

# ECONOMIC-SOCIAL COHESION, A PRINCIPLE OF INTEGRATION IN THE EUROPEAN UNION

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**Abstract:** In fact, economic integration is a process of adjustment and structural convergence of the member economies towards a new united, homogenous and solidier space, the old balances being replaced by a new network of connections generating a relatively stable balance at communitarian level.

*The regional disparities* entail at least three major consequences: the delay and even the brake of economic growth, constitute a factor of inflation inasmuch-as the salary demands in less developed regions, compared with the developed ones, cannot be covered by a productivity increase, but only by the rise of prices, and this means high sustenance costs for the development of unfavorised areas.

At macroeconomic level, *the alignment to less inflationist countries* obliges the partners to adopt deflationist projects, concretized in restrictive monetary politics and the reduction of public expenses. This adjustment slackens the rhythm of economic growth, decreases the budgetary state incomes, increases the deficit and brings social costs like unemployment, the movement of labor force towards developed areas, limits the possibilities of social protection.

At microeconomic level, *the concurrent pressure* determines the companies to align themselves with the prices from the regions with low inflation or high productivity, even before the reformation and the expected progress to allow the reduction of costs.

## 1. Define the integration concept.

The process of integration of the EU members is an example of total integration by which different national economies want to form a new and wider, more equilibrate socio-economic entity progressively substituting its components.

For Marchal, one of the most important theorists in the integration theory, such a process is "the territorial integration" because it refers to "a phenomenon that, in a geographically restricted area, is complete in what concerns all elements of economic, social, technical and political life". Marchal adds at least two more elements to this definition: "progressive fusion of national economies at all levels, first economically and next naturally, both at social and political level" and "intensifying (consolidating) solidarity that reigns or must dominate the elements of a whole."

Based on these definitions, "territorial integration" is a dynamic, progressive limited in space process, to create a new complex, based on a complex network of solidarity connections in all domains; it is a process by which national economies make space for a new entity, with economic fusion as starting point, and with political fusion as final point, not as main purpose but as necessity, "by fact".

The first aspect that may be found is the importance shown to solidarity in the process of economic integration. Marchal leaves no place for doubt. He clearly states that: "an integrated space will become a solidarity space". Solidarity is necessary to

ensure the unity and balance of the new entity and will determine a certain vision on integration conditions, mechanisms and used instruments, because: “there is an integrated space when solidarity ties that exist among its different elements are made so that total freedom of exchanges do not cause any harm to no one and is for everybody’s profit”.

This is what characterizes national area; a similar area must be created by interaction, a space where individuals and social groups must be aware of the appurtenance to a community, to be united as much as humanly possible.

Showing solidarity a determinative importance in the realization of an integrated area, Marchal will define *three integration processes*, components of full integration, according to the nature of solidarity, meaning: *economic, social and political integration*.

*Economic integration* means achieving of economic solidarity by forming a complex network of interdependent connections between economic agents of participating countries.

*Social integration* completes economic integration and is specific to full integration, but there will never be total, because people will never feel completely united.

*Political integration*, as consequence of the other two, means the existence of decision unity and may be achieved in two forms: federal and co federal. As finality, territorial integration will be both economic and social and political, a process developed in all the three domains.

We can see that to Marchal, the so-called cumulative logics of integration, the principle of solidarity and the territorial criteria – confirmed in the concrete plan of European integration. The importance of connections of solidarity for the existence of an integrated area seems to be considered by Fr. Perroux, too. Referring to western European integration, Perroux thinks that integration is the process by which it is targeted “the replacement of national balance and balance between European nations and between these and other nations outside Europe, by a new balance of an assembly formed of European nations, considered more favorable and stable in its profits.”

A series of clarifications useful to understand the process of integration are brought by Louis Philips. He shows a special importance to the distinction between *market integration and the economies’ integration*, considering that *market integration* is a way to create more concurrent behaviors, to realize a concurrent market and is defined in a short-term optics (where the types of market determine behavior); *economies’ integration* is considered to be the process that focuses on the achieving a sustained progress, implies solidarity and reciprocity and is conceived in a long-term optics (when the behaviors influence the market types, so that “the final results obtained in a short period of time lead to new long-term behavior and to new types of market”.

This means that, markets’ integration is a component of the integration mechanism of economies and implies eliminating artificial boundaries in the way of trade (*negative integration*) and the improvement of the functioning of that market (*positive integration*).

The concepts of “*negative integration*” and “*positive integration*” are two mechanisms to achieve economic integration or, eventually, two sides of the same mechanism. *Negative integration* is “the abolition of all obstacles in the way of free traffic that may exist inside the states” or the gradual abolition of quantitative restrictions and importation taxes in the way of trade between countries, with the

purpose of commercial welfare of the integrated area. According to the liberal point of view, integration is just “the spontaneous arrangement of economies as a result of the laws of market.” The abolition of custom barriers launches an automatic process of integration due to auto regulating capacities, to adapt the economies. A. Marchal has defined as “pseudo-integration” the integration process of economies using the mechanism of negative integration. Motivated by the principle of solidarity, he is an adept of voluntary integration, of positive integration.

*Positive integration* implies a minimum intervention in the coordination and harmonization of economic politics, with the purpose of improving the functioning of the market.

Economic integration appears as a *process released by negative integration and regulated by positive integration*. (A. Marchal, Fr. Perroux, B. Balassa).

For example, Fr. Perroux considers that by integration it is obtained for a certain number of economic areas “the means of a better allocation of their resources, for an independent development, for the benefit of their own population”. The means cannot be automatically obtained, from the liberalization of trade, but using three *mechanisms of integration*.

*Integration through the market* (through the free game of market laws), because of the freedom of boundaries in the way of mutual exchanges, is considered insufficient for the growth and independent long-term development. Perroux suggests two complementary mechanisms – the integration through investments and institutional integration, although without scientific rigor.

*Integration through investments* means creating industrial areas that outgrow the national ones for the increase of economic interdependence between different components, probably with the purpose to ensure the bases of solidarity. It appears not as a distinctive mechanism but as a result and in the same time as a factor of sustenance for the integration process.

*Institutional integration* proposes to be used in the same time with the other two in the integration process for some unequally developed areas and implies public interventions where the laws of market cannot offer the possibility of independent development; this is a positive integration, absolutely necessary for the integration of unequally developed areas.

*From a political point of view*, integration is considered a mean to reduce political tensions, to favor political collaboration, to increase the participation rate to international political life. The countries in course of development often mention the possibility to obtain the collective power of negotiation with the purpose of obtaining advantages and especially the desire to avoid isolation, “not to be left outside of it”.

*From an economic point of view*, I. Ignat considers that the arguments that support economic integration are: the economies derived from mass-production; the intensification of competition; the palliation of the unbalances of the payment scale; the development of some activities that are difficult to accomplish in the limits of national markets; the increase of negotiation power; more coherence in economic politics; to adopt structural reforms otherwise impossible; the acceleration of economic development.

Regional integration means the appearance of free trade areas, geographically limited, with the purpose of optimization of resources allocation, the increase of efficiency for the productive department and the dynamism of economic life.

*The basic territorial unit in the European integration process has become the*

*region. In consequence, we consider that the most connected concept in its definition is the one of "regional integration".*

The advantages come from a better use of available production factors by creating a large concurrent space, favorable to reaching mass-economies and specialization according to comparative costs.

## **2. The statistic analysis based on the theory of custom unions**

In fact, economic integration is a process of adjustment and structural convergence of the member economies towards a new united, homogenous and solider space, the old balances being replaced by a new network of connections generating a relatively stable balance at communitarian level.

The beginning is the liberalization of mutual exchange by the construction of a free exchange area. The finality of the process, passing through intermediary stages (Custom Union, Common Market, Economic Union and Monetary Union), is the much debated political union. The adepts of federalism and co federalism bring convincing arguments to sustain their point of view; an unfinished dispute regarding the perspectives of the European area, that is shaded for the moment by the achievements of the European Union and by the actions imposed by the Treaty of Maastricht, meaning the increase of the part played by communitarian institutions; a dispute that easily returns every time a manifestation of the contradiction between the desire of national autonomy and the international processes and behaviors.

*The regional disparities* entail at least three major consequences: the delay and even the brake of economic growth, constitute a factor of inflation inasmuch-as the salary demands in less developed regions, compared with the developed ones, cannot be covered by a productivity increase, but only by the rise of prices, and this means high sustenance costs for the development of unadvertised areas.

At macroeconomic level, *the alignment to less inflationist countries* obliges the partners to adopt deflationist projects, concretized in restrictive monetary politics and the reduction of public expenses. This adjustment slackens the rhythm of economic growth, decreases the budgetary state incomes, increases the deficit and brings social costs like unemployment, the movement of labor force towards developed areas, limits the possibilities of social protection.

At microeconomic level, *the concurrent pressure* determines the companies to align themselves with the prices from the regions with low inflation or high productivity, even before the reformation and the expected progress to allow the reduction of costs.

The less competitive companies are forced to reduce investments because of the low possibilities of auto financing. If the adjustments come hard on the salary mass, the social-economic cost in terms of unemployment and depreciation of purchasing power may become excessive. The resulting decline emphasizes the disparities and affects the consensus in favor of integration.

*The mobility of production factors* has a similar effect. In an insufficiently integrated economic area where differences between taxation treatments, social conditions and life standard are still subsisting, the movement of stocks determines social costs like unemployment in unadvertised areas and create jobs in the developed ones. It can be also added the overflow of labor force because of the immigration that brings pressure over the level of wage, in the way of reducing them.

The presence of *social disparities* stimulates their exploitation by less competitive

economies thru wage reports, labor conditions and protection norms inferior to those allowed by the productivity level. The process is called “social dumping” and it generates four negative effects on integration: it affects the free competition, by the creation of a false competition; it leads over a threshold to delocalization of production; creates favorable conditions for illegal work and applies the screw on already achieved social disadvantages in more developed countries.

All these resulting negative effects, on one hand, from initial disparities and, on the other hand from its own market integration mechanism, impose that *in an integration process must participate concurrent economies with similar levels of development or, at least, the passage thru a previous period of structural convergence*. The readjustments will lead to specializations of inter-field and organ logic type, forming bonds of social-economic solidarity on which it can be built an homogenous space, with a high standard of life in all areas.

In the same time, the market organization should be accompanied by *a positive integration thru the harmonization based on common rules and politics* that may permanently adjust the unbalances and to allow a process of sustained growth without disintegration risks.

The European Union is presently part of a *double process*: of accentuation of the integration and of expansion. The obligations to participate to the Euro area or to the area of monetary stability (for countries that are not part of European Union) and the impact of the internal market in the circumstances of the adherence of a large number of countries with low level of development will emphasize the disparities, with important disintegration risks by disfunctionality.

The solution of viable geometry seems to support both directions, offering flexibility both regarding the ability of integration and the economic and geographic limits of reformation and financial solidarity.

The treaties and association with East-European countries have ensured a transitory period of adaptation of economies to the exigencies of participating to a large concurrent area that could diminish the social-economic costs of integration and not to apply the disintegration screw upon European Union. Correlated to the application of temporary derogations and periods of transition, on the foundation of a few reforms of the institutional system and of the major politics of the European Union, the applied pattern of expansion can support the political unification perspectives of the Union, if that will succeed in surpassing the most important forces that act for its disintegration.

### **3. European integration, a process of positive integration**

*Positive integration* implies intervention in the coordination and harmonization of economic politics with the purpose of improving the functioning of the market. A large series of mechanisms and instruments had been applied by the Europeans in order to allow the fulfillment of the treaties’ objectives, in the context of the integration of some countries with different levels of development, presenting regional and structural disparities, exacerbated by their successive exploration and expansion.

Even in the incipient moments of West-European integration, the member states have established as an essential condition the insurance of social-economic homogeneity by reducing the characterizing differences.

The theoretic argumentation of *convergence* as integration principle comes from the classical and neoclassical approaches about free exchange, from the new theories of growth and from the theory of custom unions elaborated by Viner in 1950.

It becomes obvious the profitability of regional integration when the partner countries have got compatible levels of development and concurrent productive structures that generate by the reformation triggered by free exchange complementarities of intra field and organ logical type.

#### **4. Convergence and cohesion in the process of European integration**

The communion of the development levels of different countries, as a condition for the maintenance of the integration systems, is a process of *convergence*. Initially, the convergence of the economies was limited to the one of monetary variables: the price level, the budgetary deficit, the increase rate of the monetary mass, the rate of interest, the currency rate, the public debt. Also called *nominal convergence*, it become a strict objective in the context of the efforts to impose the unique currency.

The convergence of the nominal variables also implies the one of the variables that determine it and that are connected with the conditions of the offer: productive structures, infrastructure, the volume of investments, the level of research and development, the labor productivity, the costs of wage. For example, the closeness of prices in less developed countries to the prices of the most performing economies can imply a decrease of their investment capacity because of the reduction of profits; the competition decreases, the level of activity, and the differences of development emphasize and the unity of the system is questioned. This is the entrance to a disintegrating whorl where the search of nominal convergence causes real disparities making impossible the long-term maintenance of nominal cohesion.

In consequence, the objective of convergence has expanded over real variables, especially over the productive structures and market levels. By the Unique Act, it made place for the larger objective of *social-economic cohesion*. The concept names that level of real convergence between the economies and the regions of a system in course of integration that insures the optimal functioning, the equilibration and the promotion of a “harmonious development”.

The passage from the principle of convergence to the one of cohesion (often confounded concepts) is the result of the evolution of the European Community towards the creation of a monetary and economic union. It has been considered for a long time that, in order to diminish the heterogeneous and to ensure the stability inside the Community it's enough to search and maintain the convergence of the nominal variables by the harmonization of the politics suspected to influence them. The emphasis of the integration level and the maintenance of the structural disparities imposed the necessity to adopt a unitary, coherent politics, to sustain the process of real convergence, both between national economies and between regions.

In the present, the social-economic cohesion became for the European Union a determining principle, an essential condition to realize the unique currency and expansion. The place of the cohesion politics among the efforts of European integration, is the consequence of the refusal of the *Europe with variable geometry*. Although it already exists in the industrial field, of the free movement of the individuals, of the defense and stipulated by the treaty from Maastricht for the participation to the unique currency, the variable geometry as the integration perspective is not pleased by the poor members of the European Union. Some of the integration specialists that choose the federative political unification think that solutions like two speed Europe, of the concentric circles Europe, of the hard core or with variable geometry show disintegration risks both from economic point of view and from the political one. The

formula of the Europe with variable geometry is considered a temporary compromise between the practical impossibility of participation for all the countries to the unique currency and the preoccupation to ensure a minimum coherence that allows the maintenance of the European construction in the circumstances of the emphasis of disparities by expansion. Each country should respect a minimum regulation varying from an area of free exchange and monetary union.

Economic, social, institutional and political heterogeneous meant a continuous challenge for the process of European integration. In the treaty from Rome was stipulated the necessity of the harmonization and limitation of present disparities. But, in spite of all efforts, the initial disparities have increased as a result of trade liberalization and successive expansions.

The main *distinction elements* that stop the participation of all countries to the same integration stage are: the level of economic development and the level of some macroeconomic indexes that shows the real convergence degree, the political and economic acceptance of the unique currency, the social politics, the choices of external relations and defense, the institutional organization of the European Union. The highest risk of disintegration between the mentioned differences are the regional structural disparities. This is the reason why the Unique Act launched as a priority *the politics of cohesion* with the purpose to diminish the real discrepancies between member states and between regions.

The most used instrument is *the system of structural funds*. Their action is completed by the Cohesion Fund, specially created by the Treaty from Maastricht, by the actions and support of the European Investment Bank and by politics that address to other fields and have impact on the cohesion (the infrastructure development politics, the common agricultural politic, the budgetary politic, the coordination of macroeconomic politics).

The economic-social cohesion implies in the first place the coherence of local, regional, national, community actions. It's not only the problem of a good articulation, but especially of the optimization of the decisions' repartition to the most suited levels. In the integration process, such a coherence was ensured by the appliance of the subsidiary principle.

## **5. Convergence and divergence – European realities**

The fundament of the European construction on the central pillar of internal market is justified by the advantages of free exchange in a wide dimensioned market.

The freedom of the products' traffic, of services and production factors determine a better distribution of productive resources by specialization, dynamics of growth due to competition and range economies, the convergence of economic performances, of the remuneration of factors and, in consequence, of development levels. This way, even if at the integration process take part different countries from the perspective of efficiency and of the capacity to participate to competition, the market liberalization could lead to a level of intra-communitarian disparities economically, socially and politically tolerable. This is the theory of convergence, in conformity with the liberal doctrines that are the foundation for the elaboration of the Treaty of Common Market and the appliance of the neo-functional method of positive integration.

The impact of the internal market on the development differences in the regional process of integration can be outlined by a pattern that implies two countries with different settlement of production factors and, in consequence, with different

remunerations, according to the neoclassical analysis.

Lately, the specialists have started talking about a pattern of the synchronization of convergence and divergence processes in the process of integration. In the same time with the diminishing of the disparities between member states, the inter-regional ones have the tendency to increase, especially due to the growth of regional differences inside member states. The phenomena of divergence are generally explained by: *the participation to the integration process of countries with different levels of development and inter-field complementarities*, generating high costs of structural adjustment for poor regions; *growing efficiency*, due to the concentration of capital in competitive regions, where the transactional costs are lower, low cost of access to technology and the level of human resources very high (*positive externalities that form conglomerates*); *the technological differences and poor mobility of technology*, maintaining differences of productivity; *the possibly high degree of displacement between commercial fluxes and those of the factors*, as a consequence of free traffic and of low inter-regional transactions' costs; *the relatively low mobility of labor force, especially of the qualified one*, (even between countries with a close level of development and socio-cultural systems).

According to Jacques Pelkmans, two reasons are essential for the simultaneity of convergence and divergence phenomena: the phenomena of conglomerations of Myrdal type (technological or informational positive externalities in the benefice of conglomerates) and the migration of complementary factors (that determine the expansion of conglomerations and the decline of peripheries). These are more of a regional or intra-national nature, the convergence between national economies is possible in conformity with classic theories, but inside the countries, the disparities could increase.

In spite of a general process of convergence, the European Union is characterized by important economic, social and territorial disparities.

In the conditions when the convergence processes are not the result of opening markets as much as necessary for the equilibrate functioning of internal market and the achievement of objectives established in treaties, the Community has adopted a set of measures of positive integration (based on politics and regulations) that have caused a subordination of European politics to the objective of cohesion as key- principle of the integration of member states.

## **6. Cohesion by positive integration**

The liberalization of traffic in the process of integration of products, services and factors market, may induce cumulative processes of growth and convergence of economic performances, but the appearance of the frame for the guaranty of free traffic is only a necessary and not sufficient condition. We have seen that the reality of the European integration process confirms the so-called theory of divergence at regional level. According to it, free traffic in an integration process that involves countries with different development and inter-field complementary levels of productive specialties determines an increase of differences in the absence of redistributive politics. Even if we accept that on long term the possible result could be convergence (see above), the accelerated rhythm of integration and the union of deepening and expansion based on the manifestation of disparities that characterize the European area, generate on short term important risks of disintegration that could delay the achievement of general objectives of integration or could even endanger the process of integration. For this



reason, the Europeans have adopted, based on treaties, a large series of measures of positive integration for the stimulation of the factors' mobility and the redistribution of the integration's advantages in favor of less developed regions. The politic by which the Union pursues the diminishing of development differences, called cohesion politic, was outlined at the end of the ninth decade, and the cohesion became a fundamental objective of integration by the Treaty from Maastricht.

According to the second article of the treaty, the Community wants to “*promote a harmonious and equilibrate development of economic activities in the entire Community, [...] have a high degree of convergence of economic performances, [...] economic and social cohesion and solidarity between member states*”.

It is especially preoccupied by “*the reduction of differences between development levels of diverse regions and the raise of the level of unfavorized regions, including the rural areas*” (art. 130 A). The institutionalization of cohesion as a principle of integration was realized by the article 130 B. The treaty stipulates that “*member states guide their economic politics and coordinate it so that it can reach the objectives of the article 130 A. The formulation and implementation of the Community's actions and politics, and the realization of internal market consider the objectives of the article 130 A and contribute to their execution*”.

It can easily be seen that, theoretically, the integration strategy is subordinated to the objective of cohesion. Its force is explained by the risks that the regional disparities presents for the realization of monetary union and, in perspective, of the political union. To answer the objectives of the cohesion treaty, the Community has developed and applied a large and extremely elaborated and sophisticated set of integration measures, the central part being the one of the structural funds. But the relatively low efficiency of the structural politic has oriented the strategy of the Committee towards the compatibility of communitarian politics with the objective of cohesion. Presently, in the elaboration and the appliance of communitarian politics, the integration of regional dimension is a “*sine qua non*” condition, with the one of durable development. Such a tackling of the positive integration strategy allows us to appreciate that *the diminishing of disparities became a horizontal objective, an integration principle of the European Union*.

## **7. Conclusion**

*The European integration* is an evolutional process of complete integration of national economies in a new entity; the defining elements are:

-the start of the integration process is caused by the annulations of tariffary and untariffary boundaries in the way of commercial trades;

-the economic integration is realized in all the domains, progressively, in stages, according to its own law, with the finality of political integration;

-the basic principle of integration is solidarity, in all its forms;

-a series of intervention instruments are necessary because the action of market laws does not lead to a situation considered to be in the advantage of every participant and to the assembly in the same time.

The European Union is an economic and monetary union, its activity being based on the principle of variable geometry, it's a result of complementarities between the mechanisms of negative integration (the liberalization of markets) and positive integration (common politics, harmonization – coordination of politics, common institutions, common budget). The integration system also is the result a

complementarities between the communitarian method, applied to the central pillar-the Internal Market, and the method of inter-governmental cooperation, applied in Justice and Internal Affairs- JIA and External Politics and of Common Security- EPCS, in the Intergovernmental Conferences.

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