A new integration era in the EU:

Theory, assessment and main challenges

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1. Abstract

It is hard to re-create the edifice of a united Europe. It was based on substantial theoretical developments from integration theory, economics, international, political, cultural, social and other studies, layered at the top of economic, social, cultural and other existing foundations of nation-states. Their contribution in the unification is often disregarded, and has been overshadowed by problems encountered after the two most recent crises, the "Brexit", the missing Eurozone components revealed and the realisation that the European integration remains incomplete. After highlighting the most principal theoretical foundations and the recent, significant institutional and policy amendments at the common edifice, a long-term assessment of the EU integration process is attempted for the 1971–2015 period, by comparing GDP per head (in constant PPPs) and its change, for EU and non-EU states that are OECD members. Several points are raised on the unification and the mistakes made that risk harming it even further. It is suggested that a new, hitherto unidentified, integration stage has been formed that will require further use of economic theory and the setting-up of a *common production union* to advance competitiveness and co-operation, while espousing common European values and culture.

2. Introduction

The “ship” of the European unification has already moved many substantial steps ahead but many more remain to be completed and done in troubled “waters”, to avoid a possible “shipwreck”. Step by step, piece by piece, most of the European nation-states have progressively espoused the unification ideal. They have seen behind it, the prospect to inaugurate an endless period of peace for the very first time in the continent that would bring reconciliation, terminate all wars and eradicate nation-state belligerence. The vision of a united Europe has never been promoted in the history of Europe before as much as during the last decades. Economic integration has reached an unprecedented stage in the European continent. What started as an intra-national cooperation for energy matters has now become a living organization and home to most European citizens. However, during the last two financial crises, and after the decision taken for the exit of the UK from the EU, it appears that a large and growing minority of European citizens and EU critics neglect, at least partially, what the common European edifice is made from.

The present work highlights that the European integration was based on substantial theoretical improvements, mostly from economics, and explains that such a work cannot be easily repeated, unless the importance of this particular economic theory is acknowledged and taken into account. It first reminds few points from integration theory, the rationale for EU integration and its major theoretical foundations from economics, international, political, social and cultural studies, regional economics and economic geography. Then, it provides a short overview of the vast majority of institutional and policy amendments placed in operation at the EMU, since the 2008-

2009 Eurozone crisis, highlighting the main policy challenges encountered. An assessment of the European integration is provided from 1971 to 2015, using GDP per head (measured in constant purchasing power parities) for all EU states, members of the OECD that have joined the EU before 2005. These are compared to each other and against other OECD states. The discussion that follows emphasizes that a new integration stage has started, and acknowledges several points necessary for the direction of integration taken at the EU.

3. Principal elements from theory and its contribution at the EU edifice

3.1 The organization of integration in stages and the uniqueness of EU integration process

Economic integration has reached an unprecedented stage at the European continent. The European Economic Community aimed early from its start to organise a Customs Union and turn it to a Common Market[1]. The former was initiated in 1968, when custom duties and restrictions were removed for the first time[2], leaving behind the prospect to apply a lower integration degree (a Preferential Trade Agreement or a Free Trade Area). Over the years, the EC attracted member-states from other FTAs, such as the EFTA, the -finally dissolved- CEFTA and BAFTA[3]. The former, though weakened after the

[1] Aiming 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" (Treaty of Rome, section 2.1.).
[2] among the six member-states
[3] Another FTA created is the Deep and Concentrated Free Trade Area (DCFTA), entered into force in 2016, by Georgia, Moldovia, Ukraine and the EU.

UK, Denmark, Portugal, Austria, Sweden and Finland have all joined the EC, is finally composed of Norway, Switzerland, Iceland and Liechtenstein[4].

On the bases of the Customs Union (now shared by all member-states, three small-in-size non-members -namely San Marino, Monaco and Andorra- and Turkey), a Common Market was created, as a form of integration before establishing an internal market. The Common Market was turned to a Single Market in 1992, boosted by the 1987 Single European Act that had removed physical, tax and technical barriers, to promote the four freedoms of goods, services, capital and people. The European Single Market is now shared by three out of four EFTA member-states (Norway, Iceland and Liechtenstein), forming the European Economic Area. After the decision to adopt the common currency and the application of numerous common policies aiming to support the four freedoms, an effort was made to organize the Single Market more prudently, to reach the scope of a well-organised and more efficient internal market, on the bases of which, the EMU was formed.

According to the original distinction made of economic integration degrees or forms, integration follows the sequence of a Preferential Trade Agreement (PTA), a Free Trade Area (FTA), a Customs Union (CU), a Common Market (CM) and that of an Economic and Monetary Union (EMU), before reaching the final form of complete integration (Balassa, 1973). At present, the European edifice is composed of a combination of most integration forms, which sustain each other. As both integration deepening and enlargement continue, some states have reached a higher integration degree, by forming

[4] A special status was granted to Greenland, who left the EC on the 1st of February 1985, though it was a part of Denmark before.

a common economic and monetary union, some remain at the preceding degree of a common market (where the UK was before exiting), and some enjoy the benefits and opportunities or even face the challenges of a customs union only, mostly the less advanced European states. The integration of European states is both formal, for states and their common -European- institutions, and informal, relating to markets, elites and other less formal aspects (Wallace, 1990).

Each integration form was considered necessary before advancing a next one. Different integration stages are followed, which allow to progressively promote freedom, development and competition, and to face economic and social problems or challenges already identified or even created in previous stages, by taking into account different circumstances formed. For instance, a customs union adopts common external tariffs to limit trade deflection caused by dissimilar national tariffs at an earlier FTA stage (which affect domestic prices and intra-state competition) and to partially redress unequal spatial distribution of benefits and losses inside a FTA. Also, a common market is formed not only to impose common tariffs but to allow more economic freedom by establishing free full-factor and just trade movement. However, each new integration form brings new problems, challenges and requires new solutions for members choosing to join. From another perspective, Baldwin (2012) suggests that integration forms are not integration stages and investigates the prospect of their sequencing.

More recently, the European states have realized that forming the monetary union alone is not the only precondition to resolve economic problems and bring growth and stability. This realisation came only after significant events took place in chain: the global crisis, the speculation against the common currency, the flying away of financial and human capital from crisis-hit countries, most notably Greece, the rise of a strong sentiment of euroscepticism in dissatisfied European societies and the recent democratic choice of “Brexit”. Pessimistic views about the European integration referred to the shaking of its foundations and an epoch of diminished global EU relevance (Jovanović, 2013).

Economic development, welfare and the rise of standards of living is the key rationale behind the theory of economic integration. Many early integration theorists had explained that welfare will rise in the transition from a FTA to CU and then to CM, both for consumers and producers. The early stages of European integration were associated with trade and its promotion. Acting as a major driving force, international trade would promote competition, capital and human resource mobility, technology transfer and knowledge diffusion and bring new techniques, principles and organisational philosophies in less advanced states, favouring their democratisation. In the Ricardian view, European economies would gain a comparative -rather than absolute- advantage, through a more intensive use of relative abundant production factors (Heckscher’s and Ohlin’s theorem). Resource differences and allocation among EU nations would shape intra-EU trade, influenced by endogenous factors, such as human resources, according to Krugman and Obstfeld (2000) and interest groups. Only recently, trade theory has acknowledged that strategic trade and infant industry protection could also influence trade (Krugman and Obstfeld, 2000).

The opening of borders and removal of trade barriers was expected to offer advantages in larger firms, stemming from bigger markets, as opposed to smaller firms from smaller and peripheral markets. State-monopolies would face international competition and adjust to international drivers of demand and supply. Former centrally planned and less advanced economies joining the EU had not been accustomed to competition. A specific common competition policy was launched and enforced for all these reasons, as well as in order to avoid market power abuse, cartels or other anticompetitive agreements, state and private-sector monopolies (e.g. those formed through mergers and acquisitions), state-aid favourable for national firms, and to protect firms from unfair competition, and consumers from firm behavior that influences prices and family budgets. Several institutions were created to support and spread competition, and a common competition law was established and espoused by all member-states (Whish and Bailey, 2018). Fostering an economic environment based on competition, private sector activity, economic freedom and entrepreneurship opportunities was thought necessary to sustain the Single Market.

EU states choose to go a step ahead or refrain from integrating further for numerous reasons. Some remain more attached to the unification vision, more “willing and able” to move ahead and more capable to cope with economic choices and challenges. The collective outcome of a differentiated integration, and its differential growth impact and domestic divide at the EU have been described by the use of terms “variable geometry” or Europe of “multiple speeds”. Schematically, the EU was illustrated as composed of “homocentric circles” or a as “European Onion”. It has also been viewed as divided between two tiers, the “old” and “new Europe”, the Northern and Southern, its core and periphery or even suggested to be “a la carte”. A gradual integration process has also been described to take place, offering junior membership to some states and the possible formation of alternative integration models (Atilgan and Klein, 2006). The promotion of a differentiated integration, and the formation of a Europe of clubs, assisted by a “ring of friends”, has been proposed, as a way to further integrate at the most advanced stage of integration (Demertzis et al., 2018).

3.2. Institutional, political and international studies perspective

The European unification is a dynamic process that does not follow some pre-determined historical pattern. Rather it has been acknowledged to be the outcome of historical and institutional specificities and choices (Glencross, 2014). Besides, each European state chooses separately whether to join the commonly integrated space and up to what extent or, alternatively, whether to pursue its own development paths.

The intense post-war institutional building process has culminated in the Treaty of Rome and the launch of European Economic Community, in 1957 (**Table 1**). The internal institutional building process followed over the years, has reached a state now composed of seven main institutions, namely the European Council, the European Parliament, the European Commission, the Council of Ministers (in various configurations), the European Court of Justice, the European Central Bank and the European Court of Auditors. Ancillary European institutions are the Economic and Social Committee and the Committee of the Regions (see **Table 2**). Furthermore, a plethora of institutions were promoted at local and regional scale because they were considered necessary for regional development and Cohesion (see North, 1990).

Table 1: The institutional building that has brought the formation of the EEC

The point of departure of the European unification process lies in the mid-war and primarily post-war period and is associated with intensive institutional building at the time. At the end of the War, politicians, their actions and expressed willingness stood against the vacuum of common policies and initiatives, the darkness, atrocities and derelicts of the War. The winners against fascism, in particular the UK and USA, have envisaged with strong skepticism the prospect of another totalitarian regime that would have put at risk freedom and peace in the European continent. They have initiated, operated and actively engaged in numerous initiatives and institutions that promoted economic freedom and the necessary legal and constitutional framework for their operation, both national and international.

Viewed from a historical distance, within almost a single decade, more than a dozen of substantial institutional steps were taken: i) the *Treaty of Dunkirk* of mutual alliance between France and the UK, in 1947, ii) the *Treaty of Brussels*, signed also by the smaller in size BENELUX countries that have already been promoting international co-operation and mutual agreements in the mid-war period, paving the ground for the economic cooperation with Germany and Italy later on, iii) the *Conference in Montreux*, organized in 1947 by the European Union of Federalists who envisioned the "Estates General of Europe", followed by iv) Churchill's initiative under his "United Europe Movement" to organize the *Hague Congress* in March 1948, in order to promote international cooperation and agreement between unionists and federalists, and a European economic and political union that would not threaten national sovereignty. They have drafted a resolution on the need to promote economic integration, a European Charter of Rights and a European Assembly, v) signing the constitution of the *Council of Europe* in 1949, where the views of unionists, federalists and intergovernmentalists were listened but the latter prevailed, vi) the *Marshall plan* that guaranteed growth in most European states, strengthening their industrial production, stabilizing their economies and governments, peace and security, and promoting trade with USA and among them. It also strengthened their co-operation, especially through the work of its Committee of European Economic Cooperation, which was followed by: vii) the *Organisation for European Economic Cooperation* (OEEC) in 1948 and, under its auspices, of the *European Payments Union* in 1950s, whose role was to remove the obstacle of inconvertibility of European currencies, eliminate quantity restrictions, and suppress bilateral commercial practices. The OEEC has set up: viii) the European Nuclear Energy Agency and ix) a framework for negotiations for establishing a Free Trade Area and a European Economic Community of six members (Maraveyas, 2016).

Amidst fears that Germany will be re-militarised and that the OEEC and the Council of Europe could not undertake a unionizing role, France proposed: x) the creation of *European Coal and Steel Community* (a plan by Robert Schuman and Jean Monnet) and a European Defense Community, followed by a proposal for a European Political Community. The rejection of the EDC dissatisfied the American diplomacy and the solution was given again by the UK that suggested Germany's participation in the Treaty of Brussels, through various agreements, which turned into xi) the *Western European Union*, in 1954. Thus, the six European states had thought to organize more solidly their common efforts beyond coal and energy matters, in the presence of ECC and Western European Union. The initial project of Benelux countries to promote a common market was given ample consideration and a committee was created to better organize it, which culminated in xii) the creation of the *European Economic Community*, through the Treaty of Rome, in 1957, whose initial goal was to organize a common market and a customs union, and of xiii) the EURATOM (European Atomic Energy Committee). These three organizations, EURATOM, ECSC and EEC, have formed the xiv) European Communities (EC), followed by xv) OECD, launched in 1961 (Maraveyas, 2016).

Table 2: The current main institutional framework for the operation of the EU

European Council

Heads of States or Government, President of European Council and President of European Commission

Highest EU institutional level, EU Summit twice a year (exceptionally 3 times)

European Parliament

-Participates in law-making
-Decides on EU finance along with EU Council
-Supervises the European Commission, elects and approves its members and its President

Council of the EU (of Ministers)

Responsible for EU legislation and EU budget (along with EU parliament)
Coordinates economic and social policy

-Qualified (double) majority for ordinary legislative procedure
-Simple majority for procedural and administrative matters
-Unanimity for sensitive matters (e.g. taxation and foreign policy)

European Commission + President of the European Commission

Guardian of Treaties, ensures legislation implementation and compliance, holds right of initiative in legislation, negotiates international Treaties
Administers budget
Operates and promotes framework programmes

10 configurations: Foreign Affairs; General Affairs; Economic and Financial Affairs (Ecofin); Justice and Home Affairs; Employment, Social Policy, Health and Consumer Affairs; Competitiveness (Internal Markets, Industry, Research and Space); Transport, Telecommunication and Energy; Agriculture and Fisheries; Environment; Education, Youth, Culture and Sports

Eurogroup

Council composed from Euroarea Finance Ministers
Meetings attended by the Commissioner for Economic & Monetary Affairs and the President of ECB

Foreign Affairs Council

Headed by High Representative of EU for Foreign Affairs and Security policy

European External Action Service (EEAS)

Headed by high representative of EU for Foreign Affairs and Security policy, in charge of diplomatic relations of EU

Court of Justice of the EU (CJEU)

EU judicial authority, ensures respect in law, interpretation and application of EU treaties

European Central Bank (ECB)

EU authority for monetary policy

European Court of Auditors (ECA)

Audits EU finance, examines use of financial resources by EU institutions

European Economic and Social Committee (EESC)

Formed by European interest groups
Advises EU institutions, opinions on EU draft laws

Committee of the Regions (CoR)

Formed by regional and local representatives
Advises EU institutions on local and regional issues

Sources: adjusted from DEA (2018) The European Union, Federal Department of Foreign Affairs, Directorate for European Affairs (Swiss Confederation, March 2018 and EU (2012) How the European Union works: Your Guide to Institutions, Luxembourg

All these institutions have been created by some states and their elites, political, economic, social and other. Institutions are a prerequisite for better organising integration stages and advancing development. They have been viewed as systems of norms that comprise contracts, codes and limitations of behavior, as rules of decision-making imposing obligations to actors, as organizations or interests and systems of conviction (Rosamond, 2004); as tools for producing policy and affecting conduct, as values and norms embedded that contribute in integration policies (ibid, 2004). They are thought necessary for promoting the rules of the "game" at supra-national level, helping conflict resolution, reducing international transactions costs and avoiding risks and uncertainty in economic and social life (Sweet and Sandholtz, 1998); they help to treat on equal terms economic and social partners from various economic and social settings, often unequal in size or strength.

The role of institutions in explaining the creation and shaping of the integration process was emphasized in the institutional and new institutional theory. Other theories from international and political studies, such as federalism, co-federalism, functionalism and neo-functionalism, have also aimed to explain European integration, focusing on political and international changes, institutions, instruments, concessions or agreements [5]. Functionalists have claimed that states would co-operate in their

[5] Hix (1994) has divided the various approaches that explain European integration into those stemming from international relations and those from comparative politics. He classified in the former pluralistic approaches (such as the theory of transactionalism, neofunctionalism, interdependence); realistic approaches (such as inter-govermentalism); structural approaches (such as Marxist or constructivist); and institutional (such as functionalism, federalism and co-operative federalism). The latter are distinguished further in pluralistic approaches, such as pluralism, meta-pluralism, neo-corporatism, theories of rational choices, sociological approaches, and institutional and new institutional approaches (comparative law, comparative federalism, concessional democracy).

problems, seeking common solutions that ultimately promote a supra-national entity. The supporters of co-federations sustained the re-building of the nation-state, while federalists contradicted the model of a supra-national state.

Co-federalism emphasized the formation of a co-federation, as a loose union of states based on a Treaty[6], where common institutions have limited authority and constituent-members are sovereign and free to leave; member-states transfer some of their powers at supra-national level that can claim back later. It is argued that a co-federation does not exist to abolish the identities or functions of its constituent members but rather in parallel with them (Forsyth, 1996). A federation on the other hand, draws its authority directly from its citizens, based on a Constitution; sovereignty lies both at state and federal level, in the hands of common institutions. Federations are composed of a mix of powers, most often at a two-tier system, a share of legislative and executive powers, constitutionally agreed, and a share of revenues between the two tiers. Powers devolved at federal level differ from a federation to another. Common institutions share more powers, are independent and not subject to member-states. Procedures and institutions are organized to facilitate collaboration and arbitration mechanisms are employed for intergovernmental disputes (e.g. courts, referenda).

In its current form, the EU contains elements from a co-federation, though one could argue its most integrated part moves towards a federation[7]. It is the combination of

[6] Both in federations and co-federations, the unity of states is based on Treaties (foedus = treaty).

[7] The most known existing forms of unions of states are the co-federation, the federation, the federacy, the concessional system, the league and the condominium. The concepts of concessional confederation (Chryssochoou, 1994) and sympolity (Tsatsos, 2009) have been suggested for the EU, along with that of "synarchy", a form of co-federation seeking to reconciliate the tendency towards institutionalized forms of

elements from federations and co-federations that makes the EU edifice unique and leaves room for further integration, new members and stability. Turning the EU only to a co-federation could attract other states to join, while organising a federal union in times of hardship may harm the unification process, despite opposite ambitions, due to its generic application and dissimilar social and welfare implications, at least for common currency states.

One cannot locate the EU precisely between these two types, since it is a union of nation-states composed of different economic, social, political, institutional, legal, cultural, linguistic and other environments and features, different history and geography. Their large variety, a characteristic and privilege of the EU economy, impedes further integration. The more varied and dissimilar is this environment in Europe, the more time and effort-consuming is to bring states together, advance their growth, development and welfare, unite them and reach complete integration.

The blurring of national borders inside the European union of states was aided by the advent of post-modernism that criticised the certainties associated with the nation-state, and its foundations (Rifkin, 2004; Hall et al., 2003). In the European context, the nation-state was considered to be the outcome of European Enlightenment only. The EU formation was viewed as the post-modern result of the modern state. Modernism was accused to suffer from lack of pluralism and tolerance against the expression of different views, to excuse the colonial past of the nation-states and reaffirm the ideologies of nationalism, capitalism and socialism (Rifkin, 2004; Hall et al., 2003). On

constituent parts, while securing a degree of unity that would encompass the functions of the whole (Chryssochoou, 2009).

the other hand, post-modernism that coincided with post-industrialism, sought to deconstruct modernism and, in contradiction to materialism and the perpetual individual material accumulation, it has contributed to promote ecumenical human rights, peace and quality of life, the rights of nature and conservation (Rifkin, 2004).

Functional connections between different and interdependent areas of politics of European member-states, which allow transferring a range of different competencies at common supra-national level, were emphasized through neo-functionalism. Neo-functionalists have focused on the interaction among political parties that promotes their own short-term interests and of the common international institutions set in place. In their view, elites, pressure groups, political leaders, personalities and bureaucracies form various coalitions unite their forces, which extend from national to supra-national -European- level.

For neo-functionalism, functional spillover is the prime integration mechanism[8]. Having agreed common rules and reached unequally satisfied goals, the nation-states composing common spaces decide to resolve their differences, either by intensifying their cooperation or cooperating in new fields (i.e. through integration deepening). While integrating, it is being progressively realised that hitherto ignored policy areas have to be functionally linked. In the common market for example functional spillover leads to new areas of economic cooperation, i.e. in social or monetary fields. Increased opportunity costs from giving up integration and the legitimisation of processes placed in operation is expected to lead to further integration, by some kind of determinism.

[8]In the transaction-based perspective, the key integration mechanism is the need to reduce transaction costs (Sweet and Sandholtz, 1998).

Neo-functionalism, though criticised as non-political, has focused on EU decision-making. It emphasized the classic Commission method that involves ministerial meetings, conferences and agreements of the permanent representations, with continuous contacting of national partners in a spirit of compromise and co-operation. A triagonal relation is held among the Commission, the Council and EU Parliament, sustained on the bases of national parliaments. In addition, newly emerging forms of governance are progressively used, such as the Open Method of Coordination (OMC), social dialogue, independent authorities and self-regulation, which are multi-functional, flexible, decentralised, and promote collaborative work and commitment (Manouvelos, 2010). The OMC is part of the intergovernmental coordination that allows flexible adjustments in nation-states. It is distinguished from inter-governmental cooperation and central regulation, where more authority and power is transferred at the central level. A more recent form of European governance is the multilateral coordination and surveillance, one of the strictest types of inter-governmental co-operation, currently held at the Eurozone level.

Various institutional problems, choices and operational deficiencies encountered throughout the unification process have raised concerns on the sufficiency and even the absence of legitimacy, accountability and democratic processes. What was termed as the EU's democratic deficit appears to increase due to globalisation and the generally observed, retreat of the nation-state (Glencross, 2014). This is important to consider in a union of nation-states that share common democratic and cultural values and are based on representative and participatory democracies. The EU uses various democratic channels of accountability and operates at common European, state/national, regional and local level, aiming to advance integration at all these levels, through combing democratic representation with effectiveness. Democracy at the EU is enhanced by adding progressively new elements in the operation both at supra-national and state level (ibid, 2014); this is the case with the implementation of four freedoms at the common market and with the most recent transfer of competences at EU level. EU laws and the administrative acts that transfer authority at EU level are binding for states, according to the conferral principle (EUR-Lex, 2016).

Following the Single European Act, several Treaties were signed (of Maastricht, Amsterdam, Nice and Lisbon) to deepen EU integration, ameliorate ancillary institutions and guarantee their performance and that of policies, while continuing EU enlargement. Even if the EU is composed of states with dissimilar legal systems and cultures, an effort was made to amalgamate certain of the qualities through the prolonged discussion for the European constitutionalisation that refers to EU structures, systems of operation and performed duties as well as the respect of the rule of law, of democratic principles and of spheres of the individual (Hamulak, 2016). Even if the 2004 Treaty establishing the Constitution for Europe has been disapproved by citizens of several EU member-states, the vast majority of European citizens espouses the common European values, as proclaimed in its Articles, namely democracy, equality, freedom, human dignity, the rule of law, and such principles as justice, pluralism, tolerance, solidarity and non-discrimination, which are considered to lie at the bases of the legal entity that is named European Union. These are promoted through the decisions of its Court of Justice that promotes the functionality of the European integration process and allows the emancipation of the supra-national law on the foundations of updated historically, national legal culture (ibid, 2016).

In less advanced states, where EU membership leads to economic restructuring, democratization is promoted through a series of deregulatory decisions. Regulation targets market failures (monopolistic power, information asymmetries etc) and aims at increasing welfare. It remains questionable to what extent regulation promotes efficiency, even if exercised by experts and a great part of EU laws are regulatory (Glencross, 2014). Positive integration (through harmonisation, advancing market operation and effectiveness) presupposes the application of negative integration first, which is usually deregulatory (through removing barriers and discriminatory measures). The former is even more important and difficult to advance, though they usually co-exist. In less advanced regions in particular, economic and social development is advanced through Cohesion Policy and Common Agricultural Policy that operate in practice as fiscal redistribution mechanisms.

3.3. Other principal economic theories upon which the European edifice was built; the scope for local and regional economic development

The strengthening of domestic factors of production, in particular of capital and labour, was considered necessary to advance growth and development, based on the policy prescriptions of the neoclassical model, as well as other growth and development models and theories. Their perfect mobility had to be promoted through inter-state and intra-state infrastructure, to support development (acknowledged after the work of Aschauer (1989) and others). Infrastructure building would reduce low factor mobility, attract new resources, especially entrepreneurship and human capital, raise economies of scale, achieve positive external economies and limit negative externalities of existing infrastructure, such as pollution. It would raise economic development, standards of living, local and regional productivity and competitiveness. Transport and communication infrastructure would enhance the transfer of information, technology and knowledge, bringing their international and spatial diffusion.

Progressively, the creation of a common currency gained ground in EU policy circles. Based on the optimum currency area (OCA) theory (by Mundell, 1961), the EU nation-states decided to share a single currency, under certain conditions, aiming to avoid balance of payment crises and substantial disequilibria in international systems. The monetary unification was expected to provide a better performance for money as a medium for exchange and as a unit of account (Ricci, 1997; Mundell, 1961). A single currency was believed to speed-up the integration process, and become useful in reducing business cycles and exchange rate volatility, while increasing trade (Rose and Engel, 2002). For small countries in particular, attaching to larger currency areas was suggested to allow sharing potential benefits (Alesina and Barro, 2002). The initial targets for developing an OCA were full employment, balanced international payments and an average, stable price level (McKinnon, 1963). However, the absence of exchange rates would deprive economies from a short-run adjustment mechanism needed to avoid asymmetric shocks, price rising due to shocks and the exposition of vulnerable economies to international financial crises (Ricci, 1997). Eliminating exchange rates in particular was considered a necessary precondition for a fully integrated, competitive market economy, as the former influence relative prices and their volatility acts against investment and growth. The difficulty to simultaneously reconcile free trade and full capital mobility, with fixed exchange rates and independent monetary policy (also known as the impossible triangle or trilemma) was thought as possible to bypass by delegating the necessary autonomy of monetary policy at the common currency, European central bank level (see Colignon, 2001).

More recently, it was realised that the success of a currency zone associates with price and wage flexibility, the mobility of production factors (including labour), financial market integration, the degree of economic openness, diversification in production and consumption and similarities in inflation rates (Mongelli, 2008). A “new OCA theory” was suggested, to accommodate developments in the “early OCA theory” (ibid, 2008). The endogeneity of OCA, initially suggested by Frankel and Rose (1998), emphasized the prospect to satisfy ex-post (rather than ex-ante) the entry criteria for the common currency and promote a self-fulfilling integration process that advances trade integration and business synchronization.

The OCA theory had failed to acknowledge price differentiation in very large common geographical spaces, as suggested in spatial discrimination and spatial pricing theory, and the price rising resulting from the unification of demand and supply in the EU. It neglected the possible operation of a Balassa-Samuelson effect, especially important after enlargements. At an opposite end, the Walters critique suggested that in the event that inflation rates would differ at a currency zone, a process of divergence of inflation rates would set in that would bring monetary instability. These aspects raise some doubts for the efficacy of the common currency project but one should not forget the deeply political role of the common currency at the European integration, as implemented through political decisions (Tsoukalis, 1997).

Basic knowledge from economic geography and regional economics helped to expect that agglomeration forces would enhance at the currency zone, because of trade expansion and increased labour and capital mobility. The differentiation of regional incomes, unemployment and other economic variables causes centripetal and centrifugal forces in space that put pressure on local and regional prices, consumption preferences and production patterns, also affecting the location of economic activity and neutralising in practice perfect mobility, a basic assumption in the neoclassical and other growth models. The potential strength of spatial agglomeration was reminded in various theories, such as Myrdal's cumulative causation, Perroux's growth pole theory, Hirschman's emphasis of unbalanced development, Christaller's central place theory, the theory of location and other. Sustaining and even enhancing spatial inequality among European populations was expected to alter the spatial distribution of effects of national and intra-European policies and, as a result, to have a strong negative impact upon their legitimacy, acceptance and support by local and regional societies. Spatial cohesion became a problem, raising the need for local and regional development policies, to support economic restructuring, enforce common EU policies and unite national economies.

A fall in demand in some regions and a rise in other would bring divergence in wages between these two types of regions, attracting human capital in the latter (McCann, 2013). An expansionary Keynesian policy could take place to resolve this problem, aiming at demand management in less advanced states and regions, as explained also through the analysis of the Keynesian multiplier. The model of endogenous human capital migration explained that strengthening human capital in less advanced regions would enhance further the divergence process between these two types of regions caused by a demand fall in one of them (McCann, 2013). The rising debate on new economic geography, which explained centre-periphery relations from a micro-economic perspective (see Krugman, 1991) warned for the potential formation and emphasis of such relations. It further emphasized the need to support infant industry and new products that would allow peripheries to better compete (Combes et al., 2009). Strengthening the regional export base was also a point raised through export-base theory.

To avoid increasing agglomeration forces, vast depopulation and desertification of peripheral areas, strong infrastructural needs in central areas, social divides and tensions, and to redress regional and pan-European imbalances, precautionary policies were scheduled and significantly supported financially since the late 1980's, targeting at regional and local development. They were implemented through multi-annual, integrated economic planning targeting at beneficiary regions and were financed by specific Structural Funds created to reduce the problems associated with spatial cohesion, and operating on the bases of certain processes, principles and organisational philosophies. Cohesion has become the key focus of the redistribution policies (EU Cohesion and Common Agricultural Policy). Progressively though, the old paradigm of regional development policies that tackled regional disparities in income, infrastructure stock and employment, and was applied in administrative regions, targeting mostly lagging regions and balanced growth development, was replaced by the new paradigm that focused on regional competitiveness, the employment of under-utilised potential, endogenous local assets and knowledge and was applied in functional areas, through integrated forms of development (Pike et al., 2017).

The pursuing of local and regional was emphasized first by “new competition” theory (Best, 1991) that focused on organisational and institutional changes in production, and later by the national competitiveness debate and the emphasis placed on sustaining competitiveness and high productivity levels (see Porter, 1998). Regional competitiveness analysis highlighted the equipment of regions with “hard” and “soft” factors and resources, such as human and social capital, learning, knowledge and creativity (Budd and Hirmis, 2004; Kitson et al., 2004; Martin and Sunley, 2003).

In the early 1990’s, EU structural and Cohesion policies have focused mostly on infrastructure and human resource development. The development of endogenous growth theory emphasized the mobilizing of indigenous resources and the financing of human capital, innovation, knowledge, learning, R&D, technology and specialisation (Aghion and Howitt, 2009; Asheim et al., 2006). Innovation was considered a growth prerequisite formed through basic or applied research, experimental development, initial production and diffusion or even through more interactive ways and the formation of innovation systems that had to be sustained at local, regional, national or sectoral level (Massey, 1992; Pike et al., 2017); various innovative spatial areas were promoted, in “technopoles” or in other “territorial innovation models”, where business incubators and other ancillary institutions were formed to promote innovations (Asheim et al., 2011). R&D by firms, universities and other institutions, was thought to be critical to transfer ideas in markets and commercialize them, through applications, patents and various spin-offs (Pike et al., 2017); the amount and content of knowledge produced in firms or institutions and the employment of knowledge mechanisms, operations, institutions and processes has expanded, bringing the rise of a “knowledge economy”; tacit or codified knowledge had to be created, promoted or shared, for example through suitable educational institutions, such as universities, technical or specific schools; the learning capacity of firms, of local and regional actors and of institutions was emphasized to advance growth, through networks, formal or informal, critical for adapting, problem-solving, improving and assimilating changes and new conditions (Pike et al., 2017; Morgan 2010). Attracting and creating new resources -especially human, such as skilled employees and entrepreneurs-, promoting entrepreneurship, supporting small and medium-sized enterprises and fostering associations and institutions were all considered necessary preconditions for local and regional development (North, 1990; Cooke and Morgan, 1998; Amin and Thrift, 1995).

All these endogenous growth factors were identified in paradigms of economic organization and flexible accumulation, found in various places across Europe over the last four decades and often termed as clusters (or "new industrial spaces", "neo-Marshallian nodes" or "territorial production complexes"). Their study highlighted the role and significance of local and regional supportive institutions, agents, networks of people and enterprises, the common beliefs and values locally embedded and shared, and the pursuing of new technological and organizational paths, and other systematic ways to support this different economic *modus operandi* for local and regional development. Specific roles, convictions and values were considered necessary to promote local and regional economic activity and entrepreneurship; their success relied on fame, mutual respect and reciprocity, trust, good faith, informal ties, "untraded interdependencies" among economic actors and institutions, on the need to associate, a particular local atmosphere, and what has been termed "relational capital" that allow growth and contractual relationships to flourish and become completed. These various socio-cultural and institutional features, embedded in local social environments, were considered necessary to organize growth and development.

4. The "Cultural turn" and the common European civilisation and culture

Economic phenomena and processes taking place over the last decades at the European integrated space have been viewed through the lenses of the "cultural turn" in the disciplines of geography and economics that has emphasized the significance of development factors embedded in the society and culture of nation-states and their regions. Socio-cultural aspects and processes were suggested to form dialectic relationships with the spatial economic environment (Soja, 1985; Massey, 1979) and became significant in explaining its change, beyond capital accumulation and economic rationality (Gregory, 1989). The discipline of geography, influenced by its post-war quantitative turn, positivism and consecutive epistemological paradigms such as the behavioural, radical or critical, has taken some time before espousing its "cultural turn". A similar epistemological shift, identified in other social studies, most notably in economics and development studies (Pieterse, 1995), helped to realise the significance of culture for economic development and integration. Culture was viewed as a system of convictions and values that gives meanings in the production and reproduction of material and symbolic forms (Crang, 1998).

European populations have historically espoused and shared many similar cultural views and elements, both in their artistic and creative heritage and in terms of human values and practices (ETCD, 1997). The EU is composed of states whose civilization is based on the Greek-Latin tradition, democracy, freedom, Enlightenment values, reason and individualism (Tsaliki, 2007). Yet, each nation-state, especially the older ones (such as the UK or France) have developed their own culture and cultural paths over the centuries, through various historical processes and the influence received, including their colonist background.

Creating or emphasising common cultural elements and ties among nations, associating cultures and promoting cultural exchange were seen as necessary for embedding the common market and preparing the monetary zone, in such a manner that would promote labour and human capital mobility. The utility of culture was suggested that could have been “multiplied” in relation to EU integration (Barnett, 2001). It was considered as an important way to mediate the ideal of European unification, driven mostly by elites and market mechanisms (Barnett, 2001). The competing logic between integration and diversification was thought to be resolved by espousing diversity in culture and the ideal of a “Union in diversity” (ibid, 2001). Culture was thought to forge the rather fragmented European identity with its large intellectual luggage that is loaded with symbols, meanings and content (Shore, 2006; Barnett, 2001; Tsaliki, 2007). It was also thought as significant for creating a responsible citizenship and the formation of the “Europe of people” (Tsaliki, 2007; Shore, 2006). Mixing further the European cultural mosaic was thought that would promote integration, as if the various facets of national cultures could be re-shared, before each national facet appears clearly, as a component of the European. Subsidiarity was thought necessary to promote culture across territories (Barnett, 2001).

However, forging a common European culture even further could not become the short-term outcome of top-down cultural policies (Shore, 2006). Long-term processes were required of a common -in times of peace- history among European nations that would highlight its true bases and prioritize shared, among European populations, cultural aspects, in their own initiative and freedom of expression, not necessarily of homogeneous direction. The strength and interest of European civilization lies in the plurality of cultures of European states, which leaves ample room for accepting cultural legitimacy, rejecting cultural supremacy and respecting non-European citizens and identities (see Shore, 2006).

5. Social Policy and the plurality of welfare regimes in Europe

The unification process has not taken place in a social vacuum. Most participant states have an active social policy and their own welfare regime. Three different welfare regimes were identified in Europe: the Anglo-Saxon or liberal (in the UK), where free market prevails and public social protection is of residual character, the Corporatist or continental (in Germany, France or other states in the continent), where social protection is covered exclusively by the state, as a right from work, and the Scandinavian (or Nordic or social-democratic), where social expenses are high and espoused by everyone (Esping-Andersen, 1990). Ferrera (1996) has emphasized an additional, Mediterranean model. These regimes differ in various respects, such as their target groups, their principal aims, the level of state financing, and, more generally, the role and involvement of the three main pillars supporting them, namely of the market/firms, state and family. European societies have always been based on different social models, their historical specificities, political considerations and domestic circumstances[9].

These social models are scheduled to provide solutions in various social problems, take care of social needs, as well as to reduce contemporary challenges that would help European societies to respond in their needs. At a historically earlier integration stage, it was realized that a more coherent view of societies was needed, across such aspects as population change (past, present and future), family, the role of women and gender issues, social structuring, social peace, social mobility, social change and transformations, the effects from deindustrialization, technological change, industrial relations, racial and multiethnic issues, and their transformations (Titmuss, 1974). New economic and social conditions brought by the integration process and the intensity of globalization have emphasized the necessity of social policy and the adjustment of social administration, through institutions and organizations supporting social policy.

Since the Treaty of Rome, the EC has organised numerous policies to support the welfare of European societies, including the launch of European Social Fund, in 1957. It has consistently emphasized its engagement to social policies by tackling several aspects of social policy, included more recently in a "social agenda" for Europe, and by actively engaging in economic and social cohesion at the common territory. Starting from the mid-2000s and the implementation of the currency zone, the need for a European Social Union has become more and more apparent, taking into account social

[9] Social models were classified in institutional or redistributive, mixed or pluralistic and the residual model, by Titmuss (1974). The presence of a mixed model was also suggested by Giddens. The most commonly identified European social models can be considered the institutional or redistributive and the mixed or pluralistic.

dumping (see Vanderbroucke, 2017). This need was emphasized after the most recent pandemic crisis.

6. New policies, institutional building, and policy challenges encountered in the EU integration deepening

6.1. Changes in policy and institutional building in the monetary and banking sector

Despite the extent and breadth of policies developed and pursued, the monetary zone was de-stabilised after the 2008-2009 global crisis, and growth has stagnated or even regressed at the EU. Adherents of the view that the Eurozone was not an optimum currency area have early warned that it is costly due to economic asymmetry and labour market inflexibility (see De Grauwe and Heens, 1993). Asymmetry strongly enhances by capital's increased capacity to fly away from a country-member towards the monetary zone. The potential regional effects from asymmetric shocks were suggested to enhance centripetal forces and agglomeration, influencing national output and performance (De Grauwe and Vanhaverbeke, 1991).

The setting-up of the monetary union, its substantially low inflation, expectations that it will remain low and consumption-led growth had all benefited the intra-EU trade and triggered various booms at the Eurozone. As De Grauwe (2013) explains, a liquidity crisis emerged when booms became busts, a process that became self-fulfilling, as soon as it was realized that there is no guarantee that cash would always be repaid at this stage. In this setting, trade-exporting countries had profited from these booms, creating large current account surpluses, in a self-reinforcing process (Frieden and Walters, 2017; De Grauwe, 2013). On the contrary, those states that had initially joined the common currency and had taken significant restructuring macroeconomic efforts to reduce their own interest rates before replacing their national currencies, had faced the side-effects from falling interest rates, in particular in the rise of investment and consequently of their aggregate demand, with rising effects on prices. It was not realized early that driving growth in the long-run from an aggregate demand side will not be sustainable, especially in less advanced states.

The crisis was essentially a debt and BOP crisis. As debtor countries were unable to borrow funds, creditor countries had soon realized the necessity to lend them and implement bail-out programmes to avoid the collapse of Eurozone (Frieden and Walters, 2017). If each state had its own currency, deficit countries could have tackled a strong BOP imbalance through exchange-rate devaluation as an external adjustment, combined with structural reforms and austerity as internal adjustments. On the other hand, surplus countries would have employed exchange-rate appreciation or run inflation and promote reforms aiming to boost demand (see Frieden and Walters, 2017). But for member-states sharing a common currency, external-rate adjustment is not the best possible choice for all, and only an internal devaluation process in debtor countries with structural reforms was considered feasible, to allow reducing unit labour costs and raising competitiveness. This is despite the side-effects of such policy, which are unemployment, lower wages, asset price deflation and recession (ibid, 2017). The expectations from such a policy and its side-effects are that it will bring divergence of economies, at least in the short-run. Debtor countries can either repay debts in full, by applying restrictive domestic fiscal policies (by raising tax rates and cutting tax expenditures) that would face the cost of higher unemployment and reduced economic activity or seek debt restructuring, which could lead to agreements sharing the debt burden (ibid, 2017).

The ineffectiveness of central bank response on what was thought to be "country-specific shocks" was attributed to the heterogeneity of the monetary union (Vetter, 2013). The broadening of the range of common currency policies was emphasized, as soon as the side-effects of the crisis started to spread across member-states and after realizing that shock absorption through market mechanisms was not as effective as in USA (ibid, 2013). Organising macroeconomic coordination and policies for advancing it was postponed for numerous reasons in the early implementation phase of the currency zone (see Calmfors, 2001).

It took few crisis years to understand that: i) the ECB's available tools and policies were of limited array, extent and scope, ii) several institutions were missing that ought to have surrounded the ECB in the implementation of the EMU, and iii) the unification process had to take more carefully into account economic theory, mostly from macroeconomics. Perhaps the new approaches in macroeconomics theory over the last two decades and the abandoning of neoclassical synthesis have led in hindering the understanding of macroeconomic challenges and problems envisaged. While many adherents of the EU integration process believed it is going well, the global crisis acted as a mainspring to realise that common economic policies should be stressed and combined with a union in banking, fiscal, political and legal matters. A number of design and management failures were discussed to preexist or take place in the monetary zone (e.g. De la Dehesa, 2012), a view not universally accepted because some analysts insisted that the EMU has no flows and that disagreements about the diagnosis of crisis and the lack of enforcing competition are more significant aspects to consider (see Schout, 2017).

The benefits gained from monetary policies are limited by current account imbalances inside the currency zone. Handling these imbalances, the non-synchronised economic cycles and the strong cyclical variation of some economies of member-states remains an unresolved puzzle. This is significant in the light of the Walters critique and raises doubts on the validity about "one size fits all" monetary policy, generally promoted by ECB. Such an approach is likely to fail by macroeconomic shocks that provoke imbalances (De la Dehesa, 2012). Some states may require different remedies for their problems than others, shifting from monetary to other policy types.

The initial response of ECB after the crisis, followed from 2010 to mid-2012, was to focus on price stability and keep interest rates stable and low, between 2% and the zero-lower bound (after which deflation sets in). The ECB's role was not viewed as a way to address public and private balance sheet problems nor to resolve solvency issues and directly fund governments and their tasks, such as bank recapitalization (Hartmann and Smets, 2018). A financially fragmented, malfunctioned common market raised additional barriers for common monetary policy because of the reduced operation and fragility of the transmission mechanism. Without an established banking union, the solvency risk of individual governments was reinforced by the solvency risk of national banking systems (Acharya and Steffen, 2017). This was a reason for a rather timid initial intervention in government bonds market, by means of the Securities Markets Programme, in 2010 and 2011 (Hartmann and Smets, 2018). The ECB has expanded its targets cautiously and progressively, from price stability to financial intermediation and bank lending in Euro area, finally assuming a supervisory role after November 2014, when the major elements of a Banking Union and amendments in the EU banking sector were placed in operation. The non-standard instruments employed were asset purchase programmes (APP), which comprised a series of asset-backed securities (ABS) and covered bond purchase programmes (CBPP), along with targeted long-term refinancing operations (TLTROs), all aiming at improving the efficacy of transmission mechanism, providing liquidity and allowing quantitative easing (see Constâncio, 2018). Additional suggestions for debt mutualisation, through issuing Eurobonds and turning ECB a lender of last resort were not fully espoused by Eurozone member-states (Dabrowski, 2015). The ECB finally assumed its role to monitor its national central branches that acted themselves as lenders of last resort by the use of the emergency liquidity assistance (ELA) scheme, which was finally created for this purpose (only for solvent banks).

As soon as it was realized that financial market integration and banking unification were required at the Eurozone a series of institutions and institutional amendments were promoted. The European Financial Stability Facility (EFSF) was launched in 2010, followed by the European Stability Mechanism (ESM) in 2012, to assist states under sovereign debt crisis, by adopting the Direct Bank Recapitalization instrument in 2014. Their role was to provide financial assistance by lending governments in need, to support bank recapitalization and buy ECB holdings of sovereign debt at better prices.

In 2011, new institutions were formed to regulate EU's banking and safeguard the stability of its financial system, replacing existing ones: the 2001 Committee of

European Securities Regulators (CESR) was replaced by the European Securities and Markets Authority (ESMA); the Committee of European Banking Supervisors (CEBS), launched in 2004 for banking regulation and supervision purposes by the European Banking Authority, which aimed to regulate banking and safeguard the integrity, efficiency and orderly operation of the banking sector; and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) was replaced by the respective authority (CEIOPA), aiming to ensure effectiveness and consistency in EU banking regulation and supervision, to improve consumer protection, fight systemic risks, rebuild financial system trust and strengthen the oversight of cross-border insurance groups. In 2013, the IV Capital Requirements Directive and the Capital Requirements Regulation (CRR) were placed in operation, following Basel III agreement (Mongelli et al., 2015). Then, the Single Supervisory Mechanism (SSM) was created in 2014, and both the Single Resolution Board (SRB) and Single Resolution Fund in 2015. A Bank Recovery and Resolution Directive (BRRD) and a Deposit Guarantee Schemes Directive (DGSD) were also launched to ensure protection of deposits (ibid, 2015).

6.2. Fiscal policy changes and the quest for common supply-side policies at the Eurozone

Tightening state-level fiscal balance and achieving current account surpluses were immediately integrated in national budgets by all Eurozone members, to reduce deficits and debts and advance investments and exports. These were mostly imposed in countries accused to have made an irresponsible use of EU Cohesion Funds, which had been allocated to them over the years, for their growth and development. The Fiscal

Compact, agreed among EU governments, adopted rules that reduced national capacity to use public expenditure for growth purposes and were uniform for states (see Creel et al., 2012). The strengthening of economic governance was implemented through the application of the principle of a “prudent fiscal policy”, the better enforcement of the Stability and Growth Pact (SGP) provisions and the transfer of EU fiscal rules to national legislation (see Creel et al., 2012). All these actions aimed at avoiding “gross policy errors”. Fiscal governance as proclaimed in the SGP was strengthened, initially through the “six-pack” legislation, which aimed at the prevention, monitoring and correction of macroeconomic imbalances, and then by the “two-pack” legislation, which emphasized restrictiveness. New institutions were formed to promote EU fiscal policy: the independent national fiscal councils and the European Fiscal Board. A transfer was therefore attempted of fiscal decision-making and autonomy out of the national level, and a general de-politicisation of fiscal policies (ibid, 2012). More flexibility within the SPG was further proposed, to promote investments and reforms (EC, 2018).

The Eurozone partners had agreed to impose stricter rules and penalties without having realized on time the necessity of automatic stabilizers, as stressed in economic theory, that had put at risk macroeconomic stability. These stabilisers comprise transfer systems (in particular unemployment support schemes and progressive income taxes), as well as the presence of a lender of last resort in the monetary system. Since the launch of the EMU, such stabilising features were removed from the national level but not transferred at the common currency level, at least in some form. After the liquidity crisis emerged, the remaining stabilisers were switched off by cutting spending and raising taxes. This twofold absence of stabilisers has naturally led countries deeper in recession.

As De Grauwe (2013) explains, government revenues were reduced even further and fiscal policies became pro-cyclical, opening a deflationary cycle.

The prospect of a fiscal harmonisation and unification envisages several challenges. The most important are its financing, legitimization and the dissimilarities across welfare regimes in Europe, which relate to existing social dissimilarities and social policies in European states and the per head social expenditure allocated to citizens. These conditions raise significant barriers in rescheduling national financing for social purposes. Moreover, raising taxes to achieve surpluses, reach fiscal harmonization and smooth fiscal competition (against other EU member-states) has a policy ceiling, after which tax evasion is raised and tax collection harmed. Whether a positive at the common currency level fiscal balance presupposes a positive state-level balance for each country remains an unresolved puzzle in theory that brings in mind the classic regional policy question whether state-level fiscal responsibility presupposes fiscal responsibility from all its composing regions. A further challenge is the common share of risk and the mechanisms in operation for doing so (Acharya and Steffen, 2017). Overall, one could argue that fiscal harmonization is one of the thorniest paths to take in European integration, given the differential needs of European societies, currently mostly funded by state revenues.

The EU's and Eurozone's institutional and regulatory responses in the banking and monetary sector came as a result of the crisis and after the problems were created and accentuated. The fiscal response has been rather limited, mostly espousing the idea of fiscal strictness. The extent of negative effects of the global financial crisis might have been limited, if weaknesses at the common currency were acknowledged earlier and the mechanisms for response were placed in operation. Macroeconomic theory explains that state-level macroeconomic fluctuations can be stabilised through policies both from the monetary and fiscal side. If common fiscal policies are hard to agree and pursue, stabilization only through common monetary policy will require more time and risks failing.

Austerity measures restoring balance could have provided some solution to a sovereign debt crisis, if such a crisis was simply a matter of fiscal profligacy (De Grauwe & Ji, 2015). If it is caused by private sector profligacy (often termed "balance sheet recession"), then structural reforms should be combined with a simultaneous enforcement of aggregate demand (ibid, 2015). Supply does not necessarily create its own demand, especially in pre-formed intra-European trade relations and patterns. The first effort towards boosting demand has been tackled with the 2008 European Economic Recovery Plan, that was offering B€ 200 (representing 1,5% of EU's GDP) in support of SGP, and a most recent Recovery plan for Europe, composed of the "Next Generation EU" recovery instrument and granted B€ 750.

The application of the macroeconomic consensus should have emphasized the significance and greater role of independent fiscal policies, to increase income. This opportunity for fiscal policy was suspended in weaker economies, especially in those hardly hit by the crisis, which were obliged to follow tight national budgets with strict fiscal targets and limited public investment. Given the aforementioned, specific mix of monetary and fiscal conditions in Eurozone economies and the restrictions in public spending posed, advancing growth and reducing unemployment in weaker economies could better be achieved through private-sector investment and the supply-side. Such a policy could become a common issue to consider and organize. Allocating common investments among common currency partners in places of high unemployment could bring growth and maximize the effects of monetary and fiscal policies promoted. Following the teachings of economic theory (Musgrave, 1959), investment allocation at the common currency should be one out of three main functions of a hypothetical common currency budget, along with re-distribution and stabilization.

A common operation of EU and Eurozone markets was placed as a priority through the efforts for the implementation of a Capital Markets Union (CMU). A CMU was considered to be composed of all individual national equity, bond, loan, stock and interbank markets. Its rationale was to unlock investments, especially for SMEs and infrastructure, to attract investment from other places of the world and stabilize more the financial system by widening funding sources (European Commission, 2015). CMU has been associated to a harmonization in legal, tax, regulatory and supervisory practices to avoid respective barriers in capital movements, which are hard to address it in the absence of a fiscal union (Acharya and Steffen, 2017). Contagion effects of crises caused in imperfect capital markets raised the vulnerability of EMU members, making necessary for its promotion the presence of safe-assets and bail-out schemes under the referring process of a Troika (EC, ECB and IMF) (Acharya and Steffen, 2017; Ikonomou, 2018).

The practical neutralization of growth effects of EU Cohesion policy is an additional point to consider. It took only few years of crisis before substantial funds, transferred through EU Cohesion Policy over the last decades, were vanished from places like Greece, and their growth effects practically suspended. These funds flew away to other spaces, EU common or not. Needless to say that this is especially important for states that refrained from the Eurozone but were obliged to contribute substantially in the common budget. The spatial implications from a strong currency in times of crisis and the possible strengthening of deficits in peripheral and less advanced states is an important problem for the unification process, to the extent that such deficits enhance domestic for the currency zone problems, by deepening the gap between winners and loosers, and re-emphasising the strength and long-term character of cohesion needs. It is likely that new patterns of cohesion problems emerge after the 2008 global crisis, not necessarily along the north-south axis (see EP, 2014).

With currency being common, a number of reforms for tackling these problems, enhancing competitiveness and reducing unit labour costs were considered necessary to increase growth in crisis-hit countries and limit the booms formed. Long-term problems in production and exports, sustained by comparatively higher production and money costs and the Keynesian, consumption-led growth, as promoted across many EU spaces and partially triggered by the application of EU Cohesion policy, were thought to be country-specific and sufficiently tackled through these reforms. However, this internal devaluation process could not continue at any possible cost for output and employment (see De Grauwe and Ji, 2004). Besides, such reforms remain subject to diverging interest rates and spread differentials, the relocation of capital away from nation-states where it was accumulated for several decades, the long-standing dynamics of de-industrialisation in Europe and a more general production deficit intensified in various spaces, through the integration process.

In the case of Greece for example, ten years after the outburst of the crisis, applied structural reforms have brought unemployment levels steadily above 20% for at least a decade, a permanent loss of 25% of its pro-crisis GDP and had failed to enhance its international competitiveness, despite the application of several consecutive memoranda of understanding which have raised tax rates per GDP well above those in other Eurozone states and imposed large surpluses to repay loans[10]. Such results are more likely to cause frustration, the despair of domestic populations, and limited efforts to overcome strong competitiveness and growth barriers left. As DeGrauwe and Ji (2014) argue, it is hard for populations of indebted countries to cope with decades of deflationary therapy, while, at the same time, accepting governance by creditor countries-partners. In a democratic union, this could enhance the EU democratic deficit observed and shift the blame away from what has been considered a domestic irresponsibility of those states that had failed to successfully apply common policies and had not advanced their reforms. Besides, with the benefit of hindsight, one can view more clearly that Greece has fallen at a common European dig caused by the absence of various institutional, regulatory, banking, fiscal and other barriers at the common currency level (see also a relevant discussion by Acharya and Steffen, 2017).

Further integration deepening, as proposed by the 2017 European Commission Reflection Paper, was rejected on the basis that member-states had to comply first with budget preconditions, as agreed (Schout, 2017). Similar was the result of other proposals for integration deepening, e.g. the most recent by France. It appears that

[10] A more complete analysis on the long-term suffocating problems of the Greek economy is provided in Ikonomou (2018). Despite its efforts for macroeconomic adjustment and nominal convergence, the Greek economy has failed to adjust its production structure over the decades, to cope with international competition.

Eurozone states require more time to acknowledge that fiscal austerity will not ultimately help to resolve the problem of most vulnerable states, in the long-run. Fiscally responsible states can neither accept the lack of a good performance from the non-responsible nor are willing to acknowledge that such irresponsibility reflects, at least partially, a macroeconomic inflationary, demand-driven cycle, as described above. The loss of credibility of some weakened Eurozone member-states appears to outweigh all their other efforts. Additionally, common currency partners have not realised that with the advent of monetary unification, a common macroeconomic environment was formed, where uniform solutions may not bring the best possible results in most vulnerable states. Uniformity does not offer unique solutions. On the contrary, it carries the risk to destabilize the common currency economy again and reduce its -common-effectiveness.

The effectiveness of monetary policy is a major problem and primary motive behind the decision for setting-up a banking Union. From a theoretical perspective, the Keynesian IS-LM analysis reminds that such effectiveness in monetary policy associates not only to ECB decisions but also to the position, association and steepness of IS and LM curves, for each state. During a crisis, money supply reduces, shifting LM to the left (see in **Figure 1A**). Applied restrictive fiscal policies, through cutting expenditure and raising taxes, reduce the rising pressure upon interest rates, shifting the IS curve to the left, and consequently limiting the aggregate demand and lowering interest rates. An ECB policy that raises money supply could help to lower interest rates and bring income at similar, initial levels (see **Figure 1B**). If, on the other hand, fiscal tightening is reduced, aggregate demand shall rise.

Figure 1: A simplified reminder of the IS-LM framework at the currency zone

Figure 1A

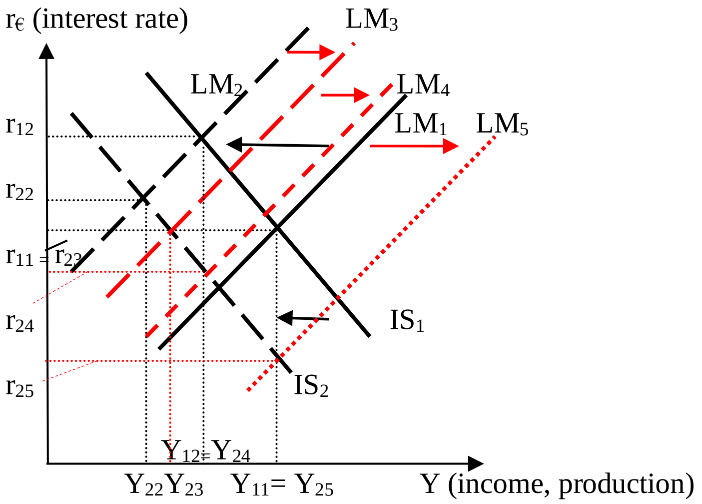
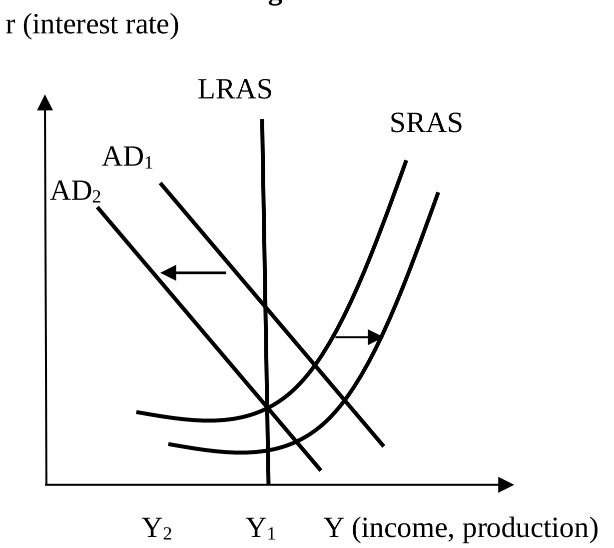


Figure 1B



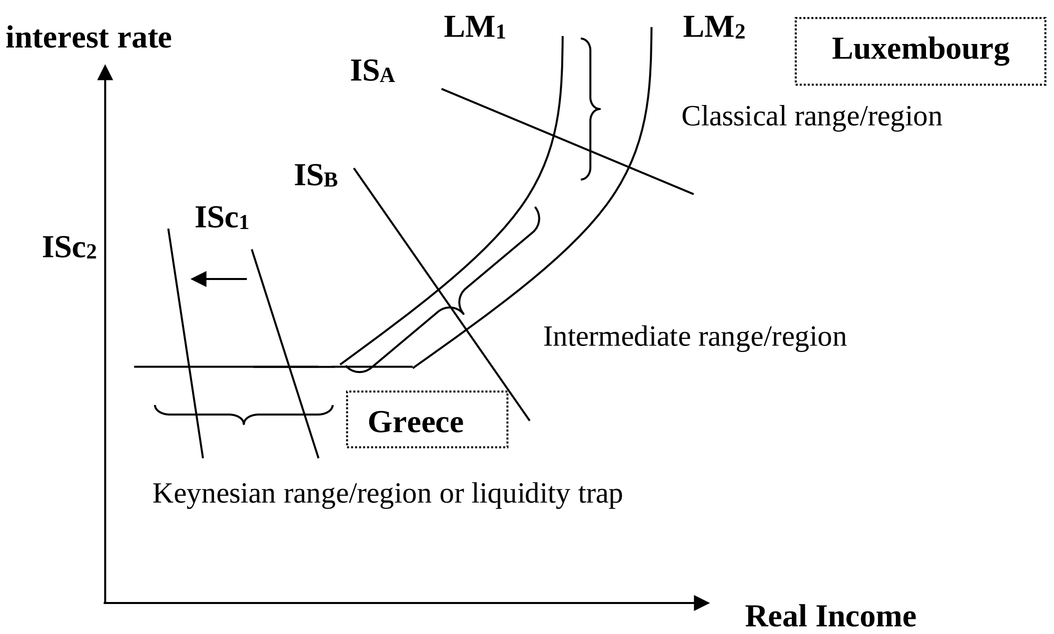
Description of Figures 1A and 1B

Following a crisis, the money flows away from weaker member-states of the currency zone, and the LM curve turns to the left depicted with a shift from LM_1 to LM_2 (**Figure 1A**). To cope with the rise of interest rates across these states (and the rise of their spreads), restrictive fiscal policies and tax raising is applied on them, leading to a shift of the IS curve to the left, from IS_1 to IS_2 (**Figure 1A**). Measures to enhance money supply will start taking place progressively in the currency zone, as interest rates have to remain stable and low. The rise of income -and consequently wealth- becomes a matter of common concern at the common currency, whose success relies on the efficacy of the transmission mechanism. The first increase of money supply, illustrated in **Figure 1A** by a shift from LM_2 to LM_3, brings interest rates back in initial levels, at $r_{23} = r_{11}$, while the second increase, from LM_3 to LM_4, even lower, at r_{24}, raising income at levels found before the application of restrictive fiscal policies. Continuing on this direction, the central bank can increase money supply more, raising income and lowering interest rates even further. Overall, shifting the LM curve from LM_1 to LM_5, brings back income at pro-crisis levels, at Y_{25}=Y_{11}. However, consecutive money supply increases risk hitting the lower-zero bound of interest rates.

Figure 1B explains that a post-crisis fall in aggregate demand (due to a shift of both IS and LM curves to the left), depicted with an AD shift to the left, can be followed by an increase in aggregate demand, if policies raising money supply are applied (shifting the LM curve to the right). This result can also be reached by applying a common supply- side policy for the currency zone that causes a shift of AS curve to the right.

A critical point to consider is that the steepness of IS and LM curves influences the outcome of policies. Assume the following hypothetical example to compare two separate states inside the common monetary space. Using an IS-LM analysis for a currency union, a common LM curve can be extracted, since money supply is created by the ECB only and money demand is the added sum of individual money demand, for each state. Assume that at the individual level of the state, states have different IS curves, since some are wealthier than other. We can illustrate exemplary cases of separate IS curves and focus on two opposite cases of states, Greece and Luxembourg, with the latter being much wealthier than the former (**Figure 2**).

Figure 2: Luxembourg versus Greece, an IS-LM analysis



Note: Greece and Luxembourg stand in two opposite regions, the Keynesian and the classical, respectively. In Luxembourg, income shall rise after money supply increases. The scope of fiscal expansion is limited, if meaningful at all. In Greece, the scope of money supply increases is harmful, because it pushes the economy deeper inside the liquidity trap (if LM rises from LM_1 to LM_2). On the contrary, policies aiming at fiscal expansion can move the economy out of the liquidity trap. Fiscal tightening (from ISc_1 to ISc_2) has put the economy deeper in the -Keynesian- liquidity trap. The two states have contradictory interests and since policies pursued by ECB may harm one of them, supply-side policies should be employed along with fiscal and monetary policies, to resolve problems in Greece, as long as they don't put a threat for the economy of Luxembourg and can be used by Luxembourg to profit from new benefits and income revenues.

As mentioned above, capital was transferred outside Greece as an immediate effect of the crisis, thereby limiting significantly money supply in the country. Assume these funds are all transferred in Luxembourg. The individual levels of money supply are not the same in the two countries, despite the presence of a common monetary policy. In terms of the common LM curve, Greece is more likely to be positioned to the left and Luxembourg to the right (**Figure 2**). Hence, each state can be positioned at the LM region (at the Keynesian, intermediate or even more advanced region), where another state is not. If Greece's individual IS curve is assumed to have lied initially at the intermediate range before the crisis, the imposed fiscal tightening would have shifted anyway the economy's IS curve towards the Keynesian range. Moreover, ECB policies to raise money supply (e.g. through quantitative easing), which may benefit other common currency states, are expected to shift the common LM curve to the right, pushing the Greek economy deeper in a (Keynesian) liquidity trap. Getting out of this liquidity trap is impossible by means of common monetary or common fiscal policies, if the latter are restrictive.

Turning fiscal policies to less restrictive at a state like Greece (e.g. by raising government expenditure and reducing the tax burden) could influence its growth outcomes, provided that money supply remains more or less fixed. Such a policy is difficult to promote, due to the fiscal competition from other common currency partners, applying similar tax rates. Furthermore, raising money supply is to the interest of states like Luxembourg. As Luxembourg lies at the classical range, where money expansion is more effective in growth terms and fiscal policies neutral, the prospect of fiscal unionisation is of limited value. States lying at the intermediate region may accept adjusting their fiscal policy but the more they lose out of the monetary unification process, they more unwilling will be to give up fiscal privileges and “acquis”. The risk of losing macroeconomic stability at the currency zone makes the problem of a single state that lies at the liquidity trap significant for the rest of states.

The above IS-LM analysis highlights that the common way of policies is not to pursue the same type of policies across all states, unless they are all located at the same position of the common IS-LM region. The states participating in this currently most advanced stage of integration, the monetary union, may require different policy mixes (fiscal, monetary or supply-side). Even if a one-size-fit approach is agreed, a special care should be given at least for extreme cases, because -among other reasons- they represent a potential threat to macroeconomic stability. Of course, such estimation is subject to the effectiveness of the transmission mechanism (strengthened after the banking union). In the case of states like Greece, whose GDP had significantly shrunk after the crisis, the principal way to overcome this common currency problem, without affecting ECB’s policy to keep interest rates low or raise money supply is by applying common currency supply-side policies in Greece (or in other similar cases). Overall, the above diagrams emphasize that common supply-side policies can become useful for the most extreme cases of less advanced states, and are a more secure way to allow them getting out of the liquidity trap, given the contradictory interests formed among states. Certainly, such an analysis is indicative and subject to the transmission mechanism, its efficacy, the operation of international trade and the economic, financial and monetary ties formed among the economies[11].

Finally, as a response against the most recent great financial shock due to the pandemic crisis in 2020, the common currency partners have decided to undertake a joint effort to promote their financial recovery, through launching institutions such as SURE and a Recovery Fund that will target unemployment and the support of most weakened economies. Furthermore, the ECB's policies for money expansion and the launch of Pandemic Emergency Purchase Programme help to lower borrowing costs and increase lending. These policies provide a first significant step towards a common policy that supports production recovery and its infrastructure, though subject to national priorities only and not the outcome of a general assessment of potential gaps, opportunities and challenges for the common European production.

7. Economic development results out of the European integration (1971-2015)

In **Table 3** the levels of GDP per head are provided for OECD countries-members of the EU or other selected OECD member-states, measured in constant purchasing power parities, at the beginning of each decade (starting from 1971). Purchasing power parities are used to compare across states, since they take into account domestic prices and, as such, allow comparability across states that had different price levels, have received dissimilar pressure upon prices and have different standards of living. Thus, using

[11] Besides, the IS-LM model has received strong critic and was relatively recently left behind in most macroeconomic analyses.

constant purchasing power parities improves comparability across different inflationary environments, inside or outside the EU. Per capita GDP is also provided for a final year, 2015, and for the year each EU state has joined the EC/EU. Each country's change is calculated for the whole period after 1971 and throughout the period of its membership (after 1971). Average annual change is also calculated for the 1971-2015 period and the period of membership for each EU state. Changes are also provided for the early period of Eurozone implementation (2001-2015), its first decade (2001-2011) and the first half of the last decade (2011-2015) that coincides with a greatest part of the crisis in Greece and the Eurozone. The choice of the final year allows studying the UK case, as it refers to the years of its full EC/EU membership before the referendum for leaving the EU. The **Table** comprises countries up to the EU-15 enlargement, since those countries joining with the following EU-25 enlargement had not been given sufficient membership time to assess their integration results. Twenty years since the 1995 enlargement and another twenty-four before 1995, are a sufficient period to assess the results of EU integration up to this enlargement. Historically, the year 1995 lies at the beginning of the replacement of a Common Market era by a Union era, when the second preparatory phase for the EMU has started (Mongelli et al., 2015).

As opposed to GNI, GDP per head measures the final output of goods and services within a country's territory, by both residents and non-residents, irrespective of whether it is claimed from foreigners or domestic residents (Todaro and Smith, 2015). Thus, in common integrated spaces, such as the EU and its surrounding integrated area, where less advanced states are expected to suffer from greater human and capital resource flight towards the more advanced (rather than the opposite), GDP per capita can offer a better approximation for production differences and the minimum existing possible gaps between the wealthier and less wealthy countries, in comparison to GNI per capita that is likely to exaggerate such gaps. Furthermore, in large and advanced states, where a large non-residential population is likely to play a significant role in the economy, GDP per head can reflect the best possible state of economic development in these countries than GNI per head.

The two states mostly benefiting from the EU integration process are Luxembourg and Ireland. Luxembourg has gained since 1971 almost $61 thousands in constant PPP units per head, while Ireland almost $46 thousands since 1973 (within 42 years). Using the Irish case for comparative purposes is difficult, as it amended its GDP levels during the crisis. However, the annual change in both states is far better than that of Germany, Netherlands or Belgium (almost twice for Ireland and much more in the case of Luxembourg). Similarly, Sweden has remarkably improved by an annual change of $1,508, during the 20 years of its EU membership, almost twice that of Finland, its Scandinavian partner and Eurozone's member. Sweden's average annual change is much greater during its membership period than during the whole period after 1971 ($1508 instead of $685). This is also the case with Finland, where it is a little less than its double ($555 as opposed to $252). Clearly, the EU effect is high in these two states. The comparison to Norway, a third -but non-EU- Scandinavian state, whose GDP per head has reached almost $59,3 thousands in 2015, brings in the ranking of these three states first the EU-member-state, second the non-EU member-state and third the Eurozone state. The levels of Swedish GDP per head in 2015 were similar to those of the fourth Scandinavian state that has chosen to refrain from the Eurozone, Denmark.

Table 3: GDP per head and changes of GDP per head, PPP, $, periods of membership and annually (PPP)

Country, EU joining group	*1971*	*1981*	*1991*	*2001*	*2011*	*2015*	*1971-2015 change*	*Entry year (No of years)*	*Average annual change*	*2015-2001*	*2015-2011*	*2011-2001*
Luxembourg – 6	28,237	33,091	55,323	77,327	85,845	89,147	60,909	60,909 (44)	1384/(1384)	11,820	3,302	8,518
Ireland – 9	11,275	15,468	21,266	40,350	43,043	58,117	46,842	45,932 (42)	1044/(1094)	17,767	15,074	2,693
Austria – 15	18,343	24,613	31,079	38,035	42,954	42,798	24,456	10,179 (20)	231/(509)	4,763	-156	4,919
Germany – 6	18,975	24,580	31,722	36,619	41,462	42,522	23,547	23,547 (44)	535/(535)	5,903	1,060	4,843
Netherlands – 6	21,923	26,249	31,945	41,423	45,117	45,419	23,496	23,496 (44)	534/(534)	3,996	302	3,694
Sweden – 15	21,230	24,964	29,471	36,222	42,456	44,138	22,908	30,155 (20)	685/(1508)	7,916	1,682	6,234
Finland – 15	15,779	21,742	26,345	34,778	39,626	37,973	22,194	11,094 (20)	252/(555)	3,195	-1,653	4,848
Belgium – 6	18,885	24,778	30,418	36,575	40,544	40,977	22,092	22,091 (44)	502/(502)	4,402	433	3,969
Denmark – 9	23,191	26,828	33,459	41,662	43,484	44,549	21,358	19 755 (42)	449/(470)	2,887	1,065	1,822
UK – 9	17,002	19,951	26,050	33,310	35,983	38,036	21,033	19,247 (42)	437/(458)	4,726	2,053	2,673
France – 6	18,591	24,069	29,147	34,534	36,626	36,928	18,337	18,337 (44)	417/(417)	2,394	302	2,092
Spain – 12	14,404	17,780	23,641	30,516	31,556	31,726	17,322	12,432 (29)	283/(429)	1,210	170	1,040
Italy – 6	17,504	24,092	30,608	36,004	34,818	33,180	15,676	15,676 (44)	356/(356)	-2,824	-1,638	-1,186
Portugal – 12	11,291	15,004	21,178	26,437	26,901	26,668	15,376	10,854 (29)	247/(374)	231	-233	464
Greece – 10	14,912	19,369	20,622	25,262	25,665	23,656	8,744	4,287 (34)	97/(126)	-1,606	-2,009	403
EU28	-	-	-	30,637	33,805	34,714	4,077	-	291	4,077	909	3,168
EU15	17,733	22,564	28,570	34,749	37,077	37,660	19,928	-	453	2,911	583	2,328
OECD – Total	16,721	21,015	26,385	32,309	35,788	37,572	20,851	-	474	5,263	1,784	3,479
Norway	22,411	32,526	40,924	54,929	57,804	59,274	36,863	-	838	4,345	1,470	2,875
Switzerland	35,577	38,787	44,031	48,004	53,295	53,860	18,283	-	416	5,856	565	5,291
Iceland	16,624	25,312	28,399	34,563	39,055	42,230	25,606	-	582	7,667	3,175	4,492
China	480	734	1,602	3,886	10,149	13,263	12,783	-	291	9,377	3,114	6,263
Costa Rica	-	-	7,808	9,944	13,155	14,544	6,736	-	281	4,600	1,389	3,211
USA	23,772	29,123	35,726	45,007	48,704	51,592	27,820	-	632	6,585	2,888	3,697
Japan	15,085	20,681	30,656	33,217	35,021	37,068	21,983	-	500	3,851	2,047	1,804
South Africa	-	-	9,572	9,811	12,043	12,182	2,610	-	109	2,371	139	2,232

Source: OECD database, Gross Domestic Product per head (expenditure approach), constant prices, constant PPPs, US Dollar 2010, reference year 2010.

Note: EU states are ranked based on their change for the whole 1971-2015 period. The "entry year" column contains GDP per head at EU/EC entry year and the years of membership during the period (in parentheses), for EU member-states only. In the column "average annual change", EU member-states contain two numbers separated by "/ ". Those without parentheses refer to the whole 1975-2015 period and those in parentheses to the period of EU membership. Missing data for EU28, Costa-Rica & S. Africa. For South Africa, data for 2015 were missing and were replaced by 2014 data. Numbers close to names of countries remind when this country has joined the EU/EC/EEC (EEC-6, EC-9, EU-15 etc). Data are also analysed in Ikonomou (2018).

As if participating at the Eurozone does not bring the same welfare effect as choosing to refrain from it. One cannot ignore here a possible additional explanation that the Scandinavian welfare regime better contributes in improving welfare distribution per capita.

The 1995 enlargement towards the North (for Sweden, Finland and Austria) is the most successful, if one compares the annual change of GDP per head during their membership and the full period studied. The first decade of Eurozone implementation (2001-2011) and the full period of Eurozone membership (2001-2015) are quite successful for these three states that comprise a non-Eurozone member.

The southern EU partners on the contrary, namely Spain, Portugal, Italy and most notably Greece, are the four main states that have lost out of the integration process, in terms of annual change of GDP per head. Clearly, their integration has failed to deliver the same results with those towards the North. It is their contradiction that is the most worrying aspect, given the greatest amounts of funds devoted in southern EU, through the additional consecutive periods of application of EU Cohesion policy before the 1995 enlargement. One could suggest that such results reveal the lack of capacity of EU Cohesion policy to deliver long-term, sustainable growth in southern EU states, given their choice to further integrate by participating at the Eurozone. Or -even worse- the practical weakening of EU Cohesion Policy effects due to the application of common monetary policies, which appear to have harmed these Cohesion economies at the early Eurozone period. A more accurate conclusion should take into account human capital migration from southern to northern EU states that takes place for better job prospects, especially after the Eurozone was put in place. However, dynamic aspects, such as labour and human capital mobility cannot be considered.

Greece has gained only $126 annually since 1981, its joining year, at least ten times less than Luxembourg or Sweden approximately. It has gained only a little less than $1,300 (a period when Luxembourg has gained a little more than $22,000) within its first decade of EU membership, a little less than $5,000 in the 1990s (when Luxembourg gained another $22,000) and has remained almost stagnant during the 2000s. Clearly Greece forms an opposite end from Luxembourg. Its annual change compares only to South Africa's (a state far from participating in advanced common integration efforts). Greece appears to return back in levels of GDP per head before the year it has joined the Eurozone and is a notable case of the most significantly disconnected partner out of the unification process. Every ten years, its stagnation is interrupted by intermissions of $5,000 GDP per head growth. Since 1971, a divergence process takes place against its Eurozone partners that develop faster than Greece in GDP per head terms. These per head figures are expected to deteriorate for Greece if the migration of several hundreds of thousands of domestic unemployed Greeks outside Greece is taken into account.

Greece and Italy are the two states mostly deteriorating ever since the Eurozone was placed in operation (2001-2015). Portugal, Spain and to some extent France, appear to be the cases of states that have gained only but a limited rise in their GDP per head ever since the launch of the common currency. In other words, five member-states that had joined quite early the EC, having integrated more than the rest of EU economies and chosen in 2001 to continue a stage further in their integration efforts, are not finally winning out of their choices, especially in the 2001-2015 period, at least in GDP per head terms. It appears from **Table 3** that in the early period of implementation of the Eurozone, the Northern and Central European (EU and non-EU) states clearly have benefited much more than the Southern Eurozone states, whereas one might expect the opposite to take place for the older member-states. This is emphasized in the 2011-2015 period, when the crisis spreads across Eurozone (again with the exception of Luxembourg and Ireland).

The comparison of the 1971-2015 change for the EU-15 and especially the EU-28 countries against total OECD, Japan or USA highlights a lower growth pace of GDP per head at the common European economy. Furthermore, one can observe that the crisis has hit the Eurozone economies. From 2011 to 2015, the Eurozone states -with the notable exceptions of Luxembourg, Ireland and partially Germany- remained stagnant or even witnessed a fall in GDP per head terms. In GDP per head terms, the wealthier Eurozone states (particularly Luxembourg and Ireland) and the states with their own currency -EU-members or not- have managed to recover in the 2011-2015 period and enhanced their GDP per head. Common monetary policy and currency independency contribute to these results, especially if the cases of Denmark, Sweden, Norway and the UK are taken into consideration. Most Eurozone countries had a 2015-2011 change well below the OECD average and far beyond that of Japan and USA. The results for the Scandinavian countries that maintain their independent currency (Denmark, Sweden, and Norway) might indicate that the Scandinavian welfare regime (with its transfer systems and progressive taxation in operation) is critical for smoothing the post-crisis effects and for faster recovering.

One should also highlight that the three larger in size states, France, Germany and the UK, which have worked substantially to prepare the unification process, its gradual building and significantly contributed in funding EU Cohesion, Common Agricultural Policy and other common policies, are not amongst those benefiting mostly in GDP per capita terms. France's annual change for the 2011-2015 period[12] has fallen well below its annual change for the whole period. Notice for example the growing gap from 2001 to 2015, when Sweden is compared against France in **Table 3**. Some of the explanations may be common, such as the currency policies and the rise of immigration and demographic pressure exercised on them. Others may differ per state, for instance the German unification may explain Germany's performance.

The UK in particular, a non-Eurozone member, has gained less than the other EU-6 countries since 1973, in annual terms (only France gained even less). It was outperformed by: i) Switzerland, a European state that has chosen to refrain from the EU and -similarly to the UK- has focused historically to promote financial services, ii) other non-EU states, such as Norway or Iceland that had managed to achieve better welfare results, while remaining EFTA members and enjoying the benefits of participation in the Single European market (that should have been mostly a privilege for the UK than for them), iii) all former EFTA members included in **Table 3** (with the exception of Portugal), members of the EU/EC or not, iv) Ireland and Denmark, the other two countries that have joined the EC, in the same enlargement with the UK and, last but not least v) most EU states, members of OECD (Eurozone members or not) that had benefited more out of the integration process.

[12] This figure is found if the 2011-2015 change for France is divided by the number of years.

One could realize why the UK is the characteristic type of state considering exiting the EU: despite its pro-European choices, efforts and funds invested, it fails to compare successfully on GDP per capita terms against all other categories of states surrounding it. At the same time, the prospect to insert at a new stage of integration stage by joining the Eurozone is also of limited scope and potential success for the UK, because of the lack of success in Eurozone member-states, Eurozone's incompleteness and its defects (as extensively discussed above), which risk harming even further the large UK economy. Clearly, the UK, a relative looser in comparison to other northern European states that had either joined the EU or not, is trapped in its historical decisions and choices.

8. Conclusions, discussion and final thoughts

The formation of a common monetary union and its post-crisis difficulties and challenges encountered have unveiled a significant gap in integration studies. Even if not yet discussed and agreed in integration studies, it appears that a new stage of integration has arrived that -without doubt- had not been originally identified. A long period is needed before the final integration stage is reached at the European continent, an achievement that relates to impediments and obstacles raised, provisional or more permanent. As different integration stages and various national environments co-exist, it is absolutely necessary to acknowledge between the current and the final integration stage. Even if shared as a dream among EU member-states, full integration of EU national economies was just a fallacy that lied far beyond their initial efforts for monetary unification, and as opposed to what integration theorists might have suggested before.

The adoption of the common currency without few significant elements for the banking, fiscal and political unification needed in place has caused several economic problems that have been intensified with the outburst of the recent financial crisis. Significant aspects at the monetary unification stage were not given ample thought and consideration, such as putting earlier in place macroeconomic stabilizers. The absence of these aspects has revealed a considerable policy vacuum. Having agreed on this point, one risks raising a great controversy by asking which aspects, how and when ought to have been created and placed in operation, to form a safer integration and development path, at an earlier unification and integration phase. On the other hand side, breaking the Union because some part of its building was postponed, bypassed or even totally ignored is not suitable with the long-term, piece-by-piece, building logic, espoused by the vast majority of more than two generations of Europeans that have sacrificed many things for a long period of time, to see Europe and the Europeans united one day. The functional logic of the unification process reminds that the EU needs to address its formation through facing problems and challenges, and combining subsidiarity with both bottom-up and top-down paths and choices that avoid imposing generic solutions.

The present analysis has unveiled two types of states incapable to follow even further this integration deepening process. Firstly, states like Greece that forms the case of a historical loser out of the unification process in GDP per head terms (measured in constant purchasing power parities). It has remained hard in this country to cross some growth and development barriers over the decades, despite its intense efforts to participate in all integration stages and its other sacrifices made. The comparison to other countries from all over the world that had followed individual development paths may not justify much of the country's development choice to join the EC and participate in all consecutive integration stages. Secondly, cases of most advanced states like the UK, whose choices and contribution in the past in promoting common integration and economic goals appear to have brought them limited benefits in GDP per capita terms, throughout the decades of its membership. These states are identified by comparison to other European states that have refrained from such choices and any obligation for contribution but substantially benefited from the unification process.

After the global crisis, it was realized that there was neither an insolvency procedure for bankrupt states in operation nor an exit procedure for states to abandon the monetary union, return at an earlier integration stage or even exit the Union as a whole. The almost simultaneous debates held in EU policy circles and media on the prospect of the two abovementioned countries to exit the Union have influenced the latter, even if these were not similar cases; the discussions held about a country's choice to return a stage back in the integration process were transferred from the case of Greece's exit from the currency zone to the case of UK's exit from its own integration degree, i.e. the Common Market. One could argue that the prospect of "Grexit", a serious problem that concerned the core of the most advanced in integration stage reached, acted as a "sparkle" that brought the "fire" of Brexit, given the marginal democratic decision on the latter. What was an internal problem to the most integrated space (the EMU), which strongly related to political and financial decisions about the common currency and the absence of an available range of policies in place, brought a historical choice that concerned a well-established integration stage -the Common Market- and affected both the most integrated and the whole common space. Although other reasons have influenced the choice to exit the EU, domestic at the UK (and beyond the scope of the present analysis), one cannot neglect that Brexit has arrived after a chain of events took place about the crisis at the Greek economy (of which Brexit was just a final outcome) and that people at the UK were influenced in their choice to remain at the EU from the strictness of solutions imposed at the problematic Greek economy and the management of the Greek crisis by its Eurozone partners. This took place at a quite critical moment of the European integration process; at the aftermath of a global crisis and precisely when several views were expressed that the most advanced form of integration at the unification edifice was at the verge of its collapse, due to its incompleteness or the lack of awareness for its completeness.

Up to that moment, the UK has had a critical contribution across a variety of integration aspects. For instance in the internal market, where it has influenced integration through the formation of legislation and directives for services and the audiovisual media services as well as that of financial services, including a contribution in setting-up the Solvency II Directive, the Alternative Investment Fund Managers Directive (AIFMD), the European market Infrastructure Regulation (EMIR), the Capital Requirements (CDR IV/CRR) and the Markets in Financial Infrastructure Directive and Regulation (MiFID II/MiFIR) (European Parliament, 2018). Similarly, its contribution was critical in setting-up and promoting social policies at the EU but without promoting the harmonization of social protection systems and by slowing down progress in various common social policies (ibid, 2018). Furthermore, having enthusiastically espoused the Single Market, it contributed in setting-up the Eurozone, took early decisions for its operation and financial contributed towards the first bail-out programme, before choosing to opt-out from further contributions, assuming in practice no responsibility (ibid, 2018). Many historical decisions taken by the UK for its own benefit may lead to the conclusion that consecutive UK governments have consistently followed a transactional approach in building the EU edifice (see European Parliament, 2018).

Hence, it is no coincidence that one main reason for extending the discussions on Brexit for long was the precise terms that will bring the UK at an earlier integration degree (that of the Customs Union) and wouldn't force it to abandon privileges currently shared even by countries that did not have the UK's critical contribution in the unification process. Essentially, the two cases of states, UK and Greece, resemble because they have both examined the possibility to resolve their problems by falling only a step behind at the integration ladder.

In a Union that espouses democratic values and is still learning out of this unique in history, man-made, and with mistakes integration process, if circumstantial reasons lead a country at a certain historical period to the harsh -but democratically taken decision- to limit its engagement to the unification path, then the right to disintegrate partially or fully has to be granted, by returning a stage back or exiting the Union respectively. This right could also act as an additional motive to join this Union for those states -such as former EFTA members- that had deliberately chosen to refrain from the unification process, while benefiting at the same time from economies of scale, trade expansion, freedom of capital and labour, as well as numerous other economic and social spillovers of the EU integration process and benefits granted to them by the Union (for example the lack of imposition of same competition rules on their national monopolies that allow them to acquire firms in European states that do not cope with intra-EU competition). Driven by its aim to diffuse the unification ideal across the continent and its tolerance for individual development choices, the EU has never envisaged seriously the prospect to follow an easiest development path, by imposing hard-to-cross, protectionist barriers against European states that had never decided to join. However, such a prospect against the “free-riders” of the integration is not impossible to start taking place, especially after the recent global upsurge of protectionist policies and the post-crisis political and social unrest and turmoil taking place in several European states that is possible to turn to some form of pan-European nationalism.

The EU nation-states are the constituents of the European edifice, forming the organic parts of a supra-national entity. Their preservation, strengthening and enrichment with new elements from other nation-states, and their common patrimonies was one of its primary aims. At the same time, they represent its de-composing units, as the last resort to protect the Union from disorienting and failing to deliver its aims. A union of nation-states has no reason to harm its composing entities or expect their disappearance, e.g. by replacing them with sub-national entities. Besides, the unification ideal is not about fragmentation and the breaking of common space into pieces, national or European but, on the opposite, about uniting the common space.

Turning the EU into a single, independent supra-national “state” -the European- differs from adding two or more states under the same aegis. It is a matter of long-term work, feasibility, management, organization and historical opportunities and choices. It requires theoretical improvements in economics and various disciplines that are employed to organize the integration process and face its challenges, following democratic procedures and choices and taking some critical risks. Each democratic impasse may raise a new range of policies, re-new integration paths or the whole direction or re-engage the European populations in the unification vision. This endogenous, self-processed, self-corrected and organized from within unification has its own value, one that opposes to a view that the formation of the EU is simply derived from external reasons and foreign enemies, in a deterministic manner. It is a peaceful creation where human choice matters, historically, at present and in the near future.

The present research has not investigated the most recent EU enlargement towards the East and its implications. Though it is early for its assessment, it is worth acknowledging that common decisions about this particular enlargement have not acted equally to the benefit of existing member-states. The economies of some member-states have significantly profited in terms of trade and exploited the opportunities for their own industries that have been investing in Eastern economies. However, other less export-oriented economies suffered from the competition of low-priced, low-cost products from new member-states that have penetrated on equal terms in European markets (in agriculture, food, manufacturing or other industries). Such economies have witnessed the removal of their own products out of the European shelves, despite the substantial investments from European businesses -and indirectly from EU citizens- that have funded common EU policies to make these products more competitive. Trade divergence had not been mutually beneficial for all old EU member-states.

To overcome current problems and cope with challenges, the Eurozone member-states, aided by EU authorities, are currently building various institutions and improvising new policies, hitherto neglected. The breadth and energy of this institutional and policy-building process reminds of the period that has culminated in the formation of EEC; it is hard to find another parallel if compared to earlier unification periods. Such major amendments and additions to the common edifice should be based on the sound logic of economic theory, such as the IS-LM framework employed here. Even though criticised by more recent developments in economic theory, the IS-LM framework could be used to explain that solutions are not common for every single state at the Eurozone, since every state is not at the same position. When common currency policies focus on the macroeconomic consensus, the most advanced states are expected to benefit more from raising money supply (while disengaging from restrictive common fiscal policy is not useful for them) but less advanced states can profit from raising expenditure and limiting restrictive fiscal policy in the short-run. In the latter case, such a policy may have a limited success in those economies like Greece, which have been subject to long-term fiscal restrictions (due to its extended domestic borrowing). Having suffered from two consecutive financial crises, substantial shrinking and the entering in a (Keynesian) liquidity trap, it could harm the common economy.

In such cases, the application of common production and supply-side policies could be promoted as a valid development option and path to take. These policies could be of common character, scope and interest (for the currency zone and even more broadly), possibly leading to what could be termed as a *common production union*, a common policy currently missing from the EU policy agenda. Instead of investing in factories and production in non-EU states, the Eurozone partners could decide to offer incentives for allocating sufficient investments in places diverging the most, where unit labour costs have already improved; in such places, high added-value products can be manufactured in existing or infant industries, for the common EU benefit and use, bringing stabilizing effects for the common economy.

One could listen behind the doors that had shut with Brexit, the sound of a bell that tolls for Europe as a whole. It comes from a nation-state that has worked hard to promote European unionization, whose economy has been trapped, in many respects. Unable to integrate further by joining the monetary union, it has not delivered the appropriate economic growth and development results that would fulfill the expectations of its citizens over the decades of its own integration choices. This is the first separatist move against the current type of hybrid federation and co-federation formed among EU states.

Sufficient time is needed to decide which unification paths to embrace and which to challenge. Tangible financial and welfare results help to espouse integration deepening and on-going amendments towards EU enlargements. Since states have deliberately chosen to leave behind their national isolation and follow common development paths, forming a common production union could advance economic convergence, avoid the strong differential impact of common economic, social or other policies upon some states, as well as offer some precious time in the present stage of integration and its deepening.

The EU nation-states should better emulate and participate in the common family of nation-states on equal terms, within a spirit of co-operation and competition. Instead of pursuing a model of rivalry among national economies and national businesses, more association and collaboration is needed among EU interests. The EU and its national authorities could lay down a new building material at the top of existing foundations of the European edifice that have been created throughout the unification process based on economic, political, international, social, cultural and other theory, by using the existing "clay" that relates to the geography and history of nations, their social, economic, political, cultural and other features, their different customs, traditions, ethos and the elements of a common civilisation. A new vision for Europe can start exactly at a point when improving integration results and long-term economic development efforts is required. Large-scale investments in common supply-side policies and European projects of long-term character are needed that will forge EU interests and unite the Europeans further, in states that have significantly lost out of the operation of the common currency and suffered from long-term development problems. At the aftermath of two consecutive crises and the dawn of a new stage for the common integrated space, substantial new solutions have to be provided in states suffering mostly from entering a liquidity trap, from the inefficacy of monetary and fiscal restrictive policies and the harmful early operation of the common currency zone that have acted against their convergence. Since in less advanced states, economic development has been acknowledged to arrive in stages (in Rostow's or other stages), their new development stage has to be advanced, which will inaugurate a new era for the European unification, provided that their administration can cope with it.

The unification process has taken a long time and great interdisciplinary efforts to reach its current state. Substantial institutional, political, economic, social, cultural and other foundations had to be conceived, planned, placed in operation and corrected. The application of many economic theories and their improvements had to pave the way before a sufficient level of integration and economic development is reached at the European continent. All these new foundations were layered at the top of existing economic, social, political, cultural and other foundations of the nation-states. Before their use and employment, the common edifice was rather incomplete and unsustainable.

A small piece of the efforts taken to build the European Union at its current form has been described here, since the unification process is still in train and its greatest part is expected to arrive in future. These are necessary to be considered in other places of the world that wish to follow similar unification processes or development paths. The time lost in Europe has to be regained and significant steps should be taken to create new avenues for the expression of common European values and civilization, which both lie at the background of all efforts that unite the Europeans.

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