

## ON THE WAY TO EMU 2.0

**Péter Halmai**

**Deepintegration**

**Economics of the Economic and Monetary Union**

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When reading the international literature on European integration, one finds an almost total lack of economists of the academic sphere while analyses by political scientists or jurists take a dominant role. That is why this monograph by Péter Halmai is particularly important as it offers an economic analysis of the Economic and Monetary Union (EMU), the most developed constituent of economic integration in the European Union. At the same time, however, the study of the EMU is carried out in a wider context of integration, providing an overview of the theory of economic integration and its implications in real economy.

First, the author discusses the current status and results of international economics, with particular emphasis on trade theory built on a careful analysis of a wide range of relevant literature. The key idea of the book stems from this, namely, the concept of 'deep trade integration' going beyond traditional regional constructs to cover more areas and regulatory instruments can be further developed for European integration. The author claims that the concept of 'deepintegration' (one word in this context) applied to the EU can provide a novel interpretive framework for the European integration. In this framework it is shown that beyond trade relations the mechanisms of integration are expanded to impact production factors, i.e. the flow of capital and labour and the development of production networks and value chains. The evolution of deepintegration is accompanied by dynamic effects such as more intensive competition, the selection of productive enterprises and the impact of innovation. The dynamism of processes is a driving force towards monetary union and supranational structures. The advantages of EU membership are presented through the example of the British economy.

Although integration clearly results in trade and welfare benefits, a closer integration can only be achieved through a properly homogeneous system. Homogeneity

is defined by nominal and real convergence as well as responsiveness, i.e. resilience. Because of the differences between the countries involved, deepintegration consists of core integration and peripheral integration, the different integration models of the member states. Deepening, ever closer integration is achieved in core integration.

Before the analysis of the actual operation of EMU, an insight is given into the theory of the optimal currency area and how much the criteria of an optimal currency area are met or fail to be met in the case of European integration. The author uses the term EMU 1.0 for the EMU established in the Maastricht Treaty and presents its structure with its inherent contradictions. The potential contradictions stemming from a common monetary policy while fiscal policy remained in national competence have been evident since the beginning. These problems then occurred in reality. It was the 2008 global crisis in particular that manifested the structural problems of the EU economies in addition to monetary and economic policy conflicts. It has driven the author to review the operation of the convergence mechanism and resilience within the monetary integration.

As the problems are revealed, a descriptive analysis leads the author to the normative formulation of actions and the necessary reforms to be taken, which the author jointly describes by the term EMU 2.0. Significant reforms accompanied by several institutional changes are needed both from the side of monetary and fiscal policy to make a progress. The complexity of the necessary changes described in detail is a great challenge for integration, and the author makes several references to the limitations or potential traps. Such considerations drive him to include political economy in his analysis relying on the findings of political sciences. According to these findings, the different degrees of integration of policies (there are several degrees of inter-governmental coordination and supra-national centralisation) as well as the differences of the countries participating in certain policies can be explained by the different degrees of mutual dependence and the part played by politicization in a given field. In the applied analytical framework Péter Halmai deems differentiated integration a transitional pragmatic solution, which is the second best option compared to core integration.

At the end of the book he considers that economic irrationality may become reality. At the time when the manuscript went into print, the occurrence of Brexit was a fact but how it was actually going to be implemented was unknown, so different scenarios could be envisaged. According to the reasoning of the book, despite the disintegration following Brexit, the other member states of the EU are most likely to continue developing within the framework of deepintegration with regard to the overwhelming forces in its mechanisms described.

It is not difficult to predict that the book by Péter Halmai will be fundamental when doing research on, and teaching about the European integration. On the

one hand, it is a creative synthesis of the knowledge in international literature, on the other hand, it is its interpretation within the framework of a new paradigm. The book was born at an exciting time, as the economic crisis triggered by the current pandemic is an opportunity for the EU to diverge from a dependent historic path dependency in motion significant changes. It is also an opportunity for its readers to test the working of the deepintegration paradigm.

*Beáta Farkas*