and of Spain, Portugal and, to complete the list, Italy, on the other. Greece came under enormous pressure to restructure its finances. Its public image was affected by extremely harsh declarations and actions. In contrast, the treatment of Spain, Portugal, Ireland and Italy was basically discreet.

Arguably, this was a (successful) attempt to reduce the debt crisis, or at least its public image, to 'the Greek problem'. Should the debt crisis in all affected countries have been addressed as harshly as in the case of Greece, the eurozone might no longer exist today or might have changed into something radically different. A real (and extremely painful) solution was imposed on Greece, including the return of a large amount of debt from abroad (especially German-speaking countries). In contrast, the debt of other problem states (and Belgium should be mentioned in this regard, too), has been 'hidden' from media attention and continuously 'rolled over' by ECB policy.

Those who demanded and continue with demands to save the euro through unlimited purchasing of bonds by the ECB only see one side of the coin,

namely the risk that the bond market will collapse due to insufficient trust in eurozone countries' public finance, and that the insolvency of individual euro countries will be the fulfilment of their own prophecy (Sarrazin, 2012). They often ignore the other side of the coin, namely that financial assistance, eurobonds or other forms of shared debt guarantees may discourage stricter national consolidation policies and instead cripple any such efforts. From this perspective, we consider the Union's policy to be disunited – on the one hand, the ECB continues to facilitate moral hazard through its policy of low rates and quantitative easing and on the other hand the Fiscal Treaty requires the introduction of debt ceilings.

The European Central Bank facilitates moral hazard among the eurozone's southern-area governments by purchasing their government bonds (which itself contravenes European law). It argues that new money must be printed to supply liquidity to the market. Insolvency in time, however, rather than insufficient liquidity, is the eurozone's financial problem. ECB interventions provide additional incentives for government lending. The crowding out of private credit by government loans is a real risk (Vitek, 2011).

The quantitative easing launched by the ECB in January 2015 only seemingly addresses the eurozone's economic difficulties. It continues even though the Federal Reserve stopped its quantitative easing a long time ago. Currency wars may also break out as a result of quantitative easing. When the US, European and Japanese central banks perform quantitative easing consecutively and all three currencies are devalued, the result is the same and it is as if nothing had been done.

Quantitative easing is no longer a part of the solution and has instead become a part of the problem. It stimulates additional government debt and does so in a highly addictive way. Quantitative easing is a useful way of concealing a continuously swelling government debt, as if the cost of its growth was zero. By extending the range of assets purchased, Europe's central bank is slowly but steadily turning into a financial central planner. Central bankers know all this, yet they keep resorting to ever less conventional instruments of monetary policy (King, 2013).

7.5. The euro as an intensifier of the business cycle

For sixty years Europe has been working on its 'noble' experiment to reform a war-torn continent through economic integration and thence dispatch it once and for all on a journey of peace and democracy. The elite of Europe were so fascinated by the idea of the creation of a powerful symbol of unity,

the euro, that they overrated its positives and swept aside all warnings about its substantial negatives (Krugman, 2012).

The key mistake made in the inception of the Euro was that its political founding fathers viewed it as a political project, the French as a means of better controlling and integrating Germany and the Germans as a mediator of political unity. Yet, all neglected the unplanned effects of the single currency, and things are getting out of control (Sarrazin, 2012).

From the beginning, European economic integration was dominated by the priority of political integration (Eichengreen, 1993). The idea of four economic freedoms and a free-trade area ultimately led to a relatively narrow form of monetary integration. The Euro was eventually introduced in a central, administrative and constructivist manner as the only legal tender in the area of the Economic and Monetary Union (Gonda, 2013).

The adaptation processes currently taking place within the EMU are based on the fundamental and somewhat paradoxical principle of monetary union – that one size obviously does not fit all. Interest rates help eurozone members as instruments of regulation. The ECB sets the basic interest rate according to the average economic indicators in the entire and fairly heterogeneous area of the single currency (Marsh, 2009).

In the years before the Euro, Hans Tietmeyer, former president of the Bundesbank, warned that those EMU member countries which generate a higher inflation rate than Germany may suffer from the decrease of competitiveness, which (unlike in the past) could not be compensated for by currency devaluation but could only be coped with by lowering the domestic prices of internationally traded goods and services, or by higher unemployment (Kohout, 2010). In the light of the events and experiences of recent years, it appears that the relationships between quantities like inflation, growth and unemployment do not comply with theory under all circumstances; in spite of that, the eurozone's growing structural problem cannot be overlooked.

In many respects, monetary union operates in a similar way to the gold standard, with gold being replaced by the euro (Baldwin and Wyplosz, 2015). In both cases, independent states share a single currency – then gold, now the Euro – and can no longer use the exchange rate to eliminate imbalances. When a eurozone country achieves a surplus balance of payments currency flows into the country; a deficit is followed by currency

outflow. A deficit country cannot use exchange rates to re-establish its competitiveness.

Good currency regimes cannot guarantee prosperity, yet bad ones may lead to unnecessary recessions and depressions. The euro met the expectations only partially: yes, it became a currency recognised as the second world-reserve currency, even a currency more important than the dollar on some markets. Technically it was, and still is, a success, but in economic terms it has worked as the mightiest intensifier of the business cycle since the time of the classical gold standard (Kohout, 2010).

During the period of boom, the euro helped, and in some cases continues to help, to strengthen that boom for multiple reasons. Firstly, the monetary policy tailored to the slowly growing German economy caused intensive overheating of some other economies, particularly those of Spain and Ireland. While the economies of these countries were growing, thanks to the credit bubble, most Spaniards and Irishmen did not mind this very much – except for those who wanted to buy an apartment and found out that properties were too expensive for them. The deflation of the credit bubble in the years 2008–2009, however, was very unpleasant (Nellis and Alexiou, 2012).

For a long time, the southern region (including Italy) was strengthened by the expansion-driven injection of euros, cross-Union redistribution processes and other forms of direct or indirect assistance. Wages and, with them, the standard of living grew faster than labour productivity. The instability became untenable, as was clearly demonstrated by the subsequent crisis. The stimuli that collectively triggered the crisis, however, have not yet been rebalanced.

While recovery in southern Europe depends on correcting the inadequately high wage and price levels in this part of the EU, this will be difficult and, realistically, pretty much impossible to achieve within the monetary union. To that end, Germany would have to maintain an annual rate of inflation of 5.5% for ten years, achieve a cumulative price growth of 71% and take a 42% decrease in the real value of nominal savings. The average inflation rate of the eurozone would amount to approximately 3.6% per annum. Even if it was technically feasible for the ECB to control such levels of inflation, this would be met with resistance in Germany, where the trauma of the hyperinflation of 1915–1923 is deep-rooted in people's minds (Sinn, 2014).

Figure 7.7 shows the rise of price levels from 2001–2012 (a different time period than that shown in Table 7.3). The strongest inflation took place in Greece, Spain, Portugal, Italy, and Ireland. In these countries head-over-heels growth was concurrently taking place driven mainly by credit. Higher inflation in the eurozone's southern countries had a profound impact on the competitiveness of their economies. While the southern countries repeatedly reached, and often continue to reach, a balance of payments deficit, the countries of the north have experienced cumulative surpluses.

Since currency devaluations are not possible in the eurozone and the countries at the southern and western peripheries of monetary union such as Ireland, Portugal, Spain, and Greece had higher inflation rates than the group of countries from the core of the eurozone around Germany, their exchange rates were growing in real terms and they began to lose competitiveness in foreign trade. In the south, the euro instigated wasteful consumption and speculative purchases of financial assets and properties, the value of which dropped sharply during the crisis (Marsh, 2009).

The subsequent deflation has meant great difficulties for, and high pressure on, countries like Greece, Portugal or Spain, as evidenced by their 'post-crisis but pre-expansion' levels of unemployment, especially among young people. As mentioned above, the unemployment rate reached 30% in Greece. Spain's situation was similar. Yet what is much more alarming, a ticking time bomb for the entire south (with Ireland this time not on the list) has been the enormous level of unemployment among people under 30: more than one-third of those able to work have been affected in the long term, and at its height this indicator reached as much as 50%.

Although deflation would naturally be followed by economic prosperity, the deflation process itself was painful and detrimental to society's fundamental structure. Political systems are destabilized by conflicts between different factions and come under pressure from strong and uncompromising labour unions (Sinn, 2014).

Theoretically, labour unions might be persuaded to accept lower wages if this was coordinated on a mass scale – because a nominal wage decline would be followed by lower prices of domestic production. Yet, in reality, such massive wage reductions are extremely difficult to negotiate. The problem is that every union will do its best to preserve wages for its members. No union will want to be the first to submit, and all will hope for another union to be affected by this fate (Pisany-Ferry, 2011).

An interesting insight formulated by some critics of the eurozone is that not only eurozone membership, but also the very pegging to the Euro, may cause problems (Kohout, 2010). The hard landing of the Baltic economies (which adopted the euro gradually from 2011–2015) was not the result of a wrong-headed fiscal policy. On the contrary, the Baltic economies were presented as examples of good financial management. The crisis was caused by a single factor, namely the credit bubble inflated by the fixed rate between the local currency and the euro. A fixed exchange rate is actually a highly dangerous arrangement (Feldstein, 1997b).

To complement the critique of the operation of the euro, one more aspect has been overlooked thus far, although it is closely associated with its role in intensifying the business cycle. Figure 7.8 clearly demonstrates that while the single currency was supposed to boost convergence, its real-life effect on unemployment has been the exact opposite. This is undoubtedly related to what is known about the issues of reduced wages and union activity (Sinn, 2014, Pisany-Ferry, 2011). If lower competitiveness cannot be reflected in wages (or in welfare benefits, unless the country comes under the same kind of pressure visited upon Greece), then the situation cannot be stabilized through devaluation and the problem will manifest itself in unemployment.

In this regard, the euro has proven its unforgiving character. It has exposed the structural problems of weaker economies (weaker in the sense of competitiveness, rather than GDP per capita), especially in terms of wages. This can be exemplified on closer examination of unemployment development in the Czech Republic, where a combination of low prices, its own currency (plus central bank interventions against its growth) and other factors have led to an unemployment level of 2.5%.

There is a concern that the economies of Italy, Greece, Spain, and Portugal have incurred fatal damage during both crises, that profound deindustrialization processes have taken place, and that this phenomenon will lead to further consequences in future (Mody, 2018).

7.6. Internal tensions of the eurozone

The EMU is more distinct than any other monetary union imaginable in that it is more heterogeneous than other monetary unions, including those that existed previously in Europe such as the Latin Monetary Union and the Scandinavian Monetary Union (Stiglitz 2016). The past failures of different monetary unions are a *memento mori* for the current currency experiment in Europe (Gonda, 2013).

Irrespective of the monetary union, a high level of regulation, low flexibility (e.g. in labour markets) and high welfare-state expenditure are the fundamental factors that undermine Europe's prosperity and freedom. Along with major economic, cultural and linguistic differences they contribute to destabilizing the eurozone and increase the risk of serious economic consequences of membership (Feldstein, 2012).

The introduction of the single currency could be characterised as having both merits and demerits. On one hand, it resulted in higher efficiency: operational cost decreased, and business planning improved. On the other hand, however, there has been less flexibility, which may be highly problematic, as in cases of 'asymmetric shocks' caused when a construction boom stops in some but not all countries (Krugman, 2012).

The problem of internal debt has been especially important in the case of the eurozone's southern countries, because all of them lost their competitiveness due to the euro-related credit bubble. Typically businesses, private households and governments have been overburdened with debt and debt service liabilities, which have prevented them from accepting any significant decreases in real prices, even if all prices and incomes could have been lowered proportionately at the same time. When real prices fall due to deflation massive waves of business and individual bankruptcies inevitably follow (Sinn, 2014).

There has been a significant and profound difference between Baltic countries and those of the eurozone's southern area. Baltic countries recently shook off communism and experienced excessively high price levels because although they entered ERM II with overvalued currencies, their governments, households and businesses did not hold considerable debts. Different social groups, therefore, were relatively easily persuaded of the need for austerity programmes. There was no easy way of transferring this example to southern Europe or to Ireland (Vilpiskauskas, 2013).

The grand project of aiming to stabilise Europe resulted in the exact opposite (Marsh, 2009). Instead of the desired higher cohesion and solidarity, the monetary project brought resistance and disruption. Negative sentiment against the Euro took its toll, toppling the governments of Ireland and Portugal, deepening the political vacuum in the Netherlands and Belgium, and threatening the ruling parties in Finland, Germany, Spain, and France (Braun and Tausendpfund, 2014). In Italy, it led to a radical change in the entire political stratification of society, and the elimination or marginalization of all traditional parties.

The eurozone crisis helped transform what had been a local shock into a much more serious global crisis. The euro has left Europe with division, rather than unification. A project that had been associated with prosperity and stability led to massive unemployment and economic depression. The eurozone resembles a failed marriage for which divorce represents the most difficult option. A chaotic exit may result in a bank run and the flight of other eurozone members' capital (Wolf, 2015).

In this context, one is reminded of Portugal's request for financial assistance in the debt crisis of April 2011 when it became the third country in the eurozone, after Greece and Ireland, to be protected from impending insolvency by a rescue loan. The agony of Portugal (and Greece and Ireland), along with the astronomical amounts which all these countries paid for their debts, should lead to the creation of rules for controlled defaulting or the restructuring of eurozone debts (Buti and Carnot, 2012). We suspect that such rules, at least in relatively specific and detailed forms, might be some of the preconditions of a functioning monetary union. If the United States is also considered as a monetary union then lessons can be drawn from rules it has in place – and has traditionally had in place – so that the voters consider them when deciding.

On the other hand, sovereign default is nothing unusual in history. For example, since the inception of its nation state, France has been unable to meet its foreign obligations eight times; Spain experienced seven sovereign defaults during the 19th century; Greece was practically constantly in default between the year 1800 to the aftermath of WWII; Italy has seen one, and Portugal six sovereign defaults since 1800 (Reinhart and Rogoff, 2009).

The main problem of the euro is the divergence of the competitive capabilities of the individual economies. The eurozone has inherent inner tensions that cannot be eliminated by any monetary or fiscal policy. This is a result of different historical developments, business environments, cultures and education systems. These factors have generated competitiveness (or a lack thereof) and cannot be influenced on a short-term basis (Ferguson and Kotlikoff, 2000).

For the eurozone's southern countries, it was the peculiar complexity of their national economies, not only their government budgets, that caused their ever-growing dependence on foreign loans (Gros, 2013). This development is highly dangerous in the case of a sudden collapse in the willingness by (and options for) foreign entities to continue with the

increase in the volume of credits provided to a country, or (even worse) in the case of a massive sell-off on the bond market.

The eurozone has found itself in a cul-de-sac. Two fifths of the eurozone's population, namely the people living in southern countries, and possibly also those in France, are trapped in the terrible situation of having lost competitiveness due to excessive credit-driven inflation, the only way out being blocked by their internal debt problems (Sinn, 2014).

Since the establishment of the monetary union, the differences between member states, far from diminishing, have actually intensified, with Nordic countries, Germany and the southern part of France developing in different directions (Sarrazin, 2012). It would be foolish to believe that the common economic area and the single currency will, left to its own devices, bring about real convergence. Real convergence between the older members of the EC ceased in the early 1980s and monetary union made no difference.

If European politicians do not approach the eurozone problem in a responsible manner, the promised help for the indebted countries will be only the first step in aggravating moral hazard in the fiscal area within the eurozone and the EU. The price paid for that will be the long-term economic stagnation of all countries and, sooner or later, an exchange rate crisis of the eurozone, accompanied by a concomitant growth in the inflation rate. The eurozone is not now what it only recently was, or seemed to be (Singer, 2011).

The only meaningful way out of the crisis would be direct devaluation by exiting the monetary union. Devaluation stimulates the demand for local goods by making imports more expensive, thereby motivating people to switch to local goods, which in turn stimulates the export demand and maintains the ratio between domestic debt payables and people's incomes, preventing the deformation of the balance sheets of those individuals and institutions who own the domestic debt (Sinn, 2014).

The euro has turned into a trap for the European states that adopted it. The southern states are trapped because the inflationary credit bubble brought about by the euro deprived them of their competitiveness, and the northern states are trapped in a liability spiral... Unfortunately, the sequence of measures to combat the crisis is not planned, and no one has a notion of where this all will lead. Instead Europe is left stumbling from one crisis to the next. (Sinn, 2014: p.257)

To complement the summary of critical arguments with one of our own, and in response to the situation in the late 2010s, we would like to argue that the measures taken at every stage of the crisis thus far have been motivated by the belief that it is necessary to find new sources of public funding, in order to protect existing private and public debtors from insolvency. Such new sources, however, will only temporarily relieve financial problems until they are depleted and therefore the vicious circle of the crisis continues. Politicians always argue that we are beyond ‘rock bottom’, but this is only propaganda. The ‘next crisis’ will always emerge, typically in an economic sector where it is not expected. Then, previous political decisions will give rise to new decisions to prevent another immediate collapse, and it will be argued again that the crisis was unexpected and due to causes beyond the control of European institutions.

We can support this reading with an example from outside the EU, namely Iceland. When the country’s three largest banks collapsed in quick succession in September and October 2008, a fierce debate broke out about the extent to which the crisis had been predictable and preventable by the country’s political leadership. Before being swept away completely by the crisis, the political elite argued that a crisis could not have been expected, and that the problem had been ‘imported’ from the US and the UK. The *Economist*, however, found more than 500 scholarly papers and conference presentations within the twelve months before the outbreak of the crisis that rendered the operation of Iceland’s banks problematic and highlighted the growing imbalance in their management, their extreme balance sheet value compared to Iceland’s GDP, and a number of other circumstances.

7.7. The euro and the countries of Central and Eastern Europe

Nowadays, the Euro is the official currency of 19 of the 29 EU countries (not including the UK which, of course, is ‘halfway through the door’ following the Brexit referendum). Of the remaining countries, Denmark has negotiated an exemption from eurozone membership and Sweden never entered the ERM II despite meeting all the criteria – which equals the above. The other non-eurozone countries include Bulgaria, the Czech Republic, Croatia, Hungary, Poland, and Romania. The logical questions are: at what point will these countries join the eurozone; or how long will the rest of the Union (here the eurozone) tolerate their independence?

Some of the above-named countries are objectively unable to enter the eurozone because their economies are not prepared to meet the criteria, especially that of inflation; others are hesitant about entering. In 2004 the then President of the Czech Republic Václav Klaus wrote the following about the euro and Central and Eastern Europe:

Many people in these countries look forward to it. They expect to gain from Euro stability, from decreasing the exchange rate risk, and from a credible monetary policy. I am struck that they do not see the other side of such an arrangement because it is more than evident that the transition countries need maximum flexibility and should not introduce any artificial rigidities (Klaus, 2004: p.175).

In this way, Klaus virtually set the direction for all subsequent debates on euro issues for the Czech Republic and beyond. The basic thesis can be formulated as follows: compliance with the Maastricht criteria alone does not indicate a country's economic convergence with the eurozone to the extent that it guarantees the benefits of euro adoption exceed its costs. As long as Central and Eastern European countries and western members of the eurozone do not form an optimum currency area, then the former should not rush towards the euro and instead should opt for entering the eurozone only when the benefits exceed the costs (Kučerová, 2005).

The countries of Central and Eastern Europe should not act against their economic interests for political reasons (Klaus, 2004). The main costs that these countries will incur will be the loss of independent monetary policies that should be distinctly different from a monetary policy suitable for the stable western member states – for transitional economies where tumultuous structural changes are taking place and for countries with a lower economic level. There is no rational economic justification for these countries to have the same interest rate as Germany or France (Ryan, 2011).

Transitional economies are engaged in a constant process of real appreciation and there is no way to bring this about within a fixed exchange rate while complying with the inflation and interest rate criteria of the Maastricht Treaty (laid down in the Stability and Growth Pact). There is a risk that the exchange rate will be set outside its long-term balanced position because the convergence process of these economies will not yet be completed at the time when they enter the eurozone. The result will be an unsuitable level of currency exchange rate (Lorca-Susino, 2010).

Convergence of the relative price levels in the countries of Central and Eastern Europe with that of more developed countries (with the eurozone

average for example) can take place through two channels: either by strengthening the national currency or through inflation differentials (Janáčková, 2010). An upward-converging economy with its own national currency has the option of spreading upward price convergence evenly between both these channels. In contrast, an upward-converging member of a monetary union has eliminated the exchange rate channel of price convergence and, therefore, will incur higher inflation (Dědek, 2013).

In Slovenia, which acceded to the eurozone as the first CEE country in 2007, inflation rose from 1.6% before accession to 5.7% at the end of the first year of membership and to 6.9% by March 2008. This country then had the highest inflation rate in the entire eurozone in spite of the fact that its relative price level had come close to 80% of the eurozone average at the time of accession. Long-term differences in inflation rates have impacts on the real economy. In reality, Slovenia did not even have Euro adoption under control by the end of the 2010s – although it is, of course, debatable to what extent the construction of the Euro itself was to blame and to what extent it was the Slovenian governments' own economic policies which gravely mismanaged the time period of global crisis and only in 2014 achieved a resumption of growth. One year later, the country's debt exceeded the extreme threshold of 85% and the economy was faced with modest price deflation.

Slovakia, which joined the eurozone in 2009, did not experience major inflation because the Slovak crown (Sk) underwent two considerable revaluations in the ERM II system: by 8.5% in March 2007 (from 38.5 Sk to 35.4 Sk/€), and by as much as 17.6% in May 2008 (from 35.4Sk to 30.1Sk/€). Thus Slovakia did not experience higher inflation later because it undertook abrupt appreciation (used the exchange rate channel) before entering the eurozone (Dědek, 2013).

Since joining the eurozone, Slovakia has not experienced any significant pro-growth impulse (Gonda, 2013). Whereas the average growth of Slovakia was 7% in the five pre-accession years, it slowed to 2% in the five years after accession. It should be noted, however, that the annual growth rate increased to 3.6% during the 2015–2017 period.

The National Bank of Slovakia estimates the annual savings resulting from the reduction of transaction costs to be only 0.3% GDP. The savings from the reduction of foreign exchange risk are estimated by the Bank to be 0.02% GDP, which is particularly due to the low extent at which hedging against foreign exchange risk is used.

The introduction of the euro led to the lowering of some transaction costs (for example bank revenues in Slovakia decreased following – and were partly due to – the introduction of the euro) and especially to lower and less volatile price inflation. This, however, is not a great benefit for a country that had succeeded in keeping its inflation low and stable even without the euro, all the while preserving its own monetary policy as an adaptation instrument and the exchange rate as a sufficient market-based means of correcting its own economic policy (Hampl, 2012).

Estonia joined the eurozone in 2011. The country was only able to meet the inflation criterion after the global economic recession pushed down commodity prices (Dědek, 2013). Estonia's decision to join the eurozone (similar to that of other Baltic countries) seems to have had a geopolitical rather than an economic rationale. Its engagement in monetary integration appeared to be a means to counterbalance the Russian influence in the region.

Latvia joined the eurozone in 2014 after attempting to do so simultaneously with Lithuania. In mid-2006, however, when European institutions communicated their resolve to take the Maastricht criteria seriously, Latvia gave up on its intention. During the economic crisis of 2009–10, the interest rates on Latvian government bonds jumped to almost 14%, yet the country used a clever interpretation of the Maastricht criteria and managed to meet the criteria (Dědek, 2013).

Lithuania applied for membership immediately after entering the EU but only joined the eurozone in 2015. In 2006, it exceeded the Maastricht inflation criterion by 0.07% – which is well below the range of statistical error. This gave the European Central Bank a welcome pretence to reject Lithuania (Janáčková, 2010). Nevertheless, it subsequently became apparent that Lithuania was really unable to maintain its low inflation rate on a longer-term basis because, immediately afterwards, its inflation rate soared up to 10%.

Following the Brexit referendum, Commission President Jean-Claude Juncker called for a rapid enlargement of the eurozone so that the euro should come to be adopted by all member states. As mentioned above, of the 28 EU member countries (now excluding the UK), only Poland, the Czech Republic, Bulgaria, Denmark, Croatia, Hungary, Romania, and Sweden have maintained their own currencies. This is a surprising shift by the European institutions given the ECB's tendency over recent years to

discourage entry into the eurozone, especially since the debt crisis had become a clear reality.

If the European Commission still wants to enlarge the eurozone, it should reform it thoroughly so that it becomes appealing for Central and Eastern European countries (Sinn, 2014). Today's euro divides more than it unites. The more countries that join the eurozone, the more heterogeneous it will be, and the less likely it is to become an optimum currency area (Lacina, 2007). The eurozone should make the euro more flexible and establish an orderly exit mechanism. The very debate about exit mechanisms, however, is likely to be something European institutions will strongly seek to avoid – because any such economically rational debate goes against the idea of the euro as the cement of Europe. Federalists do not want the euro as a mere currency, they want it as a guarantee of unity.

Any debates on the matter highlight that an Italian departure from the EU would closely resemble economic suicide (at least in the short- and medium-term) once it entered the stage of real measures. Briefly dwelling now on that idea, Italy's debt is primarily denominated in euros and this would undoubtedly remain the case if Italy exited the EU and reverted to some kind of 'new Lira'. It is hard to imagine that the country would leave the Union while keeping the euro – such a step would be a purely formal one (the number of rules, laws and regulations the country would have to keep would be tantamount to remaining in the Union).

At least, the country's foreign debt would therefore continue to be denominated in euros. The question is how domestic creditors would view any attempt to exchange this for the debt owned by private persons domiciled in Italy. In other words, euro denomination would apply to debt owned directly in Italy as well; only the rollover of the debt would be based on the 'new' Lira.

If this new Lira were to perform the desired function of balancing competitiveness with surrounding countries, it would necessarily have to be a devaluation currency for some (even a relatively long) time. This, however, would make the old euro-denominated debt even more burdensome and the debts in new Liras very expensive – it is unlikely Italy could expect the ECB to continue purchasing that debt. The period from the moment of exit until the time the effects of expansion stimuli generated by the country's own currency were felt would be extremely difficult, with strong impacts on the population and its standard of living; indeed, the

ensuing political pressures are hard to imagine. In any case, any political leadership that opted for Itexit would incur a devastating political cost.

Both politicians and technocrats like to claim that it is not possible for countries to leave the eurozone. In spite of the above description of the problems Italy would be faced with in such a scenario, we are convinced that it is possible. The process would nevertheless become more feasible if the economy in which it was launched were more stable. If Germany or the Netherlands chose to leave the eurozone, the process would undoubtedly be infinitely less painful for them than for Italy, Greece, Portugal, Spain, Ireland, or many other countries (Mody, 2018).

In any case, entry to the house of the single currency has a spectacular front door, whereas the back door disappears. Economic history does contain events which were previously unthinkable and which in reality eventually happened – be it the departure of Britain from the gold standard in 1913 or the disintegration of the Soviet monetary empire into fifteen separate currencies after 1991 (Marsh, 2009).

The countries of Central and Eastern Europe should not accede to the eurozone before the eurozone's fiscal problems are solved, before the eurozone proves its higher growth potential, before the difference of relative price levels diminishes (to eliminate the risk of increased inflation as a result of a fixed exchange rate after accession), before the eurozone becomes an optimum currency area, and before they find out with certainty about the direction in which the eurozone will head in the future (Janáčková, 2010).

The rigidity of monetary union and the growing implicit macroeconomic imbalances will block real convergence and create 'transfer economies', which is exactly what happened to East Germany after German reunification. They will have to survive without high fiscal transfers because these are not currently available in the EU. Transition countries should therefore not hurry to enter into the eurozone (Klaus, 2004).

It is a fact that at the end of the 2010s those countries not yet within the eurozone are still not keen on joining it. They have assumed a 'wait-and-see' policy that could be formulated as follows: the advantages of the single economic area are evident and beyond controversy, and they intend to make as much use of it as possible in the future. They are aware of the fact that the single currency formally belongs to that area, yet past experience indicates it is better to wait for the single currency to overcome the next wave of economic fluctuations and prove its viability.

7.8. Summary

The eurozone is not an optimum currency area. It could theoretically become one if a high level of labour mobility was achieved, wages were downwardly flexible, asymmetric shocks did not occur, and an effective system of fiscal compensations were in place. Since these conditions are unmet, the euro has become a trap for member countries. The euro did not have the effect of bringing about a convergence of economic development in the eurozone. On the contrary, it led to its divergence over a number of parameters.

The result of the twenty-year existence of the eurozone is that economic development began diverging and the ‘straitjacket’ of the single currency started to crush the individual member countries ever more palpably. As long as ‘good weather’ prevailed no visible problem occurred, but as soon as ‘bad weather’ arrived in the form of the economic and financial crisis a demonstrable eurozone ‘non-homogeneity’ could be more easily detected. The euro is not a strong engine of prosperity because it distributes prosperity from weaker to stronger members during expansion and, even more problematically, it accelerates depression at times of crisis.

So much political capital has been invested in the existence of the single currency as a common element of the European Union that, in all likelihood, it will not be abandoned at any time in the near future. It will, however, continue to exist at enormous cost, paid for by eurozone citizens in the form of low economic growth or stagnation. The relative weakening of the economic performance of Europe is particularly visible when compared with dynamic development in other parts of the world.

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CHAPTER 8

MIGRANT CRISIS

Migration is certainly one of the largest issues facing the current European Union. It is difficult to say whether this issue is ‘larger’, ‘comparable’ or ‘smaller’ than, for instance, the failure of the euro in the convergence processes, and it is also difficult to say whether the issue is ‘deeper’ than the fact that the inhabitants of European nation states still only partially feel that they are ‘citizens of Europe’. In the closing years of the second decade, however, it has definitely become one of the most visible issues; most frequently discussed in the media, and probably also the most politically sensitive.

It is not a wholly new issue in its scope and urgency. Migration has always been part of the European experience, but a genuine focused attention has only recently been paid to migration in the context of the mass movement of people on the routes from central and northern Africa to Europe, or from Syria (and some other Arab and generally Islamic countries) to Europe. Overcrowded refugee camps in Greece and Italy have also turned attention to considerably older issues from history, such as the problem of the integration of the Turkish minority in Germany. Elements in Brexit also alluded to the intra-European migration from east to west, which had hitherto gone almost entirely unnoticed. In any case, from the perspective of the end of the second decade of the 21st century, it is clear that migration has become one of the issues that has, for many reasons, strongly eroded European integration.

In this chapter, we will try systematically to analyse migration and the circumstances and impacts that accompany it. The first part focuses on the history of migration. The second part analyses economic concerns linked to migration. The third part puts migration and the crisis of multiculturalism into context. The fourth part focuses specifically on internal migration within the European Union, i.e. east-west migration and its influence on the integrity of the European Union. The fifth part looks again more closely into the relationship between migration and the demographic crisis. The sixth part highlights the issue of democratic legitimacy. The seventh part interprets

the migrant crisis as the most serious threat yet to the federalist position and to supporters of deeper European integration. Finally, the eighth part considers whether or not a rational immigration policy exists.

8.1. History of migration and the content of the term

The amount of time and attention that people, mainly in developed countries, have devoted to migration issues in the second half of the second decade of the 21st century is undoubtedly considerable. It is hard to say whether or not another political issue has resonated so strongly in Europe since the end of World War II, especially since the division of Europe by the Iron Curtain (Hollifield, 1992).

What is characteristic (certainly for a fundamental issue so widely discussed in the public arena) is that the terminology used in the debate has disintegrated. Disparate, unconnected aspects have become conflated in discussions. The debate on migration has already ceased to be an issue connected solely with expert opinion, or even a purely political issue. Instead it has entered the arena of ideology. The attitude towards migration is perceived as part and parcel of an attitude to the world as a whole – as an essential part of a ‘worldview’. It is therefore little wonder that attitudes towards migration have become decisive political topics in elections in a number of countries.

At the same time, divergent attitudes towards migration have increased tensions among individual states of the European Union. This is particularly the case in attitudes towards migration from Central Africa and from Islamic countries. Brexit, however, has shown that this issue has much broader application. The developed countries, including in this case the United Kingdom, are also tired and concerned (and sometimes even alarmed) by the influx of immigrants from countries of the Eastern enlargement. Conversely, some of these countries, looking at their own declining populations, are surprised to find that freedom of movement within the EU is having a seemingly overwhelming impact upon them, especially when combined with declining birth rates, seen as unsatisfactory in the long term.

In the current European Union, the issue of migration is disproportionately more structured than it might at first seem. From the Czech Republic’s domestic political perspective (likewise for Hungary, Poland and other countries), the issue of immigrants from African states and Islamic countries seems to be an essential concern when it comes to the migrant crisis. From the perspective of the United Kingdom, fully legal migration within the

European Union has been of much more importance. Migration (or more precisely the phenomenon of migration waves) is undoubtedly linked to certain long-standing problems that the European Union, and especially its individual countries, have been grappling with for decades, and unfortunately without much success.

These problems include the possibility of integrating new inhabitants who come from different cultural and religious regions and backgrounds, and it is beyond any doubt that this integration seems increasingly problematic – even after long decades of diverse experimentation. It seems that multiculturalism is finally dead. The key question is whether earlier migrants (or legalized immigrants), their offspring in the second or even third generation, and current migrants (mostly illegally entering the European Union) can all in future become genuinely loyal citizens of European countries and share the values that are crucial for these countries.

As already mentioned, the problem in Germany is with certain elements within its Turkish minority who, even after having lived there for many decades and despite the adoption of German citizenship (approximately 1.5 million people with Turkish roots have adopted German citizenship, i.e. approximately half of all people of Turkish origin living in Germany), are more loyal to Turkey than to the new homeland (although it might be more appropriate to talk about the new ‘country of residence’). A similar situation, although not so critical, exists in other migrant destination states such as France, Belgium, the Netherlands, and others.

8.1.1. Migration as a non-standard (but common) part of history

Migration has, of course, been a frequent or common historical phenomenon that has occurred since the time that we might poetically call the ‘dawn of history’ (Bade, 2003). The journey of *homo sapiens* from the Central African region along the Nile to the north of the continent and further, through Israel and the Middle East to Asia, is commonly considered the first migration wave, and it took place approximately 73,000 years before the present. If *homo erectus* is included as well, then the first wave of migration could even date back to about two million years ago when, from a geographical point of view, a very similar species expansion occurred.

Many debates on migration seek to establish a close link between this phenomenon (i.e. migration, especially the first migration of people) and the demise of Rome, which was then the most advanced economic and social

system in the world. The purpose of establishing such a link is to indicate that migration can eliminate any advanced society, decompose it 'from within'. Such a warning should certainly not be underestimated because it obviously has a strong rational basis (Tainter, 1988, Homer-Dixon, 2006, Gibbon, 2015).

The extent of the current migration wave into Europe is also often over-emphasized. It cannot, however, be considered too extreme from a historical point of view. Perhaps the largest migration wave in recent history (which is particularly significant with regard to the contemporary population) was the two centuries or so of the transatlantic slave trade from Africa to America. An estimated 11 million people were transported from one continent to another (not only to North America, but also to the Caribbean and, above all, to South America). African populations were decimated – according to models built on reports from previous centuries, the African continent should have held approximately 50 million inhabitants by around 1850, but only half of that number of people actually lived there at that time.

In Europe, migration has been especially significant, for example during and after the Thirty Years' War. In fact, frequent religious disputes were a regular cause of the migration of considerable numbers of people, other wars and conflicts only exacerbating the situation. Indeed, the founder of modern pedagogy, John Amos Comenius (1592–1670), lived from 1628 as an expatriate in Leszno, Poland, then in Sweden, in Hungary, again in Leszno, only to spend the latter part of his life in the Netherlands.

Migration is therefore quite a common historical phenomenon. From this point of view, what is commonly referred to as the migrant crisis is basically nothing beyond the context of relatively frequent events (in the historical sense of the word). On the other hand, referring to migration as a 'standard' phenomenon would be too frivolous. Migration of individuals, which is statistically virtually irrelevant, certainly has standard causes (marriage, a simple desire to live 'elsewhere', etc).

Group or mass migration, however, has always had a distinct, extraordinary and therefore 'non-standard' cause; land was over-farmed (which can be described as an economic reason), a violent attack, by nomads for example, a natural disaster or famine, war and religious violence, and many other causes (including long-term frustration with political developments in one's home country in light of living standards elsewhere). The main cause, however, cannot merely be a decision to 'just go elsewhere' – this would hardly make seven million Muslims leave India for Pakistan in 1947–1948,

or encourage roughly the same number of Indians and Sikhs to head in the opposite direction, to India; and the same principle definitely applies to the 12–14 million Germans mostly forced to abandon their homes after World War II, displaced to the territory of the then two German states.

Similarly, nearly a tenth of Venezuelans (about three million refugees) who left their homeland in 2015–2018 in response to the chaos created by the government of Hugo Chávez and Nicolás Maduro did not go because they merely ‘lacked sympathy’ for their presidents’ regimes. Mass migration is therefore not groundless: it is not a phenomenon occurring per se or for reasons we could call ‘standard’. Generally speaking, migration is always caused by economic reasons (these being extremely wide-ranging, from a simple desire to live in an economically more secure area to an escape from imminent or ongoing famine), social reasons (overt racism or oppression of minority groups), or social or political reasons (now including a simple fear of persecution, violence, or the need to flee from war and conflict).

8.1.2. Polarized opinions

Apparently, to look at its causes, migration can be formally divided based on a very large number of criteria and circumstances. At least formally, it should be noted that by migration we generally mean the movement of people from one place to another, and that usually migration involves movement between states (or continents). Of course, there is also intra-state migration but that is not covered here, although it may be and often indeed is a large problem within particular countries. From the point of view of the migrants’ target country, the word immigration is used, from the perspective of the state of origin, the word emigration is employed. Migration is usually perceived as problematic from the point of view of the target state, but in reality it is an issue with many layers of complexity and may cause the same or even greater complications in the state of origin.

Migration can also be further subdivided. For example, questions arise about the lawfulness of changing places of residence, since migration can be fully legal but obviously also completely illegal. Mass migration is typically illegal, and mention could also be made about forced and voluntary migration. In this case, migrants are usually called refugees or exiles or expellees (Lahav, 2004).

The complexity of the situation of the second half of the second decade of the 21st century is emphasized by the fact that the following migrants come

to the European Union (more precisely to a few specific European Union states) in parallel:

- migrants whose motives are undoubtedly purely economical, arriving from countries where the economic situation is indeed fairly poor, but where in reality they are relatively safe (i.e. there is no civil or other war, no widespread religious violence, no political oppression). These are usually illegal migrants in the true sense of the word and it is very likely that they make up the largest part of migrants who head to the European Union, the USA, and other developed countries;
- genuine refugees escaping from a war, civil war, or another unsafe situation. They may head to the EU (and elsewhere), but according to international treaties these refugees should stop in the first safe country at which they arrive. The purpose of refugee protection and refugee conventions is principally to protect lives, the integrity of their families and, if possible, property, and not to grant permission to choose a country in which to settle. There are, however, mechanisms to legalize further movement to a target country, if such an agreement is negotiated;
- migrants participating in the large east-west migration that is taking place inside the EU.

The existence of diverse causes of these waves of migration and the fact that these waves relate to issues of security or even national security (albeit in numerous and infinitely variable relationships) make any discussion about migration very difficult. Basic terms are vaguely used, quite often inappropriately, and it is hard to distinguish the actual individual levels of migration. In such an exacerbated atmosphere migration merges into one global mass – one general problem – which then seems unsolvable.

Generally, but also politically speaking, we notice a certain lack of deep intellectual analysis in discussions in which the interlocutors feel the urge to define themselves by proclaiming to be either ‘in favour of’ or ‘against’ immigration. Adopting such positions, in fact, is as meaningless as saying that someone is in favour of, or against, sex. Most people denounce rape, incest, one-night sexual encounters and express a preference that sex belongs in a loving monogamous relationship; however, migration or sex, of themselves, are neutral terms and the only thing we can do is to evaluate some of their forms (Browne, 2002).

The aforementioned ‘confusion of concepts’ proves, among other things, that issues surrounding migration have become associated with strong emotions – to the extent that on both sides we can define groups whose language reflects a complete lack of rational analysis and even flies in the face of common sense, since they have allowed their judgement to become clouded by pure emotions.

For instance, to claim that an opponent of mass migration dislikes migrants ‘as people’ is about as meaningless as saying that a supporter of family planning by contraception does not like children, or that someone who is concerned about excessively fast population growth on Earth hates the human race. It is similarly meaningless to simply label all those who ‘campaign’ or ‘protest’ or ‘take action’ against mass migration as *de facto* racists or to claim that they are fighting immigrants as individual people. Likewise, we should reject the frequently heard view which asserts that ‘love of one’s neighbour’ can only be confirmed by unconditional and absolute acceptance of mass migration as a given fact (O’Sullivan 2003).

For a part of society or, more specifically, for two diametrically opposed sections of society, one’s attitude towards migration has become a benchmark of correctness, quality or ‘kindness’ towards opponents and people of the same opinion – regardless of their attitudes on other issues (e.g. tax rates, or any other valid issue). Migration and attitudes towards it have now become an ideological and qualitative, capable of provoking strong emotions.

Although to a certain extent this might be an irrational situation, we must accept the fact that it is not the result of some deliberate device or preconceived plan on the part of any small group in particular. In public debates across European countries, however, we can identify at least two such artificially defined groups.

In his book *Exodus: How Migration Is Changing Our World* (2013), Oxford University economics professor Paul Collier tries to shake up these polarized opinions – on the one hand, there is hostility towards migrants, mixed with a touch of ‘racism and xenophobia’, and on the other hand, there are regularly repeated expressions of disdain on the part of liberal elites, claiming both that the open door policy brings economic benefits and also that any host nation state, and by extension its population, has a moral imperative.

Due to political correctness, we are obliged to fabricate a phoney sympathy for migrants and encouraged to see migrants from poor countries as the neediest people in the world. Migrants, however, usually come from the better-off groups in their home countries: the poorest people simply cannot afford to resettle; on the contrary, the neediest remain and are left to their fate. This is the great moral challenge of our time; but reckless migration is not the solution.

Migration is basically an investment: an individual has to incur initial expenditure, in order to secure a certain income. Migration costs are reduced when a diaspora from the country of origin is present in the host country. The migration rate is then influenced by income differences and the size of the diaspora. Since technical progress has drastically reduced travel and communication costs, it is much easier today for foreigners to stay in touch with their families in the country of origin (Collier, 2013).

As Paul Collier points out, migration is a private act that is usually decided at an individual level. This private decision, however, has implications for host societies as well as for the countries of origin, and these implications are often overlooked by migrants. Therefore It is legitimate and incumbent upon politicians to consider such consequences and take into account the interests of the host country nationals.

On the other hand, it is well known that in a number of countries many respondents in polls connect the issue of migration with crime. Even the European Commission acknowledges that migration is referred to as the main source of uncertainty in most EU countries (see Kessler and Freeman, 2005). According to US surveys, up to 70 per cent of respondents believe that immigrants are the cause of higher crime rates. German statistics confirm (if, of course, we can speak about valid statistics in EU countries, given that only partial data is made available due to 'political correctness') that there is a higher crime rate among immigrants than in the domestic population.

8.2. Economic fears of migration

For three centuries, Europe 'exported' emigrants rather than 'imported' immigrants (Lahav, 2004). The export was caused by an accelerated demographic growth, and the fact that Europeans were offered a free and welcoming space in the New World, as well as other previously discovered and subsequently relatively densely populated places. Today, things are the other way round: Europe imports immigrants! It does not, however, import

them because of a scarcity in population. It imports them, among other things, because Europeans have become rich and even poor people in Europe are not willing to accept just any work.

As shown in Table 8.1, migration as such is not a new phenomenon for the European Union – it existed in the past, and at very high levels. There has, however, been one significant recent change and that is in the relationship between legal and illegal immigration. While some countries (for example the Czech Republic and Germany) used immigration not only to eliminate the effects of emigration, but also the impact of a natural demographic decline, some other countries (Bulgaria, Romania, Latvia, Lithuania, Estonia, and Croatia) were brought through emigration (especially when migrants were passing through to other developed EU countries) to the brink of a demographic, and therefore economic, disaster. At the same time, economic problems may not be caused by trends in population loss – which by itself can cause trouble, but may not quite precipitate an economic collapse. The problem is the rate of decline of population in countries such as Bulgaria and Romania. These issues will be discussed further below in greater detail.

Table 8.1. Net migration in Europe (1995–2005)

Country	Net migration (immigration – emigration)	Natural population increment*	Total change 1995–2005
EU (27)	14,079,592	2,393,984	16,473,576
EU (25)	14,423,267	3,343,025	17,766,292
Eurozone (13)	13,064,719	2,934,781	15,999,500
Eurozone (12)	13,041,688	2,943,931	15,985,619
Belgium	266,494	114,314	380,808
Bulgaria	-212,232	-496,436	-708,668
Czech Republic	106,877	-188,959	-82,082
Denmark	128,979	82,762	211,741
Germany	1,989,345	-1,089,953	899,392
Estonia	-42,650	-60,741	-103,391

Greece	531,442	-1,337	530,105
Spain	4,001,063	414,087	4,415,150
France	1,043,969	2,019,920	3,683,634
Italy	2,164,619	-257,316	1,907,303
Cyprus	82,475	38,540	121,015
Latvia	-58,036	-147,954	-205,990
Lithuania	-161,857	-77,850	-239,707
Luxembourg	35,398	18,452	53,850
Hungary	-168,270	-42,389	-260,119
Malta	20,311	14,584	34,895
Netherlands	269,377	640,711	910,088
Austria	287,615	34,821	322,436
Poland	-550,693	127,151	-423,542
Portugal	477,722	74,299	552,021
Romania	-131,822	-452,226	-584,048
Slovenia	22,998	-9,117	13,881
Slovakia	-3,114	36,087	32,973
Finland	56,399	100,427	156,826
Sweden	212,632	18,739	231,371
United Kingdom	1,456,926	992,702	2,449,628
Croatia	-163,102	-62,847	-225,949
Macedonia	-36,115	117,364	81,249
Turkey	-58,041	2,809,000	11,317,401
Iceland	6,994	25,919	32,913
Liechtenstein	2,298	1,978	4,276
Norway	131,895	159,914	291,809
Switzerland	279,833	160,276	440,109

*Source: Adapted from Eurostat (*natural population increment = number of live births – number of deaths)*

The economic context of migration is extremely complex and full of contradictions. The issue can be viewed from many different angles and it is therefore not surprising that in the many debates on the subject, different approaches are to be found, depending on how they suit the momentary needs of the speaker. With a certain amount of exaggeration, migration can be easily justified as something that is economically required, beneficial or even essential for Europe (and developed countries), and equally easily labelled as an economic brake with the potential to cause major problems and crises. Similarly, it is possible to view migration as a way to salvage the labour market, or a way to kill it with a lethal injection, etc.

We will try very briefly to interpret these differing attitudes and opinions. The notion of the economic benefit of migration is based on the demographic evolution of native populations in Europe, which is characterised by long-term low birth rates far below the rate of full replacement. Technically speaking, for two decades or more, most countries have suffered from fairly significant natural declines in population. Incidentally, this is not linked to average life expectancy, which has actually been increasing for more than fifty years now, especially in the last thirty years: this process has become very intensive (with the fall of communist regimes in CEE countries there has been an increase in life expectancy). The turn of the second and third decades of this century will see a turning point in figures for the natural level of population, which is expected to fall into the negative. The effects of human-life extension will fade and the demographic crisis will hit hardest (the original population will decline).

We therefore follow two parallel processes. In some places, population increase is at a mere 75% (compared with past generations). At the same time, the number of people from the oldest generation has increased in a statistically significant way. The fall in birth rates has caused problems in education because the school capacity is too high for such small numbers of children and adolescents.

On the other hand, ageing populations in recent years have made meaningful differences to the range and amount of consumer goods purchased, as there are obvious and significant differences in the expenditures of the 65–74 and 75–84 age groups. While in developed countries, the former group spends relatively high amounts on recreation, travel and also regular consumption (food, consumer goods), the latter, higher, age group's spending on travel and regular consumption decreases with age; and the costs of social services, healthcare, medicinal products and similar items dynamically increase.

Yet another consequence is a gradual change in the structure of service demands. As the population ages, there is a commensurate increase in the demand for social and healthcare services. Of course, sustainable funding of such services has become an issue, as has (to a much larger extent) the funding of pension schemes.

In this context, advocates for migration have argued that the influx of new inhabitants makes it possible to adjust and eliminate the constantly growing economic imbalances caused by demographic development. In the short-term (tactical) perspective, this can actually be true. In the long-term strategic perspective, this vision is highly problematic.

We are unusually sceptical about this last point, and for a variety of cultural and other reasons we do not consider migration to be a mechanism capable of resolving any economic problem at all. From the employers' perspective, migration addresses the issue of a growing labour shortage, especially in poorly paid jobs without much added value (and also enhances the growth of real estate prices (Zimmermann, 1995).

Although in many countries the number of jobless people remains high (see Figure 7.8), the worst paid jobs and, for example, professional technical positions, are increasingly difficult to fill. The latter part of the problem could be solved by (mass) migration only after some time (perhaps the real question is whether it can be solved at all – organized selective migration is something completely different), but it is clear that the influx of new workers should be able to solve the former part of the problem. We believe, though, that even so there will be side effects.

We therefore believe that in the relatively short term, a high migration rate may have a positive economic effect by increasing the potential for an abundant labour force. From a mid- and long-term perspective, however, the effects of such a development are somewhat negative, assuming that mass migration is involved which is significantly reflected on the side of the offer: it results in slower labour productivity growth and thus also in slower wage growth.

Table 8.2 National and foreign-born populations in Europe in 2013

Country*	Population	National population	Foreign-born population	Foreign-born % population
Belgium	11,161,642	9,907,740	1,253,902	11.2
Bulgaria	7,284,552	7,239,351	45,201	0.6
Czech Republic	10,516,125	10,093,845	422,280	4
Denmark	5,602,628	5,228,059	374,569	6.7
Germany	82,020,578	74,324,165	7,696,413	9.4
Estonia	1,320,174	1,123,033	197,141	14.9
Ireland	4,591,087	4,047,451	543,636	11.8
Greece	11,062,508	10,200,127	862,381	7.8
Spain	46,727,890	41,655,210	5,072,680	10.9
Italy	59,685,227	55,297,506	4,387,721	7.4
Croatia	4,262,140	4,234,286	27,854	0.7
Italy	59,685,227	55,297,506	4,387,721	7.4
Cyprus	865,878	695,802	170,076	19.6
Latvia	2,023,825	1,708,411	315,414	15.6
Lithuania	2,971,905	2,949,681	22,224	0.7
Luxembourg	537,039	298,195	238,844	44.5
Hungary	9,908,798	9,767,676	141,122	1.4
Malta	421,364	398,898	22,466	5.3
Netherlands	16,779,575	16,065,023	714,552	4.3
Austria	8,451,149	7,454,111	997,038	11.8
Poland	38,533,299	38,474,440	58,859	0.2
Portugal	10,487,289	10,070,247	417,042	3.4
Romania	20,020,074	19,949,408	70,666	0.4
Slovenia	2,058,821	1,967,436	91,385	4.4
Slovakia	5,410,836	5,337,911	72,925	1.3

Finland	5,426,674	5,232,424	194,250	3.6
Sweden	9,555,893	8,896,519	659,374	6.9
United Kingdom	63,896,077	58,966,367	4,929,710	7.7
Norway	5,051,275	4,593,879	457,396	9.1
Switzerland	8,039,060	6,169,990	1,869,070	23.2

Source: Adapted from Eurostat, 2014

Table 8.2 shows the share of national and foreign-born populations in Europe in 2013. The percentage share of foreign-born people in the population varies among countries. The social standing of foreigners in each state is also very different. In many cases, they attempt to follow the same cultural and other traditions as the national population. The largest populations of foreign-born residents live in Luxembourg (44.5%), Latvia (15.6%), and Switzerland (23.2%). Compared with countries in Western Europe, the Czech Republic is home to relatively few foreign-born residents (approximately 4%). In Romania, Bulgaria, and Croatia, foreign-born residents make up less than 1% of the population.

It is not easy to calculate the share of foreign-born residents in Europe as a whole because some countries (e.g. France) do not maintain official statistics concerning foreign-born resident populations. Data on the number of foreign-born residents could not be obtained from Estonia, Malta, Portugal, Croatia, Turkey, and Liechtenstein. In the United States, the full percentage share of foreign-born residents within the total population is around 13–14%. The average percentage in Western Europe is probably similar, albeit slightly lower.

According to some authors, it is a paradox that at the political level, migration is supported by social democratic parties which are supposed to defend the interests of the middle class and poorer national citizens, while its opponents include conservative parties that should support (at least in the traditional sense) the interests of business unions. The right-wing promoters of the free movement of goods and capital have a reserved attitude towards migration, whereas the left wing, which is (often) sceptical about liberalisation and the movements of goods and capital, promotes the free movement of people (Collier, 2013). In fact, this popular theory has significant flaws: it does not explain, for example, the attitudes of a number of conservative parties who are relatively open to migration. This bipolar notion of the political dimension of the issue does not reflect the fact that

the political spectrum (at least under normal circumstances) is not itself bipolar, because the list does not include any liberal parties.

What this paradox illustrates is the extreme complexity and sensitivity of the issue of immigration. That notwithstanding, many commentators have tried to put forward a simplified explanatory view. They believe that the real reason for the ‘swapping of political roles’ between the right and the left is the fact that the left wing would like to receive the votes of naturalised immigrants in future elections. This notion stems from the assumption that most immigrants from traditional countries are fairly poor people who prefer left-wing parties to right-wing parties. That is why, in this model, conservative parties are not overly enthusiastic about migration.

Nevertheless, an essential counterexample that challenges the motivation of social democratic (or communist) parties’ relationships to migration, is associated with electoral structures. It is beyond any reasonable doubt that alternative parties with strong anti-immigrant attitudes in particular countries (almost always accompanied by anti-Islamic sentiments) rely on less educated and manual or working-class groups. In some countries, a strong correlation can be drawn between the worse-than-expected election results of leftist parties and the worse-than-expected election results of anti-immigrant groupings. To some extent, we might draw the conclusion that workers and employees in less well paid jobs are fully aware of the risk of competition in the labour market and that this is why they feel attracted to parties that promise protection from competition.

It is somewhat symptomatic that in the United States, for example, recent immigrants, rather than local people, are numbered among the fiercest opponents of immigration. Similar attitudes can be seen in the United Kingdom, France, and many other countries – including the Czech Republic, which has otherwise only marginally been affected by the migratory waves of recent years. It is probably no coincidence that 65% of African Americans in the US supported a moratorium on legal immigration (see Citrin, Green, Muste and Wong, 1997). The US government estimates that about half of the decline in the wages of uneducated workers is due to competition among immigrants (Chiswick, 2005) – particularly illegal immigrants in this context.

8.2.1. Issue of illegality

From this perspective, any mass migration – and illegal immigration in particular – is a serious problem for target countries (Ethier, 1986). Illegal immigration is, for instance, unacceptable not only because local citizens do

not want it, but also because laws are being violated. We may therefore remove the issue from its current lofty place on the moral high ground of ethical choice and reduce it to a shallow reality; and then build on the plain fact that the political attitudes of societies are affected primarily by real events and their actual impacts on citizens' lives. Political attitudes evolve from the economic impacts of social phenomena.

Also, the fact that illegal immigrants do not pay any taxes is worth great attention. While society in the USA perceives their 'informal employment' as common practice – in other words, the involvement of migrants (both legal and illegal) in economic structures is perceived by society to be at least partially positive – Europe on the other hand sees a different effect. European society faces a not unrealistic model in which migrants (both legal, and illegal who are awaiting confirmation or not of legal status) are primarily the consumers of benefits and assistance. Tax revenues are therefore unlikely in such cases.

Logically, society now has entrenched ideas about something that was theoretically defined from many different perspectives a long time ago: the state has the right to stipulate rules or sanctions for the arrival of legal and illegal immigrants (e.g. Weiss and Hillman, 1999), although the methods may be unpopular (such as the US–Mexico border fence).

García (2006) argues that illegal immigrants entering the country inspire a feeling of uncertainty among the domestic population. Illegal immigration negatively affects the benefits expected by citizens. Extreme parties then benefit from these situations in elections. It is interesting to look at this mechanism in greater detail, because its consequences are devastating for European integration.

We can also agree with former European Commissioner Frits Bolkestein that the integration of immigrants in Europe has failed, because in order for integration to occur, it must be based on migrants adopting a system of values created by western liberal democracy:

There should always be room for genuine political refugees. But most migrants come for economic reasons. Their presence worsens current problems of integration in urban areas and burdens social security systems. If the flow of migrants should remain uncontrolled, Europe would be importing poverty while the countries of origin would lose a productive part of their population. (Bolkestein quoted in Browne, 2002, p.109)

Indeed, we can imagine a situation where a European or other developed country becomes home to millions of Muslims, but it is hard to imagine that these countries would be prosperous and democratic unless a substantial proportion of those Muslims can demonstrate loyalty and allegiance to their new host countries and to liberal democracy as the political system on which the prosperity and maturity of those target countries are built.

Perhaps this question should be asked with increasing urgency by large sections of society in target countries: on what else but purely economic grounds does the migrant seek a space to pursue their original way of life and habits, and their own laws and traditions? Where has the desire gone for a real change in terms of freedom, way of life, the possibility of attaining greater success through one's hard work, compared with the chances they had in their homeland? And if these qualities or motivations have been lost or no longer exist, then how will this society look when not 5%, 10 % or even 15% are migrants (and their offspring grow up in separate enclaves), but 30-50% of them originate from different cultural and religious environments?

The arrival of illegal immigrants is a much more serious problem than the arrival of legal migrants (although the rationale for quota-setting procedures may be challenged in both the United States and the European Union).

It is worth noting that there is a significant difference between the behaviour of illegal migrants in the United States and that seen in developed European countries. In the USA, where people who do not hold visas or other documents permitting them to stay are deported on a regular basis, migrants do their best to blend in with the crowd and engage in cooperation (to become economically active). Europe applies much stronger efforts to obtain appropriate permits and refugee status, or to make use of family reunification laws. The reason is doubtless a more generous social welfare system that allows migrants to achieve a standard of living that would unquestionably be considered luxurious in their countries of origin (Murray 2017).

Having discussed a distinct US migration policy, it is important to add that the share of undocumented migrants in the total population of the United States is considerable. In 1990, the number of 'illegal immigrants' was estimated at 3.5 million, while the official estimate was 12.2 million in 2007 and 11.3 million in 2014. Of those numbers some 8 million people had a job. In the state of Nevada, for example, illegal immigrants accounted for about 10% of all workers, and in the United States as a whole they accounted for more than 3% of the entire workforce.

To illustrate the point and put it in overall context, in 2018 the United States was home to about 44 million migrants: people who were not born in the USA. They accounted for approximately 13.5% of all people residing in the country. Thus, the proportion of legal and illegal migrants was approximately 75% to 25% respectively. For an undocumented migrant (a migrant who violated the laws pertaining to entry), the chance of making his/her stay legal was virtually negligible. That is in strong contrast with the situation in Europe which presents wider possibilities for legalising the migrant's stay.

8.2.2. Fiscal implications of migration

The overall fiscal consequences of immigration are fairly weak and inconclusive, and therefore immigrants should not play a role in the rationale of immigration policy (Lee and Miller, 2000). Schou (2006) collected statistical information which, based on his interpretation, suggests that immigrants from developed countries usually pay taxes which exceed the benefits they receive and beyond that which they obtain from public services. On the other hand, immigrants from developing countries are on average less educated, suffer from higher unemployment, may make a greater claim on social benefits generally, and may have higher requirements in terms of public services, such as schools and hospitals. The average immigrant from a poorer country, therefore, draws more money from the budget than s/he contributes.

Browne observed that a great proportion of net immigration to the United Kingdom comes from Pakistan and Bangladesh and mainly through marriages (Browne, 2002). Pakistan and Bangladesh, however, suffer from extreme poverty and over 50% of the working-age population is unemployed. It is almost certain that immigration of that type reduces rather than increases Britain's GDP per capita. Americans, who until relatively recently used to accept up to 1 million legal immigrants per year (mainly from developing countries; Homeland Security, 2014), use an apt definition: 'importing poverty'.

According to some studies, the view that rising immigration has the capability to offset the threat of the fiscal crisis that may arise due to an ageing population by maintaining social security and health insurance, is, on balance, biased. Many immigrants have lower education and a high birth rate, so their net fiscal impact may be negative rather than positive. Lee and Miller (2000) argue that the fiscal impact of immigration in the USA is negative at the local and state levels while being positive at the federal level.

Some other observations and study results are also worth mentioning. There is evidence that less productive migrants tend to move from poor countries without social welfare systems to countries where such systems exist (Rossignol and Taugourdeau, 2006). Milton Friedman once correctly said that open borders were incompatible with a welfare state (interview, *Wall Street Journal*, 22 July 2006). In many aspects, the free movement of goods and capital substitutes for the free movement of persons.

In this context, we can therefore replace the term ‘open borders’ with the term ‘permeable’ or ‘surmountable borders’. If the costs of overcoming an obstacle include the value (risk) that migrants are willing to accept, then sooner or later that obstacle will be overcome. And if migrants are aware, or if they believe based on the information available to them, that having overcome the obstacle they will have a relatively high chance of being able to draw future benefits, then they can expect to exert considerable or even enormous efforts to overcome that obstacle – even accepting very high risks.

Studies in the USA show a positive correlation between immigrant fiscal contribution and the level of development of their country of origin (Mayr, 2005). Immigrants from the developing world permitted to stay because of marriage or asylum will be less likely to find jobs or to have adequate qualifications; they will probably access more benefits and be subsidized by other taxpayers.

The fear that without immigrants, the size of the labour force will be reduced is unfounded. The number of workers will be sufficient even in the long term because Europe still suffers from relatively high unemployment. In addition, the retirement age continues to rise. Attracting more workers to Europe is therefore ill-considered. When it comes to western European countries, only Italy will face a fall in its working population (Feld, 2005).

European politicians have agreed that unemployment is one of the biggest challenges faced by European countries. While the numbers of unemployed have declined only slightly, pro-immigration pressure groups have argued that there are many sectors suffering from worker shortages. Yet most newcomers are people of low education, without language skills, and whose probability of remaining unemployed is about four times as high as that of local people (Murray 2017).

One need not have particularly strong social sentiments to recognize that the solution is not throwing millions of the local unemployed overboard in order to make way for those from developing countries (Meier, 2000).

Chain migration is also a problem, by which the whole family may follow a migrant to the developed country, only to be followed by invited others, and so on. The chain of potential immigrants is almost endless.

It is possible to agree with Shaw (2001) that rather than trying to influence demographic behaviour, more practical measures should be taken to increase the numbers of the economically active in the population, by such steps as increasing labour participation or raising the retirement age. Active pro-immigration policies bring risks because immigrants who are perceived as temporary (e.g. Turks in Germany) may well remain in the host country and create a burden for social services.

It is often said that without immigrants western countries would stagnate (Browne, 2002); however this is post-justification for immigration that has already taken place, rather than an argument used to justify future immigration. Such scenarios do not take into account developments that would occur in the absence of immigration. An alternative could be to have lower unemployment in the absence of alienated and criminal groups, better status of mothers returning to work, etc.

In early 2016, Commissioner Dimitris Avramopoulos warned that a collapse of the Schengen system would be the beginning of the end of the European project. European Commission President Jean-Claude Juncker said that the reintroduction of border controls in Europe would destroy the Euro and the single market. Having a single currency and not being able to travel freely in the EU would not make any sense (Břicháček, 2016).

Of course, the effect of migration (regardless of whether it is legal or illegal) on the countries of origin of migrants is also of vital importance. According to one US study, approximately 400 million people would like to move to the United States (Cornelius, 2005). This estimate is, of course, speculative, but illustrative at the same time. Such an influx (more than doubling the population) would destabilize or, rather, destroy not only the target country, but also the migrants' countries of origin as well, should the change prove permanent.

Emigration deprives many poor countries of their best and most enterprising citizens (Chen, 2006). It often devastates the healthcare and education systems which are essential for their development, and denudes poor countries of the rudiments of a politically stabilising middle class. The most energetic, most educated people of the developing world leave for western countries – and this is a very inefficient development policy. It drastically

damages those countries, especially in Africa. The mass migration environment dramatically decreases the chances of the original country setting out on a path towards economic and social growth, and actually opens up an ever-growing space for extremism and other anti-growth phenomena in the affected countries, which only give birth to further migrant waves.

There are no “free lunches” even in migration (Freeman 2002). Migration may be beneficial for business circles in the target countries, because it provides a source of cheap labour, but for less educated people of the same countries it is a shortcoming as it reduces their value on the labour market and helps depress wages. After all, this explains why the most vocal opponents of migration include already resident ethnic minorities in target countries – for them new competition is a burning issue. Furthermore, it stands to reason that if the target country gains (albeit short-term) benefits, then the countries of origin will bear the costs of such benefits (in both the short term and the long term by having inhibited their own development potential).

Immigration, however, clearly benefits immigrants themselves. By allowing people to move to places where they can obtain the largest returns on their knowledge and skills, help is directly given in the first place, and then indirectly in the form of economic development. It has become more and more clear that a reasonable immigration policy must balance the costs and benefits of immigration for various groups of inhabitants (Borjas, 2014). There are people who gain, but there are others who lose. It is patently clear that sudden, unsustainable, and destabilizing migration flows in particular pose a problem (including in economic terms).

Migration as an adjusted and regulated phenomenon can be beneficial both in the short term and in the long term (as in the United States, despite the fact that the USA applied a strong brake on migration in the late 2010s, including migration of highly educated people and even scientists). Illegal and, above all, mass migration can be beneficial for some business entities in the short term, but in the medium and especially over the long term its costs are extreme – both economic and, to a much larger extent, political.

8.3. Migration and the crisis of multiculturalism

Migration as the freedom of people to live a better life in a different part of the world and to escape persecution was a positive historical force; it stimulated new thinking, revived societies, and has remained a force for

good in this sense even today. Yet the question of whether the arrival of new immigrants does not disrupt the national identity or traditions of the host countries, and, above all, whether the inadequate integration of foreigners does not undermine the very foundations of liberal democracy, is being asked more and more often (Schnapper, 1994).

The integration of people migrating within culturally tight-knit areas works well in the course of one generation (Geddes, 2005). However, the integration of migrants from disparate socio-cultural environments will always be disproportionately more difficult and will in any case be affected by the fact that many migrants are not able to integrate even in the course of several generations. Without denying that we can be enriched by foreign cultures, therefore, we should not be blind to potential risks related to mass immigration without integration (Cholewinski, 2005).

The pro-immigration lobby gives the impression that immigration is inevitable, and enriches the target country, and that acting against it is unwise, uneconomical or, from another angle, even indecent and racist. Although people-smuggling understandably remains an illegal activity, at the same time it can (unlike commodity-smuggling) be interpreted as humane. The provision of assistance to migrants (and not only to refugees under the remit of international conventions) has become the main field of activity of a number of non-profit organizations whose actions are often likely to be on the very borders of legality.

This has created a situation different from those of the past. From a historical point of view, nothing revolutionary or unusual has gone on in the second decade of this century, because migration waves have previously occurred (and much larger migration waves than those currently witnessed). In terms of the real situation and impact on specific European nations and their future, however, such a historical view is insufficient. It can hardly be said to the people of Europe that their lives will fundamentally change and that their current political systems and social orders are likely to suffer tremendous change, but that from a historical point of view nothing out of the ordinary is taking place. The fact that this migration wave is just one of many is absolutely beside the point for everyday politics.

However, since almost all discussions on migration have become emotional (ranging from private conversations among citizens to top political disputes), it is very difficult to lead a rational debate on migration which would analyse the issue and examine its real content. In an emotive debate, compromises are often hard to come by.

Migration became a key element in European integration in the years after 2015. It can even seem that migration is the most fundamental and significant of the disaggregation processes occurring within the EU. This is definitely not only due to the effects of migration from countries outside the EU; migration within the EU is also very important and is, incidentally, clearly visible in the case of Brexit, since the outcome was certainly affected by significant migration to Great Britain from the countries of the Eastern enlargement.

8.3.1. Security aspects of migration and information asymmetry

Concerns held by the longer-established European societies about migration are to some extent concentrated on terrorism and crime, and are related to the perception of migrants as ‘fifth columnists’, i.e. an incipient threat to national security (Sarrazin 2018). This last point is essential. Although a terrorist act is always a radical antisocial act (whatever the motive – for example to fight for independence), in terms of the ‘physical’ effects it is primarily directed against individuals or businesses, or against people who work for state institutions. Media coverage then gives the act a social dimension and helps shape its impact on social opinion (O’Brien 2016).

It should now be clear that the relationship between the individual’s concerns and reality, or the extent to which these concerns are based on facts and real life, is not important. In this context, what is more important than whether these concerns are real or not, is that they exist and, above all, that they are capable of shaping a significant percentage of public attitudes in European nations (whether or not those nations are identified in the ethnic or political sense of the word). These opinions then also affect political opinions and electoral preferences (Murray 2017).

Without elaborating too much on the extent to which these concerns are justified, it is possible simply to state that they exist, that their existence can only be exaggerated or enhanced by propaganda, and that they are not created out of thin air. This is indeed a very significant aspect of the situation, and it is in dramatic opposition to the long-predominant thesis of ‘migration as enrichment’ (Borjas, 2014).

At first glance, the vision of multiculturalism as a ‘higher form’ of social order is not related to the issue of security and its perception. In reality, however, the relationship is crucial because it can again be said that we are not examining the ‘extent’ of the legitimacy of concern about security, but above all the influence and impact these concerns have on the topic of

European integration. This is a significant difference. In other words, we must also discuss the fundamental information asymmetry that has gradually developed in western societies.

Information asymmetry is the enemy of liberal societies and a free market. It gives individuals who possess the information (thanks to their office, or for other reasons) the opportunity to gain an unjustified advantage over others, and thus obtain better contractual terms in a free contract environment. A party suffering from information asymmetry has higher transaction costs (because it has to spend energy and resources to reduce or eliminate the information asymmetry), which puts this party at a disadvantage in the market. A large number of regulatory measures in developed countries are therefore aimed at eliminating information asymmetries and preventing information carriers from gaining undue advantages over those who do not have the information or receive it later. The vision of multiculturalism and the pursuit of its enforcement, however, have led to a situation where in a number of social areas the information is either genuinely secretly withheld, or not identified at all. This is a paradoxical situation with absurd consequences. In order to clarify further, it is first important to explore multiculturalism *per se*.

Emphasis on the benefits of a multiracial and multicultural society has been a dominant characteristic of public debates for a long time. In politicians' speeches, newspapers and television, only a few dared challenge multicultural enrichment. There are undoubtedly a considerable number of benefits accruing from the coexistence of different cultures, for example in music, film, or literature. Any honest consideration, however, must take into account the fact that a multicultural society does also have some darker sides (see Buchanan, 2002).

The most serious of these drawbacks is that not all those living in a multicultural society may welcome diversity. Some may be afraid of the foreign aspect, may not trust it, and in extreme cases may even nurture the seeds of racism. Lack of confidence among communities can also result in the creation of ghettos existing in complete isolation. This may lead to the far-reaching alienation of communities rather than their cultural enrichment.

During the first two decades of the 21st century, there existed a tendency among the European political elites to proclaim multiculturalism as a right to permanent cultural separatism (Collier, 2013). This orthodox approach and its underlying political principles were responding to the fact that large groups of immigrants preferred cultural separatism, and they legitimized

this preference. It turned out that absorption was more difficult than expected.

In some neighbourhoods of European cities, one monoculture was replaced by another. European culture was being enriched by foreign cultures, but with a decreasing scale of revenues. A population with 30% ethnic minorities will not be enriched more than a society where minorities make up 15%. The multicultural lobby has said that diversity is something to celebrate because it is stimulating: such diversity certainly presents many strengths due to the mixture of traditions, knowledge and abilities.

To claim that cultural diversity only has advantages, however, is based more on wishful thinking than experience. Imagine telling the population of Northern Ireland that having only one religious denomination is a weakness, that the diversity of Catholics and Protestants is desirable. Imagine saying to the Hutu and Tutsi in Rwanda, or the Jews and Palestinians in Israel, or the inhabitants of the former Yugoslavia, which collapsed because of ethnic conflicts, that diversity is beneficial. While we may well admit that it is beneficial in the 'higher sense of the word', this does not change the fact that it can, on the contrary, be quite devastating for specific people at a particular time in a particular territory (Browne, 2002).

While diversity can be a strength in a certain abstract sense, it can also be a stimulus or a factor igniting devastation and conflict (Huntington, 2011). Out of fear that such unfavourable developments may occur, the multicultural lobby loudly proclaims the positivity of diversity. But surely, if it were really only positive, there would hardly be any wars, violence and hatred between diverse groups.

Although we can say in all earnestness that many individuals and migrant groups have successfully integrated and settled in Europe, it is equally indisputably the case that immigrants as a whole have not integrated in Europe; they have created parallel communities that live separately, work separately, and have virtually no communication with the majority of society. These parallel communities exist for Turks (and Syrians) in Germany, Arabs in France, and Bangladeshis or Pakistanis in Britain. In Europe, the creation and growth of such parallel communities is a security threat and a potential hotbed for inciting racial tensions. In addition, and perhaps above all, it creates the image of the Muslim community as an increasingly powerful and dynamically growing 'fifth column'.

Table 3 shows the population of the European Muslim community based on the 2016 estimates of the Pew Research Center. Some experts are of the opinion that the data is underestimated (Kern 2017), claiming that the actual number of Muslims is now higher; Kern believes that it is ten million people more. If this critical study were true, then the resulting numbers and shares in the original population (more accurately the proportions compared with the host population's religious beliefs and with non-believers) would be significantly higher in 2050.

Table 8.3. People of Muslim faith in populations of European countries

Region	Estimated size of Muslim population In 2016	% of population that is Muslim in 2016	Estimated size of Muslim population In 2050	% of population that is Muslim in 2050
Europe	25,770,000	4.9 %	57,880,000	11.2 %
France	5,720,000	8.8 %	12,630,000	17.4 %
Germany	4,950,000	6.1 %	8,480,000	10.8 %
United Kingdom	4,130,000	6.3 %	13,060,000	16.7 %
Italy	2,870,000	4.8 %	7,050,000	12.4 %
Netherlands	1,210,000	7.1 %	2,200,000	12.5 %
Spain	1,180,000	2.6 %	2,660,000	6.8 %

Source: Adapted from www.pewforum.org

Social perceptions of Muslim migration are significantly more associated with various kinds of aggression, namely the societal (less liberal laws, the humiliation of women, etc), the individual (terrorism, harassment, rape), and the general-social ('fifth columnists', changes to the political system based on the will of a future Muslim majority). Again, it is worth emphasizing that the point here is not to discuss the legitimacy of these fears within certain European societies, but rather to scrutinise their impacts. A rational discussion about the extent to which these concerns are justified is largely impeded by the lack of sufficiently representative statistical data, i.e. the state of artificially created information asymmetry. This asymmetry has been created with the aim of preventing an escalation of internal tensions in societies that may arise from investigations into, for example, racial or religious crimes. The result, however, is the exact opposite. As it is not possible to make a perfect representational analysis using existing data, because facts are not available, the attitudes of a significant part of society must be primarily discerned from overall impressions, feelings and

emotions. Last but not least, the lack of factual information makes any attempt to resolve the issue difficult.

As a footnote, we might note that the United States faces the same problem, but thanks to relatively sophisticated systems of analysing the available data, there are scientific studies able to describe the criminality of migrants. It may come as something of a surprise (at least from the European perspective) that the crime rates of migrants are considerably lower than that of educationally and regionally comparable groups of native US residents. Some studies even conclude that the crime rate of migrants is lower than the level of crime in American society as a whole (IAC, 2015). One of the predictable reasons for the low crime rate is the strong fear of summary and inevitable deportation in the event of law-violation.

8.3.2. Issues of Islamisation and Muslim integration

There are between 25–35 million Muslims living in the EU today, which is approximately 5% of the total population. Due to continuous immigration and high fertility among Muslims (especially in the first generation – in the second and third generations the fertility rate falls to the level of the host population), their population in the Union will at least have doubled by 2050 in absolute terms, and the share in the total population will rise significantly (reaching 11–15%, according to different surveys – see Table 8.3).

With reference to the European Union, including the United Kingdom and non-EU western continental countries, if we add, for the sake of argument, the Russian Federation, non-EU eastern European countries, non-EU Balkan countries, and Caucasia, then at least 60 million Muslims would currently live in the broader Europe. The Russian Federation alone has officially registered approximately 14.5 million Muslims (10% of the population), but estimates are set at around 20 million.

In the European Union, there is evidence that unlike the US Muslim population, which is geographically dispersed, European Muslims live in enclaves. They are often citizens (or residents) by place of residence, but are not culturally or socially integrated (cf. Leiken, 2005).

While the United States and Canada manage the influx of people of different cultures from abroad reasonably well (the melting pot works quite successfully), immigration in Europe - and Japan - is more likely to cause social instability, and provoke resistance and racial tension among the local population (Fukuyama, 2006). Migration is sometimes mentioned as an

opportunity to offset the loss of 'native' inhabitants, which is a very ill-founded approach to take.

It is quite possible that when western Europeans believe that the concept of a Political nation in their countries prevails over the concept of an Ethnic nation, such a belief is to some extent, illusory. The Europe of national states has existed for centuries; its history has been dramatic and turbulent. We might just as well ask whether this history can be erased within a few decades of European integration (which has been, into the bargain, largely artificial and accelerated by bureaucrats and 'visionary' politicians). Moreover, the concept of a Political nation as such may have its roots in the Age of Enlightenment, but it has actually existed on the continent (with the United Kingdom falling outside in this respect) for several decades. In contrast to the USA and Canada, which originated as Political nations, Europe carries a huge burden of shared history on its shoulders.

Indeed all previous, albeit modern, concepts of political nationhood that originated on the European continent in the past, sooner or later collapsed. This applies to the Czech-Slovak nation of Tomáš Garrigue Masaryk and the Yugoslav nation of Josip Broz Tito. To some extent, it also applies to the Spanish nation (as evidenced by the separatist efforts of the Catalans and Basques), not to mention Belgium. It is therefore not surprising that these very fragile concepts of political nations can barely resist the impacts and pressures that naturally accompany migration. The concept of a political nation crumbles when faced with the anomaly of migrants (sometimes very ostentatiously). But if the idea of a political nation is destroyed, it begs the question as to whether this will cause a major weakening of European integration efforts, and empower a strong anti-integration impulse? In our opinion, such an eventuality is a distinct possibility.

The terrorist attacks in Madrid in 2004, London in 2005, Paris in November 2015, Nice in July 2016, followed by other attacks, are clear evidence of a different and specific aspect: European multiculturalism has started to clash with liberalism. It seems that both the assimilation model in France, the segregation model in Germany, as well as the multicultural models in the Netherlands or the United Kingdom, have all failed. Major west European politicians of the second decade (German Chancellor Angela Merkel, British Prime Minister David Cameron, French President Nicolas Sarkozy), have all at some point admitted that multiculturalism in Europe had failed.

According to Angela Merkel, the attacks in Berlin, Würzburg, Munich, Ansbach, but also in Brussels and Istanbul 'have shattered the civilization

taboo' (*Frankfurter Allgemeine Zeitung*, 28 July 2016). According to Merkel, the attacks were 'discouraging'. In her words, the attackers in Würzburg and Ansbach, drawn from the refugee population, 'have derided Germany and people who cared for them'.

The last years of the 2010s were marked by a considerable number of reported offences committed by migrants: the most influential ones in the media primarily covering sexual assaults. It could be noted that in recent times, the long-term policy of strengthening information asymmetry received a very serious 'blow' from the European establishment: in principle, no European country is reasonably able to assess statistically the actual growth in the number of such acts that are directly due to migration factors, because government authorities not only do not publish any statistics based on nationality and similar markers, but usually do not even allow their collection. This may be understandable from a humanitarian point of view, but it hinders something much more fundamental: rational discussion and a meaningful developmental analysis.

It turns out that the 'politics of recognition', so extensively promoted by multiculturalists, cannot take an extreme form. To 'recognize' a culture, group, or a citizen who resents or openly rejects the values of western democracy would be self-destructive (Sartori, 2005). When Chancellor Merkel made her remark about shattering the taboo of civilization, she essentially defined the feeling that had been growing in the developed countries of the western part of Europe for quite a long time, and which has become more and more pronounced, especially during the second decade of the 21st century: namely, democracy requires mutual recognition and the loyalty of the population. Unilateral recognition, which is reciprocated with radical de-recognition, leads to destruction.

This refers to the situation where a significant share of the country's population does not accept the new country as their home: they may physically live in the new country, but are mentally, socially and in other community-related aspects still living in their country of origin. This dichotomous situation creates stress and the consequent deepening dissatisfaction of migrants – and, above all, their offspring. This may then result in the increased willingness of some migrants (mainly those from the second and especially the third and subsequent generations) to engage in crime, to disregard social rules, or even actively to support efforts that aim at the destruction of the political system in the host country (through terrorism).

In such cases, multiculturalism is diametrically opposed to liberal democracy for the following simple reason. If, according to the doctrine of multiculturalism, nations that thus far (maybe only temporarily) hold a majority, are required to respect fully the customs and cultural differences of minorities, and to tolerate separate laws, then these nations in the political sense of that word, cease to exist. There is room for nations to coexist and sometimes mingle based on ethnicity. But if Indians and Pakistanis, or Turks and Kurds, live next to each other with an animosity not bound by respect for laws and individuality, it is not hard to imagine the result.

The attitude of migrants towards the application of Islamic law (sharia), within Muslim communities or in general, as the main source of law, can be seen as a dividing line that marks the loyalty of new EU inhabitants (those whose religion is Islam in this case) to their target countries and, above all, to liberal democracy, the constitution, and the overall social structure of developed countries. It is perhaps unsurprising that their willingness to accept traditional Islamic law – or even their desire to impose it – can be very strong. Their belief that this law should not be reserved for Muslim communities and should be applied throughout the whole society, to both Muslim and non-Muslim communities, can also be strong.

In recent years, these topics have been studied by several teams of scientists and authors. Their data collection methodologies, the methodological architecture of their research sampling, the number of respondents within the samples, their methods of use and design of those control samples have all been subjected to critical examination. Apart from some partial shortcomings, the procedures used were found to be absolutely correct and corresponded to the requirements of this type of research. Traditionally, the biggest objections pertained to the number of respondents in some of the research projects (Jacobson and Deckard, 2012; Deckard and Jacobson, 2014; Deckard and Jacobson, 2015; Koopmans, 2015). We share the objections concerning the number of respondents; data for analytical studies by Natalie Deckard and David Jacobson were always collected from the same sample of 400 respondents in the United Kingdom, Germany, and France. Such a sample might be considered as eminently sufficient using a face-to-face methodology, but this was a telephone survey. Nevertheless, that objection cannot challenge the overall accuracy of the results obtained, although the probability of statistical error could be higher.

We can conclude, however, that the main findings are momentous and that they confirm the relatively low compatibility of Muslim minorities with western societies. 72% of French Muslims believe that sharia law should be

the only or main source of law in society. 69% of Muslims in the United Kingdom are of the same opinion, but the figure is only 13% in Germany where 44% of Muslims see sharia as a form of 'moral guidance' and 34% believe that it should not play any role in society (Jacobson and Deckard, 2012). Another survey's results (PEW, 2018) confirmed the existence of specific intellectual frameworks within Muslim minorities in the given countries. It showed that suicide bomb attacks and other forms of violence against civilians in defence of Islam were considered unjustifiable by 83% of Muslims in Germany, 70% in the UK, 69% in Spain, and a mere 64% in France. Evidently, in the above countries there is a direct proportion between the answers to two questions which can be formulated as 'the stronger the support of sharia law, the stronger the support of real extremism (terrorism)'.

Mass migration, and the corresponding feeling of threat it poses, creates a generally stressful situation within European societies. The rise of tension and mutual distrust among European nations has existed since at least 2015 when migration soared to great heights. Distinctly different approaches to the issue of migration have resulted in the formation of several groupings of EU countries which suggest very different solutions to the situation, having been affected by the influx of migrants to very different extents.

At the time of peak migration, governments of peripheral countries in the Schengen area and the European Union took certain decisions that ultimately led to the crisis in the EU. The initial inability of both national and Brussels authorities, of EU political leaders, and of particular countries to respond in a flexible manner to the developing situation led to unilateral national decisions. This gave their neighbours barely any room to manoeuvre. All sorts of short-term coalitions were put together to promote certain solutions, and many governments strove to find an accommodation with the pan-European Brussels (bureaucratic) position, which was at odds with the very different attitudes of their own citizens. At first, the initial years of the crisis were marked by a period in which political leaders became paralysed and proved practically incapable of adopting realistic decisions. It was clear that for elected representatives the refugee crisis was associated with the great risk of losing popularity. It became apparent that the situation undermined the very existence of many political formations that until then had given the impression of being unshakeable and perpetual. In addition, alternative political formations began to find new strength.

Europeans have gained an impression (we believe a justified one) that, faced with the migrant crisis, the European Union has fatally failed, showing itself

to be completely incapable of solving the problem. If the European Union as a whole, however, has failed to hold a common position and develop common tactics (let alone a strategic vision) in this test, one which European nations themselves considered, for various reasons, to be very significant or even essential, then it is quite understandable that such an outcome would affect their attitude to further integration. Based on some robust research (limited space precludes its inclusion here), we can say that from among the political representations of different EU countries, the largest domestic support (in the form of electoral results) was given to those governments who tried to address the migration issue in their own way (albeit to the detriment of other countries). There were political costs for those representatives who tried to proceed in a coordinated way (which also involved a relatively forthcoming attitude towards migrants).

The result can be summed up very concisely: some European nations believed that they carried the main weight of the migrant crisis on their shoulders, including the initial cost of the crisis. Subsequently, they became disillusioned in two ways: firstly, with their own political representation, and secondly, with those nations that did not seem to be sufficiently cooperative. Other European nations saw the matter from the opposite side, believing that the culprits of the crisis were their wealthier neighbours and their long-term migration policies, which had created conditions conducive to the influx of waves of migrants in the first place. On the contrary, they supported their own political representation, which had refused and was still refusing to contribute to the resolution of the crisis, because they believed the crisis must be solved by whoever else had caused it.

At the end of the second decade of this century, this contradiction still exists in a latent way, but it is likely to entail future consequences. Indeed, it is highly probable that the migrant crisis, which may seem to have gradually faded, will affect European policy for a long period of time to come, and certainly for the next 10–20 years. Weakened political representation from the most developed EU countries only accelerates integration, which such countries probably consider to be the right response to the situation. Their efforts, however, must necessarily be oriented towards a ‘multi-speed’ Europe, i.e. primarily towards integration among the most developed countries. A logical consequence of this must be the attempt to eliminate the influence of those countries that proved unreliable during the migrant crisis. It means that instead of constantly seeking consensus, politicians will apply more and more often the ‘use it or lose it’ mechanism which is in principle based on ultimate requirements and proposals.

In this general introduction, we should also make mention of the relationship between pluralism and multiculturalism. Whereas pluralism advocates an open and diversified society with respect to multiple nationalities based on a shared foundation (which, in the absence of other terms, can be described as respect for constitutionality and laws, and loyalty to the country), multiculturalism comprises the disintegration of a pluralistic community into smaller discrete units and homogeneous communities, which have the right to apply their own laws, customs and social norms. Today's multiculturalism (or rather the multiculturalism of the past that has proved completely untenable when seen from the end of this decade) can even be said to deny pluralism directly, due to its tendency towards community separation. The notion of 'differentiated citizenship', which promotes multiculturalism, denies the neutrality of a state and the universality of law (Sartori, 2005).

8.4. Intra-EU East–West migration

No matter how the migration crisis escalated between 2015 and 2016, it now appears to be the biggest issue facing the EU, and one that will impact EU policy for the next decade or perhaps even dozens of years; yet there is another phenomenon to which much less attention has been paid but which is at least as serious: intra-EU migration.

One of the EU pillars is the free movement of people. We often say that migration as the free movement of labour is merely an expansion of the principle of the free movement of goods, services, and capital. That is true in one sense of the word. When all people are allowed to move from places with low productivity to places with higher productivity, global (continental) production should increase. The fact, however, that only very few people, including economists who profess the free market in the US, are in favour of abolishing all borders, indicates that the situation is more complex.

The vision of free movement of people inside the common market is indisputably an astonishing development since, in modern history, human civilization has never had such large freedoms of movement within so many states. Its consequences, however, are often unexpected, and have evidently been extremely unpleasant for the architects of the common market.

When we discussed Brexit, we repeatedly highlighted the Central European perspective, whereby one of the more significant accelerators of the UK's efforts to walk away was the inflow of several million people from countries

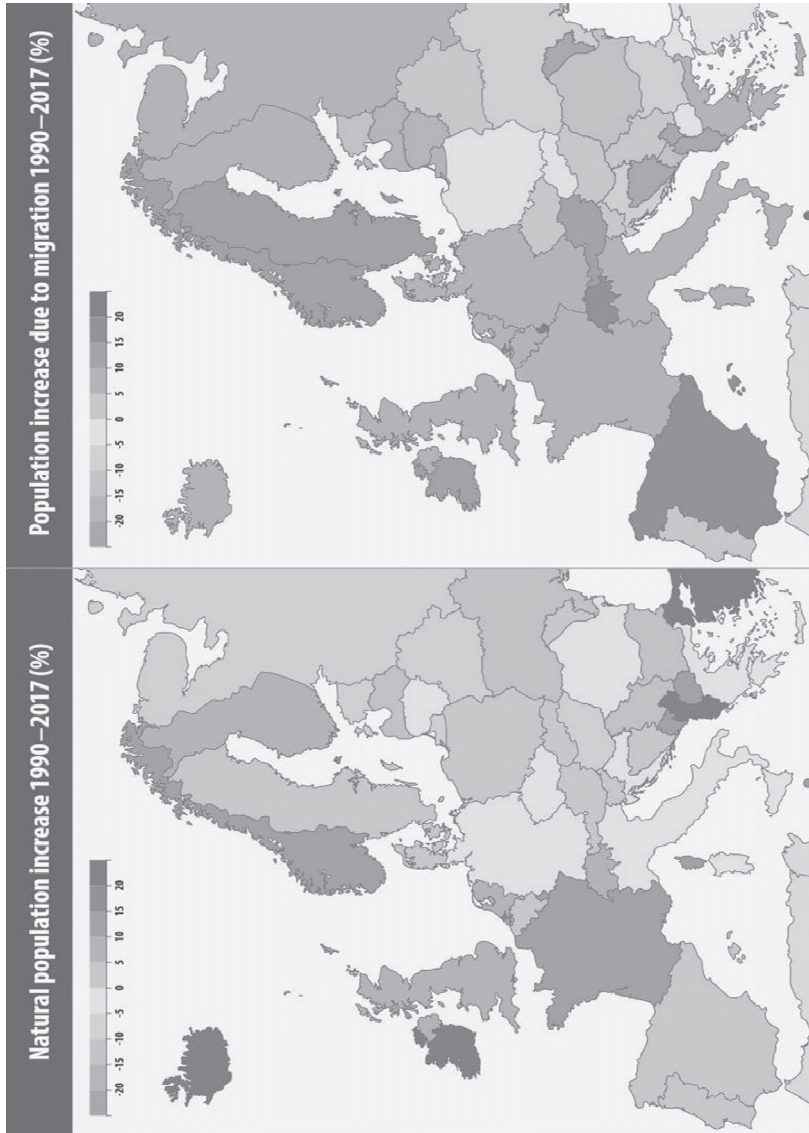
such as Poland, the Czech Republic, Hungary, Bulgaria, Romania, and other states of the Eastern enlargement. Brexit is the most visible consequence of the free movement of people. A considerably less visible consequence is the fact that in many states, migration has created a huge human vacuum that has strikingly inhibited their potential for growth.

Truly dramatic figures from several countries of the Eastern enlargement appear in the data of the Austrian Academy of Sciences (ÖAW, 2018). Between 1990 and 2017, a total of 12–15 million people moved from Eastern European countries (but not only the states of the Eastern enlargement) to Western Europe (Germany and the United Kingdom in particular). The number of Romanian inhabitants, for instance, dropped from 23 million to approximately 19.5 million at that time. The Bulgarian population declined from 8.7 to 7.1 million people (i.e. by almost one fifth) during those nearly thirty years. This is still relatively good if compared with the situation in Latvia, which lost 27% of its inhabitants. The main reason was extreme migration, but these countries also suffered from a natural decline in the population.

Figure 8.1 shows those states where the population has declined naturally and through migration. Note must be particularly taken of the Baltic states, Romania, Bulgaria, and Croatia. The other countries either counterbalanced the natural decline with inflows of migrants or, conversely, counterbalanced the decline due to migration at least partially with natural growth. Nevertheless, Figure 8.1 uses real final figures that show that in some cases the decline has not been counterbalanced.

Here we can see a clear and evident division of Europe into western, northern and southern parts with increasing populations, central Europe with balanced populations (the inclusion of the Baltic states in Central Europe is an artificial construct and we do not accept it), and areas with steep declines such as the Balkans and Eastern Europe (plus the Baltic states). The results of any analysis will be devastating: countries with declining populations may have benefited from emigration in some regards, since this might have solved potential high unemployment but, in reality, economic problems have been only deferred rather than solved.

Figure 8.1 Natural population increase and population increase due to migration in European states. *See centrefold for this image in colour.*



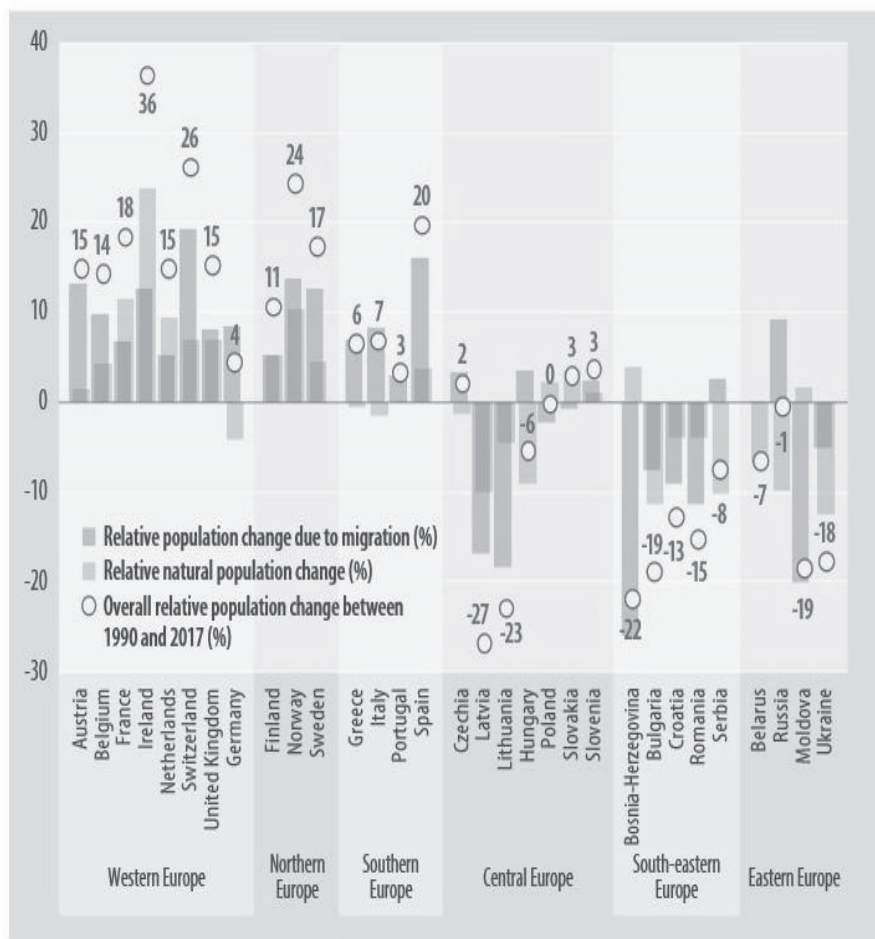
Source: Adapted from www.oeaw.ac.at

Such huge decreases in the workforce potential have certainly had an impact on the growth potential of those economies. Shrinking markets lead to lower consumption and a number of other changes that exert pressure on the economic system. Potential fiscal benefits related to expenses are eliminated by income deficits and in particular by slower GDP growth in terms of absolute values. This does not have to be accompanied by a decline of per capita production, but the question is how long such developments can be sustained when the population has been in rapid decline for such a long period. This may explain some of the specific aspects shown in Figure 8.2.

The free movement of people may have had a positive impact on some economic indicators and it has certainly benefited millions of migrants (the vast majority of them); however, we may still wonder whether or not the costs inside the European Union will exceed the revenues in the long term. We can interpret the modern 'migration of peoples' inside Europe and the European Union in many different ways but it is clear that so far we have not been able to see its consequences. Even if no migration crisis related to the war in Syria and economic migration from Central Africa and Sub-Saharan countries had existed, it is highly probable that the issue of east-west migration (which is even larger with regard to the number of people) will have very likely determined the agenda of the European Union.

Nevertheless, politicians often try to allay fears by saying that east-west migration is only temporary and will be replaced by future remigration, i.e. the return of immigrants to their countries of origin. This assumption is problematic. Remigration has always existed, and for diverse reasons, but to a much lower extent than emigration, and there are no clear reasons to believe that migrants, having lived abroad for many years, will not strive to become nationals of the new state rather than attempt to go back. We might even dare say that relatively frequent statements in the media asserting that after earning enough money immigrants are ready to go back home may have been initiated by entrepreneurs' lobbyists. A continuous inflow of cheap labour from east to west (and to the north) is in their interest. It goes without saying that this process is beneficial not only for emigrants from the countries of the Eastern enlargement, as we have described, but also for employers in traditional European countries. While migrants from Muslim and African countries may be mostly low-skilled, have low technical and other professional knowledge, people from the countries of the Eastern enlargement are much better equipped.

Figure 8.2 Overall relative population change between 1990 and 2017 (%) in some European states. *See centrefold for this image in colour.*



Population change in selected countries, 1990–2017 (in %)

Source: Adapted from www.oew.ac.at

It is naïve to think that this east–west migration will be ‘resolve itself’. The main issue is who will start tackling it first (with respect to its role in Brexit), whether it be political representatives of the west, or political representatives of those really stricken countries of the Eastern enlargement, in view of its consequences. In fact, the situation in the European Union is starting to

resemble that of cities vs. villages, whereby people from villages want to move to cities, eager to break free from a narrowly confined world, and enter a more open and larger world. However, only a small percentage of people living in cities want to return to the countryside, to their placid origins and more clearly-structured life.

8.5. Migration and demography

We have considerable reservations about the opinion that migration might be the cure for a low birth rate, an ageing population, and overall demographic development in the European Union.

Firstly, we believe that potential gradual population decline (and we must highlight ‘gradual’ here, i.e. relatively natural, due to changes in birth rate) is not a serious issue from an economic point of view. Similarly, a continuous and progressive growth of the population is not an issue at all, although abrupt swings such a fast inflow or outflow of statistically significant groups of inhabitants (i.e. mass migration – either immigration or emigration) are risky and devastating for an economy.

Secondly, we are convinced that gross domestic product per capita is more significant as an indicator for people than the total GDP volume, i.e. the effectiveness or efficiency of an economy rather than its absolute performance.

Thirdly, we assume that no matter how demographic changes influence changes in the economic structure, and no matter how substantial the changes brought to the composition of demand services and many other areas, under normal circumstances such changes will occur gradually, and the market environment will be able to cope with them accordingly.

Nevertheless, we acknowledge that migration is often perceived as necessary, needful, and useful, since it is believed to represent an opportunity to balance demographic development. It is true that demographic development in developed countries in the last approximately fifty years may have been highly atypical and that it is not possible to find any resemblance with previous historical periods. When populations decreased in the past it was due to war and conflicts, or the deadly epidemics that may accompany such conflicts. Some sources mention population decline caused by low birth rates in relation to the last period of the Roman Empire (its western part), but this is rather speculative.

Therefore, low birth rates are generally regarded (and not only by demographers) to be an extraordinarily precarious phenomenon. It is true that over the last 40 years in current EU countries the number of children born to each woman has been about 1.6–1.7 children per woman in her reproductive years, whereas the replacement value is considered to be 2.05–2.14. Figure 8.7 is a transparent source of information: we can see that the situation in continental regions, and in EU regions, is not homogeneous. There are obvious significant differences in development.

It is important to note that the demographic development of Nordic countries, western Europe and German-speaking countries has been much more stable when compared with other regions. The difference is striking: on the other hand the curves of Southern Europe, Central-Eastern Europe, Eastern Europe and South-Eastern Europe are similar and we could detect a relatively homogeneous trend. All in all, however, we must say that the demographic development of the European regions and of EU regions shows significant dissimilarities, and has been influenced by many diverse trends and factors.

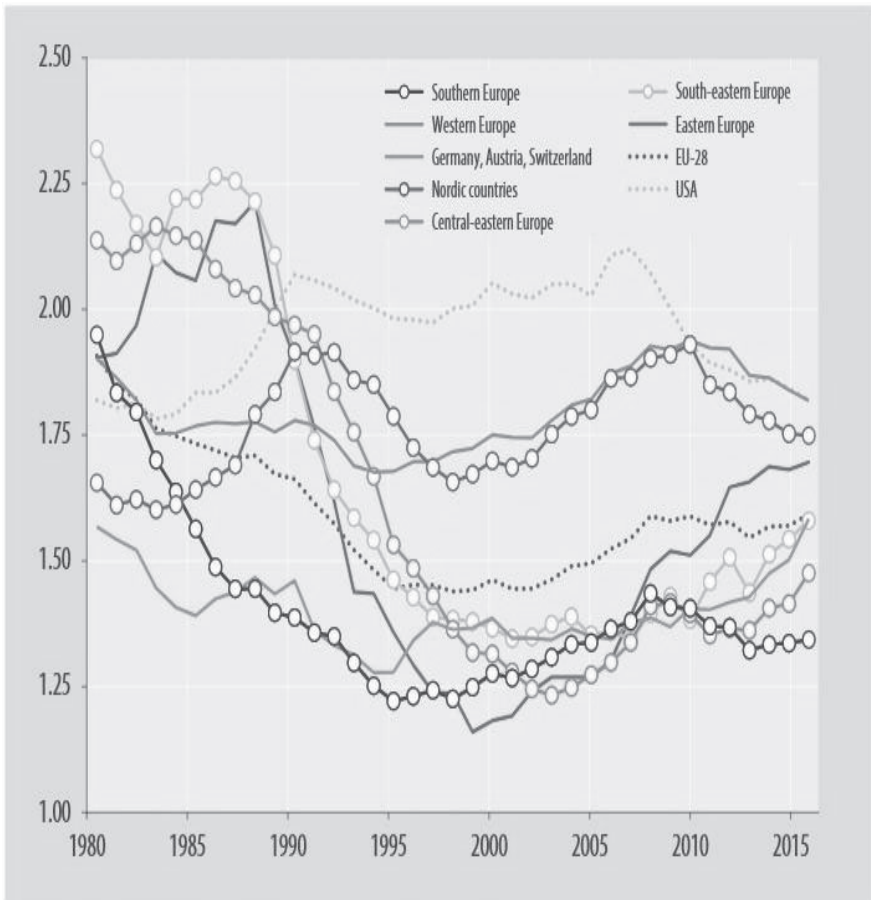
If demographic curves look different in different regions, however, it seems difficult to believe that there might be a universal solution to a phenomenon that displays a number of varying elements with regard to its dynamics and fluctuation in time in all monitored regions; or that one universal cure – migration – might improve the situation.

Figure 8.3 does not confirm some of the more popular demographic myths. One common myth relates to high fertility rates in ‘Catholic’ countries (particularly in southern Europe in our comparison), but we can see that states with traditionally strong religious beliefs actually have the lowest fertility rates in comparison with other regions. This does not change – even if Poland is added there is a marginal population increment; this is not the result of the birth rate, since it has been very low, reaching the lowest figures on the continent in the long term, but is instead due to a longer life expectancy. Even in 2016 Poland, Italy, Portugal, and Spain reported fertility rates lower than 1.4 children per woman of reproductive age. Nevertheless, it is not only Catholic countries that have suffered from demographic impoverishment – the fertility rate in Greece dropped to 1.38 children per woman of reproductive age in that same year.

Another myth is that with increasing numbers of migrants the birth rate will grow steadily, since the fertility rate of migrants is high. The figures do not bear out this assumption, and it has been proven that if there is one aspect in which migrants rapidly begin to emulate the local community it is the

number of children born in the new country. The first generation has more children than is common in the destination country (this is, however, already fewer than in their country of origin), but as early as the second and following generations the number of children drops to the same values. One example is Spain, where significant numbers of recent and other migrants account for almost 11% of inhabitants, but the fertility rate has remained very low – 1.34.

Figure 8.3 Total fertility rate in European regions (1980 – 2016). *See centrefold for this image in colour.*



Total fertility rate in European regions and in the United States, 1980–2016

Source: Adapted from www.oeaw.ac.at

Migration is one of the most powerful forces in the world; often but not always beneficial. It is a highly complex phenomenon that has come into existence for many reasons, has emerged from the will of many peoples, has impacted on many areas and has entailed a number of consequences. Individual migration from one place to another is acceptable, but mass migration as a tool of economic and population policy is something different. We should debate it rationally (Klaus and Weigl, 2015).

Demographers largely believe that immigration is the cure for an ageing population (Kučera, 2001). This attitude is based on the assumption that it is possible to control social processes and influence mindsets and the behaviour of society, or at least its significant parts, via a series of more or less sophisticated procedures. From this perspective, it seems that population-ageing is a process that needs to be ‘controlled’, or at least ‘addressed’ or ‘mitigated’. Such efforts aim at maintaining a low average age of population and a stable or decreasing ratio of elderly to young people.

This assumption is used by national governments and it is common in academic spheres; generally, it is the official statement of most mass media. Despite it being widespread, we would argue that it is totally absurd and unrealistic. As we have already stated above: immigration does not provide a long- but only a short-term solution to issues related to demographic ageing (Storesletten 2000). On the contrary, in the long-term immigration will aggravate the demographic burden even more, and in saying otherwise we may come to be called fraudulent by our children (Schou, 2006).

Even the Council of Europe has warned strongly that it is wrong for governments to strive for demographic engineering via immigration, and has said that immigration policies should be driven by political and humanitarian objectives rather than by demographic considerations.

Both causes of population-ageing – longer average life expectancy and lower birth rate – are not signals of decline but of wealth. We have more free time, more safety, better education, more modern time-saving conveniences, more food, better health and a longer life. Technological developments allow for an increase in the standard of living despite population-ageing. It is therefore not necessary to address the issue by attracting immigrants.

For most of human history, societies have had high death rates but also high fertility rates, thereby maintaining a stable population even with low life expectancy. There is a time-delay between the decline of death rates and

birth rates which means that in the developing phase more people are born than die. After a population boom, a developed phase is reached with low birth rates and low death rates, with a stable or slightly decreasing population (Loužek, 2004).

The pension system must be adapted (Haupt and Peters, 1998). The retirement age must be adjusted and the system changed in such a way that people save money for their pensions and are able to decide for themselves when they want to retire. If people have longer, healthier and more productive lives they will be able to create more (and not less) wealth during their active lives and save enough money for their pensions (Thum and Scholten, 1996).

To some extent, the issue of healthcare costs which goes hand in hand with a longer life seems more problematic than the issue of demographic ageing and pension systems. Nevertheless, we are convinced that although it is a real issue, it will not cause the collapse of economies or exert undue pressure on the economy of the future.

Average healthy life expectancy has been slower to increase than average life expectancy. It is also true that currently we do not have enough time-sequential data from recent years in order to be able to analyse the issue thoroughly. It seems, however, that the issue of parametric changes, making adjustments to the retirement age in particular, is limited more by average healthy life expectancy than average life expectancy as such. In other words, life expectancy is growing faster than healthy life expectancy. In terms of the significance of demographic curves in regional European diversity, the differences become even more pronounced when examining cases of healthy life expectancy. Healthy life expectancy is growing dramatically faster, in particular in the western part of the continent when compared with other regions.

Healthcare costs have always depended upon what individuals can afford to pay and what society can afford to pay. No country offers the most advanced healthcare technologies to everyone. Technologies are developing and advanced technologies generally cost more than less advanced technologies. Growing healthcare costs should not be a reason for panicking or initiating mass migration.

Fear of a demographic time-bomb which robust immigration can defuse is therefore unnecessary for several reasons:

- the decline in the number of inhabitants is not a fatal economic issue;
- a low number of live-born children may lead to a lower take-up of capacities in education; however, it is up to politicians to decide if it is economical to reduce some capacities and decrease the total costs pro rata relative to the number of children, or if it is better, and more economical, to use the free capacities to create opportunities for improving the overall quality of education;
- pressure on the structure of the economy as a result of higher average age of population will be solved mainly by the market environment; although municipalities should also strive to address the issue, it is not fundamentally a matter to be solved at national level;
- the ageing population may bring about capacity as well as budgetary constraints in the healthcare system, although such issues can be foreseen and funded via an appropriate combination of cost-saving measures and regulatory steps;
- an ageing population will certainly be a burden for pension systems and adding new payers to the system will not solve the problem, only postpone it.

As we can see, there is no logical reason why we should consider the immigration of a significant number of new people to Europe as a solution to the so-called demographic crisis. Frequent statements claiming that migration is an economic response to lower birth rates and higher life expectancy are not based on any real economic arguments and are purely ideological.

8.6. Democratic legitimacy issue

It is indisputably the case that several European nations are rejecting common European policy and insisting that decision-making in migration policy remains at the national level. Such affirmations are not based on public opinion surveys that could be challenged. Clear evidence that European nations are exasperated by common migration policy was provided by the election results in individual countries between 2015–2018. We may say with clarity that no matter how much circumstances may differ and despite the specifics in each locality, there has been a clear trend towards the strengthening of political formations with at least a reserved (and at most a clearly negative) attitude to migration.

European institutions cannot ignore this fact or take the stance that significant shifts in the internal policy arrangements of member states are ‘none of their business’. All previous crises in the European Union have had to be

addressed within a specific framework of individual states' cooperation. Federalists, as advocates of the gradual merger of those states into a new formation, have had a certain impact on domestic situations in individual countries, but this has been relatively insignificant and has not disrupted the overall balance of power in Europe. Strongly pro-European formations in the European Parliament have never had to worry about their clear majority. The migrant crisis may potentially change that situation.

Elections in May 2019 will very likely change the configuration of this body regardless of the possibility that the current 751 mandates will be reduced to 701, because after Brexit European elections will not be taking place in the United Kingdom (some mandates will be redistributed among the remaining 27 member states, but most will cease to exist). Although we have explained that the European Parliament has no real significant influence in the European Union, after some time the changed political representation will also gradually infiltrate the mechanisms where political decisions at the EU level are taken and within the European administration – the main driver in the efforts towards integration.

In this sense, then, the migrant crisis has provoked the first genuine 'EU internal policy crisis'. All previous crises involved conflicts between individual member states or blocs of member states and were, to a great extent, unnoticed by wider public opinion within the European Union; or they were economic crises where the public had a tendency to believe in experts. This does not, however, apply to the current migrant crisis. We have repeatedly described how migration has contributed to Brexit (from the perspective of continental Europe but also the countries of the Eastern enlargement). The departure of one country, however, will not be devastating for the EU as it will not mean the destruction of its institutions – given that it does not change the mechanisms by which people are assigned to functions, or the mechanism of control of the bureaucratic axis of the European Union. A significant alteration of the political map inside the nation states for the first time, however, opens up room for believing that the cause of European Union disintegration might not be the gradual exiting of member states. The migrant crisis has revealed that the dominant trend of left-right bipolarity within political systems is coming to an end. New parties are entering the game (also due to the situation caused by migration) that are not so easily identified as either right or left, but are building their profiles on negative attitudes towards migration, particularly on migration from Muslim countries.

Setting up a uniform immigration policy at the European Union-wide level has always been a fraught task, a fact pointed out in papers written long before the migrant crisis started (Feld, 2005). Yet in previous years the arguments were based on the clear fact that there were differences among European countries with regard to their demographic structure as well as their work participation rates or social systems. Due to those national differences, the authors considered the achievement of a consensus or a harmonisation of immigration policies either difficult or impossible. The assumption that an immigration policy should be set by individual member states at national level was formulated a long time ago.

No government has been elected on the basis of a manifesto that supports mass immigration, and voters would probably not have voted for mass immigration in a referendum. From those arguments, it has been deduced that the issue of an immigration ‘solution’ raises a serious concern over democratic legitimacy (Browne 2002). Older research could only argue from opinion polls that showed most citizens in earlier periods did not support mass immigration; they undoubtedly could not affirm that most people agreed with the idea that mass migration would enrich their country. New analyses may be grounded on more substantial and stronger arguments, supported by the real results of voting in elections.

The architects of a united Europe will have to bear in mind that some citizens may perceive immigrants as unwelcome guests without the right of stay in their country, since they were not asked by anyone if they wanted them there or not. This may be dangerous for race relations. Since there is such strong public opposition to immigration – on a fundamental social, economic and political level – it seems more probable that, despite the fact of the citizens’ opinions being consistently and repeatedly ignored, this attitude cannot be sustainable in the long term, in that compared to the period before 2015 there has been a dramatic increase in the number of those directly demonstrating their dissatisfaction with the pan-European attitude and their own governments’ attitude to this matter by casting votes in political elections.

Table 8.4. Asylum seekers in the EU (in thousands)

Country/ Period	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EU (28 states)	225,150(d)	263,835	259,630	309,040(d)	335,290	431,095	626,960	1,322,845	1,260,910	712,235
Belgium	15,165	21,615	26,080	31,910	28,075	21,030	22,710	44,660	18,280	18,340
Bulgaria	745	855	1,025	890	1,385	7,145	11,080	20,390	19,420	3,695
Czech Republic	1,645	1,235	775	750	740	695	1,145	1,515	1,475	1,445
Denmark	2,350	3,720	5,065	3,945	6,045	7,170	14,680	20,935	6,180	3,220
Germany	26,845	32,910	48,475	53,235	77,485	126,705	202,645	476,510	745,155	222,560
Estonia	15	40	35	65	75	95	155	230	175	190
Ireland	3,855	2,680	1,935	1,290	955	945	1,450	3,275	2,245	2,930
Greece	19,885	15,925	10,275	9,310	9,575	8,225	9,430	13,205	51,110	58,650
Spain	4,515	3,005	2,740	3,420	2,565	4,485	5,615	14,780	15,755	36,605
France	41,840	47,620	52,725	57,330	61,440	66,265	64,310	76,165	84,270	99,330
Croatia	:	:	:	:	:	1,080	450	210	2,225	975
Italy	30,140	17,640	10,000	40,315	17,335	26,620	64,625	83,540	122,960	128,850
Cyprus	3,920	3,200	2,875	1,770	1,635	1,255	1,745	2,265	2,940	4,600
Latvia	55	60	65	340	205	195	375	330	350	355
Lithuania	520	450	495	525	645	400	440	315	430	545

Luxembourg	455	480	780	2,150	2,050	1,070	1,150	2,505	2,160	2,430
Hungary	3,175	4,665	2,095	1,690	2,155	18,895	42,775	177,135	29,430	3,390
Malta	2,605	2,385	405	1,890	2,080	2,250	1,350	1,845	1,930	1,840
Netherlands	15,250	16,135	15,100	14,590	13,095(p)	13,060	24,495	44,970	20,945	18,210
Austria	12,715	15,780	11,045	14,420	17,415	17,500	28,035	88,160	42,255	24,715
Poland	8,515	10,590	6,540	6,885	10,750	15,240	8,020	12,190	12,305	5,045
Portugal	160	140	155	275	295	500	440	895	1,460	1,750
Romania	1,175	960	885	1,720	2,510	1,495	1,545	1,260	1,880	4,815
Slovenia	255	190	240	355	295	270	385	275	1,310	1,475
Slovakia	895	805	540	490	730	440	330	330	145	160
Finland	3,670	4,910	3,085	2,915	3,095	3,210	3,620	32,345	5,605	4,990
Sweden	24,785	24,175	31,850	29,650	43,855	54,270	81,180	162,450	28,790	26,325
United Kingdom	:	31,665	24,335	26,915	28,800	30,585	32,785	40,160	39,735	34,780
Iceland	70	35	40	75	115	125	170	370	1,125	1,085
Liechtenstein	20	280	105	75	70	55	65	150	80	150
Norway	14,385	17,125	10,015	8,990	9,675	11,930	11,415	31,110	3,485	3,520
Switzerland	16,520	15,900	15,425	23,615	28,400	21,305	23,555	39,445	27,140	18,015

Source: Adapted from Eurostat, 2016, caption: (·) – N/A, (d) – different definition compared to previous period, (p) – preliminary data.

The table shows significant change in 2015 and 2016, i.e. the peak years of the migrant crisis, but also a consistent and clear growth in the number of migrants since the late 2010s. By 2013, the number of migrants doubled compared with the figure in 2008. This huge change took place even before the crisis and should undoubtedly have triggered some relatively robust measures on the part of the European Union – and also on the part of the governments of individual member states. Moreover, we are not in a position to explain this away by reasoning that there was a lack of expert analysis on the issue or a want of studies focusing on the increasing rate of immigration into the EU.

8.7. EU recipes for solving the migrant crisis

The Union as a whole began its response too late, and apparently because migration had been considered an unstoppable natural phenomenon that was, all in all, in the economic interests of EU countries. EU institutions responded only after the growing and increasingly strident resistance of specific states, and the escalating humanitarian crisis that arose in some parts of the continent such as Italy, Greece, and parts of France, as well as Hungary and the states on the ‘Balkan Route’. This happened at a time when the political representations of those national states found themselves face to face with a quite unbearable situation.

It is a given that one of the more fundamental benchmarks of the viability of any country is its ability to protect its citizens against external threats on its borders. The migrant crisis revealed that the EU architects had created a head without a body: they had been building a common political and administrative establishment without a common nation. The EU attempted to skip over the nation states but its fatal mistake was its inability to admit that national differences still survived, and that the threats on its boundaries were significant (Grygiel, 2016).

Different nations have approached the threat in different ways, ways that the EU bureaucratic system and political decision-making mechanisms have proved unable to accept or respect. In the end, it has become evident that a number of nations have the feeling that solutions were being foisted upon them, and that these were in conflict with their interests. A period of relative inactivity in the EU was replaced by the promotion of mutual solidarity by countries less stricken by migration than others. It was only logical that political forces with the fundamental advantage of historical and proven aversions to migration should effectively exploit this situation.

Quite logically, the Schengen area became a significant issue. Being one of the pillars of the European Union it is, we may say, together with the Euro, one of its most visible manifestations. It is indeed fascinating to reflect that it is possible to travel freely across the European Union without border controls – but what was not considered, however, was that along with the free movement of EU citizens, it would also be difficult to limit the movement of non-EU people. It had not thus far been a major problem in the case of travel for tourism purposes, but during the migrant crisis, when criminals and even terrorists may have hidden themselves among migrants, such problems became more prominent. It is no wonder that a solution has not been readily available.

Donald Tusk, President of the European Council, warned that with the collapse of the free movement Schengen area, ‘the European Union would fail as a political project’ (*Právo Daily*, 19 January 2016). The Commission, however, prepared several tools to mitigate the migrant crisis: hotspots, asylum policy harmonisation, more integrated control of external borders, the relocation of migrants in the member states, and cooperation with third countries (Břicháček, 2016).

The Commission introduced the ‘hotspot’ approach, which means cooperation between the European Asylum Support Office (EASO), Frontex and Europol, and with front-line member states on the quick identification, registration and fingerprinting of incoming migrants. Hotspots are used as a platform for facilitating the relocation of asylum seekers. Migrants should be directed to national asylum proceedings, to undergo relocation or return procedures (Břicháček, 2016).

The common European asylum system is based on the existence of Schengen as a large international area for the free and uncontrolled movement of people. Due to the unification of the continent at the EU level, the member states have less and less room to make decisions regarding how open they want to be for migrants seeking asylum, for example whether they want to opt for a strict and cheap process, or instead a more open, and costlier asylum system (Boeri and Brücker, 2005).

While Frontex limited its activities to the support of member states in controlling external borders, the new border agency acts beyond this framework. The agency does not have its own units yet and instead relies on reserves in member states. It has attained the role of coordinator, but not of general staff: it does not have its own enforcing powers and only carries out operations, under its command, with the consent of the member state.

The ultimate goal of centralists, however, is to create a single body of EU border guards under a central command (Břicháček, 2016).

The decision on obligatory quotas for migrants was adopted at the Council meeting on 22 September 2015. Three member states opposed the relocation: Slovakia and Hungary brought actions to the European Court of Justice against the decision on the second temporary mechanism containing permanent quotas. In October 2016, Hungary organised a referendum on quotas where 98% voted against (however, the result was not binding due to a low turnout rate). Poland did not accept the quotas either. The relocation quotas are in line with the centralist vision of controlling and arranging everything from one centre tasked with the capacity to manage all matters on the continent.

To imagine that the state will be allocated migrants by external power without its consent, without being able to influence their number, where they come from – their states of origin and civilization environments, reflect upon the needs of its labour market, social system, safety of its citizens, maintain cultural and social coherence and other key interests, is almost threatening and antiutopian. It is totally incompatible with state sovereignty, the right of nations for self-determination, spontaneous order and common sense. (Břicháček, 2016: p.140)

To say that many states feel uneasy about accepting a common migration policy would be an understatement. In fact, national leaders on the continent have been gradually finding out that in order to appeal to their voters, the best and only way is to be seen to promote higher sovereignty, and bolster their own migration rules rather than reduce them. The problem with common migration rules is, among other things, that for different reasons (partly the slow mechanism of political decision-making, partly the in-house policy created by the bureaucratic apparatus), they are not able to provide solutions acceptable to sufficient numbers of voters in European states.

The result is that because of the migrant crisis, the political representation of individual countries elected in 2015, as well as the political representation of the European Union, has never before found itself in such a state of conflict with the wishes of the citizens. In the late 2010s, the Union finds itself in a situation whereby many of the EU political representatives have been replaced, or their positions considerably weakened, and those still waiting for national elections are under pressure from anti-immigration opposition groups in their countries. Immigration has become one of the key political issues – possibly even the most prominent one the EU has ever faced (Nitzan and Epstein, 2006).

Grygiel (2016) described the reason concisely when he pointed out that European politicians defending open borders have failed to grant privileges to their own citizens over foreigners. He says that the actions of European leaders may have been well-intentioned, but if the state is not able to offer protection to a special group of people – its citizens – then its government has lost **its** legitimacy. We might add that those governments which have addressed the situation with more vigour from the beginning of the crisis, have put emphasis on national interests and pointed out the risks of migration: Hungary and Poland, for example, have strengthened their positions.

All in all, the EU is unable to protect its borders on its own since it would mean physically stopping migrants from entering the Schengen area. Technically, the EU could do this if there was enough political will but it would imply procedures of the sort that are being hotly debated in the United States in relation to the US-Mexico border. Even the change of political climate, apparently, will not force political representatives to take such a step. It seems, therefore, that the most effective tool for solving the migrant crisis will be an agreement with Turkey. Turkey is the only country of the main transit states that has adequate power and the capacity to stop and absorb flows of migration. At the same time, it is a relatively ‘safe’ country in the context of EU asylum legislation whereby migrants may be returned (Břicháček, 2016).

Pursuant to the agreement of 18 March 2016, all refugees who arrive at the Greek islands across the Aegean Sea shall be returned to Turkey. The EU promises to resettle one Syrian citizen from Turkey in exchange for each Syrian who has used an irregular route to reach Greece in order to reduce the strain on the humanitarian situation in Turkey. Migrants who did not attempt to cross the Aegean Sea with smugglers, or in any other irregular way, will have precedence in the process. In total the EU will pay Turkey €6 billion.

After the implementation of the agreement of March 2016, the number of people attempting to cross the Greek–Turkish border illegally significantly decreased. Ironically, we may say that Europe did not resolve the migrant crisis by means of ‘more Europe’ but rather by ‘more Turkey’ – a strong nation state with enough capacity but no delicate scruples. The EU ‘outsourced’ the protection of its borders to solve the migrant crisis (Břicháček, 2016), but it transferred its issue of ‘humane refusing’ of migrants to a country that has a decidedly questionable ‘humane’ approach to migrants.

8.8. Does any sound immigration policy exist?

Many politicians, and the bureaucratic apparatus generally, are convinced that the best way to integrate immigrants is their ‘naturalisation’; that is, that immigrants must be granted asylum and citizenship as fast as possible; and that is totally incomprehensible. They think that the ‘transformation into citizens’ will make for integration. But if we start granting citizenship to everyone without making any difference to them we will not achieve any success. And such an attitude will summon the resistance of current citizens, since most of them lead impeccable lives, pay taxes, are active in civil society and carry out many other activities that continuously confirm their citizenship. It will be very hard for them to see the same citizenship being granted to migrants on a mass scale if those same migrants are not very willing (or are not willing at all) to become active in civil society, respect social traditions or contribute to the social order in any other way.

According to Eurostat, between 2005 and 2016 Germany granted approximately 110,000 new citizenships per year (apart from 2008 and 2009 when the number was slightly lower than 100,000). In the same period, France reported almost the same figures, only with approximately 20,000 more people annually. Between 2013 and 2016, more than 700,000 migrants obtained Spanish citizenship, over 100,000 migrants became Dutch, 250,000 people became Swedish, 600,000 migrants were granted British citizenship, and so on. At the same time, between 2013 and 2016, the Czech Republic granted citizenship to 15,000 migrants, Poland to almost 20,000, and Hungary to approximately 30,000. At the time dual citizenship undermined policies in this area and affected these figures in a number of countries.

Critics of the current situation are particularly uncompromising in this regard: according to them ‘granting citizenship’ does not equal integration. They point out that there is no automatic relationship between the two processes. On the contrary, it might happen that with easy procedures for granting citizenship, ‘resistant citizens’ may emerge (as has happened in France). Such legislation will create a situation where new citizens will be ‘untouchable’, will enforce their religious holidays, expect women to wear headscarves, bring in polygamy and in the end the entirety of Sharia law (Sartori, 2005).

The easy granting of citizenships produces very difficult situations in many countries. Public resistance to this practice has been continuously growing and it is highly probable that within a relatively short period of time, the

approach to granting citizenship will become more rigorous. But so far it is true that in 2016, EU member states (including the United Kingdom) granted an unprecedented number of 995,000 new citizenships, breaking the record of 981,000 in 2013. The trend towards stricter procedures is already visible – absolute numbers are growing but the ratio of the number of migrants who have been granted citizenship has decreased, i.e. the percentage of migrants granted citizenship is lower (nevertheless, it is problematic to compare such figures in the same year). Nevertheless, it is true that between 2008 and 2016, the number of asylum seekers (migrants) increased 5.6 times, while the number of citizenships granted grew only 1.4 times. In this regard we may say that the policy of granting citizenships has at least to some degree curbed further migration.

Another fairly frequently encountered myth is that Europe has a duty to accept migrants because some countries must be held responsible for their colonial past, whose legacy allegedly still continues under other forms of exploitation. An alternative version is that Europe, due to its wealth and consumption, destabilizes less developed countries, economic migration being a response to this destabilization.

All such statements are totally erroneous. There is a widely-held opinion that current European welfare is a result of the exploitation of other parts of the world one hundred years ago but this is misleading. The effects of a market economy contributed to the development of the wellbeing of people in the whole western world. It was based on values such as freedom of individuals and personal initiative. If less developed countries adopted those values and were better able to enforce the rule of law, then it would only be a matter of time before they caught up with developed countries.

In fact, if the West really wanted to help the developing world it should cancel tariffs and customs on products from poor countries. That would mean the implementation of a real free-trade policy not only inside the EU or with selected partners, but directed in particular towards poor countries. The maximum permeability of borders by goods, services and capital, is a more effective method to help poorer countries than the opening of borders to their citizens. On the contrary, this procedure will destabilize those states even more since they will be deprived of their growth potential, creating conditions for future waves of migration.

The strong inflow of migrants, high unemployment, and the threat of racial tension calls for the careful conceptualization of a sound immigration policy. Most right-thinking people would agree on the following moral

principles. Firstly, everyone has the right to be accepted as an equal and free citizen in the country where he/she was born. Secondly, states have a fundamental right to protect their integrity and the integrity of their citizens. Thirdly, everyone who has a genuine fear of being persecuted by their government has the right to asylum and finally, every country has the right to decide whom they will allow to live in their country and whom they will not.

Immigration presents a net positive benefit for people moving to places where they think will have a better life. The world economy will be in a better situation if it enables people to move to places where they will obtain the highest proceeds. With regard to the benefits of immigration, all countries should have open border policies if they are compatible with the wishes of domestic citizens and capable of keeping migration flows at a reasonable level (Browne, 2002).

A sound immigration policy should ensure a balance between the interests of migrants and the interests of the domestic population, as well as the interests of the countries from which immigrants come. Until now, the policy in Europe has been mostly in favour of immigrants' interests and has not taken into account the interests of most European citizens. Every state should, in particular, protect its own citizens. Interest in citizens from foreign countries should only arise out of serious humanitarian concerns.

If it is true that more people want to come to Western countries than leave them, then we might ask whether or not a fee for permanent residence permits should be introduced. There must be a method of controlling those who arrive at countries' borders, and determining who can stay. Enforcing immigration policies is unpleasant, but necessary. After all, such tools as passport controls, controls of compliance with residence permits, and effective policies of deportation for illegal immigrants do already exist.

Setting selective immigration policies based on quotas is not right. It would be more reasonable to use market tools, such as the sale of immigration vouchers, as proposed by Gary Becker (Becker, 1997: p.49–61). The state may thus sell permanent residence permits or citizenships, which will ensure that only migrants for whom this is most beneficial will come; it will also bring funds to the state treasury.

Selling visas would be a fairer selection process that would not discriminate on the grounds of nationality and would allow the granting of citizenship to those people who would value it most – young and qualified immigrants

likely to profit the most from staying in rich countries. Different relocation quotas for different countries are arbitrary and unfair. The sale of immigration vouchers would not require any quotas to be introduced; it would only set a price that a potential immigrant has to pay.

8.9. Summary

In the second half of the 2010s, Europe experienced higher levels of immigration than ever before, due to both the region's wealth and the fact that most countries in the world are poorer by comparison in relative terms. In addition, there are several routes by which people can move from poor areas to wealthier areas with relative ease. In the last two centuries, Europe mostly 'exported' emigrants. Today, on the contrary, it 'imports' immigrants. A serious problem lies in their integration, which not only has not gone smoothly but – it is safe to say – has so far failed in all the models that have been implemented on the continent.

Immigration should not be regarded as a form of global development policy: the siphoning off of the most educated and enterprising people from developing countries is not an effective way to help those states. Such a policy only helps individuals who come to the west (a mere fraction of the Third World countries' populations) and it does nothing to improve the economic situation in their countries of origin or transform them into states where people would prefer to continue living.

Immigration should not be used as a tool for demographic engineering either. Immigration will not cure an ageing population, since immigrants will also get old one day. Nor should immigration be used as a tool for cultural enrichment. If the majority of people do not wish to be 'culturally enriched' or are afraid of foreigners in their country, it would be imprudent to ignore such attitudes.

Market tools are more effective in immigration policy than quotas. If it is true that more people want to come to western countries than leave them, then we must ask whether or not a fee for permanent residence visas should be introduced. The state may sell permanent residence permits or citizenships, which will ensure that only those migrants likely to benefit the most will come to the country. It will also bring revenue to the state treasury.

The goal of immigration policy should be to combine humanitarianism (such as asylum for refugees from 'hot areas', or those in genuine marriages) with the achievement of maximum economic and other benefits. The current

policy in Europe has been more in favour of the wishes of immigrants and less in favour of the interests of the domestic population. As a result, the increasing waves of migration seen in particular during 2015 and 2016, and the concomitant anti-immigration sentiments that were stoked at that time, changed the political attitudes of a significant part of European society.

Migration and its political impact on national representations has thus become the most serious crisis to impact upon integration efforts within the European Union, because it has given rise to something that no previous economic or financial crises had done – the erosion of political bipolarity between the right and the left and the introduction of new factors in the decision-making models of inhabitants.

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CONCLUSION

It is impossible to forecast the future and no one knows the direction in which the world and Europe will evolve. We are therefore unable to say whether the disintegration processes inside the European Union will stabilise in their current form, or whether they will intensify in such a way that the project of the European Union will collapse. We cannot rule out the possibility that despite developments in the 2020s, which may be characterised by stronger anti-EU political formations, the federalists will win out in the end and that the EU will not become a community of independent and sovereign states, but instead develop into a single state; however such a development is very unlikely.

Nevertheless, we believe that the form of integration upon which the European Union is built exerts an intense pressure on those integration processes and we think that that pressure has not yet peaked. From this point of view Brexit is very distinct and conspicuous but it is only one stage of destruction within the united European political project.

Integration efforts that are often promoted without, or even against the will of individual nations, have not weakened national sentiments inside Europe. Maybe the opposite is true. We regard as highly probable the rise of many political formations in individual EU countries that, with great simplification, we may call nationalistic, patriotic, or nationally oriented, as well as the rise of other formations that will be characterised as economic or socially populist, energized in response to intensive efforts to create a united Europe.

In continental Europe, fewer and fewer countries sit comfortably on the traditional left-right spectrum of the political system. Conversely, more and more states now evince strong positions with parties outside this configuration. In Germany the traditional Social Democratic Party (SPD) recently received the worst election results in its post-war existence. Similarly the position of CDU/CSU, the traditional right-leaning counterbalance to the social democrats, has weakened. The position of these parties has been taken over by those with completely different ideologies – the AfD or the Green Party. From this perspective, the Italian political system is in ruins, and there are changes underway in Austria and in many other states.

We are far from saying that such developments will cause the future collapse of liberal constitutional democracies in Europe. We do not think that the traditional parties have a particularly perfect recipe for being the sole guarantors of constitutionality or the fair division of power. It is beyond dispute, however, that current events are disturbing as a manufactured situation that is enormously difficult to grasp and analyse, and is definitely highly unpredictable. At the same time, we may add that similar processes have been seen elsewhere in the world – some would point particularly to the United States in that respect.

What is important, however, is the fact that all the parties or political movements or ‘internal revolutions’ in the established parties, both mentioned and unmentioned, are supported by a significant portion of voters in the countries concerned. We cannot overlook the fact that all this has transpired via the will of nations and, at least in developed countries, through free, general, and equal elections.

We may draw one important lesson from that when thinking about the European Union: if we are now witnessing a truly significant increase in the influence of anti-European political formations (that is, running counter to the European Union in its present form), then it is a rebellion of voters against the methods, pace and direction of efforts to unify Europe. Unlike the often somewhat obscure methods of promoting integration, the trend of disintegration has become clear, and it is based on the legitimate will of voters.

For this very reason, in order to avoid constantly overlooking and downplaying this point, we must consider public choice theory as a useful tool to examine the European Union. The study has reminded us of the traditional theories of international relations, both idealistic and realistic. Public choice theory, a special case of rational choice theory, stands close to neorealist theories. While according to realists states will defend their own interests, in public choice theory, major stakeholders, both states and politicians, will maximize their own benefits. Strictly speaking, the same applies to voters, citizens, and to each and every individual – all pursuing their own benefits and choices. And if they increasingly see benefits outside the traditional left-right orientation, than it must be taken as an objective fact, which has its grounds and also its consequences. We would repudiate the notion that European nations make ‘poor choices’. European nations vote as they see fit, for their present and for their future.

The choice of a rational stakeholder, whether a voter, politician or a state, is related to the issue of analytical levels. There is no need to insist that a politician represents the only suitable stakeholder in rational choice theory as applied to international relations. Under certain circumstances it can also be the state, provided that we see the process of European integration as a result of interstate bargaining. Under certain circumstances, it can be the people (meaning a group of individual voters) because when a national interest is being formulated, it will always eventually be manifested in election results.

The history of European integration from the 1950s to the present, confirms that European states have primarily defended their self-interests. European integration has become a dynamic process that is affected by a range of political, economic, cultural, and religious factors. Two political approaches, federalism and inter-governmentalism, have been in competition for decades. For a long time, the deepening of European integration – i.e. centralization – has seemed almost unstoppable. That situation changed after Brexit.

The EU faces permanent institutional problems. On the one hand, there is a permanent tension between deepening integration and the widening community. On the other hand, EC/EU enlargement has created a certain ‘inherent institutional clumsiness/inertia’ which, for some people, has become an argument for the strengthening of majority rule in order to make decisions in the Union. Democratic deficits, unsatisfactorily resolved so far, represent a separate issue.

Using the analogy of Arrow’s theorem, which challenges the principle of ‘public interest’ at the level of national politics, it may be concluded that in the context of many European countries and political ideas concerning future development, a neutral voting mechanism to make decisions about ‘supranational’ or ‘European’ interests simply cannot be found. The principle of transitive preferences can be applied to one stakeholder, but when applied to a group of several stakeholders, it faces serious problems.

Moravcsik’s ‘rationalist’ model of intergovernmental bargaining explains European integration as a series of rational decisions made by national stakeholders. In reality, Pareto-efficiency cannot be guaranteed in European decision-making because countries can be outvoted (in case of majority decision-making) or can change their minds on issues, subject to changes in their own national governments.

Institutions concerned with integration show a considerable level of resistance to changes which they would consider to be detrimental. On the other hand, they are capable of strengthening their own competences very easily. Although originally these institutions, by and large, responded to the needs of the states, they have gradually slipped out of their control and now play key roles in the process of European centralization. To claim that the European integration mirrors the preferences of the member states is inaccurate.

We believe that all this has resulted in the aforementioned voters' mounting dissatisfaction, which has been reflected, among other things, in their deviation from the left-right spectrum. Put simply, if in many countries the traditional right-wing and left-wing parties have been basically equally pro-European (voters being unable to discern any significant differences in their European policies, at least in terms of systemic differences), then it is perhaps hardly surprising that this vacuum has been filled by parties falling outside the traditional left-right spectrum, or parties whose position on the axis is less clear, and that the voice of the parties which may reasonably be called populist, albeit promising changes and measures that are unrealistic, have become more and more audible.

We are convinced that Brexit represents a turning point for the European Union. Brexit has clearly shown that people have grave reservations about the direction of the European integration process, reservations so serious that they have made them vote for an exit from the EU. For quite some time, the EU has been facing four types of crisis: migration, the eurozone, the institutional crisis, and Brexit (and other exits). The possibility, therefore, that after seventy years of European integration, an era of disintegration has arrived, cannot be completely excluded.

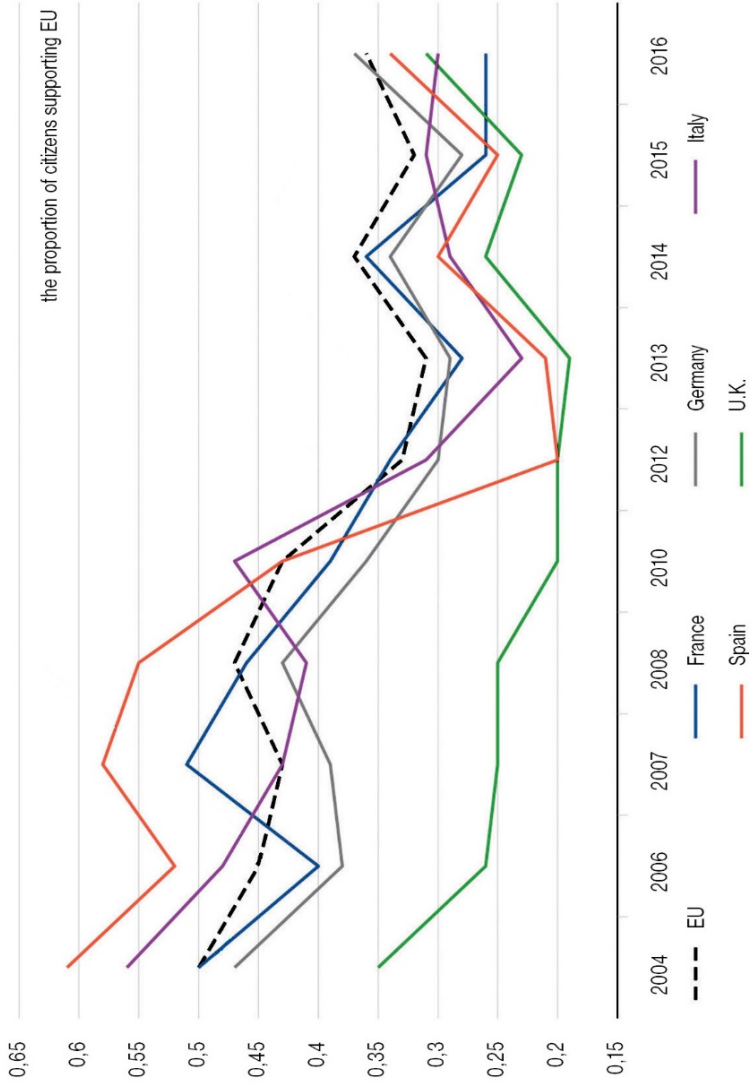
The European project has managed to create its own myth. However, Europe's current economic problems, especially the eurozone crisis, indicate that European integration has reached its limits. The idea that tighter integration will cure all European ills is probably wrong, but, more importantly, there are more and more citizens in EU member states who perceive it as wrong.

The theory of European integration has been in the grip of non-functionalist schemes for far too long. Rational choice theory as applied to international relations makes the whole process more exact, and rids it of idealism. The main point of public choice theory when applied to the EU, is that European integration does not take place because of the altruism of stakeholders, but

rather because of the rational pursuit of individual or group interests. In recent years, these self-interests (i.e. those of politicians), as well as group interests have become increasingly incompatible with those of individual citizens – the voters. Consequently, a clash was inevitable and has become the main topic of the late 2020s.

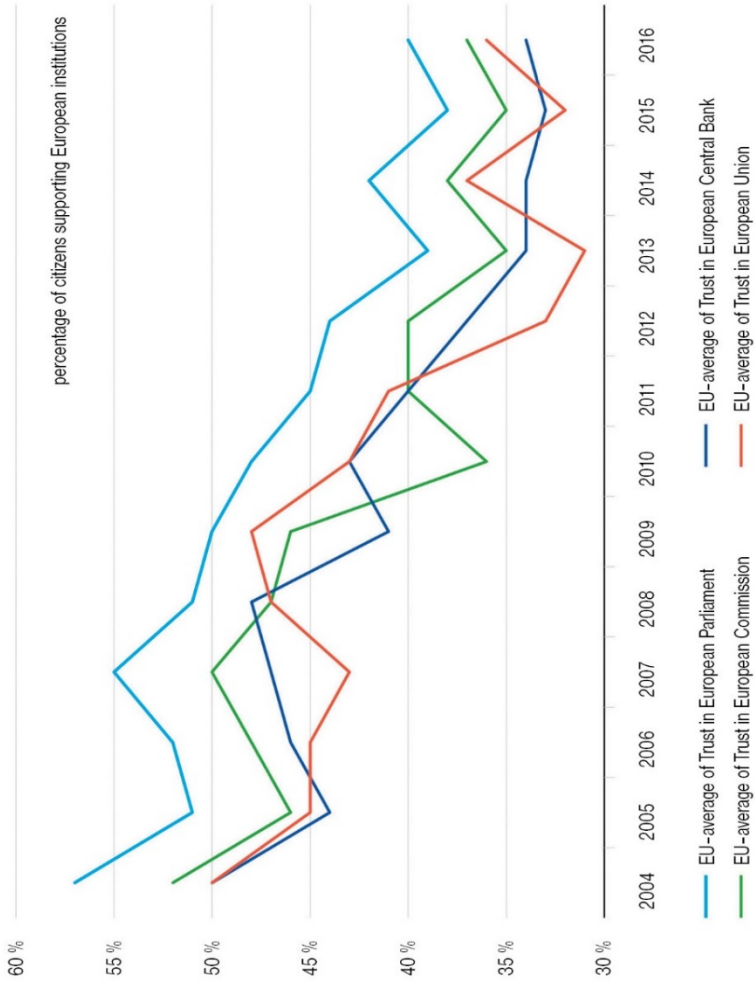
European integration and other forms of globalization (which may contradict each other) are reversible. Each pressure brings with it a corresponding counter-pressure. As things currently stand, we would not go as far as to say that the nation state should be consigned to the dustbin of history. However, many Europeans are dissatisfied with those politicians who have promoted European integration, open borders, and the suppression of national sovereignty, and these discontents now have a keen desire to strengthen their nation states. Therefore, the re-nationalization of Europe may be the only realistic option for the future.

Figure 3.1. Trust in the European Union



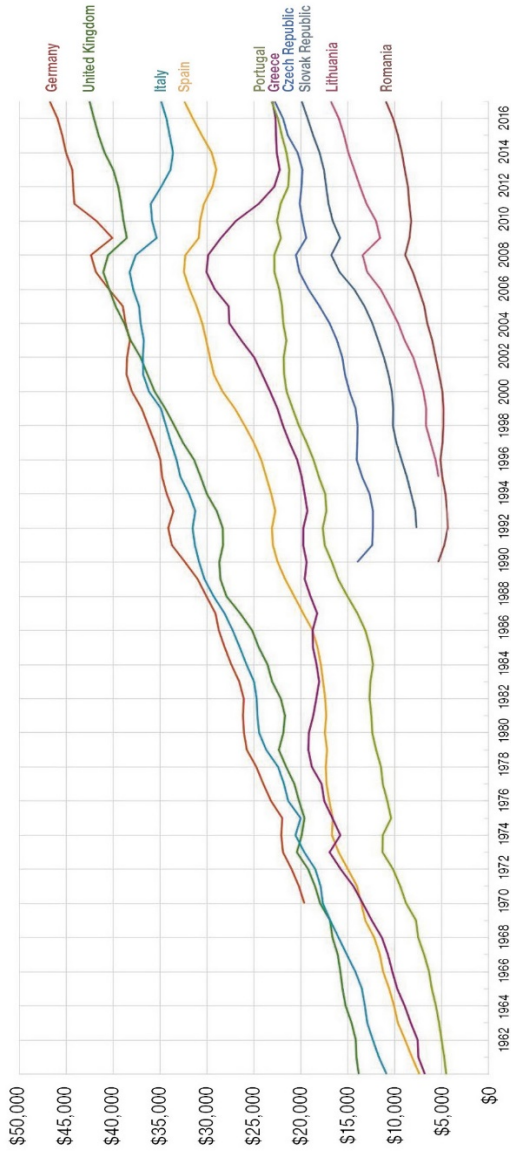
Source: Adapted from Schout and Holderied, 2018

Figure 3.2. Trust in European Institutions



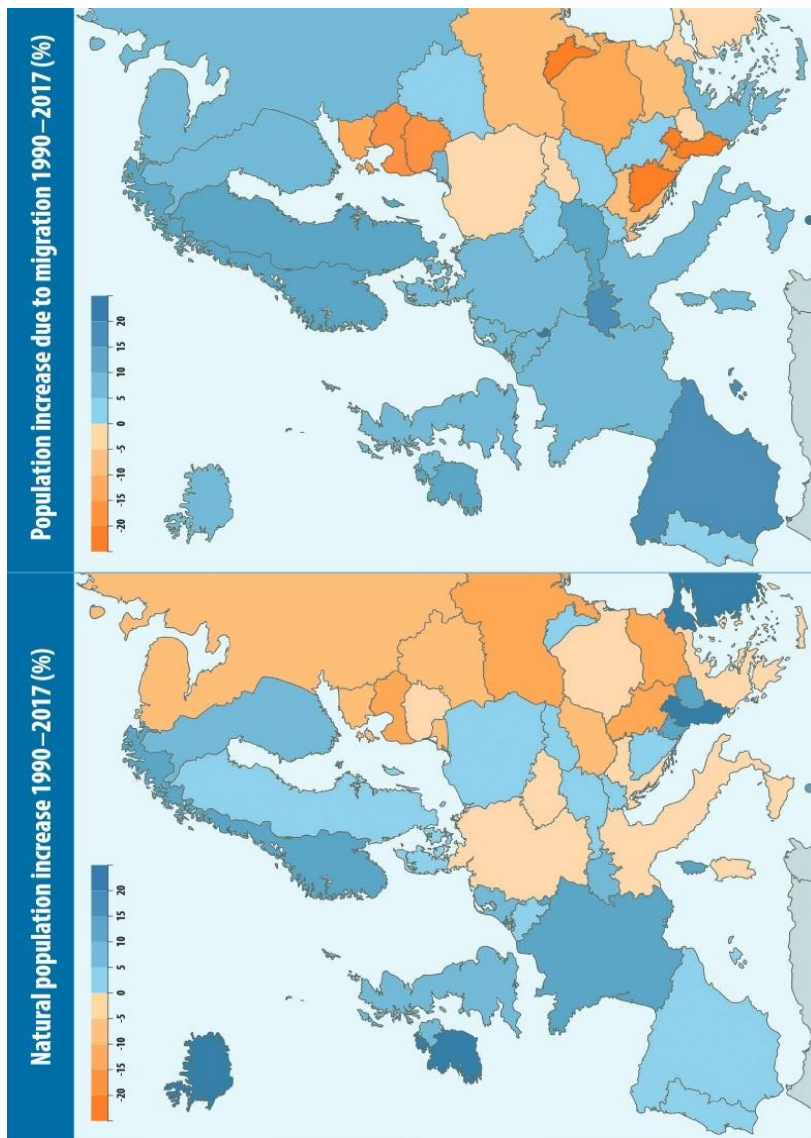
Source: Adapted from Schout and Holderied, 2018

Figure 4.1 GDP per capita (constant \$2000)



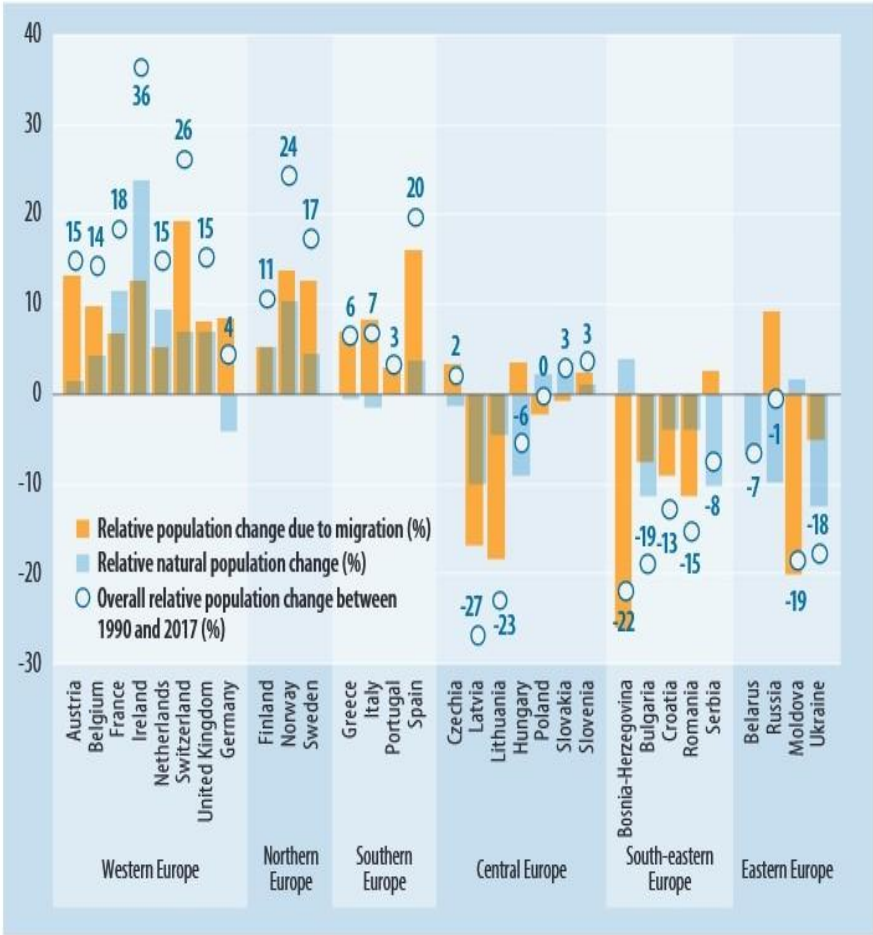
Source: Adapted from World Bank, 2018

Figure 8.1 Natural population increase and population increase due to migration in European states



Source: Adapted from www.oeaw.ac.at

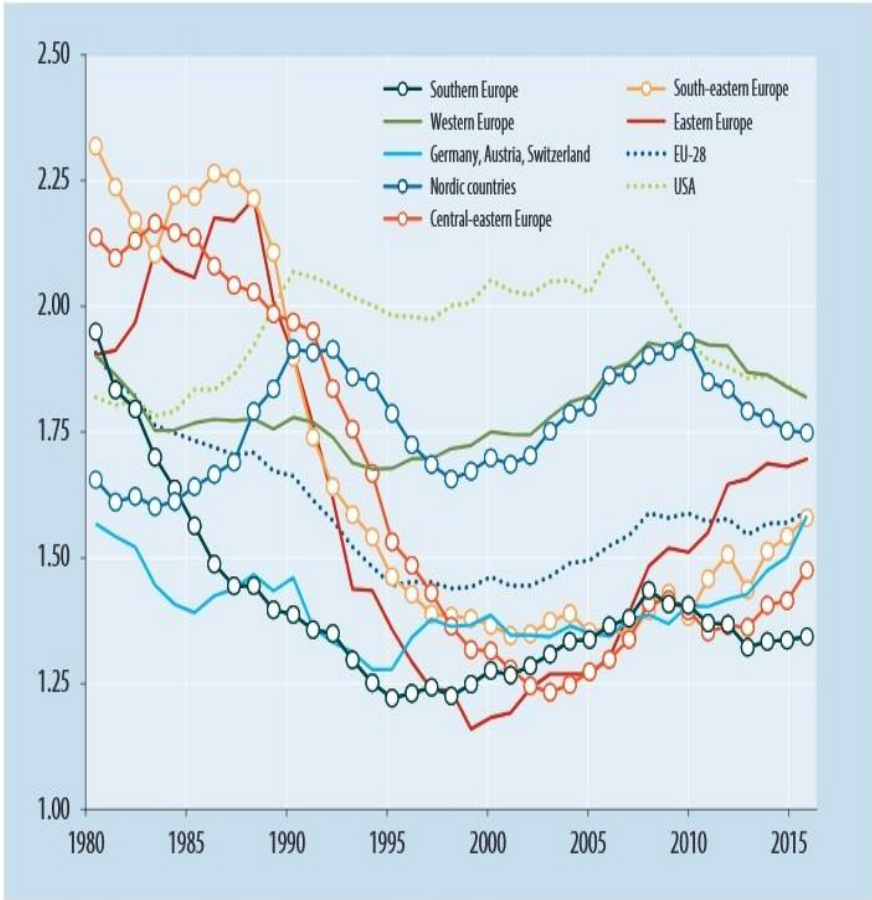
Figure 8.2 Overall relative population change between 1990 and 2017 (%) in some European states



Population change in selected countries, 1990–2017 (in %)

Source: Adapted from www.oeaw.ac.at

Figure 8.3 Total fertility rate in European regions (1980 – 2016).



Total fertility rate in European regions and in the United States, 1980–2016

Source: Adapted from www.oeaw.ac.at