



Trans European Policy Studies Association

TEPSA BRIEFS

AUGUST 2021

Disequilibrium between Economic and Political integration: post-crisis challenges for the EU

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Abstract

This brief aims to explain that COVID-19 is the most recent obstacle to further the political integration of the EU. In fact, economic integration has been quite successful, but not political integration, a situation that leads to a disequilibrium between the two social organizations. Economic and political organizations have existed in all human societies based on an equilibrium between the two social organizations. This brief tries to explain why the EU has not been able to achieve a better equilibrium.

Introduction

All human societies, from nomad groups to the first sedentary settlements, the polis, ancient empires, medieval cities, and most recently the national state since the 15th century, have developed an economic organization that establishes what resources must be produced,

and how they must be distributed to the population, as well as a political organization that establishes norms, rewards and punishments, for those members of the population that do or do not comply to the rules regarding production and distribution of resources¹.

Human societies have always maintained relations of cooperation and conflict due to their survival need to have access and control over resources. In modern times, due to increasing trade and industrialization, the national state has been the main international actor, as it was the holder of both the economic and the political organizations. After World War Two the world was divided into two great spheres of influence and power, a bipolar system led by the US and other western European countries, and the USSR and other communist countries. At that time, in the western world, characterized by free market economy and parliamentary democracy, economic organization began to grow beyond the limits of the national state (multinational firms increased in number and scope).

¹ Hawley, A.H. (1986): Human Ecology: A Theoretical Essay. Chicago: The University of Chicago Press

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However, political organization continued based on the national state itself, producing a disequilibrium which has continued despite some attempts to produce equivalent supra national political organizations (United Nations, NATO, NAFTA, etc.). Consequently, there is now a rather globalized economic-financial power at the supranational level, but political power is fragmented into more than 200 “sovereign” countries in the world. Traditional equilibrium between economic power and political power is now broken because global financial capitalism has no counterpart in a global political power. The result is that global financial capitalism conflicts with norms and regulations that national states try to enforce on them as well as with national capitalism, which tends to be linked to the national states themselves.

This scenery is repeated in the EU, so that its economic integration is more global, while political integration is limited by the persisting power of national states. The EU was also a response to the new world situation. Its goal since its birth in 1956 was to eliminate the main economic reasons for the two World Wars. To that effect, a treaty between France and Germany over the coal and steel resources (The European Coal and Steel Community) was established in Rome, to which four other countries joined: Belgium, The Netherlands, Luxembourg, and Italy. The ECSC developed later to become the EEC, and finally to the EU, with the Maastricht treaty, signed in 1992, with the main aim of creating economic and political integration of its members, through three pillars. However, while economic integration has been quite successful, political integration (pillars two and three) have encountered many internal and external obstacles.

The fall of the Berlin Wall in 1989, followed by the disintegration of the Soviet Union,

produced the end of the previous bipolar system, which prevailed in the rest of the 20th century and provided a certain unstable equilibrium that prevented major conflicts like the two previous World Wars. During the bipolar world order, capitalism had to distribute wealth better, to avoid proletarian revolutions (instigated from the other world power), and that resulted in the growth of the welfare state and of middle classes². The end of the bipolar world order has been accompanied by less welfare state, less middle classes, more social and economic inequalities³, and more social conflicts in developed societies. And it is not clear if the world is heading towards a new bipolar or multipolar system. It will be argued below that events that followed the end of the bipolar world system may have negative effects on the advancement of political and possibly economic integration of the EU.

Strong economic integration and weak political integration in the European Union

It is widely accepted that the integration of the EU as a supranational entity reached a milestone in Maastricht (effective from 1993). Firstly, the Treaty meant a remarkably high economic integration, mainly due to the adoption of the euro as the EU currency. Secondly, the plans for implementation of pillars two (common foreign and security policy), and three (police and judicial cooperation in criminal matters) encouraged high expectations about an accelerated political integration in the near future.

Facts have differed from predictions. The EU relies on the US through NATO for its international security, while a full European Armed Forces has never been accomplished.

² Inglehart, R.D. (1997): *Modernization and Post modernization*. Princeton: Princeton University Press.

³ Piketty, T. (2019): *Capital et idéologie*. Paris : Editions du Seuil.

Some international conflicts in the Balkans or in the MENA region demonstrate that security is not fully in the hands of the EU, but rather stays firmly with the US. As for foreign policy, the EU is quite dependent on the one of the US and, to a great extent, of the UK, now that it has left the EU. EU's foreign policy towards Turkey, Russia, and China seems to support this statement⁴.

Regarding the third pillar, Europol and the European extradition order are the main institutional advances, but many examples seem to demonstrate that national institutions are reluctant to give up their powers, more so with respect to judicial matters.

Other events have been obstacles to the high expectations of integration set after Maastricht. Conflicts in the MENA region affected the supply of oil and gas for EU countries, the rapid growth of Member States (13 since 2004)⁵, the emergence of China as a world power, the withdrawal of the US from Europe, and other changes in the world power equilibrium, have delayed the political integration process envisaged at Maastricht.

The financial crisis of 2008, originated in the US, had a major impact in EU countries and it almost produced its break down through the exclusion of some Southern Member States (especially Greece, and less so Italy, Portugal, and Spain). Then came Brexit, the growing migration flows from the MENA region and Africa, and finally the pandemic, creating a sanitary and economic crisis for which governments were not prepared.

Global financial capitalism and the European Union

⁴ Borrell-Fontelles, J. (2021): European foreign policy in times of Covid-19. Luxembourg: Publications, Office of the European Union

⁵ 10 from the former USSR: 8 in 2004 and 2 in 2007, plus Cyprus and Malta in 2004 and Croatia in 2013.

If one accepts the hypothesis that Western financial capitalism is a global power in this part of the world, while political power is fragmented among many different national states, it seems natural to accept that conflict might arise between the hegemonic global financial power and the many diverse national powers. This is not a unique event in history. The emergence of national states in Europe since the 15th century is a good example of conflicts between previous independent kingdoms or political units and the emerging national states. As a matter of fact, this has been the process since the primitive tribes of people, the hunters, and gatherers, to the many varieties of political-economic units, from towns to cities, regions, empires, etc. This process may be called "the expansion of social systems".⁶ At any level there may be found a strong relationship between economic and political organization. History supports the theory of expansion of social systems, in that economic integration seems to be a prerequisite to political integration. The reverse does not seem to be true. But, if the time gap between economic and political integration is too long, economic integration may break apart again.

At present, there is a huge global and growing financial-economic power in the Western part of the world that rejects or ignore limitations and regulations established by national states to their activities. It seems only natural that this global financial-economic organization would prefer many weak political units to deal with than larger and more powerful ones and that, consequently, it would benefit from the fragmentation of present national states into even smaller ones (as has happened with the Soviet Union and former Yugoslavia, to cite two examples). In the case of the EU, this

⁶ Díez-Nicolas, J. (2018): La Globalización: El proceso de expansión de los sistemas sociales. Madrid: Real Academia de Ciencias Morales y Políticas.

would even result in its weakening and/or destruction.

The alternative for the emerging global financial-economic power at the end of the 20th century was either to establish a parallel global power in the western world, under its rule, or to reduce the power of national states. To complicate things for the emerging global financial power, a new political and financial power developed much more rapidly than expected, China, which had developed a new model of organization, combining capitalism (free market economy) with an authoritarian (or dictatorial) political organization. This is how the two conflicts confronting the Western global financial power appeared, one within the Western world (global financial capitalism vs. national capitalism and the national state), and a second one with the Eastern world, represented by China and its growing sphere of influence (Western financial capitalism vs. China's state financial capitalism).

The 2008 financial crisis almost broke apart the European Union, and it increased dramatically economic and social inequalities in most Western countries, including the US and UK. When Obama tried to put some limits and regulations to the global financial power, he could not.⁷ That is when it became obvious that the Western global financial power rested more on the agreement between Wall Street and The City, than in the agreement between the White House and Downing Street.

The European Union, as a very restricted economic power when it was established in 1956, did not represent a competitor for the emerging multinational financial-economic power during the '70s and '80s, mainly

because of the bipolar system. But the fall of the Berlin wall left only one power, the US, and the EU, an emerging and growing political power, now with its own currency competing with the US dollar, and with a low but promising political integration.

The Covid-19 pandemic, populism, and globalization

COVID-19 has produced a much larger sanitary and economic crisis than the 2008 financial crisis.⁸ It has increased social and economic inequalities in all countries, especially in the more developed ones, and it has led to populists' movements based on a right or left ideology all over the world.⁹ One of the two great powers in this part of the world, the US, has been the recent battlefield for the confrontation of global capitalism with local, national capitalism, and consequently with the national state or any other powerful political organization. Leaving apart his personal characteristics, and without sharing or justifying his policies and decisions, it seems reasonable to accept that Trump represented national capitalist interests, to fight unemployment derived from relocation of business abroad and illegal immigration. In that sense, he was probably a leader of a populist national capitalism in the US. In any case, he lost and the present Biden Administration seems to be more in favour of global financial capitalism.

The pandemic has had many consequences that still threaten the future of the European Union, not only directly by delaying its political integration, but also indirectly, by creating

⁷ Greenwald G. (2013): The Untouchables: How the Obama administration protected Wall Street from prosecutions.

<https://www.theguardian.com/commentisfree/2013/jan/23/untouchables-wall-street-prosecutions-obama>.

⁸ De Vet, J.M., D. Nigohosyan, J. Núñez Ferrer, A.C. Gross, S. Kuehl, and M. Flickenschild

(2021): Impacts of the COVID-19 pandemic on EU industries. Luxembourg: European Parliament.

⁹ Norris, P. and R. Inglehart (2019): Cultural Backlash: Trump, Brexit, Authoritarian Populism. Cambridge: Cambridge University Press.

problems to its present economic integration. Among the new threats to political integration in the EU, due to the pandemic, one must cite the obstacle to internal relations within the EU, not only within each member country, but between countries. Free movement of persons, goods and services have been restricted because of COVID-19. Borders have reappeared. The rise of social and economic inequalities resulting from reduction of economic activities have exacerbated all kinds of social conflicts, based on more conservative or more progressive ideologies, which have led to distrust and confrontations on ideological grounds among member countries. The longer the pandemic lasts, the more numerous and stronger consequences it will have on the political and economic integration of the EU.

The European Union has also been an important obstacle to Western global financial capitalism. During the past year, besides the pandemic, the big issue in the European Union has been the confrontation with the giants of the new communication technologies. The problem has been where to have them pay taxes (in national states where they do business, or in more lenient fiscal paradises). Very recently an agreement was taken in the G7 to tax 15% to technological companies in countries where they do business. The agreement has been confirmed by the G20.

The rapid and strong reaction of the EU to help financially its member states, in a magnitude never seen before, seems to be a sign that it knows that not reacting might lead to the weakening and potential breaking of the Union in smaller and weaker political organizations, much easier to negotiate with and control than a strong supranational political organization. The alternative could be, as apparently has been the case in the US, that the global financial power might get control of the political power in the EU.

Conclusion

Facts seem to show that, at the European Union level, similarly to the world level, economic organization has developed faster than political organization, to the point that economic organization is becoming more and more globalized, while political organization remains more local, linked to the national state. The 2008 financial crisis almost broke the European Union through some of its weaker member countries (mainly in Southern Europe), and the present COVID-19 pandemic crisis has implied even stronger threats, though this time the EU has responded more rapidly and strongly through financial aid to its member countries. However, the negative consequences of the pandemic are more than economic or financial. It seems adequate to conclude that the best way to protect and improve economic integration in the EU is to develop a more rapid and strong political integration, requiring a strong will on the part of its member countries.

What happens in the near future in the EU will favour or hamper political globalization in the world, or at least, in the Western world and vice versa. Will Western financial globalization slow down or even step back because of populist movements? Will it be able to impose itself to the US and the EU, to form a homogenous block to confront China? Will the EU succeed in a stronger political integration? Will the EU take the defence of national capitalism against global financial capitalism? Will the EU reach an agreement with Russia, with the MENA region or with Latin America, to become a strong third party between China and Western global financial capitalism? Will China and Western global capitalism make a

new Yalta agreement to establish world
regions of influence for each?^{10 11}

¹⁰ Institute for Economics and Peace (2020):
Covid-19 and Peace. Sidney:
[https://www.economicsandpeace.org/wp-
content/uploads/2020/08/COVID19-and-
Peaceweb.pdf](https://www.economicsandpeace.org/wp-content/uploads/2020/08/COVID19-and-Peaceweb.pdf), June.

¹¹ Schwab, K. and T. Malleret (2020): Covid-19:
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Co-funded by the
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of the European Union



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