# The necessity of a renewed European economic integration concept

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**Abstract**

The financial and economic crisis and the management of that crisis in the EU indicate that the current integration concept is not an appropriate framework any more. This paper outlines some new challenges in the aftermath of the crisis and analyses the necessary changes in the theoretical background of economic integration.

The strengthened economic governance in the eurozone will mean a deeper division between insider and outsider countries than had ever existed in the EU before. However, there are further issues which have split the EU into different country groups and slow down convergence. The FDI-based catching-up model of the new member states should be modified. The management of debt crisis and stricter financial regulation decrease the capital available to these countries. The social market economy model should be given up in the Mediterranean countries in order to regain their competitiveness. The one-way migration from peripheral countries might cause long-lasting loss in their economic potential.

The idea of economic and monetary union is built on a combination of neoclassical theory and Cartesian rationalism in European institutional design. However, the EU cannot think of itself any more as a kind of Newtonian economic machine where the well-designed integration institutions guarantee a developed, more or less homogenous area, the realization of which is only a question of time. The severe differences in institutions which have been revealed by the crisis (e.g. between northern and southern countries) can be investigated if the neoclassical theory is complemented by an institutional economics approach. The result of this wider approach is a less ambitious, more humble, but more realistic integration concept.

Keywords: European integration, integration concept, neoclassical theory, rationalism, institutionalism
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## *1. Introduction*

Since the very beginning of European economic integration, the member states' aim has been to promote economic growth and to raise the standard of living in a harmonious and balanced way. The words of Article 2 in the Treaty of Rome implied two aspects, the requirement of continuous growth and the convergence of per capita income.[2] The enlargements moved European integration into a more and more heterogeneous area, which was reflected in the Maastricht Treaty. The high degree of convergence of economic performance, economic and social cohesion and solidarity among member states were explicitly inserted into the Article 2.[3] The Treaty of Amsterdam coupled the high degree of convergence of economic performance with competitiveness[4], but there is no hint in the text that competitiveness would be the condition for the convergence of economic performance.

Amended by the Treaty of Lisbon, the consolidated version of the Treaty on European Union strengthens the idea of a growing area with strong cohesion: "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 economic, social and territorial cohesion, and solidarity among Member States." The convergence of economic performance is explicitly mentioned as a goal in the Preamble and in the Treaty on the Functioning of the European Union (in the chapter on Economic Policy).

Despite the enlargements and growing diversity in the EU, the European economic integration concept is still maintained which assumes that the member states' economies are on the same developmental path but at different stages, and their convergence is only a question of time. The impacts of the 2008 global crisis highlight that the heterogeneous

[2] "The Community shall have as its task, by establishing a common market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it." The Treaty of Rome, Article 2.

[3] "The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States." The Treaty on European Union, Article G

[4] "The Community shall have as its task… to promote throughout the Community… a high degree of competitiveness and convergence of economic performance…" The Treaty of Amsterdam, Article K.17

European integration does not comply with this optimistic assumption, and the renewal of the current integration concept is necessary.

In this paper I first outline the aftermath of the crisis, which threatens the concept of economic integration based on growth and convergence. In the second section I examine the theories and ideas that formed the concept of economic integration. Finally, I outline what kind of theoretical framework would be appropriate for the post-crisis period.

## *2. Threats to the European convergence process*

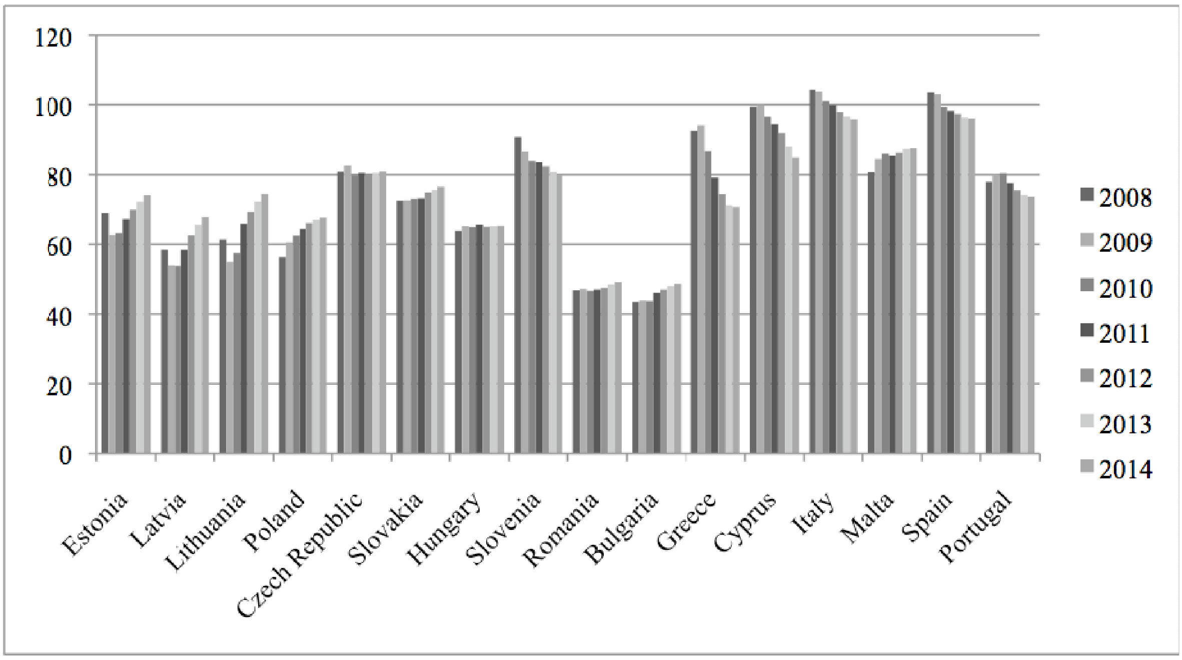
The impacts of the 2008 global crisis threaten the results of convergence in the less developed member states, that is, in the Mediterranean member states (Cyprus, Greece, Malta, Portugal and Spain) and the Central and Eastern European countries – the CEEC – (including Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, and Bulgaria). Italy does not belong to the less developed countries but its relative position has been worsening since the early 2000s, and it can be included in the Mediterranean countries under examination. Ireland, initially seriously affected by the global financial crisis, having launched the fiscal adjustment and reform programme in 2010, has a relatively good chance to restore its economic position due to its geographic location, small size and well-embedded market institutions.

At its outset, the global financial crisis affected the CEEC and the Mediterranean countries differently.[5] In 2009, the rate of decline exceeded the EU average in every new member state, except for Poland. The Baltic economies contracted to the largest extent, i.e. by 14-17 per cent in 2009. By 2011, though, with the exceptions of Hungary and Slovenia, the rate of growth in the CEEC once again climbed above the EU average. This trend seems to be continuing into the current year. Additionally, since 2012, also the Czech economy has showed weak recovery. As regards the Mediterranean countries, in 2009 they did not experience an immediate, strong recession of the same kind as observed in the Baltic countries (ca. -15% GDP) or in Hungary (-6.8% GDP). Although at the beginning the countries of the European South faced what looked like smaller scale recessions, they entered prolonged and deepening, downturns afterwards. Currently, it seems as though the majority of the CEEC will continue their convergence, but at a lower speed. The progress of Hungary and the Czech Republic has come to a halt with their current and projected growth rates remaining

[5] For an extensive overview, see: Farkas (2013).

basically constant (see Figure 1). At the same time, Slovenia and the Mediterranean countries are diverging from the EU-27 average as the same figure shows.

**Figure 1: The development of per capita GDP at purchasing power parity in the CEEC and the Mediterranean countries compared to the EU-27 average between 2008-2014 (EU-27=100)**




***Note:*** 2013, 2014: forecast
***Source:*** AMECO database

There is a danger that the slow-down or reverse of convergence is not a temporary phenomenon but the beginning of a medium-term or even longer trend. The contracted markets of the economies in the European Union do not promote export-led growth in the less developed member states, and the management of the European debt crisis and stricter financial regulation decrease the capital available to these countries. FDI and cross-border production networks cannot play as dynamic a role in convergence as they did before the crisis. Financial markets' risk evaluations may remain higher, even for those countries that are not affected by more severe financial difficulties. Due to the indebtedness of households and governments in the majority of the CEEC and Mediterranean countries, the diminishing external resources and markets cannot substitute for domestic ones. Inequalities across EU member states induce emigration, which reduces the economic growth potential of the sending countries and accelerates the ageing of their populations. This may undermine social stability, strengthen political extremism and euroscepticism. These threats may affect not only these countries but also weaken the power of European integration.

To evaluate the gravity of the convergence challenges mentioned in the previous section, long-term projections concerning the prospects of convergence are useful. Beyond cyclical changes, the potential growth rate indicates whether convergence is sustainable. The European Commission prepares long-term projections to monitor the anticipated economic effects of ageing. Intermediate results from these investigations are instructive for our purpose, i.e. to evaluate the gravity of the convergence challenges, as well. The Commission's investigations employ a production function relying on the neoclassical growth model. In this model, potential GDP can be expressed formally as total output, represented by a combination of factor inputs (labour and capital) multiplied by total factor productivity, which embeds technological capacity. It should be stressed that the uncertainty involved in these long-term projections is extremely high. As a result, the Commission's projections cannot account for future institutional and policy changes; they can only transpose current conditions into the future and in this way to assess the probability of certain future developments. However, they offer very meaningful information on probable trends if the basic conditions are not modified.

The Commission's 2009 Ageing Report reveals that as a result of the decline in population, even without incorporating the potentially negative impact of the current economic crisis, the annual average potential GDP growth rate in the EU is likely to fall from 2.4%, in the period from 2007-2020, to 1.7%, in the period from 2021-2040, and then to 1.3%, in the period 2041-2060. This is the reason why labour productivity remains paramount; over time, it is the only driver of growth. Deterioration of the growth rates in the post-socialist EU Member States will be higher because of the higher rate of population decline than in the EU-15 (European Commission 2009a). From 2000 to 2011, approximately half of the population decline in the post-socialist Member States is due to net migration and the other half to natural decrease (Gligorov et al. 2012).

The 2012 Ageing Report was published at the end of 2011 and re-evaluated the potential growth rates of the EU and the Member States using a production-function based methodology, as the previous reports did.[6] In Table 2, the projections of the Ageing Report from 2012 and 2009 are compared. As expected, the data concerning countries affected most severely by the global financial crisis needed the greatest adjustments. The adjustment is the

[6] In the 2012 Ageing Report, a key assumption for the long-term projection is that on the productivity growth rate, all countries should converge to the same total factor productivity growth rate (1%) at the end of the projection period (in 2060) (European Commission 2011).

largest in the cases of Cyprus, Romania, Greece, Portugal and Hungary. However, for Greece and Portugal, the potential GDP projections did not incorporate the impact of the measures required in the economic programmes agreed upon with the EU, IMF, and ECB. Demographic factors also played a role in longer-term negative adjustments. However, the primary reason for the adjustments was the expected decline in the productivity growth rate. The lower growth rate substantially deteriorated the long-run development prospects of per capita GDP, as well (Table 1). It is remarkable that the 2012 Ageing Report abandons the assumption of absolute convergence in productivity and GDP levels between countries. This is because the growth rate which would be needed to allow for this convergence in its projections would not be plausible in the short and medium term (European Commission 2011).

**Table 1: Potential growth rate and development level of the per capita GDP in the cohesion countries in the long run**

| | 2010-2060 potential growth rate 2012 projection | Adjustment of 2012 projection compared to 2009 projection | GDP per capita in PPS in 2060 | |
|---|---|---|---|---|
| | | | based on 2009 projection | based on 2012 projection |
| **EU-27** | **1,4** | **-0,2** | **100,0** | **100,0** |
| **Bulgaria** | **1,3** | **-0,3** | **58,5** | **55,4** |
| **Czech Rep.** | **1,5** | **0,0** | **92,8** | **88,0** |
| **Estonia** | **1,5** | **-0,3** | **102,4** | **78,4** |
| **Greece** | **1,0** | **-0,6** | **104,2** | **78,8** |
| **Spain** | **1,6** | **-0,3** | **104,7** | **93,8** |
| **Cyprus** | **1,8** | **-0,9** | **101,5** | **78,9** |
| **Latvia** | **1,1** | **-0,3** | **78,7** | **65,5** |
| **Lithuania** | **1,3** | **-0,2** | **83,3** | **71,7** |
| **Hungary** | **1,2** | **-0,5** | **77,1** | **63,4** |
| **Malta** | **1,4** | **-0,2** | **78,5** | **91,0** |
| **Poland** | **1,5** | **0,0** | **66,4** | **75,9** |
| **Portugal** | **1,2** | **-0,6** | **77,6** | **70,6** |
| **Romania** | **1,1** | **-0,7** | **61,5** | **39,5** |
| **Slovenia** | **1,3** | **-0,1** | **94,3** | **89,9** |
| **Slovakia** | **1,6** | **-0,1** | **93,6** | **83,4** |

***Sources:*** European Commission (2011) p. 31; development of the per capita GDP is calculated in Halmai, P. and Vásáry, V. (2012) p. 319

To sum up, the crisis reduced capital formation and total factor productivity growth, whose impacts are amplified by the population decline. The lower potential growth rates limit the foreseeable convergence of the less developed countries to the EU-27 average of GDP, even when projecting several decades ahead. This prospect means a huge challenge for the European economic integration concept based on permanently growing welfare and convergence.

*3. Theories and ideas behind the European economic integration concept*

To reflect on the current challenges, the theoretical background of the European integration concept should be studied. It would require a thick volume to reveal the extremely complex interactions of historical constrains, interests, economic theories, personal beliefs and experiences of political leaders which formed the concept and process of integration. In this paper I investigate only one aspect, the theoretical background of the idea of convergence: the kind of theories and ideas that influenced the academics and political decision makers to accept this idea.

As it was mentioned above, harmonious and balanced economic growth was already the aim of the Treaty of Rome in 1957. The six founding states created a relatively homogeneous area, and the treaty did not require instruments to achieve this aim. Relying on market integration, national policy was assumed to cope with regional and social imbalances. The competitive exposure of the tradable sectors was acceptable not only for the rapidly recovering Germany with their concept of social market economy, but also for France. In the mid-1950s, the French government worried about the low competitiveness of their industry and was willing to move from "indicative planning". These circumstances implied major constraints on the developmental state in Italy (Pelkmans 2001). The advantages of a customs union were theoretically based on Viner's and Meade's studies from the first half of the fifties. These works and the later studies which developed the customs and trade theory built on the neoclassical tradition. The common market theory of the eighties was also rooted in the free market concept of neoclassical economics (Beckmann et al. 2000).

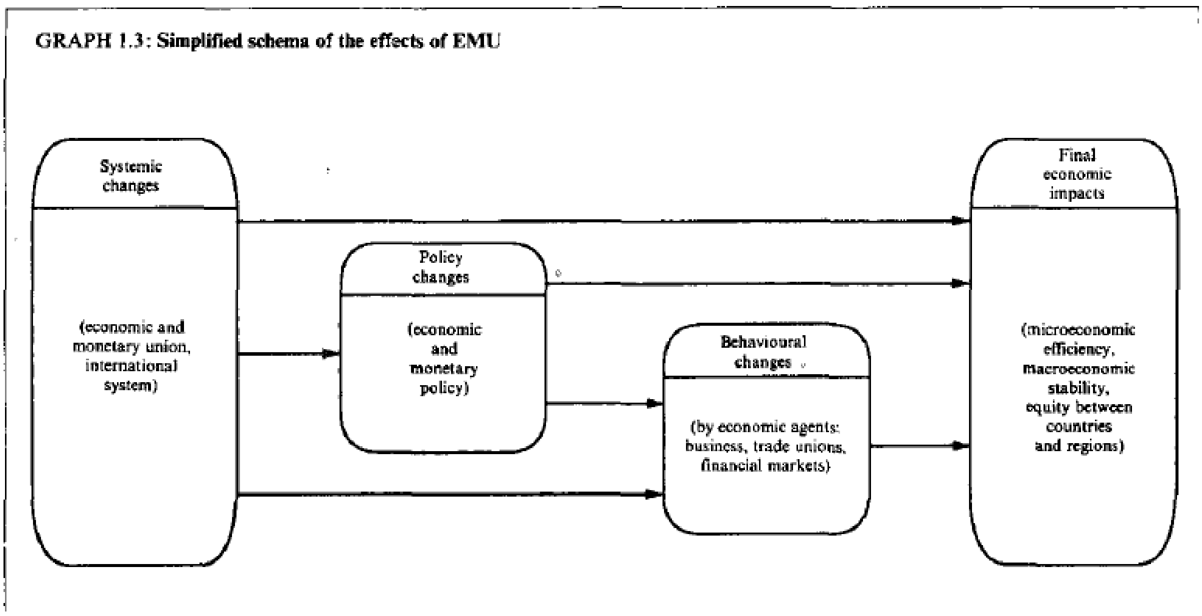
In the eighties, two processes took place which accentuated the question of how the aim of growth coupled with convergence could be achieved. On the one hand, the competitiveness of the EU weakened in the restructured world economy after the oil crisis. On the other hand, due to the Mediterranean enlargements, economic development differences became larger than ever. After the lost decade of the eighties, the EU turned to deepening the economic integration. During the negotiations leading to the Maastricht Treaty, all of the dilemmas had emerged which accompanied the 2008 crisis of the eurozone. Reading the documents of that time, it can be assessed whether the designers of the euro anticipated the problems which occurred two decades later.

The first document which drew up a new plan on economic and monetary union (EMU) in the European Community and which was the basis for the negotiations on the Treaty on European Union was elaborated by the Delors Committee. The committee was composed of members of the Commission, the governors of the national central banks and a number of independent experts. They considered the monetary policy, the fiscal policy and the structural changes in the economy to be very closely interconnected. In their opinion, the completion of the single market increases the degree of economic integration and entails profound structural changes in the economies of the member states. They stated: "Greater convergence of economic performance is needed… With full freedom of capital movements and integrated financial markets, incompatible national policies would quickly translate into exchange rate tensions and put an increasing and undue burden on monetary policy," (Delors Committee 1989, 15). They expected of a single currency to remove intra-Community exchange rate uncertainties and reduce transaction costs, eliminate exchange rate variability and reduce the susceptibility of the Community to external shocks. At the same time, exchange rate adjustment would no longer be available as an instrument to correct economic imbalances. They were fully aware that imbalances might arise because of the uneven impact of the removal of physical, technical and fiscal barriers. After the completion of the single market, "imbalances might also emanate from labour and cost developments, external shocks with differing repercussions on individual economies, or divergent economic policies pursued at national level," (Delors Committee 1989, 21). Market forces can exert a disciplinary influence penalizing deviations from commonly agreed budgetary policies or wage settlements. However, the constraints imposed by market forces might either be too slow and weak or too sudden and disruptive. Thus, the Community would need to constitute the framework for a better coordination of national economic policies, and, to avoid grave economic and political risks, community policies in the regional and structural field would be necessary in order to promote an optimum allocation of resources and to spread welfare gains throughout the member states (Delors Committee 1989).

The Delors Committee clearly recognised the significance of institutional differences across the member states. It is remarkable that Tommaso Padoa-Schioppa, one of the architects of the euro and a co-rapporteur for the Delors Committee, wrote in the introduction of his book: "Still more recent is the Community's recognition of the fact that not even the US federal system can be taken as the model, for it was created by states sharing the same language and culture and without a long history of their own, and has not fully succeeded in preserving the nation from a tendency for power to be centralized," (Padoa-Schioppa 1994, 23).

To summarise, the Delors Committee foresaw the possible difficulties which EMU could trigger; in theoretical terms, they complemented the neoclassical theory with an institutionalist approach. They supposed that the risks and undesired consequences of EMU could be handled by rational institutional design. This way of thinking is visibly displayed on the graph included in the influential study of the Commission "One market, one money", which evaluated the potential benefits and costs of forming an EMU and shifted the debate about EMU from the theoretical framework of the optimal currency area towards an "institutionalist" approach (European Commission 1990). The institutions constituted for the EMU change the behaviour of economic agents and thus the required final economic impacts are achievable (Figure 2).

**Figure 2: Simplified scheme of the effects of EMU**




***Source:*** European Commission (1990) p. 12

The Maastricht Treaty was born after long negotiations where the Delors Report was a starting point. The different opinions on the way how the economic and monetary union can be reached are usually divided in two groups, "economists" and "monetarists"[7] (e.g. Kenen 1995, Molle 2001). The "economists" (especially German and Dutch experts) considered the harmonization of economic policies and the real convergence the conditions after which the monetary integration could follow. The "monetarists" (mainly found among the Italians, French and Belgians) assuming the use of exchange rates in the long run ineffective to correct for imbalances, claimed that monetary integration could force national governments to take necessary measures to curb inflation and could induce the changes in economic behaviour required for convergence.

Behind this division of opinions on the road to economic and monetary union, deeper differences lay. The governments brought special inherited beliefs, ideas and theoretical convictions into the intergovernmental negotiations.

For the French negotiators, EMU meant a new element of the European construction, which was an instrument for fortifying the state's traditional role as protector and defender of the interests of France. They expected to rebalance international monetary power between Europe and the USA and inside Europe between Germany and France. Additionally, for the French politicians, French leadership of Europe would fulfil the special French civilizing role in the world-building community in which people would be ruled by reason and altruism. The French insistence on economic governance and the role of the Council in the economic guidelines was rooted in the value of republican state and the primacy of political direction of policy ("volontarisme"). In the debate on the realization of EMU, the French position was close to that of the Commission, but by 1991 France shifted towards the "economist" bloc (Dyson and Featherstone 1999).

The Italian position was determined by two aspects. One the one hand, they were committed to remaining in the core of European integration at any price. On the other hand, the Italian reformers sought external support in domestic changes against institutional weaknesses, and this entailed a "monetarist" position during the EMU negotiations. "Monetarists" are also named "institutionalists", which referred to the significance they attributed to institutions in forming economic agents' behaviour. One of the leading Italian experts, Tommaso Padoa-Schioppa, passionately defended the importance of institutions in international economic relationships already in 1983. He blamed the "economists", such as

[7] This term "monetarist" must not be confused with the followers of the economic theory of monetarism, mainly associated with the work of Milton Friedman. In the EMU negotiations the group of monetarists is often named "institutionalists" but they were not the followers of institutional economics. They emphasised the role of formal institutions and institutional building in the development of European integration. Social scientists including institutional economists use a much broader meaning of institution. To avoid confusion, I always put both terms between quotation marks.

Erhard, that they would consider institutions as merely ornamental. He thought that convergence would be economically desirable but not a necessary condition for monetary union (Padoa-Schioppa 1994). This institutionalist emphasis stems from the cultural inheritance of the Napoleon order and of legalism to shape human behaviour (Dyson and Featherstone 1999).

The German negotiation position was influenced by two contrary points of view. Since Adenauer, the German leaders have deemed European integration an opportunity for the release from the tragic twentieth century German history. EMU was a new chance to bind Germany into Europe even more strongly. After the fall of the Berlin Wall, it was clear for the German politicians that they could seize the opportunity to unify Germany if EMU were created to deepen European unification. The other legacy of the Post-World War II period originated from the idea of the social market economy. The basic statement of "economists" was laid down by Erhard already in 1955. In his confidential private study he argued that the precondition for both political and economic integration is an agreement on the principles, systems and goals of action and behaviour. Economic integration must proceed cautiously based on the convergence of economic policies (Erhard 1955).[8] In the debate on EMU, this conviction emerged in the standpoint of German economic experts when they assumed that primarily not supranational institution-building but functional logic market forces would ensure a consistency and coordination of economic and monetary-policy behaviour. Thus, economic convergence, which is the result of appropriate domestic policies, must precede monetary union. The latter would be the crowning of a long period of convergence (Krönungstheorie) (Padoa-Schioppa 1994). German ordo-liberal economists consider economic behaviour and economic arrangements to be shaped by cultural and historical circumstances (Pelle 2011) that anticipate the difficulties of economic convergence within European integration. The negotiators sought to enforce the elements of the German stability model but made concessions to achieve their political goals.

In the 1980s, British political life was dominated by Thatcherism, which suggested that European integration was outdated and slow to adjust to the demands of globalisation.

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[8] "Jede Integration aber - die politische und die wirtschaftliche - setzt immer eine vorherige Übereinstimmung hinsichtlich der Prinzipien, Systeme und Ziele des Handelns und Verhaltens voraus. Aus diesem Grunde sagte ich einleitend, daß vor jedem Versuch einer Integration der Wille zu einer Verständigung stehen muß. Verfallen wir nicht in den Fehler, Schwierigkeiten, Spannungen und Störungen sowohl im nationalen wie auch im internationalen Raum durch immer neue institutionelle und organisatorische Maßnahmen heilen oder - besser gesagt - überdecken zu wollen. Solcherart schieben wir die Probleme nur vor uns her, aber wir lösen sie nicht. Die Organisation ist immer nur die Form, aber die Funktion allein ist der Inhalt all unserer Bemühungen, die Zusammenarbeit der Völker auf eine höhere Ebene zu heben, ihr den Charakter einer echten Integration zu verleihen." Erhard (1955), p. 8

British interests in globally embedded financial services did not support the European monetary union. However, beyond economic interests, British scholars preferred market-based solutions rather than placing them in an institutionally led frame. Both classical and neoclassical British economists thought to build international economic relations from below by unilateral national actions rather than by international agreements. Similarly to German ordo-liberals, British negotiators represented an "economist" or "behaviouralist" approach and argued for real economic convergence prior to the adaptation of a single currency. The British put forward two alternatives against the agenda of the Delors Report: the competing currency (inspired by Hayek's economics) and – after the rejection of the former – the hard ECU plans. These plans embodied the British economists' evolutionary, gradualist way of thinking but they were belated and unelaborated. Most of Britain's partners detected that the plans were advanced for tactical reasons, to delay or dilute EMU (Dyson and Featherstone 1999).

The Delors Report took a middle course in the "monetarist" – "economist" debate and advocated parallel advancement in economic and monetary integration. The Maastricht Treaty involved significant concessions on all sides; however, the monetary pillar received larger emphasis and the provisions on the economic governance providing new mechanisms of economic adjustment in the lack of exchange rate flexibility were very loose.

The crises of the European Monetary System in 1992-93 underlined the importance of real convergence and showed the structural weaknesses of the Mediterranean member states. Seeing the problems which these weaknesses might cause – and which did occur in the 2008 crisis – the multiple, differentiated joining of the countries the EMU seemed the possible solution (Aglietta 1995). However, after the political bargaining, each aspiring country entered the eurozone.

## *4. Conclusions*

Studying the documents of the eighties and nineties, one cannot assert that EMU was a political decision without economic reasoning as is usual in the Anglo-Saxon literature (e.g. Minford 2013). The picture is more complex. The supporters of EMU provide the critique of the optimal currency area theory, and they argue why they think EMU is feasible (e.g. Aglietta 1995, De Grauwe 2003). The main point of economic debates on monetary union, whether devaluation of exchange rates can exert significant relief to diminish the social costs of structural adjustment in the short or medium run, is relevant up till now. Anglo-Saxon scholars – both American and British – argue for the advantages of external devaluation against internal also in the current crisis (e.g. Dannhauser 2013). During the negotiations of the Maastricht Treaty, the standpoints which were sceptical of the achievement of rationally designed institutions were overshadowed. Due to opt-out, Britain could not influence the final architecture of the EMU. In the case of Germany, the political goals and considerations were decisive over economic standpoints. The economics conviction of the Italian, French, Belgian and Commission experts won which was built on the belief that rationally designed institutions can force adjustment in behaviour of economic agents and promote convergence.

Since the Treaty on European Union, the conception of European economic integration has been based on the combination of market mechanisms described by the neoclassical theory and rationally designed formal institutions. Despite the revival of free market theories in the eighties, the architecture of EMU was not solely formed by neoliberalism. The inherited French ideas had also strong influence not only through the French negotiators but through the Commission, Delors' personality and through the cultural, historical French impact on Italy and Belgium. Dyson and Featherstone (1999) examine a wide range of economic policy traditions which influenced the French position during the EMU negotiations like conservative liberalism, social Catholicism, social radicalism and étatisme. However, a further element of tradition also plays an important role. The difference between the British, German and French, Italian social philosophy can be highlighted by Hayek's distinction who, incidentally, can be seen as a bridge between British neo- and German ordo-liberals.[9] Hayek distinguished between the British or evolutionary type of liberalism and the Continental or constructivist type of liberalism. The former is rooted in the Scottish Enlightenment where social formations are the results of human actions but not of human design. The latter is influenced by the French Enlightenment which was dominated by the Cartesian rationalism from which all modern forms of constructivism derive. The constructivist view demands a deliberate reconstruction of the institutions of society which is labelled by Hayek as "constructivist error" (Hayek 1978).

Even if one does not accept Hayek's sharp criticism on "constructivist error", the clash of the two ways of thinking about society and institutions was perceptible during the negotiations on EMU. The 2008 crisis shows that the "monetarists" ("institutionalists") views were over optimistic about the influence of the European institutions on the economic agents' behaviour. Numerous studies analysed that the affluence of capital in the southern member

[9] The Austrian Hayek spent two decades in the United Kingdom and he finished his career at the University of Freiburg, which was the headquarter of German ordo-liberalism.

states, which was due to the monetary union in the 2000's, did not induce profound structural changes and increase in productivity (e.g. European Commission 2009b, Gill-Raiser 2012). However, the EU has got into a trap in the crisis management. The contagion effects of an exit from the eurozone seem to be so frightening and risky that policy makers want to keep the current eurozone at any price. The recent suggestions follow the former way of thinking, that is, the problems of the eurozone can be treated with newer and newer rationally designed formal institutions (e.g. Enderlein 2012) – as Erhard prophesied it.

The crisis in the eurozone is not the only issue which indicates the necessity of the renewal of the economic integration concept. As we saw earlier, the experts of the 2012 Ageing Report abandoned the assumption of absolute convergence in productivity and GDP levels between EU member states because this assumption would require allowing an implausibly high growth rate in their fifty-year projections in the short and medium term. The Barca Report (2009), which laid the foundation of cohesion policy between 2014 and 2020, explicitly named the misconception that the aim of the cohesion policy would be the convergence of per capita income. Instead, cohesion policy should promote the utilization of potential and reduce persistent social exclusion. The economic rationale of the new "place-based" paradigm is built on new economic geography and institutional economics.

The European Union has got into a paradoxical situation. Although the traditional integration concept based on continuous growth and convergence cannot be sustainable, the EU cannot give up the efforts for economic and social cohesion even if the efforts have limited results, because the growing inequalities can cause social instability and economic disintegration. However the elements of the integration concept should be rearranged. European integration should be conceived as an open-ended system in which the processes are going ahead on an evolutionary way and where there is more space for "trial and error" instead of one final solution, in which one cannot consider the failure of a country. For example, in the case of EMU, the possibility of exit would have been regulated. It would have meant the risk of instability; thus, it was understandable to insist on "irreversibility" but the problem of different adaptability of economies was not solved, only pushed ahead over one decade. We have to face the fact that the heterogeneity of the EU has reached the level already with the Mediterranean enlargements that multispeed integration is not a temporary deviation but a way to handle diversity.

The renewed concept of economic integration poses a great challenge to the legitimization of the EU. In the Central and Eastern European and Mediterranean countries the perspectives of a quick convergence were the most attractive element and the main legitimating basis of EU membership. In the future the Union's raison d'être can be tied rather to the fact that that without integration, European countries would not be considered global economic players. Furthermore European integration can remain the tool to ensure peaceful arrangement of conflicts of interests. However these advantages of integration are much more remote from citizens than rapidly increasing living standards in the stable single European market.

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