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# The behaviour model of the European Union – the role of the East-Central European countries<sup>1</sup>

## INTRODUCTION

The economic and political changes in the East-Central European countries at the end of the 1980's introduced a new historic era. The strategies of the transition are manifold but they include at least one element which is basically common: the integration into the EU. The previous markets of these countries have collapsed, the new, West-European orientation is facing many difficulties. On the other hand the economic leaders realised soon that there was no alternative modernization source.

The European Union faces a new era in the 1990's. The transition economies present completely new economic, political and geopolitical circumstances. The changes in the structure of the world economy has also challenged the integration model. The Maastricht strategy has many weak points and seems to be capable of destroying the previous welfare state models of the member countries, rather than showing a way out of the crisis. The second White Book (1993) laid down the strategy of the

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next century: sustainable growth, but it does not give details of how to achieve the aim. The extension of the integration created new economic sources and increased the effectiveness of the integration but it also highlighted that the EU has reached its borders in the sense that the administrative structure of the integration is not suitable for operating with more than 15 members.

The integration theory has not yet covered the new situation. Many research studies, analyzing the costs and benefits of the accession of new members were prepared, but it seems that the behaviour model of the integration needs a wider approach.

This paper starts by defining some functions of societies so as to distinguish between different integration strategies and to decide which would be the most suitable for the East-Central European countries.

## SOME DEFINITIONS

The terms „national”, „regional”, „global” are generally used in a geographic, economic, political, institutional, social, cultural etc. sense. Here I would like to give the above terms a functional meaning from the viewpoint of the world economic interpretation of the different subsystems.

The adjective „national” in the functional sense means the operation with the logic of the market mechanism which suits the economic subsystem. This manner of thinking and effort concentrates on profit maximization and forms an opinion of any economic political step by comparing its costs and benefits.

The „regional” function means the adoption of the logic of parliamentary democracies in relations with different countries. With this behaviour a society tries to control the increase of any power in the face of other social units and/or transmits and executes the global efforts.

An activity is „global” which represents the security policy and operates with the aim of keeping the given unit stable. From this comes that one cannot restrict the meaning of rationality to the economic subsystem because its content differs in the above cases. Rationality in the strict economic sense refers to the optimal allocation of scarce resources. In the wider sense rationality serves the security of existence in the long-run.

Using the terms „national”, „regional”, „global” in the above functional meaning is not done with the aim of making a pun. The general economic approach towards the analysis of a *country's* economic and political steps in the world economy focuses on the economic interests of the nation. *Regional* institutions are those of mutual control and decision making in

most cases. The *global* phenomena refer to the whole world and since the realization of global problems in the 1970's everyone has understood that there is no alternative to the unity and stability of the world.

It is of vital importance to emphasize that functions and institutions are not the same. The above terms do not mean that the nation states operate only according to the logic of the economic subsystem, the regional integrations are innocent of increasing the national income or of being responsible for the security policy. The different institutional frameworks include all of these functions, which means that the nation states and integrations may perform national, regional as well as global functions.

It seems to be also important to note that the above functions are not separate. The system is open and interrelated. Even if the subsystems operate according to a different logic, they affect each other. The global function is not simply a moral, enlightened logic because it works through the economic subsystem. Parliamentary democracy has to control the economic efforts and represent the different economic branches. On the other hand it should transmit the global, security function towards the economic system.

## THE BEHAVIOUR MODEL OF THE INTEGRATIONS

### The general approach

The general approach discusses the integrations from the national point of view. In this sense the background and aim of the creation of an integration is the maximization of the national income of the member countries. A country may consider integrating its markets with those of some other countries if:

- the institutionalization of the country's foreign economic relations improves the national income more than the current foreign economic system;
- the potential partners also realize a national income increase;
- the majority of the increased income is induced and not transferred, i.e. the economic benefit comes from the more effective performance of the countries, from the more effective allocation of resources and not from the transfer of the national income form one country to the other throughout e.g. terms of trade changes.

These considerations support and lead to the common view that integration can be beneficial among powerful countries close to each other, and of similar size.

The main source of the national income increase comes from the integrated markets as:

- it can improve the allocation of resources; i.e. it makes more advantageous to run a structural economic reform including the withdrawal of resources from those branches of the economy which perform worse than the national average or those whose performance is appreciated in the world economy;
- it improves the performance of the whole economy by helping the different branches of economy connect smoothly and by helping the comparative advantages coming across;
- it increases the potential market area by the destruction of trade barriers, by bringing the customs' regulations closer to each other ( in extremity standardization);
- it is possible to make use of the economies of scale from two points of view. First, the increase of the scale of production at the same technical level reduces average fixed costs. Second the bigger scale makes it possible to put into operation new production techniques.

One can be more precise by saying that the purpose of creating an integration is not simply the increase of national income but an increase relative to the other competitive centres of the world economy, thus the integration can play a more important role in international trade talks, in influencing the world prices, etc.

The extension and the deepening of an integration can thus be translated into a threefold economic question, which are the three components of international competitiveness:

- The integrated countries may decide on the accession of new members, which increases the relative size of the region; i.e. the potential GDP, the amount of exports, industrial production, etc. From this point of view those countries have the best chances to join which are economically big and/or powerful enough. This was the case with the accession of Great Britain, Denmark or the latest Nordic extension of the EU.
- The deepening of the integration does not increase the amount of resources in the region but makes an improved use of the existing ones with a structural reform; i.e. the GDP, export or industrial production per head etc. are aimed to increase. This strategy characterizes the SEA, the Maastricht Treaty or the 2nd White Book.
- The third factor is the homogeneity of integration. The potential member countries generally do not represent the same economic power and the same development level. The more heterogeneous the integration

becomes, the more inner friction may appear as far as the allocation of resources are concerned. Thus the integration has an optimal size and „country-structure” in the given world economic circumstances.

The three components of the competitiveness are not optional. To keep up with the competing centres both the extension and the deepening are needed. Which to choose at the given moment or how to combine the two strategies are the function of the number and the development level of the potential member countries as well as the world and regional economic and political circumstances.

### **The regional content**

The regional content and function of an integration is the control of the economic and political efforts and ambitions of the member countries. It is well known that the European Economic Community has been founded on the French-German axis. Both countries' strategy included a more tight connection with the other. France was afraid of the German hegemonic ambition thus she aimed at controlling the neighboring nation's economy and policy. Germany wanted to get rid of its political isolation and taking part in the European integrating process made it possible to control the French continental hegemonic effort. The resulting institutional framework, the decision making process, the voting system are all the elements of the parliamentary democratic function. The importance is not simply the possibility of controlling each other as well as their foreign relations but the fact that the members let other nations control them, too. The effective operation of the regional function also has an optimal size with the number of countries and their structure given, which can be experienced in the current reform debates of the EU.

### **The global function**

The global function of an integration includes the elimination of the inner friction and the effort to maintain the stability of the region and its relation with other parts of the world. The consensus decision making on the political side, the social, regional policy, the common research projects, an effort to create a unified consumption culture, etc. on the economic side are all parts of the security policy.

It is of more importance that the economic, social frictions and crises outside the integration create a similar danger in the region. This is why the integrated countries should take into account the foreign events and react actively. The Southern extension of the EU can be better explained with this function than with strict economic reasons. The Greek,

Portuguese or Spanish political crises and their geopolitical position pushed global logic into the fore.

## THE EAST-CENTRAL EUROPEAN ASPECT

As there is almost a consensus in the East-Central European Countries regarding the accession to the EU, we should concentrate on the elements of the behaviour model of the EU.

If one emphasizes the national function of the integration, the following remarks are worth mentioning.

The relative benefit of the EU members from the extension of the market is not significant. The integration cannot increase the amount of the potential resources in the East-Central European countries (except Poland) in comparison with the North American and South East Asian regions. Only a joint extension may be relevant but it is not likely and the different regulations as well as the level and quality of demand present serious problems.

As far as the economies of scale are concerned, the extension has only a limited advantage as regards the introduction of the latest, capital and R and D intensive technologies. The integration cannot rely on modernization sources from the East, either.

Generally, the relatively cheap labour costs are mentioned as the comparative advantage of the East-Central European countries. This may be partly true but only in those branches of the economy which have high labour costs in their cost structure. On the other hand the cost of labour should be considered in comparison with performance, effectiveness of labour and other wage burdens such as social security.

Since the Edinburgh Summit unemployment has become a number one problem in the EU, which makes it difficult to enter the European labour market freely, though the unified, free mobility of the factors of production forms in part the basis of the single market. This phenomenon is strengthened by the Schengen Agreement.

The Maastrich Treaty imposed convergence criteria on entering the monetary union. The European Monetary System itself also faces problems and the accession of new countries would not improve the convergence. We should emphasize this even if we take into account that the monetary union includes the possibility of a multispeed Europe: the accession would affect the performance of the core countries as well.

All in all the strict economic approach should make the East-Central European countries realistic and it seems that it is not all the same what economic model these countries would like to joint.

The regional function of the integration seems to be problematic for the potential new members as well. The institutional, decision making problems are widely analyzed. It is also stated that the accession of the new members would make the decision making and execution process ineffective, in extremity impossible. On the other hand Poland, the biggest country in the region, possesses weight enough to have an effect on the stable status quo within the existing system. All in all, we should say that the possibility to take part in the decision making process of the integration would be beneficial for the East-Central European countries.

A global function, dominant security policy would benefit the East-Central European countries. The potential members would be given a hand as regards economic and political stability and future relations with the current members and with the institution of the integration would be considered from a different point of view in comparison with the strict economic logic. The economic strategy and the behaviour model of the EU would be different because the stability and security of the region and that of the relations with third countries would dominate the strict, profit maximizing logic. The dominance of the global function does not mean any restricted economic or political relations, it contains only a different behaviour model within the economic and political sphere as well as underlining the importance of handling the accession to EU, NATO or WEU.

## CONCLUSION

The East-Central European countries have no relevant alternatives compared to the strategy of joining the EU as the economic and political circumstances do not offer any other source of modernization and security. The paper wants to emphasize that the ways how these countries join are not the same.

If the national function becomes dominant in the European integration, the accession will contain many disadvantages. The dominance of the profit maximization of the current member countries with an integration aiming to improve this function can mean, in extremity, a kind of „neo-colonial” relationship, where the integrated countries improve their national income benefits on account of the new members.

If the global function becomes dominant in the behaviour model, this would mean a completely different economic strategy. Instead of highly

asymmetric advantage, the integration may raise the economic and social performance of the Eastern countries in line with their self-development.

The consequence is that the accession process should not be restricted to the adoption but these countries have to try to influence the integration strategy.

The European integration works on a new behaviour model during the Intergovernmental Conference. The potential member countries cannot take part in the decision making but it is high time to influence the model these countries would like to join.