DEEPENING INTEGRATION VS. DISINTEGRATION OF THE EU: AN ECONOMIC PERSPECTIVE

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Abstract

The process of deepening European integration has continued for a long time. Despite this, differences in the economic performances and competitiveness between EU Member States persist or even increase in the long term. In addition, the continuous deepening of European integration has not brought long-term effective resolution of the debt crisis that hit five euro area countries. In response to these developments, at least since 2010, disintegration tendencies have intensified in the European Union. To weaken these tendencies, it would be desirable to introduce sufficiently large fiscal transfers from more competitive EU Member States to less competitive EU countries, but more competitive Member States refuse implementation of these measures. But then it is a question of whether the deepening of European integration has hit its limit and whether the disintegration tendencies in the EU will further strengthen. The future of the European Union is therefore uncertain.

Keywords

European Union, Euro Area, Integration, Competitiveness, Economic Convergence, Public Debt

I. Introduction

The European Union stands at a crossroads. With increasing intensity, there are two contradictory development trends. The first trend of development has been the continuous deepening of European integration since the beginning of the European integration process in the 1950s. It is manifested by an extension of the number of areas in which the supranational European institutions, in place of the national authorities, exclusively or partly carry out their competences, by increasing in the number of areas in which common European rules and solutions are adopted not by the unanimous vote of the Member States but by qualified majority voting, and also by changing the definition of qualified majority, making it more difficult to block the decisions of the European institutions by a minority of Member States that disagree with them. Since the creation of the European Union in 1993, the process of deepening European integration has continued to develop, calling itself the creation of the ever closer Union.

However, at least since 2010, the opposite trend of development has intensified; it is a disintegration trend. Its expression is the efforts to dissolve European integration, to redefine the institutional structure and functioning of the European Union, and to reinforce the role and powers of national states in Europe. Over the last few years, this contradiction between efforts to deepen European integration on the one hand and disintegration tendencies on the other hand has been a major turning point in political clashes both within the European Union and within individual EU Member States.

This paper will analyze the development of the economic performances and competitiveness of EU Member States under conditions of continuously deepening European integration, the successes and failures of the concept of continuously deepening European integration in solving economic problems of the EU and its Member States, as well as possible implications of these processes for the future shape of Europe.

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II. *Continuous* deepening of integration as a basic EU objective

The creation of the ever closer Union is primarily supported by European Union law. The founding treaties of the EU – the Treaty on European Union and the Treaty on the Functioning of the European Union – are formulated in such a way as to promote the continuous deepening of European integration. The binding EU legal acts – regulations, directives and decisions – which have been derived from the founding treaties of the EU are also oriented in this direction.

Article 1 of the Treaty on European Union states: *"By this Treaty, the High Contracting Parties establish among themselves a European Union, hereinafter called 'the Union', on which the Member States confer competences to attain objectives they have in common. This Treaty marks a new stage in the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as openly as possible and as closely as possible to the citizen. The Union shall be founded on the present Treaty and on the Treaty on the Functioning of the European Union (hereinafter referred to as 'the Treaties'). Those two Treaties shall have the same legal value…"* (OJEU, 2012, p. 16). Thus, Article 1 of the Treaty on European Union foresees forming the ever closer Union between the EU Member States, i.e. ever deeper integration of the Member States.

Article 3 of the Treaty on European Union sets out the economic objectives of continuously deepening European integration, including balanced economic growth, high competitiveness of the economies of the Member States, economic, social and territorial cohesion and solidarity among Member States, and declares the euro as the single currency of the EU: *"The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance… It shall promote economic, social and territorial cohesion, and solidarity among Member States… The Union shall establish an economic and monetary union whose currency is the euro…"* (OJEU, 2012, p. 17)

The above-mentioned basic characteristics and objectives of the European Union are detailed in the Treaty on the Functioning of the European Union. According to two paragraphs of Article 119 of the Treaty on the Functioning of the European Union, the coordination of Member States' economic policies, the definition of common objectives, the existence of the single currency and the implementation of a single monetary policy and exchange-rate policy are the basis for the implementation of EU economic policies:

"1. For the purposes set out in Article 3 of the Treaty on European Union, the activities of the Member States and the Union shall include, as provided in the Treaties, the adoption of an economic policy which is based on the close coordination of Member States' economic policies, on the internal market and on the definition of common objectives, and conducted in accordance with the principle of an open market economy with free competition.

2. Concurrently with the foregoing, and as provided in the Treaties and in accordance with the procedures set out therein, these activities shall include a single currency, the euro, and the definition and conduct of a single monetary policy and exchange-rate policy the primary objective of both of which shall be to maintain price stability and, without prejudice to this objective, to support the general economic policies in the Union, in accordance with the principle of an open market economy with free competition." (OJEU, 2012, pp. 96–97)

Article 121 of the Treaty on the Functioning of the European Union, in its four paragraphs, defines Member States' economic policies as a matter of common concern and subject to coordination and requires Member States' economic policies to be in line with the broad EU economic policies guidelines adopted and to ensure the sustained convergence of the economic performances of the Member States:

"1. Member States shall regard their economic policies as a matter of common concern and shall coordinate them within the Council…

2. The Council shall, on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Union, and shall report its findings to the European Council. The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Union. On the basis of this conclusion, the Council shall adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation.

3. In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, the Council shall, on the basis of reports submitted by the Commission, monitor economic developments in each of the Member States and in the Union as well as the consistency of economic policies with the broad guidelines referred to in paragraph 2, and regularly carry out an overall assessment. For the purpose of this multilateral surveillance, Member States shall forward information to the Commission about important measures taken by them in the field of their economic policy and such other information as they deem necessary.

4. Where it is established, under the procedure referred to in paragraph 3, that the economic policies of a Member State are not consistent with the broad guidelines referred to in paragraph 2 or that they risk jeopardising the proper functioning of economic and monetary union, the Commission may address a warning to the Member State concerned. The Council, on a recommendation from the Commission, may address the necessary recommendations to the Member State concerned…" (OJEU, 2012, pp. 97–98)

Subsequently, Article 126 of the Treaty on the Functioning of the European Union specifies rules for the budgetary surveillance of the EU Member States. It states Member States shall avoid excessive government deficits. It also sets out criteria for monitoring compliance with budgetary discipline in the Member States as well as procedures in the event of an excessive government deficit in the EU Member State, including the possibility of imposing fines on countries with excessive government deficits (OJEU, 2012, pp. 99–102).

The fact that EU law is geared to the continuous deepening of European integration has important implications. If serious problems or crises occur in the European Union and its Member States, their solutions are sought not primarily at the level of individual Member States but above all at the European Union level. The EU institutions, and usually most of the EU Member States, are looking for solutions to problems and crises in further deepening European integration and further strengthening competences of the EU institutions.

By encouraging further integration, the EU institutions and EU Member States have also responded to the United Kingdom's decision to withdraw from the European Union. On 23 June 2016, the referendum on the United Kingdom's membership in the European Union was held, in which 51.9% of voters chose to leave the European Union. However, the result of the referendum was not legally binding, so the British Parliament could handle it at its discretion – either to respect it or to reject it. The British Parliament eventually confirmed the result of the referendum by approving the European Union (Notification of Withdrawal) Act in March 2017, on the basis of which the Prime Minister of the United Kingdom announced on 29 March 2017 to the European Council the formal notice – required by Article 50 of the Treaty on European Union – for starting negotiations for the United Kingdom's withdrawal from the European Union.

On 25 March 2017, on the 60th anniversary of the signing of the Treaties of Rome, the remaining 27 Member States of the European Union adopted the Rome Declaration, in which they expressed their determination to continue the path of European integration. The Rome Declaration, among other things, states: *"The European Union is facing unprecedented challenges, both global and domestic: regional conflicts, terrorism, growing migratory pressures, protectionism and social and economic inequalities. Together, we are determined to address the challenges of a rapidly changing world and to offer to our citizens both security and new opportunities. We will make the European Union stronger and more resilient, through even greater unity and solidarity amongst us and the respect of* *common rules. Unity is both a necessity and our free choice. Taken individually, we would be side-lined by global dynamics. Standing together is our best chance to influence them, and to defend our common interests and values. We will act together, at different paces and intensity where necessary, while moving in the same direction, as we have done in the past, in line with the Treaties and keeping the door open to those who want to join later. Our Union is undivided and indivisible…"* (Council of the EU, 2017)

However, it is a question of how similarly or differently individual Member States perceive the content or substance of European integration and of their EU membership. Is the European Union really indivisible under these circumstances? In addition, can the European Union be indivisible when one Member State leaves the EU? Do the remaining 27 EU Member States move together in case of serious problems and crises? And can the continuous deepening of European integration ensure the sustained economic convergence and high competitiveness of the EU Member States? To answer these questions, we will analyze the long-term development of the economic performances and competitiveness of the EU Member States, as well as the way and results of the chosen solution of the debt crisis in some euro area countries.

III. Does deeper integration support competitiveness and economic convergence in the EU?

First, we will analyze the long-term development of the economic performances and competitiveness of the EU Member States to answer the question of whether the continuous deepening of European integration can ensure the sustained economic convergence and high competitiveness of the EU Member States.

In the following analysis, we will show the long-term existence of a group of EU Member States with high economic levels and high competitiveness and, on the contrary, a group of EU Member States whose economic and competitive levels are lagging behind the best EU countries and remain unchanged or even worsen for a long time. We will use an international comparison of the development of three relevant indicators in the long term. This comparison will be made for all 28 EU Member States and some non-EU countries.

We will compare competitiveness of economies on the basis of the Global Competitiveness Index, designed and published by the World Economic Forum (WEF) in its publication The Global Competitiveness Report. It is one of the most well-known and most respected countries' competitiveness rankings. This competitiveness assessment evaluates about 140 countries on the basis of 114 criteria. We will compare the ranking of the EU Member States and other selected countries according to the Global Competitiveness Index in 2005–2018.

Competitiveness of the EU Member States and other selected countries will be further evaluated on the basis of the current account balance, expressed as % of GDP, in 2007–2017. Simply put, with the growing competitiveness of the country, its current account balance is improving. The most competitive countries usually have high current account surpluses, the least competitive countries have high current account deficits. However, this does not apply under all conditions. For example, in countries experiencing a severe economic recession, demand reductions may cause a significant drop in imports and, therefore, an improvement of the current account balance, but it does not indicate an improvement of competitiveness of the country.

The convergence of the economic performances of the EU Member States and other selected countries will be monitored through the development of the gross domestic product per capita in PPS in 2007–2017. The values of this indicator are expressed as % of the EU average, the EU average is set to equal 100%.

The rankings of the EU Member States and other selected countries in the Global Competitiveness Index in 2005–2018 are shown in Table 1. It is clear that high competitiveness of the EU economy as a whole cannot be said. There are significant differences in the levels of competitiveness of the economies of individual EU Member States.

Table 1 Global Competitiveness Index rankings (2005–2018)

	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010	2010–2011	2011–2012	2012–2013	2013–2014	2014–2015	2015–2016	2016–2017	2017–2018
Switzerland	4	1	2	2	1	1	1	1	1	1	1	1	1
United States	1	6	1	1	2	4	5	7	5	3	3	3	2
Singapore	5	5	7	5	3	3	2	2	2	2	2	2	3
Netherlands	11	9	10	8	10	8	7	5	8	8	5	4	4
Germany	6	8	5	7	7	5	6	6	4	5	4	5	5
Sweden	7	3	4	4	4	2	3	4	6	10	9	6	7
United Kingdom	9	10	9	12	13	12	10	8	10	9	10	7	8
Japan	10	7	8	9	8	6	9	10	9	6	6	8	9
Finland	2	2	6	6	6	7	4	3	3	4	8	10	10
Norway	17	12	16	15	14	14	16	15	11	11	11	11	11
Denmark	3	4	3	3	5	9	8	12	15	13	12	12	12
Austria	15	17	15	14	17	18	19	16	16	21	23	19	18
Luxembourg	24	22	25	25	21	20	23	22	22	19	20	20	19
Belgium	20	20	20	19	18	19	15	17	17	18	19	17	20
France	12	18	18	16	16	15	18	21	23	23	22	21	22
Ireland	21	21	22	22	25	29	29	27	28	25	24	23	24
Estonia	26	25	27	32	35	33	33	34	32	29	30	30	29
Czech Republic	29	29	33	33	31	36	38	39	46	37	31	31	31
Spain	28	28	29	29	33	42	36	36	35	35	33	32	34
Malta	44	39	56	52	52	50	51	47	41	47	48	40	37
Poland	43	48	51	53	46	39	41	41	42	43	41	36	39
Lithuania	34	40	38	44	53	47	44	45	48	41	36	35	41
Portugal	31	34	40	43	43	46	45	49	51	36	38	46	42
Italy	38	42	46	49	48	48	43	42	49	49	43	44	43
Slovenia	30	33	39	42	37	45	57	56	62	70	59	56	48
Bulgaria	61	72	79	76	76	71	74	62	57	54	54	50	49
Latvia	39	36	45	54	68	70	64	55	52	42	44	49	54
Slovakia	36	37	41	46	47	60	69	71	78	75	67	65	59
Hungary	35	41	47	62	58	52	48	60	63	60	63	69	60
Cyprus	41	46	55	40	34	40	47	58	58	58	65	83	64
Romania	67	68	74	68	64	67	77	78	76	59	53	62	68
Croatia	64	51	57	61	72	77	76	81	75	77	77	74	74
Greece	47	47	65	67	71	83	90	96	91	81	81	86	87

Source: WEF (2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017)

Five old EU Member States (the Netherlands, Germany, Sweden, the United Kingdom and Finland) have been among the ten most competitive countries in the world for a long time. Six old EU Member States (Denmark, Austria, Luxembourg, Belgium, France and Ireland) are among the countries with a high level of competitiveness that have been ranked 12th–25th. Below them, Estonia and the Czech Republic have been ranked approximately 30th.

Table 2 Current account balance (% of GDP, 2007–2017)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Malta	-1.9	-1.1	-6.6	-4.7	-0.2	1.7	2.7	8.8	4.5	7.0	12.6
Ireland	-6.5	-6.9	-5.6	-2.0	-2.4	-2.6	2.1	1.6	10.9	3.9	12.5
Netherlands	7.0	5.0	5.5	7.0	8.7	10.3	9.9	8.6	8.7	8.5	10.2
Germany	6.7	5.6	5.7	5.6	6.1	7.0	6.7	7.5	8.9	8.5	8.0
Denmark	1.4	2.9	3.5	6.6	6.6	6.3	7.8	8.9	8.8	7.3	7.9
Slovenia	-4.1	-5.3	-0.6	-0.1	0.2	2.1	4.4	5.8	4.4	5.2	6.4
Luxembourg	9.7	7.6	7.2	6.7	6.0	5.6	5.5	5.2	5.1	6.4	5.0
Bulgaria	-23.9	-22.0	-8.3	-1.7	0.3	-0.9	1.3	0.1	0.0	2.3	4.5
Croatia	-7.3	-9.0	-5.3	-1.2	-0.8	-0.2	1.0	2.0	4.4	2.4	3.7
Sweden	8.2	7.8	6.0	6.0	5.6	5.6	5.2	4.5	4.5	4.2	3.2
Estonia	-15.0	-8.7	2.5	1.8	1.3	-1.9	0.5	0.3	2.0	1.9	3.2
Hungary	-7.1	-7.0	-0.8	0.3	0.8	1.7	3.8	1.5	3.4	6.0	2.8
Italy	-1.4	-2.8	-1.9	-3.4	-3.0	-0.3	1.0	1.9	1.5	2.6	2.8
Austria	3.8	4.5	2.6	2.9	1.6	1.5	1.9	2.5	1.9	2.1	1.9
Spain	-9.6	-9.3	-4.3	-3.9	-3.2	-0.2	1.5	1.1	1.1	1.9	1.9
Czech Republic	-4.6	-1.9	-2.3	-3.6	-2.1	-1.6	-0.5	0.2	0.2	1.6	1.1
Lithuania	-15.5	-13.6	1.4	-1.3	-4.6	-1.4	0.8	3.2	-2.8	-1.1	0.8
Finland	3.7	2.1	1.6	1.1	-1.7	-2.3	-2.2	-1.8	-0.7	-0.3	0.7
Portugal	-9.7	-12.1	-10.4	-10.1	-6.0	-1.8	1.6	0.1	0.1	0.6	0.5
Poland	-6.3	-6.7	-4.0	-5.4	-5.2	-3.7	-1.3	-2.1	-0.6	-0.3	0.3
Belgium	2.0	-1.0	-1.1	1.8	-1.1	-0.1	-0.3	-0.9	-0.1	0.1	-0.2
Latvia	-20.7	-12.3	7.8	2.1	-3.2	-3.6	-2.7	-1.7	-0.5	1.4	-0.8
France	-0.3	-1.0	-0.8	-0.8	-1.0	-1.2	-0.9	-1.3	-0.4	-0.9	-0.8
Greece	-15.2	-15.1	-12.3	-11.4	-10.0	-3.8	-2.0	-1.6	-0.2	-1.1	-0.8
Slovakia	-5.9	-6.5	-3.4	-4.7	-5.0	0.9	1.9	1.1	-1.7	-1.5	-2.1
Romania	-13.5	-11.5	-4.7	-5.1	-4.9	-4.8	-1.1	-0.7	-1.2	-2.1	-3.4
United Kingdom	-3.8	-4.6	-3.9	-3.8	-2.4	-4.2	-5.5	-5.3	-5.2	-5.8	-4.1
Cyprus	-11.8	-15.5	-7.7	-11.3	-4.1	-6.0	-4.9	-4.3	-1.5	-4.9	-6.7
EA-19	0.0	-1.5	-0.1	-0.1	-0.1	1.4	2.2	2.4	3.2	3.4	3.5
EU-28	-0.7	-1.5	-0.3	-0.1	0.3	1.1	1.5	1.5	2.1	2.0	2.4
Switzerland	10.1	2.4	7.4	14.8	7.9	10.3	11.3	8.5	10.9	9.4	9.8
Norway	12.2	15.7	10.7	10.9	12.4	12.4	10.2	11.0	8.0	4.9	5.1
Japan	4.7	2.8	2.8	3.9	2.1	1.0	0.9	0.8	3.1	3.8	4.0
United States	-4.9	-4.6	-2.6	-2.9	-2.9	-2.6	-2.1	-2.1	-2.4	-2.4	-2.4

Source: Eurostat (2018a), International Monetary Fund (2018)

The least competitive EU Member States are Latvia, Slovakia, Hungary, Cyprus, Romania, Croatia and Greece. These worst-ranked EU countries do not show a general tendency to improve their rankings. Their rankings mostly remain unchanged or even worsen for a long time. For example, when comparing competitiveness in 2005–2006 and 2017–2018, the rankings of Slovakia worsened from 36th to 59th, of Hungary from 35th to 60th, of Cyprus from 41st to 64th and of Greece from 47th to 87th.

Table 2 shows the development of the current account balance in 2007–2017. In 2017, Malta and Ireland had the highest current account surpluses among the EU countries, namely 12.6% of GDP and 12.5% of GDP, respectively. High current account surpluses were also in the Netherlands, Germany, Denmark, Slovenia and Luxembourg in 2017. At the same time, the Netherlands and Germany are the two most competitive EU countries according to the Global Competitiveness Index, as we have mentioned above. Denmark, Luxembourg and Ireland are also highly competitive countries according to the Global Competitiveness Index. On the other hand, Belgium, Latvia, France, Greece, Slovakia, Romania, the United Kingdom and Cyprus had the current account deficits in 2017. At the same time, Latvia, Slovakia, Cyprus, Romania and Greece are among the least competitive EU countries according to the Global Competitiveness Index.

The Czech Republic had the current account surplus of 1.1% of GDP in 2017. Switzerland is the country outside the EU and the most competitive country in the world according to the Global Competitiveness Index. It has also better current account balance than most of the EU Member States – namely the surplus of 9.8% of GDP in 2017.

The differences in the levels of the current account balance between the EU countries decreased during the period 2007–2017, mainly due to the reduction or elimination of the initially very large current account deficits in a number of the EU Member States. On the contrary, some EU countries (Luxembourg, Sweden, Austria, Finland or Belgium) faced deterioration of their current account balances. France, Greece, Romania, the United Kingdom and Cyprus have failed to break out of long-term current account deficits. Despite the positive developments in a number of the EU Member States, the differences between the EU countries remain significant.

The Global Competitiveness Index does not indicate high competitiveness of the EU economy as a whole. Only a few EU Member States have highly competitive economies, while other EU countries have lower competitiveness. The current account balances also provide a differentiated picture of competitiveness of the EU countries. There are significant differences in competitiveness between the EU Member States. In some cases, these differences are even very large and further increasing. Differences in competitiveness between EU Member States have persisted or even increased despite the continuous deepening of European integration in the monitored period – the Treaty of Lisbon entered into force in 2009 as the next step towards the closer Union, budgetary and macroeconomic surveillance of the EU Member States has strengthened, measures to establish a banking union and capital markets union have been introduced. Countries with such large and growing differences in competitiveness are even members of the closely integrated euro area.

The development of the gross domestic product per capita in PPS in 2007–2017 is shown in Table 3. It is clear that the differences in the levels of GDP per capita in PPS between the EU Member States are significant. In 2017, Luxembourg had the highest economic level in the European Union, with GDP per capita at 253% of the EU average. On the contrary, Bulgaria had the lowest GDP per capita among the EU countries, namely 49% of the EU average, i.e. more than five times lower than Luxembourg.

The other countries of the European Union were between these two extreme values. Ten of them (Ireland, the Netherlands, Austria, Denmark, Germany, Sweden, Belgium, Finland, the United Kingdom and France) had GDP per capita higher than the EU average in 2017, while the remaining EU countries had GDP per capita below the EU average. In 2017, the Czech Republic was ranked 15th out of 28 EU Member States, with GDP per capita at 89% of the EU average.

Importantly, in 2007–2017 there was no general convergence of the economic levels of the EU Member States. In the monitored period, GDP per capita in some Member States approached the EU average, but in other Member States it dropped deeper below the EU average. A significant improvement of GDP per capita and its approach to the EU average was achieved in the most of the new EU Member States (Malta, the Czech Republic, Slovakia, Estonia, Lithuania, Latvia, Poland, Hungary, Romania and Bulgaria) in 2007–2017. GDP per capita in the Czech Republic increased from 82% to 89% of the EU average in 2007–2017. GDP per capita of several old EU Member States has also increased significantly.

Table 3 GDP per capita in PPS (index, EU-28 = 100, 2007–2017)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Luxembourg	265	262	255	257	265	260	261	270	267	257	253
Ireland	148	134	129	130	130	132	132	137	181	183	184
Netherlands	138	139	137	134	133	133	134	130	129	128	128
Austria	125	125	127	126	128	132	131	130	130	127	128
Denmark	123	125	125	129	128	127	128	128	127	124	125
Germany	117	117	117	120	123	124	124	126	124	124	123
Sweden	128	127	123	125	126	127	125	124	125	123	122
Belgium	117	115	118	120	120	121	120	119	118	118	117
Finland	119	121	117	116	117	115	113	111	109	109	109
United Kingdom	112	110	107	108	106	107	108	109	108	108	105
France	108	106	108	108	108	107	108	107	105	104	104
Italy	107	106	106	104	104	102	98	96	95	97	96
Malta	79	79	81	84	83	84	85	88	93	94	96
Spain	103	101	101	96	93	91	89	90	91	92	92
Czech Republic	82	84	85	83	83	82	84	86	87	88	89
Slovenia	87	90	85	83	83	82	82	82	82	83	85
Cyprus	104	105	105	100	96	91	84	81	82	83	84
Lithuania	60	63	56	60	66	70	73	75	75	75	78
Portugal	81	81	82	82	77	75	77	77	77	77	77
Slovakia	67	71	71	74	75	76	77	77	77	77	77
Estonia	69	69	64	65	71	74	75	76	75	75	77
Poland	53	55	59	62	65	67	67	67	68	68	70
Hungary	60	63	64	65	66	66	67	68	68	67	68
Greece	93	93	94	85	75	72	72	72	69	68	67
Latvia	57	59	52	53	57	60	62	63	64	65	67
Romania	44	51	51	51	52	54	54	55	56	58	63
Croatia	61	63	62	59	60	60	60	59	59	60	61
Bulgaria	40	43	43	44	45	46	46	47	47	49	49
EA-19	109	109	109	108	108	107	107	107	106	106	106
EU-28	100	100	100	100	100	100	100	100	100	100	100
Switzerland	157	159	160	159	162	164	165	165	165	161	158
Norway	177	187	172	174	179	186	184	176	160	148	150
United States	152	146	146	145	143	146	145	146	147	145	145
Japan	109	105	103	105	103	106	107	104	106	107	105

Source: Eurostat (2018b)

The largest worsening of GDP per capita was noticed in some euro area countries affected by the debt crisis or by a longer economic recession or stagnation. In 2007–2017, in relation to the EU average, GDP per capita in Spain fell from 103% to 92%, in Portugal from 81% to 77%, in Cyprus from 104% to 84%, in Greece from 93% to 67%, in Finland from 119% to 109%, in France from 108% to 104%, and in Italy from 107% to 96%.

For comparison, let's also mention the economic levels of some countries outside the European Union. In 2017, Switzerland had GDP per capita at 158% of the EU average, Norway at 150% of the EU average, the United States at 145% of the EU average and Japan at 105% of the EU average.

The above-mentioned data shows that ever deeper European integration cannot ensure the sustained convergence of the economic performances of the EU Member States. In the monitored period, European integration has deepened – the Treaty of Lisbon entered into force in 2009 as the next step towards the closer Union, budgetary and macroeconomic surveillance of the EU Member States has strengthened, measures to establish a banking union and capital markets union have been introduced. But differences in the economic performances between EU Member States have persisted or even increased. Besides, differences in the economic performances have increased among a number of the Member States of the closely integrated euro area. On the contrary, the Czech Republic and some other EU countries have managed to improve their economic performances and move closer to the EU average, even if they have their national currencies, and thus belong to a group of less integrated Member States of the European Union.

IV. Has closer integration helped to resolve the debt crisis effectively and in the long term?

In this chapter, we will analyze the way and results of the chosen solution of the debt crisis in some euro area countries to answer the question of whether the continuous deepening of European integration helps to resolve problems and crises in the EU effectively and in the long term.

The EU institutions, and usually most of the EU Member States, are looking for solutions to problems and crises in further deepening European integration and further strengthening competences of the EU institutions. The same way was chosen for the resolution of the debt crisis, which has gradually hit five euro area countries – Greece, Ireland, Portugal, Spain and Cyprus – since 2010. From the outset, the possibility of appearing these troubled countries out of the monetary union was ruled out, because leaving the monetary union would represent the disintegration step that would be contrary to the wording of the founding treaties of the EU as well as to the policy of the EU institutions. Therefore, measures to resolve the debt crisis included changes in EU law that further deepened European integration.

In May 2013, an amendment to one of the founding treaties of the EU, namely Article 136 of the Treaty on the Functioning of the European Union, which enshrined the European Stability Mechanism entered into force. The European Stability Mechanism provides financial assistance to euro area countries experiencing or threatened by severe financing problems. This assistance takes the form of loans and is granted only if it is proven necessary to safeguard the financial stability of the euro area as a whole. Previously, two temporary mechanisms – the European Financial Stability Facility and the European Financial Stabilisation Mechanism – have been created for the same purpose. Overall, the financial assistance to five euro area countries affected by the debt crisis amounted to EUR 498.2 billion (see Table 4).

Table 4 Bailout programmes for euro area Member States since 2010

	Bailout (billion EUR)	Start of bailout programme	End of bailout programme	Loan repayments
Greece, 1st bailout programme	73.0	May 2010	December 2011	from 2023 to 2056
Greece, 2nd bailout programme	142.9	March 2012	June 2015	from 2023 to 2056
Greece, 3rd bailout programme	86.0	August 2015	August 2018	from 2034 to 2060
Ireland	68.2	November 2010	December 2013	from 2029 to 2042
Portugal	76.8	May 2011	June 2014	from 2025 to 2040
Spain	41.3	December 2012	December 2013	from 2022 to 2027
Cyprus	10.0	March 2013	March 2016	from 2025 to 2031
Total	498.2			

Source: European Stability Mechanism (2018)

New EU legal acts – regulations and directives – have been adopted to strengthen budgetary and macroeconomic surveillance of the euro area countries and to deepen the coordination of their economic policies. In December 2011, the so-called six-pack, a set of five regulations and a directive amending the Stability and Growth Pact, entered into force. The six-pack tightened budgetary surveillance of the euro area countries and introduced macroeconomic surveillance of the EU Member States. In May 2013, a set of two regulations called the two-pack entered into force. The two-pack further tightened the rules for the euro area Member States in the excessive deficit procedures and receiving financial assistance from the European Stability Mechanism (European Law Monitor, 2013).

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, approved by 25 out of the 28 EU Member States (with the exception of the United Kingdom, the Czech Republic and Croatia), has also entered into force in 2013 in order to further consolidate fiscal discipline in the euro area Member States by defining their obligation to maintain structural budget deficits, i.e. budget deficits adjusted for the business cycle and one-off and temporary measures, below 0.5% of GDP, while countries with low public debts and low risks to the long-term sustainability of public finances may have structural budget deficits less than 1% of GDP (Council of the EU, 2012). Since 2014, further measures have been introduced to deepen European integration – a banking union and capital markets union have been created.

The European Central Bank also took action to resolve the debt crisis in the euro area. This includes the implementation of an extremely expansionary monetary policy, namely the setting of key interest rates close to zero or below zero, and the quantitative easing in the form of purchases of securities, in particular government bonds of the euro area countries, by the European Central Bank in the secondary market. Since March 2015, the European Central Bank has been buying securities worth several tens of billions of euros per month. This securities purchase programme has been prolonged several times and, according to the latest decision of the European Central Bank, should end in December 2018 (European Central Bank, 2018).

Table 5 General government gross debt of selected euro area Member States (% of GDP, 2007–2017)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Greece	103.1	109.4	126.7	146.2	172.1	159.6	177.4	178.9	176.8	180.8	178.6
Ireland	23.9	42.4	61.5	86.1	110.3	119.6	119.4	104.5	76.9	72.8	68.0
Portugal	68.4	71.7	83.6	96.2	111.4	126.2	129.0	130.6	128.8	129.9	125.7
Spain	35.6	39.5	52.8	60.1	69.5	85.7	95.5	100.4	99.4	99.0	98.3
Cyprus	53.5	45.1	53.8	56.3	65.7	79.7	102.6	107.5	107.5	106.6	97.5
Italy	99.8	102.4	112.5	115.4	116.5	123.4	129.0	131.8	131.5	132.0	131.8

Source: Eurostat (2018c)

Despite the implementation of the above-mentioned measures to deepen European integration in fiscal and other areas, despite the non-standard monetary policy measures adopted by the European Central Bank, the debt crisis in the above-mentioned five euro area countries cannot be regarded as being solved. This is evidenced, for example, by the development of the public debt in these countries. The development of the public debt will be monitored through the development of the general government gross debt, expressed as % of GDP, in 2007–2017. The data in Table 5 shows that in 2017 all of these countries had higher public debts than at the beginning of the debt crisis.

The only country of these five, which is probably on its way to overcome the debt crisis, is Ireland. Ireland's public debt has multiplied from a pre-crisis level of 23.9% of GDP to 119.6% of GDP in 2012, but has declined significantly since 2014. In 2017, Ireland's public debt declined to 68% of GDP, which is still almost three times higher than the pre-crisis level.

In Greece, Portugal, Spain and Cyprus, however, there is no significant reduction in their public debts. The public debts of these states remain at very high levels. In 2017, Greece's public debt reached 178.6% of GDP, Portugal's public debt 125.7% of GDP, Spain's public debt 98.3% of GDP, and Cyprus's public debt 97.5% of GDP. In Portugal and Cyprus, public debts remain almost double compared to the pre-crisis levels, Spain's public debt is almost three times higher than in the pre-crisis period. Greece still has the highest public debt among the euro area countries.

Italy has the second largest public debt among the euro area Member States. Although Italy has not yet faced the debt crisis and has not needed to receive financial assistance, Italy's public debt has grown for a long time and reached 131.8% of GDP in 2017. This, along with the weakness of the Italian banking sector, creates a potentially dangerous situation in this euro area country.

There is another reason why the debt crisis in the above-mentioned five euro area countries cannot be regarded as being solved. As Table 4 shows, these five states have received substantial financial assistance (EUR 498.2 billion). Repayments of the financial assistance will start after 2020 and will continue for a long time, in the case of Greece until 2060. The ability of these countries to repay financial assistance will depend on their long-term positive economic development, on their ability to achieve long-term economic growth. However, this is uncertain with regard to business cycles and lower competitiveness of most of these countries.

V. Conclusion

Since the beginning of the European integration process in the 1950s, European integration has deepened continuously. Competences of supranational European institutions have strengthened, while powers of national authorities have weakened, the number of areas in which common European rules and solutions are adopted not by the unanimous vote of the Member States, but by qualified majority voting, has increased, and the definition of qualified majority has changed, making it more difficult to block the decisions of the European institutions by a minority of Member States that disagree with them.

The continuous deepening of European integration is primarily supported by European Union law, both by the founding treaties of the EU and by EU legal acts. It has important implications. If serious problems or crises occur in the European Union and its Member States, their solutions are sought not primarily at the level of individual Member States but above all at the European Union level. The EU institutions, and usually most of the EU Member States, are looking for solutions to problems and crises in further deepening European integration and further strengthening competences of the EU institutions.

The process of deepening European integration has also continued over the last ten years. The Treaty of Lisbon entered into force in 2009 as the next step towards the closer Union, budgetary and macroeconomic surveillance of the EU Member States has strengthened, measures to establish a banking union and capital markets union have been introduced. However, despite this, a significant number of the EU Member States fail to meet the EU's main economic objectives, such as the sustained economic convergence and high competitiveness of the EU Member States, for a long time.

Only some EU Member States have highly competitive economies, while other EU countries have lower competitiveness. There are long-term significant differences in competitiveness between the EU Member States. In some cases, these differences are even very large and further increasing. Similarly, ever deeper European integration cannot ensure the sustained convergence of the economic performances of the EU Member States. Differences in the economic performances between the EU Member States persist or even increase for a long time. Besides, differences in the economic performances and competitiveness increase among a number of the Member States of the closely integrated euro area.

In addition, the continuous deepening of European integration has not brought long-term effective resolution of the debt crisis that hit five euro area countries. The public debts of these countries remain high and their repayments, including repayments of financial assistance received, will be long-term and hard.

In response to these developments, at least since 2010, a disintegration trend has intensified in the European Union. Its expression is the efforts to dissolve European integration, to redefine the institutional structure and functioning of the European Union, and to reinforce the role and powers of national states in Europe. Over the last few years, this contradiction between efforts to deepen European integration on the one hand and disintegration tendencies on the other hand has been a major turning point in political clashes both within the European Union and within individual EU Member States.

With deepening European integration, the flexibility of national economic policies is decreasing, while the impact of the institutional framework of the EU on the economic performances and competitiveness of the Member States is increasing. In the context of deepening European integration, particularly in the euro area, Member States are increasingly unable to influence their competitiveness and the processes of economic convergence by their own economic policies. Therefore, it would be desirable to introduce full-fledged and sufficiently large fiscal transfers from economically more successful and more competitive Member States to economically less successful and less competitive Member States. However, in the Member States that should be the sources of these fiscal transfers (Germany, the Netherlands, Austria, etc.), there is no political will to implement these measures. Consequently, their realization cannot be expected even in the long term.

Under these circumstances, however, it may be beneficial for Member States to maintain greater flexibility in their economic policies, including the maintenance of their own national currencies. But then it is a question of whether the deepening of European integration has hit its limit and whether the disintegration tendencies in the EU will further strengthen. After all, the process of the United Kingdom's withdrawal from the EU shows that the European Union is not indivisible. The future of the European Union is therefore uncertain.

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