IMT School for Advanced Studies, Lucca

Lucca, Italy

Essays on Economic Security and the European Union: Theory, Origins, Development and Performance

PhD Program in Institutions, Politics and Policies XXVII Cycle

By

Monika Kokštaitė

2017

The dissertation of Monika Kokštaitė is approved.

Program Coordinator: Prof. Dr. Giovanni Orsina, LUISS

Supervisor: Prof. Dr. Leonardo Morlino, LUISS

Dr. Domenico Bruni, IMT School for Advanced Studies, Lucca

Co-supervisor: Dr. Magdalena Sapała, The Institute for European Studies, VUB, Belgium (currently European Parliamentary Research Services) (2014-2015)

The dissertation of Monika Kokštaitė has been reviewed by:

Dr. Dalia Kaupelytė-Kolmatsui, Vytautas Magnus University, Lithuania

Dr. Marton Varju, MTA TK Centre for Social Sciences, Hungary

IMT School for Advanced Studies, Lucca

2017

To Mano Mylimiesiems

Contents

List of Figures

Acknowledgements

I want to thank my supervisor prof. Leonardo Morlino for his supervision, guidance and support. I am grateful to my co-advisors (co-supervisors) Bruno Domenico, Morgan Hunt Llewellyn and Magdalena Sapała for their time, stimulation and commentary on my work and academic and professional career in Lucca and Brussels respectively. I am very thankful to my referees – Dalia Kaupelytė-Kolmatsui and Marton Varju, who spared time and effort for reading, commenting and suggesting, how to improve.

My thanks are also extended to professors, who have been visiting and teaching at IMT LUCCA in these years, namely, Antonio Masala, Lucia Bonfreschi, Maria Elena Cavallaro, Giovanni Orsina, Sergio Fabbrini, Bruno Dente, Stefano Gattei, Federica Bicchi, Daniela Piana. Especially, my gratitude is extended to professors, who contributed to the development of my project, as Vladislav Zubok, James Melton, Sergio Fabbrini, Susan Stoke, Andrea Vindigni, Steven Pincus, Gabriel Katz and Peter Stoett. Those precious hours dedicated to discuss my work meant and they still mean a lot to me.

I owe thanks to the Institute for European Studies Institute at Vrije Universiteit Brussel, Jean Monnet Centre of Excellence, and EDGE for hosting me for almost two years. My special thanks are dedicated to all my IES and VUB colleagues, but especially, to Sebastian Oberthuer, Harri Kalimo, Jamal Shahin, Dariusz Kloza, Florian Rabitz, Eugenio Mantovani, Lisanne Groen, Ernesto Roessing, Ferran Davesa and others for sharing their time and effort together in academic discussions, presentations and research. I am very grateful for Dariusz for his belief and trust in me, which resulted in my significant involvement and management of various H2020 projects, which experience I value immensely.

During these 6 years of writing, I have had a lot of amazing opportunities to discuss my research and learn a lot from others. Jerusalem Economic Theory School, Ronald Coase Institutional Analysis Workshop in China, Theseus

Workshop in Paris, Executive Training in Florence, Regional Seminar for excellence in teaching in Moldova and many others. These great schools, seminars, workshops and trainings every time inspired and motivated me to go further. Professors, like Eric Maskin, Emmanuel Farhi, Aleh Tsyvinski, Ilya Segal, Kenneth Arrow, Colin Xu, Philip Keefer, Maros Servatka, John Nye, Marc Law, Sebastian Galiani, Gary Libecap opened completely different doors to economics and science in general. The classmates of schools, as Enareta Kurtbegu, Kirill Borusyak, Owen Zidar, Aniko Öry, Nicolas Werquin, Lukasz Marc, Natalya Naumenko, Egor Malkov, and others continue inspiring and stimulate my zest for economics and research.

The times in Lucca would not have been the same if not amazing IMT community. Michael Rochlitz I owe the introduction to institutional economics, Ida Caiazza for Italian culture and language courses and Daniella Giorgetti, Sara Olson and IMT staff for everything else Omar Doria, Rodrigo Lopez, Michele Stawowy, Gabrielė Anskaitytė, Srdjan Milosevic, Alberto Guigianni, Rafael Uriarte, Tomislav Bacek, it would not have been the same without you.. Anastasia Felcher will always have a special place in my heart for these years.

Professional environment would not have been the same in the European Commission, if not Ramūnas Kuncaitis, Helene-Diane Dage, Anna Danti. Apostolos Ioakimidis and Marko Curavic. Your support and presence has been very important to me. For everis, and especially Miguel Angel Gomez Zotano, I owe thanks for understanding and flexibility in managing PhD, professional and academic aspirations.

In this long and a difficult process, I would not have gone far without my closest and the most beloved ones. My parents - Viktorija and Dailius – deserved the biggest gratitude, and my sisters Ramunė and Ieva too. Their unconditional support during this time was very much important, my friends' – too. Šmikis' constant curiosity and warmth in those cold writing days in Vilnius cannot be forgotten, and for Ludwig I owe for positive attitude and everything else during the past years.

Last, but not least, I would like to thank everyone who directly or indirectly influenced and contributed to my completion of this dissertation.

Vita

April 17, 1987	Born, Vilnius, Lithuania
2010	Bachelor Degree in Political Science Institute for International Relations and Political Science Final mark 10/10, The best thesis Award Vilnius University, Lithuania
2011	International Relations and European Studies Master of Arts with Merit The Department of International Relations and European Studies Central European University (The University of the State of New York) Budapest, Hungary
2012-2016	PhD Candidate in Institutions, Politics and Policies IMT Institute for Advanced Studies Lucca Lucca, Italy
2014-2015	Visiting Researcher/Research Fellow The Institute for European Studies, Jean Monnet Centre of Excellence Vrije Univesiteit Brussel Brussels, Belgium
2015-2016	European Commission Directorate General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) The Executive Agency for Small and Medium-Sized Enterprises (EASME)
2016-2017	Project Manager and Senior Consultant for Public Sector/European Institutions at NTT DATA Company, everis Benelux

Publications

1. Monika Kokstaite, ""Putinelis" and "Batka" – energy, security and economic challenges for Poland and Lithuania" (in Polish), *Pressje*, No. 22-23, Poland 2010.
2. Monika Kokstaite, "The EU as A Provider of Economic Security for Small States – The Case of Latvia, Lithuania and Iceland", *CEU Press,* Hungary, 2011.
3. Monika Kokstaite, "In Search for Four Roads to Regionalism," in *Politics and Governance*, No. 1, Vol. 2, pp. 45-6, 2014, ISSN: 2183-2463.
4. Monika Kokstaite, "In Search for a Politics, Economy and Society after the Crisis," *CEU Political Science Journal*, Vol. 9, pp. 281-3, 2014, ISSN: 1818-7668.
5. Monika Kokstaite, John Heppe and Cedric Genin, "Study on the Use of Electronic Identification (eID) for the European Citizens' Initiative", *European Commission*, September 2017.
6. Monika Kokstaite, John Heppe and Cedric Genin, "Study on Online Collection Systems and Technical Specifications pursuant to ECI Regulation 211/2011 and Implementing Regulation 1179/2011", *European Commission*, September 2017.
7. Monika Kokstaite, "Lithuania's energy transition at crossroads", *Energy Transition, Heinrich Boll Foundation,* September 2017.

Presentations

1. Monika Kokstaite, "The Economic Security of Latvia and Lithuania: Before and After 2008 Financial Crisis" in the Conference "Crisis: Interruptions, Reactions and Continuities in Central and Eastern Europe", *The European Institute and Royal istorical Society, UCL*, , London, United Kingdom, 15-17 February 2012.
2. Monika Kokstaite, "The Impact of 2008 Economic Crisis on Democracy in the EU", the IBASEES and ICCEES organized European Congress "Europe: Crisis and Renewal", *Cambridge*, United Kingdom, 5-8 April 2013.
3. Monika Kokstaite, "The Impact of 2008 Economic Crisis on Democracy in the EU", *Inter-University Centre Dubrovnik*, Dubrovnik, Croatia, 22-27 September 2013.
4. Monika Kokstaite "Ethnic Division and Public Goods: The Case of Lithuania", in the Ronald Coase Institute Institutional Analysis Workshop, *Xiamen University*, Xiamen, China, 8-14 December 2013.
5. Monika Kokstaite, "Economic Inequalities", Berlin Demography Forum, *ESTM European School of Management and Technology*, Berlin, Germany, 9-11 April 2014.
6. Monika Kokstaite, "To Be or Not to Be: The Baltic States in Transition" at *Faculty of Law, University of Zagreb*, Zagreb, Croatia, 5 May 2014.
7. Monika Kokstaite, "Post-crisis EU Economic Governance: No Room for National Interest?" at the *Hungarian Academy of Sciences, the Centre for Social Studies*, Budapest, Hungary, 3-4 July 2014.
8. Monika Kokstaite, "The New Economic Governance and the Future of the EU", at Theseus PhD Workshop "The EU after the Crisis" at *Sciences Po*, Paris, France, 16-18 October 2014.
9. Monika Kokstaite, "New Economic Governance and the Future of the EU" and "New

Economic Governance and National Interest", 10th Research Working Lunch, *The Institute for European Studies, Vrije Universiteit Brussel*, Brussels, Belgium, 30 September 2014.

10. Monika Kokstaite, "National Economic Policies as a Response to the New EU Economic Governance", prepared for 45th Annual Conference "Exchanging Ideas on Europe", *UACES*, 2015.

Abstract

This thesis encompasses three different aspects of economic security – theory, history and practice and their inter-connection. Economic security has been a contested concept, but its importance and usage has been increasing. 2008 Economic crisis and following ramifications invoked a new wave of concerns about economic part of national security. This thesis investigates economic security mechanism, revises conceptualization and operationalization for the framework of analysis. In order to understand exact economic security *modus operandi* institutions are the main target of investigation. As economic security concept is applied from individual to states, this thesis goes step further and explores its application to the regional economic integration framework. Historical analysis, following the created conceptual framework of economic security, portrays the environment, patterns and rationale behind creation of European Union (former European Economic Community) and how economic security has been envisaged as one of the main priorities and the purpose of the created and developed integration framework.

Institutions have been playing the main role in the creation and development of European Union. Extensive political economy literature provides multifaceted insights into the importance of institutions, and how institutions and institutional frameworks affect the implementation of political and economic systems. Economic liberalism and democracies have been for long the main standard operating system. Created regional integration institutional framework – from free trade area to economic union in Europe – currently the European Union is one of the most institutionalized frameworks and as such is the best unit for the analysis. The development of the European Union was based on the inception of both political and economic institutions on top of existing its member states' systems.

This thesis also shows how institutions and the development can change the states' performance in globalized world. The units – countries' operation in economic globalization seemed to be predefined by the hardware – physical capacity like land, population and others, which, was perceived, do not change significantly over time and simultaneously obstruct the countries' performance. The study reveals that operation of the hardware strongly depends on the software – systems and institutions. As vulnerabilities stem from physical base, achieved resilience – either as capacity to counteract or absorb exogenous shock – is the result of institutions and policies in place. The investigation of the effects of European Union on its member states' economic security comes at the time, when the whole Union is in question, showing that states' performance is very much related to created institutions.

Chapter 1

Introduction

Economic security or economic content of national security has been a focal point in security and political economy studies for long. This issue has been especially apparent for smaller states, defined by their cramped capacity to overcome the issues of subordination. The hey-day of economic security and the studies on the outwards and inwards solutions for reducing the outcomes of structural constraints came in the 1980s[1]. The concentration on economic interdependence and development problems[2], typically representing state's survival issues, in small states studies coincided with emergence of economic security as a separate academic field of security studies, even if one can perceive it as such up to now.

---

[1] See Barry Buzan, Håkan Wiberg, Peter J. Katzenstein, Christine Ingebritsen et al., and other works indicated in chapter 2.

[2] See Colin Clark, and Tony Payne, *Politics, Security and Development in Small States* (London: Allen/Unwin, 1987); Michael Handel, *Weak States in the International System* (London: Frank Cass, 1981), 220-229; Håkan Wiberg, "The Security of Small Nations: Challenges and Defences". *Journal of Peace Research*, 24:4 (1987): 339-363; Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985).

The period marked the culmination of numerous transformations in the international relations. Changing economy and economic relations have been accelerating the global economy, and increasing globalization and interconnection. Changing technologies have been bringing the ideas of democracy and independence even to the furthest parts of the globe. The appearance of new states and new forms of government have been driving the wave of unprecedented changes worldwide.

Academic scholarship has been catching up with cardinal changes in the World. Buzan's sectorisation model[3] reaffirmed the metamorphosis in the security studies and suggested to perceive economic security as a separate field of security studies. The economic content of security[4] was already a topic in the literature, but Buzan's conceptual and influential work on the national security problems provided a fruitful background for an intensified and structured discussion.

Regardless theoretical development of the field, economic security and it related issues have been already on top of the agenda for small states since 18th Century. Small states' security directly depended on the physical states' capacity, which was eventually directly represented by the economic powerhouse of states. The scholars,

---

[3] Barry Buzan, *People, States and Fear* (2nd ed.) (New York: Harvester Wheatsheaf, 1991).

[4] Charles L. Schultze, "The Economic Content of National Security Policy". *Foreign Affairs*, 51:3 (1973): 522-540; K. Knorr and F. N. Trager (eds), *Economic Issues and National Security* (Kansas: University Press of Kansas, 1977); Frans A. M. Alting von Geusau and Jacques Pelkmans (ed.), *National Economic Security: Perceptions, Threats and Policies* (Tilburg: John F. Kennedy Institute, 1982); Giacomo Luciani, "The Economic Content of Security". *The Journal of Public Policy*, 8:2 (1988): 151-173.

analysing the small states' capacity to withstand subordination for bigger powers, were indirectly addressing also the small states' economic security[5]. The process of integration, which was reaching the highest speed after the end of the Second World War, especially on the regional level, was also about maximizing the welfare and the benefits of mass economy on the larger scale, affecting the contemporary discussion on economic security and providing citizen-centric approach. The exceptional European integration level, its relative success and the proceeding enlargement waves spurred even higher scholarship attention to the cooperation frameworks, which were perceived as significantly affecting cooperating countries, especially, smaller ones' economic security and it related issues.

Membership benefits of these integration and cooperation frameworks have been also the main target and interest point of research. The following appearance of newly independent countries and the European Union's enlargement have been tracked by a new wave of scholarly works, analysing the effects of the EU's

[5] United Nations Development Programme, *Human Development Report 1994* (New York: Oxford Development Press, 1994); Commonwealth Advisory Group, *A Future for Small States: Overcoming Vulnerability* (London: Commonwealth Secretariat, 1997); Isabella Bakker and Stephen Gill, eds. *Power, Production and Social Reproduction: Human In/Security in the Global Political Economy* (New York: Palgrave Macmillan, 2003); L. Briguglio and E. J. Kisanga, eds. *Economic Vulnerability and Resilience of Small States* (Malta: Islands and Small States Institute of the University of Malta; London: Commonwealth Secretariat, 2004); Shahrbanou Tadjbakhsh & Anuradha M. Chenoy, *Human Security: Concepts and Implications* (London & New York: Routledge, 2007); Lino Briguglio, Gordon Cordina, Nadia Farrugia and Stephanie Vella, "Economic Vulnerability and Resilience: Concepts and Measurements". *Oxford Development Studies*, 37: 3 (2009): 229-247; United Nations Development Programme, *Human Development Report 2010* (New York: Palgrave Macmillan, 2010).

membership for small states[6]. However, economic security aspects have been rarely touched, and, even if so, only on the surface. Most of the literature highlighted that membership in the European Union brings democracy, economic growth, certain level of security, stability, and the most discussed and famous EU funds.

Indeed, as numerous integration theories point, countries start cooperation because of positive ramifications, such as intensified trade or lower barriers leading to higher economic growth. In the case of the EU, which is perceived as one of the most successful economic integration frameworks, the provision of socio-economic goods for its member states is seen as the most valuable aspect of the membership. In the case of small states, the EU appears as a possible solution to overcoming their main vulnerability – smallness – in terms of economic security.

The main purpose of this thesis is to provide a complete perspective on the operation of economic security within the European Union, or in other words, how does the EU work as a promoter of economic security to its member states. In principle, to join the Europeanisation studies top-down approach to understand, what is the domestic impact of the EU. Buzan observes[7], that EU's characteristics correspond very closely to the ones of the national state, for this reason the same concept and methodology could be applied for analysing both – the EU and its member states' performance in the area. This could not be the case of comparing economic security of a

[6] See Roderick Pace, "Malta and EU Membership: Overcoming 'Vulnerabilities', Strengthening 'Resilience'". *European Integration*, 28:1 (2006): 33-49.
[7] Buzan, 371.

state and a citizen[8], as citizen-centric approach of economic security is growing as well, and there could be a connection between the two.

This thesis by analysing economic security of the EU and its effects to the member states deals with several issues. First, the ambiguity and heterogeneity of the concept of economic security are, indeed, making the concept difficult to apply for research and practice. For this reason, it is extremely important to pinpoint the economic security mechanism and clearly define the concepts in place. For this reason, there is a significant attention to the conceptualisation of the term.

Second, the creation of regional integration and cooperation framework in Europe happened to be completely different from other integration forms elsewhere. The historical context and the different speeds and forms of integration by forming a community were, in truth, particular, and should be properly understood before being compared or replicated elsewhere. This context is covered to track down the consequences for domestic actors, policies and politics of the European integration, politics and policies.

Third, it also important to identify the main instruments at work, which explain, how does the European Union directly affect its member states. For instance, democracy and economic development are extremely connected, or the impact of the institutions, like rule of law property rights, to economic wealth development, and their relationships are at the core of ongoing discussions in academia. For sure, these variables effects cannot be omitted from the whole

[8] Comment: probably the most extensive body of literature on economic security usually relate to the individual level economic security, referring to the security to job, income, etc. For the space reasons, it is not overseen here.

picture, and without them, probably, the identified economic security institutions would not be performing in the same way as they do now. More interestingly, the period since 2008 economic crisis provides also another perspective of the European Union as a security community. The crisis measures and the changes in the institutional setup are very important for having a full picture of the EU economic security mechanism.

Finally, the results of the economic security for the EU and its member states are the last finishing strokes of the picture. The uniform picture of the EU performance and of its member states has been never drawn, accordingly, the analysis and presentation of the whole picture is extremely important.

Moreover, this introduction and the thesis is structured around the aforementioned issues. The interdisciplinary holistic approach is extremely important in understanding economic security and requires mixed methods research design following top-down Europeanisation approach. Thus, the thesis is constructed from standalone essays-articles on the most important aspects of economic security. The following paragraphs present the structure of the thesis. Each paragraph indicate what is the central focal point of each chapter, what is the rationale, the main question and objectives, theory, method, units of analysis and sources of data. Each paragraph is concluded by its contribution to the thesis and academic scholarship.

Chapter 2 ***Economic Security Mechanism*** tackles the issue of the economic security concept. It presents the context of its development and main how it has been used, its slow detachment from the military security and a strong connection with the small states and their *problematique* in power relations. I present various scholars' ideas and input in defining economic security. The main goal is not only understand what does economic security mean, to place it in the bigger picture of scholarship, but also to make economic security more applicable in the research and properly conceptualised. The main question how to define and conceptualise the term is answered by applying Gerring criterial framework and at the same time re-constructing the framework for analysis based on the existing input in the academic literature.

Lino Briguglio, G. Cordina, N. Farrugia and S. Vella proposed economic vulnerability and resilience indices are taken as a reference point for reconstruction of the concept for its future practical applicability. This work is chosen because it reflects best the points of political economy in advanced capitalist economies, including attributes of social policy/welfare state, macro-economy, microeconomic institutions and governance. The choice is also based on the current discussions in human security policy-oriented strand, pinpointing various components, which are crucial for empowering and securing people around the globe. I reconstruct their model of approaching vulnerability and resilience by merging various inputs from various angles of scholarship – from security proponents Barry Buzan, Giacomo Luciani, Arnold Wolfers, Richard H. Ullman, Håkan Wiberg, Wolfgang Hager, Frans A. M. Alting von Geusau, Jacques Pelkmans, Colin Clark, Tony Payne, K. Knorr, F. N. Trager and Liliana Curmi to Pace Roderick, Dorothee Bohle, Wade Jacoby, Richard T. Griffiths and Peter Katzenstein, representing more small states studies perspective.

In short, the second chapter revises the concept and provides up-to-date model for understanding of economic security mechanism. The framework is created for assessment of economic security, suiting not only evaluation purposes, like to identify each country's capabilities to withstand or absorb exogenous shocks, but also helping to make substantial future forecasts for countries' behaviour, simultaneously providing the guidance for policy makers for attaining a country's economic security.

Chapter 3 ***European Quest for Economic Security I: Historical Underpinings*** presents the historical analysis of the Europe after the end of the Second World War. As it is portrayed in this chapter, the whole construction of the European community was substantially affected by the East-West conflict, which developed into the Cold War. Contrary to the wide-spread view that the main interest for European cooperation has been avoidance of war, the analysis of various historical studies points out that economy played as significant role as a war, and, probably, even more important.

The Cold War was not only a representation of two superpowers and their military arsenal, but also of two completely opposite economic *modus operandi*. Welfare and prosperity were the main driving forces for the cooperation in the war devastated Europe. The role of the United States of America has been substantial and should be properly evaluated. Eventually, it was the financial support from one of the biggest superpowers forcing Europe to become a unified body for easier and smoother aid distribution rather than just pure initial states' cooperation.

As a result, this chapter indirectly answers several questions. It reports about the conditions, in which security communities develop, and, in particular, the environment and playing forces, which have been crucial in the case of the development of European economic security community. The analysis briefly covers the institutional mushrooming within Europe over the period, and how this process paved the way and contributed to an advanced level of cooperation, which reached an unprecedented scale in comparison to any other regional integration and/or economic cooperation arrangement worldwide.

Chapter 4 ***European Quest for Economic Security II: Path to Economic Security Community?*** continues analysing the particularities of European economic integration's history. By pinpointing various perspectives and understandings of the European integration, cooperation, regionalism and regionalisation, it theorises, why the European Economic Community, later European Union, was a security community from its beginning.

In order to do so, the whole concept of security community is revised and analysed in the light of European historical development since the end of WWII. As it is shown in this chapter, the building of security community and the processes of integration are interrelated, and actually important to each other's development. Indeed, as the topic of security communities was overshadowed by integrationalist perspective, there is not enough literature, dwelling on the EU as a security community, especially, as an economic security community.

Lastly, as it was shown, the creation of European economic security community happened automatically by the collective action and shared institutions. In fact, the EU's example proves Deutsch to be correct about the extreme importance of integration. European Union started as a regional bloc for customs union and emerged as the most complex, rich and elaborated form of regional cooperation and integration with unification of policies and institutions, which are thoroughly analysed in the following chapter.

Chapter 5 ***Economic Security Institutions at Work: Evidence from the EU*** explores the actual economic security institutions within the Union. The created impaired European Economic and Monetary Union represents, seems, a perpetual issues dating back from the 19th century and earlier international relations theories – small versus big, and national versus European. This chapter reviews the mechanisms and institutions over time, their development and basic measures, which were enacted to ensure the EU and its member states economic security. There is a substantial attention to the crisis period, since then, especially, became apparent that continuation of constant fight between national and European is detrimental for both sides.

The analysis of the most important economic security policies and institutions show that creation of the common currency and Eurozone only partially constrained member states. Monetary policy's handover to the created system with the European Central Bank ahead only slightly exercised towards European and economic community interest. The most crucial and eventually turned to be complicated side – fiscal policies remain in the hands of national governments and eventually were the point of extreme measures in the face of crisis. National interest exercise, strongly related to democracy and sovereignty, as it is shown in the chapter, paved the path to negative ramifications after the markets' freeze since 2008 Lehman Brothers' collapse.

In conclusion, prevailing national interest and uncompleted EMU (Economic and Monetary Union) did not help European Union to handle the crisis easily. The appearance of sovereign debt measures raised the concern of the whole Eurozone. Even at this moment, lack of solidarity and big powers' national interest prevented the EU from immediate response to calm markets. The rescue packages have been arranged for Greece, Ireland and Portugal, meanwhile whole Eurozone had to introduce the measures incompatible with democratic legitimacy and accountability. At this time, the mandate of European Central Bank (ECB) formally and informally has been expanded. The ECB found itself as the last resort lender, received banking supervision responsibility and intervened in various policy debates, advocating European interest. Its plea for banking union and completing the EMU, seems, reached the audience and the European Union is awaiting its missing economic policies unification.

Chapter 6 ***The Effects of European Economic Security: Stability and Development*** builds on the understanding what role does the EU play in facilitating economic security to its member states. After identification of the mechanisms, I employ statistical data[9] on member states' performance in vulnerability and resilience in order to understand the results and the effects of economic security community. It also analyses the crisis period setbacks and ways to recovery and their length.

---

[9] The statistical data on the EU member states is obtained from databases, such as Eurostat, IMF, World Bank, UN (UNCTAD), National Statistic Centrees/Bureaus where unavailable elsewhere

The analysis of statistical data shows that the effects of economic security community are not uniform among the member states. The division appears to be clear depending on the size of a state and the prior development before joining the EU. Smaller countries by joining the economic integration frameworks like the EU appear to increase their economic vulnerability in terms of economic openness. Actually, whole the EU average shows that the economic openness is steadily increasing over time recently, a clear indication of growing interconnectedness and interdependence within the members. Other two indicators show that there is only an "entrance shock" to new members, but ultimately member states come close to previous levels of performance.

Last but not least, economic resilience section, divided in macroeconomic stability and flexibility-regulation provide more insights into the operation of the instruments and policies at work. The components of macroeconomic stability, which were subject to EMU and creation of Eurozone, show that there was a significant on member states' performance in external debt and budget deficit, however, only for short. The play of national interest right before the crisis and already in the crisis years is visible by increasing spending. The calming effects of the EU crisis measures and intervention leave a market on members' well doing too. The rate of inflation after the introduction of the EMU has been properly stabilised and even during crisis remained relatively stable.

Flexibility-regulation side reveals that an economic security community without essential background in capacity to withstand the external shocks even if macroeconomic stability strongly performs at the beginning, in the case of such multifaceted crisis, it is important that there mechanisms in place benefitting the social human development. Of course, one of the criteria of flexibility good governance is the core of the European Union. Democracy, rule of law and protection of property rights and their importance to general economic state's performance are depicted elsewhere, but it is important to keep in mind that the EU member states maintain adequate levels as required and these factors influence the performance of other factors too. For sure, the EU can be seen as an insurer of human development – life expectation at birth in the EU is significantly growing since 1960.

Finally, the recent financial crisis, or in Nassim Taleb's words "black swan", depicted by Nouriel Roubini, Stephan Mihm, Carmen Reinhart, Rogoff Kenneth, Anders Åslund revealed the importance of economic security once again. The bacilli of financial illness were already in most of the European States before the crisis hit. The reasons why the crisis hit badly Europe stem from global imbalances and pre-crisis domestic policies-institutions, which in the face of "Euro Zone Death Trip" (Paul Krugman in "The New York Times") need a revision and further analysis. The study of the EU economic security fulfil the existing gap in the collective economic security studies, presented by Joseph S. Jr. Nye several decades ago by evaluating economic security of EU countries over time period and revealing the most important factors for economic security on national and regional levels. Consequently, this thesis assesses the importance of the membership in the EU for countries' economic security and provides the analysis of the EU's collective economic security and its benefits and drawbacks.

Chapter 2

Economic Security Mechanism

2.1 Introduction

> *"Throughout the history of states, each has been made insecure by the existence of others. The military and economic actions of each in pursuit of its own national security have frequently combined with those of others to produce economic dislocation and war. The intensity and character of the national security problem vary dramatically over time – sometimes exceedingly confrontational, sometimes, as in the nineteenth century and as at the time of writing, moving into periods of lower tension and increased cooperation. But despite these fluctuations, the general problem remains, along with all the uncertainties and fears that it generates".* [10]

Survival issue has been the core of international relations and politics for centuries. The concept of security, being primarily associated with military capacity, faced tremendous challenges and changes in the 20th century. Realism, being dominant international relations theoretical tradition, primarily dwelled on physical (military) power. Throughout the Cold War, the power-interest realist dichotomy

[10] Barry Buzan, *People, States and Fear* (2nd ed), 1991, p. 1.

evolved around the struggle for power and conflict and war.[11] New developments during the Cold War period in the international arena appeared to be grasped better by other theories. Neorealism, which added more actors besides nation state, appeared to emphasize the economic issues and their importance to security concept even more than beforehand. National security problem, even diluted by other various aspects, persists, however, from 1990s it is perceived that the tension is lower and cooperation prevails confrontation between the states.

As Buzan well noted[12], historically states have been made insecure by the existence of others. Military and economic actions were usually combined by states to produce economic dislocation and/or war for ensuring their own national security. Various scholars explored[13] what were the main threats to national security and states' existence for centuries, and, apparently, survival meant war and economy related issues. Paul Kennedy persuasively portrays in his book "The Rise and Fall of Great Powers" the direct connection between economy and military conflict back from the beginning of the 16th century. His economic history work uncovers how a slight change in economy or comparative advantage had been influencing power relations and national security. Two other economists Roubini and Mihm, meanwhile, explores the main threats and the main sources of crisis back from 1630s, when the speculation of the "tulips' mania" severely affected the economic landscape. Before that, as Buzan

[11] Hasan Ulusoy, "Revisiting Security Communities After the Cold War: The Constructivist Perspective", *Perceptions*, Vol. 8, 2003, pp. 161-196.
[12] Barry Buzan, *People, States and Fear* (2nd ed), 1991, p. 1.
[13] See Roubini and Mihm, Carmen Reinhart and Kenneth, Paul Kennedy, and others.

described the main threats to economic security were wars, piracy and trade policies[14].

Consequently, economic security as an economic dimension of the security is, indeed, probably the oldest and the most controversial among the other parts of national security[15]. The concept origins could be traced back from the end of the middle ages, where economic capacity was directly linked to power and state's position in the World as showed beforehand. Before appearance of capitalism the treats to economic security were from a narrow range, and fluctuations and combinations of various actions to pursue national security have been changing dramatically since the 19th century, as their intensity. Since mid of 20th century some countries, in Friedman's words, started plugging themselves into the globalization herd and by that became threatened by various and by that time unrecognised "black swans"[16]. 21st century globalized national economies and sophisticated financial systems are too well connected with all other spheres of a states' functioning and even more with the processes in the neighbouring countries. The effects of the stateless economy – the skyrocketing shares in global economy of multinational and international companies and other actors or processes without borders – cannot be underestimated. The challenges and threats can come from anywhere – unexpected flow of migrants or one company's bankruptcy.

The recent economic crisis, following the collapse of the Lehman Brothers on 2008 September, intensified economic and political

---

[14] Buzan, 1991, pp. 7&20.

[15] Barry Buzan and Lene Hansen, *The Evolution of International Security Studies* (New York: Cambridge University Press, 2009), 2 and 39.

[16] The term "black swan" was introduced by Nassim Taleb, *The Black Swan: The Impact of the Highly Improbable*, New York: Random House, 2007.

debate about the economic security and the main threats to it. The global chain of the events after the fall-down affected even the most powerful states worldwide. Both economic and military strong states faced uncertainty and instability shortly after the landing of the famous Nassim Taleb's "black swan" to their horizons. Reality proved that governments' capacity to turn crisis into an opportunity and "white swans", as called by Roubini and Mihm, has been not so great. Without surprise at the moment of writing, 8 years after the breakdown, the economic issues of security, historically being primarily a borderline and reference point for mainly small states, continue being a priority of policy-makers' agendas of even the most powerful countries' governments worldwide.

There were several theories and explanations supplied for economic security. Various terms and concepts were used interchangeably and former body of the literature did not provide substantial clarifications and the definitions and measurements of the terms. Buzan's attempt to draw clear divisions between military security and other four sides of security – equally important – economic, societal, political and environmental has been an important step in the positioning of the different sides of the security. However, a conceptual description of economic security has not been substantially provided in the prominent work. The following years of scholarship continued to see various conceptualisations of economic security and its components. The "competing" theories and concepts did little to integrate previous research vocabulary and ambiguity of the concept 'economic security' still persists.

This part of thesis contributes to the existing literature in several ways. First, it analyzes and traces back the origins of the concept from the earliest academic literature available in the international relations' literature. Second, it juxtaposes various different aspects from different fields of political science, revealing intersection points and commonalities. Third, it provides an extensive theory building and conceptualization of economic security. Finally, it provides a complete framework for analysis and could be seen as a benchmarking tool for policy makers and researchers, conceptualizing economic security via vulnerability and resilience concepts.

Thus, this chapter is organized as follows. I start with the literature review providing the in-depth insights from security studies and the analysis of the grounds for the crystallization of the concept. Third section defines economic security by combining the results from historical analysis and existing various definitions from other fields of studies. The following parts dwell on the most important components of the economic security – economic vulnerability and resilience. The conceptual discussion finalizes the conceptual framework for analysis of economic content of national security.

2.2 Literature review: concept development and the context

There were various developments in the area of economic security since the establishment of the small states back in 18th century. The mushrooming of the new and small states in the region attracted more and more attention to understand the underlying factors and components of power and its distribution. The academicians involved in the discussions around small states and their issues related to economic security naturally assigned them to small states studies. Security studies, in the meantime have been oriented around the power, especially the physical characteristics of it. Economic powerhouse predominantly was used to empower war machine and to fuel military power.

These both strands – security and small states studies - of international relations have been advancing historically for the past few centuries. The conceptual works carried out earlier did not necessarily use the terminology that has been employed in the last few decades. The definition of the economic security as of two different sides of the coin – vulnerability and resilience – appeared in both strands of economic literature. However, surprisingly, both strands remained quite isolated and have not been taking into consideration the previous theoretical discussions. Due to that, I am therefore inclined to discuss how economic security became relevant in the fields of security studies and small states and ended up progressing into probably the entire and separate discipline, including all other aspects of security[17] by losing its former identification with financial security.

Indeed, in the midst of the 20th century small states studies started to generate increasingly more attention worldwide than beforehand. Their importance has been growing together with the waves of decolonization, the promulgations of independence and the appearance of international institutions such as the United Nations,

---

[17] I am not in favor of K. Marx's ideas and the theory of Economic Determinism, but some researchers were arguing that all other areas of security, even the military one, are subordinates of the economic security. I am not questioning whether it is right or not to include other aspects of security under one economic security's "umbrella", referring to what L. Briguglio and other scholars did by complimenting the indices relevant for states' economic security. Also, I think that in future studies it is important to dive deeper into the explanation of the shift of the economic security, which is still rather underdeveloped. Therefore, the connection between economic and military security is very tricky, and for this reason in this research the military factors are not included into the analysis of economic security.

which have been including more and more small states. Empowerment of smaller states to exercise other types of power than economy facilitated their voice's increase in the political arena. The existing definitions of the smallness and describing criteria of small states have been changing, reconsidered and redefined. Various definitions diverge depending on the field of study for this reason the analysis is split into two parts. Small states studies' development and the exploration of the role of economic security there follow the discussion of the emergence of economic security within security studies.

The book *People, States and Fear*, published just after the main changes in international arena and system, illustrates Barry Buzan's main idea, that security is one of the most important issues for humanity. In fact, "security studies have been on the top of scholarly agenda, and realism, with its focus on power, states and national interests emerged as the dominant theory of International Relations"[18] since the end of 1940s. However, such a vital international relations discipline only during the last decades, after the end of Cold War entered into transformation period. Various scholars claimed that security studies became a very shifting discipline in the recent decades.[19] Many years ago security was understood mainly in military sense, tied up with quite limited approaches and mechanisms. As a result, security studies got preoccupied also with other types of threats, such as terrorism, climate change, migration[20],

---

[18]Iver B. Neumann and Sieglinde Gstöhl, "Lilliputians in Gulliver's World?", in: Christine Ingebritsen, Iver Neumann, Sieglinde Gstöhl and Jessica Beyer, Small States in International Relations. Seattle: University of Washington Press and Reykjavik: University of Iceland Press, 2006, p. 9.

[19] See Buzan, Knorr and Tragger, Hansen and Janeliūnas.

[20] Tomas Janeliūnas, *Komunikacinis saugumas*. Vilnius: Vilniaus Universiteto Leidykla, 2007, p. 202.

etc., which were left out in terms of conventional security understanding beforehand.

Most of the questions arising in the security studies' debate were associated more with philosophy than with empirics. The definition of the threats, discipline's object, and methodology were broadly contested among the scholars. Furthermore, security studies lost its predominant military orientation before the end of Cold War, but academically, they were sweepingly expanded by Barry Buzan's sectorization model, which divided security agenda into five fields: military, political, economic, environmental and societal[21]. This is well illustrated by Buzan's words:

> "It [security] encompasses several important contradictions and a host of nuances all of which can cause confusion if not understood. Major contradictions include that between defence and security, that between individual security and national security, that between national security and international security, and that between violent means and peaceful ends. Add to these difficulties of determining the referent object of security (i.e. what is it that is to be made secure) and the pitfalls of applying the idea across a range of sectors (military, political, environmental and societal) and the scope of the task becomes clear."[22]

The scope of the task might have seemed clear, however, the difficulties between contradiction and complication to define the object prolonged the process of theory building and conceptualisation in security studies. B. Buzan was not the very first

[21] B. Buzan, T. Janeliūnas, p. 202.
[22] B. Buzan, p. 15.

who brought the economic security into the daylight. Richard Ullman much earlier has pointed out that security for a long time has lost its absolute value, and indicated the importance of "other dimensions" of security for welfare state[23]. Of course, B. Buzan's contribution to the division of security, the description of security sectors' objects, threats, etc. is unquestionable.

Nevertheless, it would not be correct to state that distinguishing the role of economic security by Buzan was an original idea, since already in 1982, Alting von Geusau and Pelkmans published the collection entitled *National Economic Security: Perceptions, Threats and Policies*. The book as well raised the importance of economic content of security and what are the main threats to national economies, as the book was coming right after the two oil shocks and followed price boom of raw materials in the world[24]. Despite the fact that this work hasn't attracted too much attention among scholars[25], it seemed important for historical overview to cover the earliest scholarship entries on the concept of economic security regardless their popularity and spreading.

---

[23] Richard H. Ullman, "Redifining Security", *International Security*, 8(1), 1983, pp. 129-153.

[24] Frans A. M. Alting von Geusau and Jacques Pelkmans (ed.), *National Economic Security: Perceptions, Threats and Policies*. Tilburg: John F. Kennedy Institute, 1982.
Comment: Two oil shocks and the price boom of raw materials in the world might not have made significant change, but the followed U. S. economic trauma, especially after 1973 Middle East oil embargo, forced security professionals to recognize economics as a key factor to national security. See Klaus Knorr and Frank N. Tragger, Schultze, 527-529, Joseph S. Jr. Nye, "Collective Economic Security". *International Affairs*, 50(4), 1974, Buzan and Hansen, 85&216.

[25] Even B. Buzan did not refer to the aforementioned authors either in 1982, or in 1992 editions of his book.

Even though neither B. Buzan nor Ullman, nor Hager, nor F. A. M. Alting von Geusau and Jacques Pelkmans referred to each other's writings, they had some ideas in common. They all raised the importance of securitizing agent in the "securitization" process for delineating the threats in economic security[26]. In unison scholars agreed that because of the different understanding and perception of the threats economic security cannot be conceptualised in a similar way as military security. Hager highlights the importance of consensus and collective opinion (awareness and ideas) in understanding the threats to economic security. As most of the scholars agree, this common "agreement" on what is perceived as a threat might be difficult to reach in economic terms. Hager sees also the importance of the past or history, which not necessarily is helpful in recognition of the threats:

> "Perceptions about economic security in times of calm thus tend to rest on shaky foundations: collective memories of the past linked to present by analogy, and guesses about the future which can only partially be submitted to interpersonal tests of plausibility".[27]

Hager adds that in the case of economic security, experts carry one of the most important roles. He sees experts as offering "probabilities rather than certainties"[28] and affirms: "plausibility of experts is enhanced the more they can rely on scientific evidence"[29]. On the other hand, at the same time he worries about the possibility of truly

[26] Wolfgang Hager, "Perceptions of Economic Security" in: Frans A. M. Alting von Heusau and Jacques Pelkmans (ed.), *National Economic Security: Perceptions, Threats and Policies*. Tilburg: John F. Kennedy Institute, 1982, p. 19.
[27] W. Hager, p. 19.
[28] W. Hager, p. 19.
[29] W. Hager, p. 19.

significant scientific guidance. Buzan concludes that economic threats are "without doubt the trickiest and most difficult ones to handle"[30].

Threats' *problematique* is not the only one in economic security field. The content of economic security is another defining feature of different understandings. The "old-fashioned" school sees a state as a main object of reference and proceeds with a top-down analysis. Top-down analysis may include various social, political, energy or environmental issues of security, influencing the economic powerhouse of a state[31].

On the other side, the proponents of human security and Marxism align with individual economic security based on human insecurities. The research in this area include a bottom-up analysis of individuals' socio-economic well-being and factors, influencing employment, labour market, income or skills[32]. As numerous human security studies indicate a state is a crucial factor for ensuring humans' economic security, but in some cases in can work also as a threat. Buzan sees impossibility for a state to control the factors, directly affecting individual economic security, like protection against falling incomes or a right to a particular job[33]. Such protection for him corresponds to the Soviet Union model, where self-sustainability comes before the flexibility and market provided benefits.

---

[30] B. Buzan, p. 123.
[31] Buzan, pp. 123-128, 241-2.
[32] See International Labour Organization, *Economic Security for Better World* (Geneva: International Labour Office, 2004), or Jacob S. Hacker, Gregory A. Huber, Philipp Rehm, Mark Schlesingen, Rob Valleta, *The Economic Security Index: A New Measure of the Economic Security of American Workers and Their Families* (Rockefeller Foundation, 2010).
[33] Buzan, 237.

However, economic security cannot be associated only with an individual level, because as all scholars agree a state is a fundamental to security, including economic one. State's domestic characteristics include (and project) international security problems, since economic security's importance mostly comes from the international economic ties[34]. Klaus Knorr seconds the idea by adding the significance of the flexibility[35] in adapting to dynamic international market. According to him, such flexibility historically had an influence for economic security. Other scholars, like Giacomo Luciani in 1988, were among the first, talking about the importance of energy security, strategic commodities, economic growth and well-being or income distribution[36] for ensuring economic security. On top of that, even Buzan agreed that international economic structure influences the economies as well as the relations between countries[37], and nation's economic security significantly depends on political decisions.

These state's decisions are usually the main object of the analysis in economic security, since threats' exploration is quite complicated and difficult to forecast. Earlier mentioned L. Burguglio et al.'s model provides a check-up of policy suitability (or even guidelines) for sustainable development for economic security. This model, as others beforehand, of course face the problem that knowledge field *a priori* is insular with previous experiences and prejudices. The coverage of the model or even suitability of the created guidelines, unfortunately, could be seen mainly retrospectively - after the shocks. After the

[34] B. Buzan, p. 57.

[35] Klaus Knorr, "Economic Interdependence and National Security", p. 4; in: K. Knorr and F. N. Trager (eds), *Economic Issues and National Security* (Kansas: University Press of Kansas, 1977).

[36] Giacomo Luciani, "The Economic Content of Security". *Journal of Public Policy*, 8(2), 1988, p. 156.

crisis (in this case, economic) it is easier to measure the danger objectively, though, the time is lost.

To conclude, neither B. Buzan, nor Frans A. M. Alting von Geusau and Jacques Pelkmans offered a strictly defined concept of economic security. The discussion about economic security is still heterogeneous and even the essence itself can be described using various words – from the economic content of security to national economic security. However, it is visible that the definition of economic security within security studies depends largely on the purpose: either to define threats, or to propose policy-making solutions in the case of possible crisis.

2.2.1 Economic security and the size – Small states studies perspective

> *In retrospect it seems surprising that in spite of the growing number of small states only a small number of sociological studies were devoted to this subject in the first two decades after World War II.*[38]

Iver B. Neumann and Sieglinde Gstöhl present small states studies as 'undeservedly neglected topic'[39], despite the eighteenth and nineteenth centuries – the time, when German-speaking scholars'

---

[37] Barry Buzan, "Economic Structure and International Security: The Limits of the Liberal Case". *International Organization*, 38(4), 1984, pp. 597-624.
[38] Otmar Höll, "Introduction: Towards a Broadening of the Small States Perspective", in: Otmar Höll (ed.) Small States in Europe and Dependence. Viena: Braumüller, p. 15.
[39] Iver B. Neumann and Sieglinde Gstöhl, p. 3.

works about small states are dated back[40]. At that time, the development of small states studies was mainly associated with political reality[41] in the region and dwelt as a residual category, referring to "power".[42] So, "small powers", at present alluding to "small states", aforetime, in result of growing number of small states, were "<…> all those states that were not great powers, and that were not consistently insisting on being referred to as middle powers"[43]. Small states were mixed with weak states[44] and lost its attractiveness for studies at the midpoint of the last century.

After the First World War the changes in the international system and the newly emerged the League of Nations put forward new possibilities for small states[45]. However, after the Second World War, in general, "social sciences were preoccupied with emerging

[40] I. B. Neumann and Sieglinde Gstöhl, p. 9. Authors reffer to Eduard Sieber work *Die Idee des Kleinstaates bei den Denkern des 18. Jahrhunderts in Frankreich und Deutschland* (Basel, 1920), Oscar Bernhard – *Die Idee des Kleinstaats im Deutscland des 19. Jahrhunderts* (Säckingen, 1923) and Eyvind Bratt - *Småstaterna i idéhistorien. En studie i alder statsdoktriner* (Uppsala, 1951).

[41] Because of extreme differences between studies in Europe and in the U. S., various scholars like R. Kirt, A. Waschkuhn and W. Christmas-Møller separate two schools on small states studies – an American (or Anglo-Saxon) and a European (or Scandinavian-German). This distinction is not further elaborated in this thesis, but could be found elsewhere, see more: Romain Kirt and Arno Waschkuhn, "Was ist und zu welchem Zweck betreibt man Kleinstaaten-Forschung? Ein Plädoyer für die wissenschaftliche Beschäftigung mit kleinen Nationen", in: Romain Kirt and Arno Waschkun (eds.), *Kleinstaaten-Kontinent Europa: Probleme und Perspektiven*. Baden-Baden: Nomos, 2001, pp. 23-46 (25); and Wilhelm Christmas-Møller, "Some thoughts on the Scientific Applicability of the Small State Concept: A Research History and a Discussion", in: Otmar Höll (ed.), *Small States in Europe and Dependence*. Vienna: Braumüller, pp. 35-53 (36).

[42] I. B. Neumann and Sieglinde Gstöhl, p. 4.

[43] I. B. Neumann and Sieglinde Gstöhl, p. 5.

[44] I. B. Neumann and Sieglinde Gstöhl, p. 7-8.

[45] William E. Rappard, "Small States in the League of Nations". *Political Science Quarterly*, 49, 1934, pp. 544-575.

bipolarity and the Cold War"[46] and only newly (re)born successive of the League of Nations – the United Nations prolonged the studies of small states' position in the international organizations.[47]

The peak time in the studies of small states was reached after the publication of Annete Baker Fox's book entitled *The Power of Small States: Diplomacy in World War II*[48], "which marked the beginning of a genuine school of small states studies"[49]. The work, portraying the significance of small countries' neighbours, indicated the principal problem of that time – "survival of small states among bigger powers"[50]. Since, shifting consideration of small states, according to Otmar Höll, is seen as a result of the hasty transformations, inspiring political science in query, in the late 1960s and growing interdependence dredging up the puzzle of how countries with cramped capabilities combated with the expenses of subordination[51].

Subsequently, lots of studies focused on solutions (not only oriented towards foreign affairs, but also towards domestic policies), how to

---

46 Iver B. Neumann and Sieglinde Gstöhl, p. 9.
47 Alan De Rusett, "Large and Small States in International Organization: Present Attitudes to the Problem of Weighted Voting". *International Affairs*, 30 (4), 1954, pp. 463-474. (Cf. Thomas Fleiner, *Die Kleinstaaten in den Staatenverbindungen des zwanzigsten Jahrhunderts*. Zürich: Polygraphischer Verlag, 1966; and Joseph Markus, *Grandes puissances, petites nations et le problème de l'organisation internationale*. Geneva: Graduate Institute of International Studies, 1946.)
48 Annete Baker Fox, *The Power of Small States: Diplomacy in World War II*. Chicago: Chicago University Press, 1959.
49 Iver B. Neumann and Sieglinde Gstöhl, p. 9.
50 Iver B. Neumann and Sieglinde Gstöhl, p. 10.
51 Otmar Höll, "Kritische Anmerkungen zur Kleinstaaten-Theorie". *Österreichische Zeitschrift für Politikwissenschaft*, 7(3), 1978, p. 260. pp. 259-273.

reduce the outcomes of structural constraints and what strategies could help halting or lessening the effects of smallness and scarcity.[52]

> "The structural "causal chain" maintains that scarcity due to physical smallness produces external economic dependence, which may lead to external sensitivity, which in turn results in the danger of foreign determination"[53].

In the 1970s as a result of persisting decolonization small states studies flourished in both economics and political science. Finally, first manifestations of the economic security importance emerged on the small states studies' agenda coinciding with the security studies' proponents talking about the effects of economic structure and international economy ties.

The ideas of O. Höll, M. Handel[54] and many economists are well summarised in Vogel's words, which actually determine the main features of economic vulnerability widely accepted nowadays:

> "The size of a small nation determined its wealth due to its small domestic market, a low diversification of its economy, scarcity of natural resources, higher costs of production and lower economies of scale, a lack of competition, low research and development expenditure, etc. Small economies were assumed to be more dependent on external trade than bigger states, to tend to have trade deficits, to depend often on a single commodity of export,

---

[52] This issue discussed Daniel Frei, Alois Riklin, Hans Vogel. Iver B. Neumann and Sieglinde Gstöhl, p. 10.
[53] Originally Hans Vogel, 1983. Cited from Iver B. Neumann and Sieglinde Gstöhl, p. 11.
[54] Otmar Höll, 1978, pp. 265-270; Hans Vogel, 1979, pp. 32-35; Michael Handel, *Weak States in the International System*. London: Frank Cass, 1981, pp. 220-229.

> and to export hardly any industrial goods requiring a high intensity of capital or research.[55]"

The same approach was embedded in political science because of the dominant neorealist view that physical characteristics (capacity of power) shape state's actions in international politics. However, there was no agreement on concrete definition of a small state and the factors that should be taken into account: the size of population, state's territory or gross domestic product.[56] The definition problem, European contextualization, as Kramer affirms[57], and "astonishing lack of accumulation"[58], according to N. Amstrup, led to the stagnation of small states studies.

In the 1980s academic interest in small states studies was upheld by economic factors. Colin Clark and Tony Payne[59], as well as Anton J. Butter[60] began to address economic development questions of small states. This branch soon was supported by P. Katzenstein's[61] work, analysing the continuance of small states in the global economy. Emerging neoliberal institutionalism, economic issues and relevance

---

[55] Iver B. Neumann and Sieglinde Gstöhl, p. 11.
[56] Michal Handel, *Weak States in the International System.* London: Frank Cass, 1981, pp. 9-65; and T. Crowards, "Defining the Category of 'Small States'". *Journal of International Development*, 14(2), 2002, pp. 143-179.
[57] Helmut Kramer, "Kleinstaaten-Theorie und Kleinstaaten-Aussenpolitik in Europa", in: Arno Waschkuhn (ed.), 1993.
[58] Niels Amstrup, "The Perennial Problem of Small States: A Survey of Research Efforts". *Cooperation and Conflict*, 11(3), 1976, pp. 163-182 (178).
[59] Colin Clark and Tony Payne, *Politics, Security and Development in Small States*. London: Allen/Unwin, 1987.
[60] Anton Butter, *An Introduction to Mini-Economics*. Amsterdam: B. R. Grüner Publishing, 1985.
[61] Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe*. Ithaca: Cornell University Press, 1985.

of international regimes and institutions increased academic interest in small states.

On top of that, the mushrooming of new states across Central and Eastern Europe and Balkans, the EU enlargement and deeper integration in the EU[62] has fixed permanent and stable attention to small states. For this reason, globalization and integration processes could be seen as positively influencing and promoting academic discussion on small states, despite the fact that in some weak states became even weaker than before.

Notwithstanding, small states studies started including issues of Africa's weak states, which were forgotten during the Cold War years' focus on (military and political) security issues. The discussion about failing, failed and collapsed states in Africa was also supported by the United Nations and, actually, this organization pushed the evolution of studies promoting sustainable economic growth and development of such states. L. Briguglio et al.'s investigation about economic vulnerability is also part of UN programme, despite the fact that their indices cannot be applicable for the African states, since no reliable data of these countries used to be possible to be obtained.

In the last decade of the 20th century, when social constructivism with its focus on ideas, identity and international norms entered into international relations theory, scholars as C. Ingebritsen[63] and A.

[62] For example, Baldur Thorhallsson, *The Role of Small States in the European Union*. Aldershot: Ashgate, 2000; and "The Size of States in the European Union: Theoretical and Conceptual Perspectives", *European Integration*, 28(1), 2006, pp. 7-31.

[63] Christine Ingebritsen, "Norm Entrepreneurs: Scandinavia's Role in World Politics", *Cooperation and Conflict*, 37(1), 2002, pp. 11-23.

Björkdahl[64] indicated new role for small states in global politics (crisis and conflict management, entrepreneurship of norms, etc.), opening a new window for smallness studies and shifting the attention from physical constraints like economy and military. The results of this research proved that physical capacity perception is not necessarily even across the countries and the common ideas and understanding of power plays an extremely important role in defining what is constraint or cramped capability.

Consequently, small states research did not see much continuity in the centuries beforehand[65]. As O. F. Knudsen argues, small states literature could be divided into 3 categories-waves. While the first wave tried to solve self-determination problems, the second stream concentrated on foreign policy issues, such as neutrality or alliance, the last strand included policy formation, recession, national minorities and other questions.[66] In Knudsen's division economic questions did not attain special attention, but economic security issues were involved under security and/or policy formation topics. Finally, only in 1987 Håkan Wiberg combined all points of security into one corpus, indicating the modifications in both International Relations approaches – security and small states theories. His research, illustrating the changing reality and national security going "very far beyond military considerations"[67] opened the field for L. Briguglio and others research on economic security. Wiberg, the same as other scholars, revealed the relationships between different

---

[64] Annika Björkdahl, *From Idea to Norm: Promoting Conflict Prevention*. Lund: Lund University, 2002.

[65] Iver B. Neumann and Sieglinde Gstöhl, p. 15.

[66] Olaf F. Knudsen, "Small States, Latent and Extent: Towards a General Perspective", *Journal of International Relations and Development*, 5(2), 2002, pp. 182-198.

security sectors and claimed that despite the importance of military security, small states must care about other types of threats and be prepared to overcome them.

2.3 Defining Economic Security Conceptual Framework

> *We will bankrupt ourselves in the vain search for absolute security*. [D. D. Eisenhower]

The previous sections revealed the long and ambigous road of economic security concept. As being one of the oldest and also controversial parts of national security, the term has been used in various contexts and for various definitions. Furthermore, many times the concept *economic security* was actually not used and instead was replaced by various other terms. For this reason, the author has seen an extreme importance to carve the conceptualisation of the term *economic security* as precisely as possible in order to have it of maximum utility in social sciences. In order to do that, the conceptualisation of *economic security* goes hand in hand with the check-list of a good concept, provided by John Gerring[68].

He argues that conceptual utility cannot be reduced to 'clarity', to empirical or theoretical relevance, to a set of rules, or to the metodhology particular to a given study. For him, conceptual adequacy has to respond to a standard set of criteria, which in the

---

[67] Håkan Wiberg, "The Security of Small Nations: Challenges and Defences". Journal of Peace Research, 24(4), 1987, pp. 339-363. Excerption from p. 357.
[68] John Gerring, "What Makes a Concept Good? A Criterial Framework for Understanding Concept Formation in the Social Sciences", *Polity*, Vol. 31, No. 3, 1999, pp. 357-393.

social science concept formation is familiary, resonance, parsimony, coherence, differentiation, depth, theoretical utility and field utility.

To start from familiarity, the economic security is one of [69] among the oldest parts of national security. The academic audience sees the use of the concept already since 1980s, and there is a lot of scholarship beforehand addressing the concept as economic content of national security, or national economic security. The second criteria of resonance for sure qualifies for the term. Economic security has been used extensively since 1980s, but after the 2008 economic crisis the term turned into a "buzzword" in academia and outside.

The third, parsimony criteria evaluates how short the term is and its list of defining attributes. Economic security is quite short term and its list of defining attributes is not long either. The main operating components are actually vulnerability and resilience, and threat is not included in definition, but works as a litmus paper. The coherence criteria asking about the level of logical relation between instances and attributes is satisfied by the concept too. Economic vulnerability and economic resilience are clearly related and consistent.

The fifth criteria differentiation reveals some *problematique* of the concept. To begin with, there are various ways how to operationalize the concept. As it was shown in the literature review in the previous sections, few centuries ago the threats

---

[69] Barry Buzan and Lene Hansen, *The Evolution of International Security Studies* (New York: Cambridge University Press, 2009), 2 and 39.

were much simpler and clearly defined and it was easier to oversee the economy from being disrupted. Nowadays wars and piracy are no longer the only worries of governments to ensure economic security, which makes more factors to be included in the analysis of the economic security. Various indices' review[70] can show how non-exhaustive list it can be. There is also another layer of the problem. After the end of the Cold War and development of human security studies, economic security frequently refers to the individual security, as it was presented beforehand. Not to mention economic security can be operationalized in different ways with a unit reference a state, there is even more ambiguity, if the object of interest is individual. On top of that, the term is used interchangeably with economic content of national security of financial security.

The depth of the concept is quite extensive and allows various in-depth research to analyse the accompanying properties under definition. Penultimate criteria of theoretical utility is quite clear for the concept. Its usage within a wider field of inferences has been acknowledged and confirmed. However, the last criteria of field utility questions how useful is the concept within a field of related instances and attributes. It is important to note that economic security as a concept overlaps in various different fields of study – from security studies to political economy. Its attribution to security studies might be strong conceptually, but operationalization relies on completely different methods of inference and analysis.

[70] Richard T. Griffiths, "Economic Security and Size" in Clive Archer, Alyson J. K. Bailes and Anders Wivel, eds, *Small States and International Security*, New York, NY: 2014 Routledge, pp. 46-65.

To summarise, the concept has a potential, but it has not been still fully exercised. Following Gerring's criteria, there is still a lot of room left for the proper conceptualisation of the concept, which is not intended to be done here, but concept's popularity could be one of the stimulus for more extensive and advanced discussions on what actually the concept should mean. This chapter and section, author hopes, provide easier departure for more elaborative studies on economic security concept.

Understood as a protection of economy of being disrupted and the sustainability of the acceptable welfare level[71], economic security in this policy-oriented conceptualization is amplified as

> "the maintenance of [those] conditions necessary to encourage sustained long-term relative improvements in labour and capital productivity and thus a high and rising standard of living for a nation's citizens, including the maintenance of a fair, secure and dynamic business environment conducive to innovation, domestic and foreign investment and sustainable economic growth"[72].

Since economic security is not only about survival, a state cannot remain separated from the whole world, and as Paul Kennedy points out, even survival among other great powers is always about relative power and adaptation to changing environment[73]. In short, economic

[71] Buzan and Hansen, 87.

[72] Canadian Security Intelligence Service, "Economic Security". *Backgrounder No. 6*, (February, 2004).

[73] Paul Kennedy, *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987).

security's conditions are like a system, where vulnerability, resilience and threats operate.

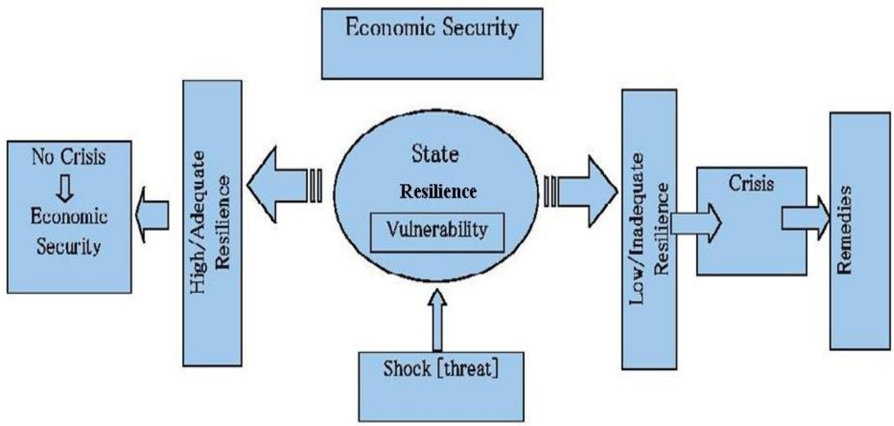

Figure 1 Economic Security Model[74]

As **Figure 1** portrays, a threat is a catalyst, which identifies whether economic resilience meets the level of economic vulnerability, or in other words, whether government chosen policies match the inherent weakness and helps to overcome the effects of an external shock. In a perfect scenario of economic security (this is more applicable to bigger states, which have lower natural vulnerability[75]), via adequate policies a country obtains high level of adequate resilience which helps to overcome a threat. However, smaller states are usually highly vulnerable and their level of resilience is not appropriate. As a result, threat transformation into a crisis is a more typical problem for small states, which lack sufficient level of resilience. Furthermore, as Roubini

[74] All figures and tables are created by author
[75] Ágúst Einarsson, "Introduction", 2, in Griffiths and Magnússon.

and Mihm note[76], in the face of crisis governments' self-help packages (remedies in the **Figure 1**) not necessary result in higher resilience and real treatment of internal vulnerabilities,[77] that is why there is no relationship between remedies and appropriate resilience in the future. Finally, economic security is a dynamic feature in general of a country depending on the obtained level of resilience, which could change over time.

As the **Figure 1** indicates, economic security can be seen as a system of vulnerabilities, resilience and threats. For this reason it is essential to clarify each component one by one.

To start with, it is important to understand vulnerability. Disagreeing with Buzan, that it is difficult to distinguish threats from vulnerabilities[78], I suggest seeing vulnerability as a permanent and inherent situation, referring to a state's resources or natural smallness. Since a vulnerable state usually is weak in physical base and lacks area, population and resources[79], the definition implies that vulnerability cannot change over time dramatically, unless additional physical characteristics are acquired. Furthermore, in the 21st century interdependence is inevitable and isolation cannot be seen as a possibility to eliminate vulnerability, since earlier defined essential conditions for development will not be possible obtained. Nowadays countries cannot be self-sustaining at the level important to maintain relative improvements and growing standards of living. Consequently, vulnerability stems from a state's economic interconnectedness – international trade and finances, which results in structural

[76] Roubini and Mihm, 133, ch. "Fault Lines" and "Conclussion".
[77] Roubini and Mihm, 132-134.
[78] Buzan, 115.
[79] Buzan, 113.

constraints, especially for small states.[80] Thus there is no country in the world, which could be called as invulnerable, as the question is to what extent a state is vulnerable and the answer varies in the spectrum of low vulnerability to high vulnerability[81].

Since economic threats are considered as "without doubt the trickiest and most difficult ones to handle"[82], a threat here is understood and used as a synonym of external shock. The perception of a threat as any kind of exogenous factor or force which negatively affects government capabilities to maintain crucial conditions for rising welfare, efficient economy and development is also based on Hager's study[83], which indicated that the discussion about securitization and existential threats is not always plausible and does not bring scientific guidance, especially in terms of economic content of a state's security. From this point of view, a threat does not influence economic vulnerability directly (see **Figure 1**), which is a static variable, but rather interacts with a state's buffer – resilience. If countries did their "homework", the shock is overcome, otherwise a threat transforms into a crisis, which usually brings recession and disease to other sectors. As Roubini and Mihm explain, the 2008 crisis affected the countries, which were not perfectly healthy economies[84]. It follows that an exogenous shock is not a cause of turmoil in a

---

[80] Neumann and Gstöhl, 10; L. Briguglio, G. Cordina, S. Vella and C. Vigilance (eds), *Small States and the Pillars of Economic Resilience*, London and Malta: CS and ISSIUM, 2008, and L. Briguglio, G. Cordina, S. Vella and C. Vigilance, eds, *Profiling Vulnerability and Resilience*, London and Malta: CS and ISSIUM, 2010.
[81] Thorhalsson, 15.
[82] Buzan, 123.
[83] W. Hager, "Perceptions of Economic Security" in Alting von Geusau and Pelkmans, 19.
[84] Roubini and Mihm, 124-5, "Crisis rarely cripple perfectly healthy economies; usually underlying vulnerabilities and weaknesses set the stage for a collapse", in116-7.

country, but rather a catalyst, indicating the problem in a particular state's resilience[85].

The coping ability, which allows a country not to be adversely affected by external shock,[86] is defined as resilience. Resilience represents how well governments' policies[87] correspond to vulnerabilities or how well a state is prepared for lessening the effects of threats or the prevention of them[88]. The term "resilience" also synchronizes with what Buzan defines as 'efficiency'[89], which means efficient governance in order to ensure the conditions for sustainable development. In addition, smart governance helps to overcome inherent vulnerabilities, and, as Pace puts it, allows fulfilling the shortage in a physical base[90].

Resilience consists of two coping strategies. On the one hand, it is "shock-counteraction", allowing rebound after affection of a threat. Such a flexibility to recover quickly most of the times is provided by a strong fiscal position. On the other hand, there is a "shock absorption" capacity, which means that the mechanisms, such as flexible labour force or ability to shift resources easily, are created to reduce or withstand the effects of shocks[91].

---

[85] The development of crisis and its effects are very well explained in Roubini and Mihm's book's chapter "Global Pandemics", 115-134.
[86] Briguglio et al., 232.
[87] As Briguglio noted, it is not only governments, but also other economic actors, who are building a state's resilience. However, here it is presumed that correct policies could influence and push economic actors for actions strengthening resilience.
[88] B. Sundelius, "Coping with Structural Security Threats", 298, in: Otmar Höll (ed), *Small States in Europe and Dependence* (Vienna: Braumüller, 1983).
[89] Buzan, 236.
[90] Pace, 34.
[91] Briguglio et al. 233.

The spectrum of resilience is the same as of vulnerability from low to high. Low resilience also corresponds to wrong strategies and/or policy failures, which make a country more vulnerable and expose it more to threats. Despite the fact that usually bad governance is associated with *contingent* or self-inflicted vulnerability[92] or even threats, domestic policies – as the subject to policy – remain under the analysis of resilience.

2.4 Understanding Economic Vulnerability

As was indicated beforehand, vulnerability is a feature of the state, indicating to what extent a state lacks physical base (natural, land, human or financial resources), which exposes a country to exogenous factors, not subject to its policy. Historically, this was associated with inherent weakness, smallness and dependency. The following paragraphs provide an overview of the causes of economic vulnerability nowadays.

In the 21st century, when interdependence is inevitable and countries can no longer be self-reliant, every state has to open itself. The more an economy is open, the more it is exposed to external shocks[93]. No state is self-reliant and self-sufficient, thus each country has to open itself to the international market in order to obtain essential materials for its internal development. Small states have always been forced to participate in trade relations, allowing outsiders to play a significant role in a state's survival and, at the same time, making themselves vulnerable. Since small states are weaker and have smaller domestic

[92] Pace, 34.
[93] See Buzan, Briguglio et al. (2009), Ingebritsen et al.

markets, they have no control over the bigger powers' behaviour and actions, but at the same time they cannot normally develop without being open. In brief, economic vulnerability arises from the level of economic openness.

Another two factors, which also indicate inherent vulnerability (see **Figure 2**), are two types of dependency. Dependency can be seen as a two sided coin, where unnecessarily is a relationship between the sides. From one side, the vulnerability of a country, especially a small one, arises from a dependency on imports. If strategically important materials such as food, industrial supplies or energy[94], playing a crucial role in a state's economic life, are not obtainable for a country by itself, a state's dependency on outsiders significantly influences its exposure in terms of goods' availability and price. On the other hand, a state could be dependent on exports. Such a dependency could be a result of high volumes of imports, but it could be also an effect of other structural economic factors forcing countries to set outward looking trade policies. In this case, small states have fewer capabilities to have diversified exports since they are constrained by their small economies on the one hand; and on the other hand, they tend to have less varied their exports' recipient countries. This feature is called "export concentration"[95]. In brief, these two dependencies

[94] Dependence on strategic imports as a crucial factor of vulnerability was already indicated in J. Wells, "Composite Vulnerability Index: A Preliminary Report" (London: CS, 1996), L. Briguglio, "Alternative Economic Vulnerability Indices for Developing Countries" (Report prepared for the Expert Group on Vulnerability Index, 1997), T. Crowards, "An Economic Vulnerability Index for Developing Countries, with Special Reference to the Caribbean: Alternative Methodologies and Provisional Results" (Caribbean Development Bank, 1999) and L. Briguglio and W. Galea, "Updating and Augmenting the Economic Vulnerability Index". *OPISS, No. 4* (Malta: ISSIUM, 2003).

[95] The importance of export concentration was already indicated in these works: Briguglio (1997); R. Chander, "Measurement of the Vulnerability of Small States"

cannot be affected by governance and indicate a state's permanent vulnerability.

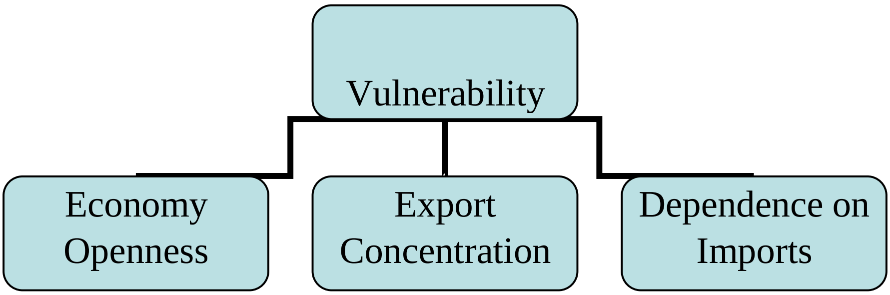

Figure 2 The Constituents of Economic Vulnerability

The framework of vulnerability represents the features of economic vulnerability found in the academic literature. Even L. Briguglio *et al*. in the latest edition of vulnerability index[96] argue that only these three features, identified earlier, should be analysed in order to have a simple small number of variables' framework, easily conprehensible and useful for comparison[97]. However, this model excludes various factors indicated in the past. The following passage presents very briefly which factors were not included and why; or simply put, why previous frameworks are not suitable for measuring economic vulnerability.

(Washington: Report prepared for the Commonwealth Secretariat, 1996 April); J. Wells, "Composite Vulnerability Index: A Revised Report" (London: CS, 1997); J. Atkins, S. Mazzi and C. Easter, "A Study on the Vulnerability of Developing and Island States: A Composite Index" (London: CS, 1998); Crowards.

[96] Briguglio et al. (2009).

[97] Lino Briguglio, "Preliminary Study on the Construction of an Index for Ranking Countries According to Their Economic Vulnerability" (UNCTAD/LDC/Misc 4: 1992).

Even though a significant number of authors from the 1990s suggested various operationalisations of the concept, two main problems could be identified. First, economic vulnerability is mixed up very frequently with a state's general vulnerability. For instance, the first investigation of exposure to foreign economic conditions[98] included population, land area or Gross Domestic Product (GDP), which refer to a state's general smallness rather than particularly weak economic capabilities resulting in economic vulnerability. Furthermore, it is questionable whether necessarily small population or GDP mean: first, an exposure to external factors and, second, are inherent and not subject to policy. The same logic could be applied to the inclusion of the risk of natural disasters[99] into the framework. This factor is problematic too: neither it is possible to measure precisely, nor it is exactly covering the issue of an economic exposure. The second problem is that other previously included variables, such as the level of price volatility[100], foreign sources of finance[101], share of agriculture[102], or dependence on tourism[103] are again, from the theoretical point of view, not suitable for evaluation of inherent economic weakness. These factors could change very substantially over time because of certain implemented policies by governments. To conclude, the investigation of economic vulnerability

[98] Lino Briguglio, "The Economic Vulnerabilities of Small Island Developing States" (The Study for Regional Technical Meeting for the Global Conference on the Sustainable Development of Small Island Development States, Port of Spain, Trinidad and Tobago, 1993).
[99] Briguglio (1993), Wells (1997), Atkins et al. (1998).
[100] Cordina and Farrugia (2005).
[101] Chander, (1996), Briguglio (1997), Wells (1997), Crowards (1999), Cordina and Farrugia (2005).
[102] Atkins et al. (1998), UN, "Report of the Third Session of the Committee for Development Policy" (2001).
[103] Wells (1996).

covers the exposure to external factors, namely: economic openness, dependence on strategic imports and export concentration.

2.5 Revising Economic Resilience

Economic resilience indicating a country's coping ability with external shocks represents the efficiency of governance. Smart policies allow countries to overcome vulnerabilities and at the same time better handle with external threats. However, this part of economic security, in comparison with studies on vulnerability, has been quite a neglected research area and started to attract an attention just recently. Only a few studies dwelt particularly on economic resilience and the patterns of its evaluation. Furthermore, only the study of Briguglio *et al*. provided a systematic index for the measurement of resilience. Since there are several problems with their constructed framework already indicated in the introduction and elsewhere[104], it is important to come up with a more adequate framework for better evaluation of economic resilience.

Economic resilience, as indicated earlier, consists of two parts: so called "shock-counteraction" and "shock absorption". Even though the terms were created by a Maltese group of scholars, the origins of such a division could be traced back to the dilemma indicated in Buzan's and other scholars' works. Disagreeing with Briguglio et al.[105], who argues that all four parts, namely: macroeconomic stability, microeconomic market efficiency, good governance and social development should be considered as equally important for

[104] Monika Kokštaitė, "The Resilience Index Revisited: The Case of Small States" (Vilnius: Vilnius University, 2009), 29-34.
[105] Briguglio et al. (2009): 234-238.

measuring economic resilience[106], the dilemma is always between either to have very tight fiscal policies, or to invest in social, economic or human development: or in other words, between obtaining stability or flexibility. Usually countries, especially small ones, have to choose between these two options, because they do not have sufficient resources and capabilities to have both requirements of economic resilience satisfied.

	Economic Resilience	
Macroeconomic Stability		**Flexibility/Regulation Efficiency**
▼		▼
Fiscal Position		Market Efficiency
Inflation Rate		Governance Efficiency
Unemployment Level		Human Development
External Account		Sustainability

Figure 3 The Composition of Economic Resilience

Macroeconomic stability (see **Figure 4**), referring to shock-counteraction, shows the healthiness of a state's economy. The stability materializes when there is an internal economic balance. Stability speaks of a balanced economy, where demand meets supply and vice versa, unemployment is near natural level, and ideally there is no price inflation. Furthermore, stability requires governments to

[106] Such an argument also contradicts understanding that resilience consists of 2 capacities – absorb and counteract shocks. In this case, despite the fact that only macroeconomic stability refers to shock-absorption capabilities, and other three constitute shock-counteraction, logically, each of these two capabilities should be equally important.

keep low fiscal deficit and external debt, which also indicate the level of macroeconomic stability inside a country. Policies ensure the conditions allowing a country to have a physical base from where to recover in case an external shock threatens a state's economy. In short, the components of macroeconomic stability are fiscal position (represented by the level of government spending and budget position), the rate of inflation, the level of unemployment and external financial account.

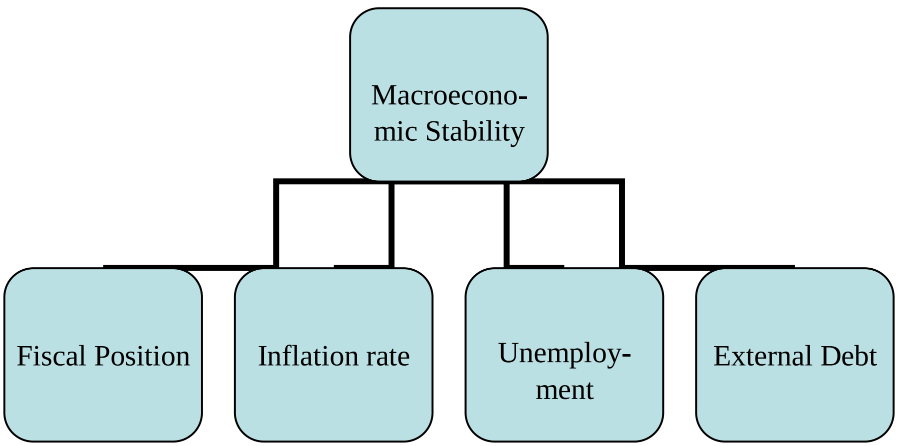

Figure 4 The Constituents of Macroeconomic Stability

The other part of resilience – flexibility – relates in general to other regulations (see **Figure 5**). Flexibility allows a country to absorb a shock by developing regulatory mechanisms when an external shock threatens. These include policies/institutions strengthening market efficiency, legal base, improving flexibility of the labour force, and other developments[107], which together set a course for effective

[107] Briguglio et al. (2009) provide the evidence for the importance of appropriate governance in some areas included here, but more detailed discussion of the factors

management, control and efficient exploitation of a country's resources.

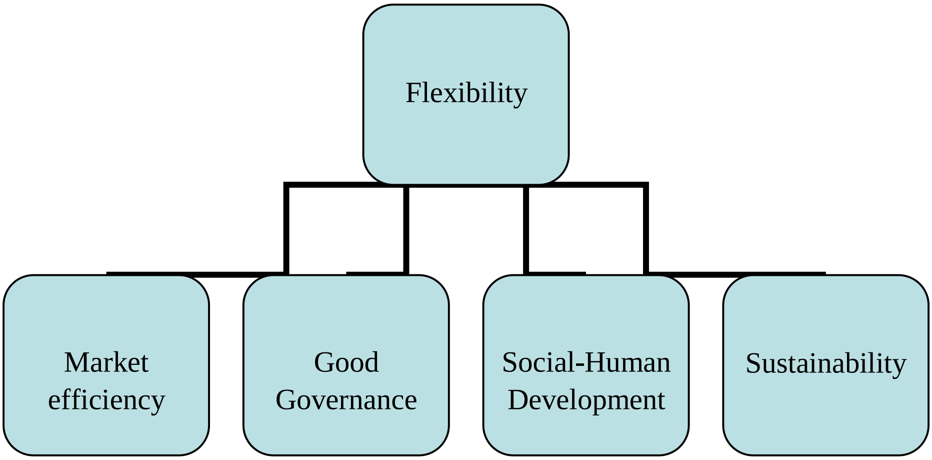

Figure 5 The Composition of Flexibility

Accordingly, in vindication of the analysis of the flexibility, hereby a very short overview of each group of factors, namely market efficiency, good governance, human (social) development[108] and sustainability, is provided. The factor of market efficiency shows how well a country's market could adjust and how well it is balanced in terms of supply and demand. It also refers to the governments' regulatory policies of capital, labour and goods, which are essential

could be found in the articles about "Europe 2020" strategy in section's "Forum" articles *Intereconomics: Review of European Economic Policy*, 45:3 (2010), 136-170.

[108] The terms are negotiable, but not to mix things very much I use for reference to governance and social efficiency Briguglio's et al. terms "good governance" and "social development" and they are used as synonyms. However, I have to mention that these terms refer more to the groups of mechanisms rather than the study by Briguglio et al. (2009).

for successful (or, in the case of bad policies, constrained) market operation, and identifies the level of government control and interference in markets. The assumption here is that a perfectly functioning market in the face of shock adjusts by itself in order to reach a new equilibrium by the reallocation of resources.

The component of legal base or good governance (see **Figure 5**) indicates a general country's attractiveness to market entities and humans. This factor refers to a country's political, legal systems and the rule of law, concerning property rights. Despite the fact that these elements did not attract a lot of attention in the literature of economic security, they play a very important role in determining conditions important for foreign and domestic investors and a population as a whole. Lack of political stability or security of property rights is the main causes of contingent vulnerability or bad policies, strongly affecting markets and external players[109].

The third factor – human efficiency – reveals important information about the policies influencing labour force. The qualitative capabilities of labour allow the evaluation of capacity of a country's long-term economic resilience. Also, a significant amount of literature[110], especially dwelling on the crises aftermath situations in the countries, indicates that social development and cohesion of a society in a state play an important role for a state's ability to withstand crises and neutralize the effects of external shocks.

---

109 Liliana Curmi, "Governance and Small States". *OPISS, No. 4* (Malta: ISSIUM, 2009).

110 Kuokštis and Vilpišauskas; Dorothee Bohle, "Countries in Distress: Transformation, Transnationalization, and Crisis in Hungary and Latvia". *Emecon 1* (2010), 1-3.

The last element, sustainability, sheds light on the policies or institutions, influencing long term preparation to overcome possible future shocks. It includes regulation, which directly affects the conditions important for long-term development and financial stability[111]. A country, which sets a suitable course for investment, research and development, life-long learning or diversification, strengthens its flexibility, prepares itself for overcoming the effects of external shocks.

To conclude, the economic resilience of a country combines the factors influencing macroeconomic stability, allowing a country to bounce back very quickly from a shock, and institutions, which affect a state's flexibility in order to neutralize or reduce the effects of external threats as visualized in **Figure 3**.

2.6 Conclusion

Numerous studies have been analyzing how countries with cramped capabilities combat the expenses of subordination, or inherent vulnerabilities. Recent scholarship has been examining the possible outwards and inwards solutions in reducing the outcomes of structural constraints. Structural constraints, as historical analysis presents, were always part of the survival problem and have been addressed by national security. Economic content of security is as old as military one, but conceptual discussions and empirical studies of solely economic content of security and/or economic security started mushrooming after Buzan's influential work in 1990s.

---

[111] Kuokštis and Vilpišauskas provides the empirical example from post-crisis experience of the Baltic States.

The recent financial crisis, or in Nassim Taleb's words "black swan", quite well depicted by Roubini et all, revealed the importance of economic security again. The influential work and many others beforehand called into question the introduction of policies and creation of the institutions in the states, living in the ages of extremely high interdependence and prominent global imbalances. Of course, as Buzan and other scholars noted, there are still some countries, which are less connected to the worldwide economic system, but that could not be seen as an economic security *per se*.

Economic security starts when existing state's exposure to external shocks – vulnerability, arising from inherent features of the economy, is met by adequate coping ability – resilience. Resilience represents the created policies and institutions, enabling economy to withstand or bounce back from external shock. External threats are there as litmus papers, the catalyst, indicating whether and to what extent vulnerability is matched by resilience.

As detailed reflection of the components of resilience showed beforehand, institutions and policies form the core of economic security. External shock and vulnerability are not subject to change, though, might have transformations, but economic resilience – the coping capacity are created and is the most important object of this analysis. There is a significant body of scholarship, especially from political economy and institutional analysis showing that institutions matter. From Douglas North and Ronald Coase to Daron Acemoglu and Alberto Alesina, scholars have been continuing to analyse the effects of institutions, and how they make a difference. As a result, the following chapter is going to dwell on the European experience in the past decades in obtaining economic security, and the results-effects of created institutions are analysed in the last chapter of the thesis.

Chapter 3

European Quest for Economic Security I: Historical Underpinnings

3.1 Introduction

Europe's quest for economic security has been a long and complicated process. After World War Two the continent was severely wrecked, and the division between two different understandings of economic and political systems marked the development of the region. The confrontation between two superpowers on the European soil made survival – both economic and military security – a priority.

Europe devastated in half of the century of two world wars and the Great Depression did not have much choice for choosing its recovery. Certainly, the recovery plan stressed avoidance of one of the main threats to economic security – war. The juxtaposition of two different perceptions of economic security, backed by emerging superpowers, eventually elaborated into the so-called Cold War. However, as it can be seen in the following analysis, the initial goal after the end of

Second World War was ensuring economic security, rather than avoiding military conflict.

The appeared confrontation between two main superpowers and their ideologies generated the complicated environment[112] for Europe's development since 1945. Divided into influence and occupation zones, split by iron curtain Europe remained for a long time on the margins of international politics. However, Europe's role on the global stage has been growing with the process of cooperation and integration, resulting in the creation of the European Union after the collapse of the Soviet Union in 1990s. From world-history approach, the Cold War was a part of a long-term "Europeanization" of the world (or *vice versa*), "as period in which international rules and regulations were set up to preserve the global predominance of Europeans after they had taken control of the globe"[113].

As it was noted by Ludlow, the processes of economic and military security were quite interconnected, and affected one another's development. It is important to note, that obviously, the question raised in this chapter addresses only one way of cause and effect relationship, leaving aside the importance of the environment and international politics as sources for a constructed European community. As it was mentioned beforehand, the Cold War definitely played a significant role in the re-creation of Europe, but the analysis how international politics have influenced the changes of institutions, norms and identities is not covered in this paper. Also, as Waltz would argue, the situations and interactions impact the

---

112 Odd Arne Westad, "The Cold War and the International History of the Twentieth Century", in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1*, (Cambridge: Cambridge University Press, 2010), pp. 3-5.

113 Westad, p. 7.

existence and continuity of the processes, but such a delineation of events is left for future research.

This chapter dwells on the quest for economic security and how it developed in Europe. As connection between economy and politics (or military security) is rather strong, the following sections reconstruct the historical background and analyse the path development. It also covers the repercussions, which followed the institutional changes on European soil.

In order to answer the question how did the change of institutions influence international politics on the European space after 1945, this chapter engages with the literature discussing the appearance of the institutional framework in Europe and how emerged cooperation via established institutions influenced the international relations on the European space after 1945.

As a result, the chapter is structured as follows. First, the analysis introduces origins of the European institutionalisation. Second, it provides the process of the institutionalization of the European space after 1945 and how its changes affected the international politics in Europe. Fourth part presents how the ongoing institutionalisation was dividing Europe, challenging the US' presence in Europe and evoking the Soviets' response. Fifth section provides the overview how the same institutionalisation, which divided Europe after the end of the Second World War, brought together different parts of Europe for cooperation and mutual development. The final discussion and evaluation of Europe as a 'constructed community' through transformations of various institutions conclude the chapter.

3.2 The Origins of the Institutional Setup in Europe

The end of the Second World War marked a new period of the European history. After two devastating wars there was a need for a "New Europe" and the last half of 20th century presented tremendous changes on the European space[114]. The development of new international relations in Europe reflected the awareness of the past, but at the same time were influenced by two competing superpowers in the global arena: the US and USSR.

The war left whole continent quite devastated. France and the United Kingdom were severely deteriorated, Germany collapsed and Eastern Europe under the Soviet Union's influence. In such an aftermath of the Second World War, the first most dramatic and far-reaching construction of Europe started with the United States proposed the European Recovery Plan (ERP), or in other words, proposed the Marshall Plan[115]. As Hitchcock points out, the language of the act that authorized the Marshall Plan became a part of the fabric of postwar international relations. "The act stated that the restoration or maintenance in European countries of principles of individual liberty, free institutions, and genuine independence rests largely upon the establishment of sound economic conditions, stable international economic relationships, and the achievement by the

---

[114] Westad, p. 9.

[115] Charles S. Maier, "The World Economy and the Cold War in the Middle of the Twentieth Century", p. 57, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1*, (Cambridge: Cambridge University Press, 2010).

countries of Europe of a healthy economy independent of extraordinary outside assistance”[116].

Although the plan was supposed to establish sound economic background for the revival of the countries devastated after the Second World War, the allocated approximately 2 percent of the US' gross national product were not enough to bring back the recipient countries' national income to the pre-war levels in Europe. By 1948 Europe was still not recovered and following the European Recovery Program, authorised by the Economic Cooperation Act, which was implemented by the created the Economic Cooperation Administration[117]. According to Leffler, the Marshall Plan can be seen as the first mechanism, which strongly affected the creation of “New” Europe, influencing the European politics after the end of the Cold War and facilitated the “emergence of political and social conditions in which free institutions can exist”[118].

Numerous scholars' research supports Leffler's argument that the Marshall Plan was not necessary to restart the European economies – indeed, it was just a small fraction for the European states[119], but it definitely gave the impetus for European governments to move Europe's economic life in a transformation, as a result, pushing the European integration. The European governments were free to choose how to deploy received aid according to their national politics and priorities. The Marshall Plan was much more important in the

---

[116] William Hitchcock, “The Marshall Plan and the Creation of the West”, p. 158, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1*, (Cambridge: Cambridge University Press, 2010).
[117] Hitchcock, p. 158.
[118] Melvyn P. Leffler, “The Emergence of an American Grand Strategy, 1945-1952”, p. 77, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1*, (Cambridge: Cambridge University Press, 2010).

case that it helped to restore Europeans' political choices via economic recovery and growth[120].

Certainly, the Marshall Plan played a significant role in the promotion of European economic integration project, since from the initial stages it was clear that the plan was more than just a foreign aid program. At the first stages of the creation of the institution, it was obvious that, first, it will be constructing the "community of ideas, economic links, and security ties between Europe and the United States we know simply as "the West""[121]; and, second, from 1947 surely Western European countries will be working together in order to reach the recovery of the continent.

Nevertheless, without economic, political and cultural impact, the Marshall Plan contained very strong argument towards the role of Germany in the Europe's recovery. From the United States policy-makers' point of view, European recovery was impossible without strong and vibrant German economy as an engine for European revival[122]. However, Germany was far away from the necessary engine. At that time Germany was a very crucial issue maintaining a possibility of crisis[123].

---

119 Hitchcock, p. 159-160.
120 Hitchcock, p. 160.
121 Hitchcock, p. 154.

122 Hitchcock, p. 166.
123 Vladimir O. Pechatnov, "The Soviet Union and the World, 1944-1953", p. 106, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1*, (Cambridge: Cambridge University Press, 2010).

The problems started with Germany's division, leading to the joint occupation's failure[124]. Since each of the four powers had to appoint a military governor for supervision of its own occupied zone, the Allied Control Council (ACC) was established in Berlin to coordinate Germany as a whole. It was supposed to be the institution allowing acting “jointly”, but because of very high governors' authorities and veto rights, the common decisions were inevitably postponed, leading to bureaucratic nightmare[125].

Also, the problem was in general disagreement between the great powers. The greatest impediment for the joint administration of Germany was the contradiction between Soviet demands for reparations and US and UK desires for a reasonable level of industry in their zones[126]. This resulted in the failures to reach an agreement on a peace treaty in Moscow and London in 1947. As a result, “the three western zones were merged into a viable economic and political entity”[127]. The appeared demarcation line between Soviet Germany and Western zones' entity symbolized divided Europe, and Berlin became a powder keg in the centre of the continent. Since Germany's economy was stagnated, it was clear that the occupied western zones of Germany have to be incorporated into the US' plans for the reconstruction[128].

---

[124] Anne Deighton, pp. 125-126, in William Hitchcock, “The Marshall Plan and the Creation of the West”, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1*, (Cambridge: Cambridge University Press, 2010). [Referring to William I. Hitchcock, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944-1954* (Chapel Hill, NC: University of North Carolina Press, 1998), p. 134.]
[125] Deighton, p. 134.
[126] Deighton, p. 136.
[127] Deighton, p. 137.
[128] Deighton, p. 143

Reconstruction plans included France as well, but the country used economic support from the Marshall Plan for covering the dollar deficit, appearing from the implementation of the Monnet Plan. The Monnet Plan was strongly oriented in the recovery of the key sectors of the economy, such as steel and coal production, railway and transport, agriculture, etc. The proposed Marshall Plan allowed France to continue investing into obtaining raw materials for vital industrial production[129] and proceed with further development.

To conclude, in Michael Hogan's words, Marshall Plan was supposed to be "major reorganization of the European state system into a more viable framework for controlling the Germans, containing the Soviets and putting the continental countries on the road to economic recovery and multilateral trade"[130], but as Hitchcok vividly described "the Marshall Plan's long-term ripple effects reached out beyond Germany and US alliance policies"[131]. The plan made a strong impetus for the development of international relations within countries - recipients and opened the windows for Americanization in Europe. Finally, the transferred economic model of production and consumption, and economic development processes shaped the evolution of European integration and emergence of institutions.

---

[129] Hitchcock, p. 160.

[130] Michael J. Hogan, "European Integration and German Reintegration: Marshall Planners and the Search for Recovery and Security in Western Europe", in Charles Maier and Günter Bischoff, eds, *The Marshall Plan and Germany* (New York: Berg, 1991), p. 116.

[131] Hitchcock, p. 170.

3.3 Institutionalising Europe

As Ikenberry notes, in the Europe receiving Marshall Plan support, there was a need "of trans-governmental and international institutions that would bring government officials together on an ongoing basis to manage economic and political change"[132], since economic revival was not as present as expected. After the end of the Second World War, Western Europe experienced a great amount of newly created institutions.

To begin with, the European Payments Union (EPU) was established in order to help to reinstitute the relationships between countries and restore Europeans currency convertibility[133]. Simultaneously, the Recovery Program within Western Europe was organized through the new autonomous European Cooperation Agency (ECA) since fall 1949, which called for an admittedly ill-defined "integration" among the West European recipients. The ECA had facilitated the emergence of the Organization for European Economic Cooperation (OEEC), then it transformed into the Organization for European Economic Cooperation and Development (OECD) in order "to develop common Western criteria for measuring economic performance, including better national income statistics"[134].

[132] G. John Ikenberry, "The Restructuring of the International System after the Cold War", p. 546, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 3,* (Cambridge: Cambridge University Press, 2010)
[133] Silvio Pons, "The Rise and Fall of Eurocommunism", p. 58, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 3,* (Cambridge: Cambridge University Press, 2010).
[134] Maier, p. 59.

The dramatic initiative pushing for transformative thinking was replaced at the end of 1951 by Mutual Security Agency[135] or Mutual Security Administration (MSA), which together with newly established the North Atlantic Treaty Organization (NATO) was supposed to help to strengthen the created community by the Marshall Plan, from of the fathers of NATO, according to Bevin's point of view[136]. As “Marshall Plan directly led to the creation of Western Germany and the division of Europe, thus, too it did spur new European security plans that would lead directly to the formation of the North Atlantic Treaty Organization (NATO)”[137]. Britain, which was revived by the Marshall Aid programme[138], played a major role in the creation of the NATO, binding together the United States and Western Europe. One of the main goals of NATO was not only to provide security, but also contain Communism behind the Iron Curtain[139].

As Milward claimed, “the true origins of the European Community are economic and social”[140]. The cornerstone of the new European Community became the European Coal and Steel Community (ECSC), the successor of the Schuman plan[141], since the Organisation for European Economic Cooperation (OEEC) remained weak and without any possibility to impose common policies on national

---

[135] Maier, p. 59.
[136] Hitchcock, p. 169.
[137] Hitchcock, p. 168.
[138] Deighton, p. 112.
[139] Deighton, p. 132.
[140] Alan Milward, *The European Rescue of the Nation-State*, (London: Routledge, 1992), xi.
[141] Hitchcock, p. 171.

governments[142]. The central concern of the ECSC Authorities were coal and steel industries, while the early EEC Commission was preoccupied with trade and tariffs, the establishment of a complex agricultural subsidy system and relations between EEC and its West European neighbours[143].

The Schuman Plan had not gained much support in the United Kingdom, although the European Atomic Energy Community (Euratom) was seen as an effective mechanism for preventing dangerous nuclear proliferation by the United States. Thus, Britain refused to join the community, fearing the Franco-German cartel in Europe, and the European Coal and France, Germany, three Benelux countries and Italy founded Steel Community (ECSC)[144].

The ongoing economic integration in Europe challenged American dominance in the region[145], despite the fact that security cooperation within the Western European countries was not successful. The attempt for the political construction of the Europe, like the Pleven Plan, designed to create a European Defence Community, was not flourishing. EDC encountered several problems and never became a reality, since it was always problematic to arrange joint European approach towards security[146]. Since 1958 European integration was based on the European Economic Community.

---

[142] N. Piers Ludlow, "European Integration and the Cold War", p. 181, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 2*, (Cambridge: Cambridge University Press, 2010).
[143] Ludlow, p. 180.
[144] Hitchcock, p. 172.
[145] Jussi M. Hanhimäki, "Détente in Europe, 1962-1975", p. 204, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 2*, (Cambridge: Cambridge University Press, 2010).
[146] Ludlow, p. 180.

Lastly, the 1957 Treaty of Rome finalized the emergence of "new" Europe and started the creation of genuine European integration institutions. Euratom, European Economic Community and European Coal and Steel Community were merged into one, which later on became the European Union with its independent institutions: the European Commission, the European Parliament, the Council of European Union, the Court of Justine of the European Union, the European Central Bank, and the European Council. As a result, the consequences of the Europe's construction were actually much better than anybody could have imagined when George Marshall plan for Europe was announced. Europe became premised on democratic governance, based on economic liberalism and capitalism in a strong alliance with the United States[147].

3.4 From Economics to Politics: Europe Falling Apart, The Division and the Cold War

The peculiarities of the ongoing integration processes within Western Europe to some extent facilitated the emergence of ideological bipolarity and serious confrontation and at the same time the beginning of the so called the Cold War. Since 1945 the competition between socialism and capitalism was "much about which system could deliver better health care as about principles of liberty or justice"[148]. As Ikenberry argues, "even if the Soviet Union had not slipped into history, some sort of new order would have been built across the Atlantic"[149].

---

[147] Hitchcock, p. 174.
[148] Westad, p. 13.
[149] Ikenberry, p. 545.

The main division appeared because of the issue of Germany. The establishment of West German state was perceived as a threat to the very existence of the Soviet state[150]. For Soviet Union, “the Western powers were [are] transforming Germany into their stronghold”[151] and the inclusion of Allies' Germany into the newly formed military-political bloc, was perceived as directly in opposition to the Soviet Union and the new 'democracies' in Eastern Bloc.

From Ikenberry's point of view, “the vision of a new order among the Western democracies predated the Cold War[152]”. As Ludlow identifies, at least three instances had an effect on the East-West conflict or the development of the Cold War. First, he says that successful EEC brought economic prosperity and political self-confidence. Second, the created cooperation framework allowed Germany to regain independence in its policy-formation, especially, concerning foreign affairs. Third, the undeniable Western Europe's success had shaken the fixed stability of the Eastern Bloc. Western Europe manage to gain the image of the high quality of life, success, stability and prosperity brought by integration[153], which pushed the Eastern European dissidents to start the chain of events, which ended in the collapse of the Eastern bloc and the end of the Cold War.

It is important to stress that the ongoing European institutionalisation divided Europe not only in a sense of East and West, but also within the European countries on the West side of the Iron curtain. In order to understand this division, first, it is necessary to understand that new integrating institutions were also dividing European countries, and, second, that as Pons indicated, “economic

[150] Pechatnov, p. 106.
[151] Pechatnov, p. 106, quoted from A. Smirnov to V. Molotov, March 12, 1948.
[152] Ikenberry, p. 545.

initiatives in both sides of the Iron Curtain profoundly changed Europe's economic geography and its economic institutions"[154].

First, the appearing division between the European countries on the West side of the Iron Curtain is overviewed. After the end of the Second World War, the French were afraid of growing Germany and possible future rivalry. This pushed the process of European integration towards new methods of containment of Germany within Europe. For the United Kingdom the ongoing transformations in Europe's geography were also unacceptable and the UK's reaction towards institutional changes inside Europe was negative, resulting in the blocking of its own economy's integration into the European continent.

The case of United Kingdom was even more problematic than it can seem from a first glance. In principal it decided to be separated from the institutionalisation process in Europe, whereas in the subsequent decades it was struggling to get admitted to the EEC. During the first years of the Cold War, the UK suspiciously observed ongoing supranational cooperation between Germany and France, but the policy-makers decided to stay aside[155]. The ongoing integration among Six changed international politics between the United States and Europe, as a result excluding Britain from international discussions' table. As Ludlow points out, the UK suddenly felt marginalised in European context, dominated by a more united Europe in its strategic partnership with the United States and totally powerless to affect ongoing processes in continental Europe.

[153] Ludlow, p. 195.
[154] Pons, p. 58.
[155] Ludlow, p. 188.

At the same time, the United Kingdom was not ready to pursue economic and political policies that extended beyond an intergovernmental, Commonwealth-type approach. This drawback became apparent with the United States' role in Europe and Marshall Aid distribution. The United States initially had expectations that Britain would lead West European integration[156]. The UK had had other goals and expectations. Britain had not seen itself participating in the continental West European integration institutions, since they were perceived as nothing more than "'nested' institutions under the military security umbrella"[157]. Britain was concerned to see the US membership in NATO, what was supposed to be enough to keep favourable balance of power in the West European geography, and remain a global power with its "imperial responsibilities that extended well beyond the West European landmass"[158].

France was also complicating the ongoing processes within the area. French had nothing else just to accept the creation of the Federal Republic, however, their general disappointment with any institutional European development was always present. Charles de Gaulle's return to power marked hard times for both NATO and the EEC[159]. As Ludlow shows, Gaullist France needed to look for compromise for re-cooperation, since serious damages would have been fatal to the community system. Furthermore, initially the cooperation framework was created for the countries involved in the East-West conflict, and the states with neutral status, such as Austria, Sweden or Finland were kept out from the membership.

---

156 Deighton, pp. 125-126, referring to William I. Hitchcock, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944-1954* (Chapel Hill, NC: University of North Carolina Press, 1998), p. 108.

157 Deighton, p. 127.

158 Deighton, p. 127.

159 Ludlow, p. 186.

Consequently, multiple national interests were tied up in the integration process. It demonstrates how European integration affected the Cold War rather than vice versa[160].

Second, it is obvious that the impact of the development of Europe's institutionalisation affected the Eastern side of the Iron Curtain. The ongoing European integration even more divided Europe. The created cooperation framework clearly indicated impossibility of any participation from the member of the Soviet bloc, although Marshall Plan aid was theoretically possible to be obtained by any democratic country. As the example of the Czechoslovakia showed, being part of ERP was suicidal, since the country was punished and the Communists seized power in Prague in 1948[161]. Thus, Poland, Hungary or Czechoslovakia was excluded from being involved in the institutional development in Europe until regain of independence.

To conclude, in Pechatnov's words, “the creation of NATO and a formal division of Germany solidified the split in Europe, leaving little room for further diplomatic bargaining”[162]. The division between Soviet Germany and created viable entity of Western zones in Germany remained complicating East-West diplomacy till the end of the Cold War and Germany's reunification in 1990[163]. The European Recovery Program (ERP) confirmed the division of Europe”[164]. The ongoing independent Western European integration made it to flourish even more, and following economic growth supported the final setting.

---

[160] Ludlow, p. 186.
[161] Leffler, p. 80, and Pechatnov, p. 106.
[162] Pechatnov, p. 108.
[163] Deighton, p. 143
[164] Pons, p. 58.

3.5 Creating New Europe: Bridging East and West

Over time, however, the signs of Europe coming together were seeable. From the 1960s the UK was forced to come closer to the EEC in order to prevent the collapse of NATO after the French decision to leave the security 'umbrella' in case other countries would have followed the France's path. In 1961 London was already knocking on the EEC door asking for full Community membership[165].

Second, the ongoing transformation of European economic geography helped to restructure two major concerns: intensive pre-war trade and investment exchanges between Germany and Russia, and the UK and the US.

Third, the issue of German rearmament was solved and the most important security issues were left to the Atlantic-level institutions[166]. However, since the economic support from the United States was insufficient and the most important institutions were failing to bring expected advantages, in 1970s the EEC proceeded with further integration, including such issues as foreign-policy coordination and monetary cooperation under the established cooperation framework.

Fourth, the European community enlargement facilitated the popularity of the liberal democracy and capitalism, which anchored countries on a voluntarily basis to move for liberal democracy and free enterprise establishment[167]. The possibility of being the part of

---

[165] Ludlow, p. 189.
[166] Ludlow, p. 192.
[167] John W. Young, "Western Europe and the End of the Cold War, 1979-1989", p. 301, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 3*, (Cambridge: Cambridge University Press, 2010).

the developing European integration helped to stabilise new mid-1970s' democracies emerged in Europe[168].

Fifth, the mid-1970s marked the time of appearing cohesion between divided East and West. 1975 marked the beginning of a new kind of East-West relationship in Europe[169] and ended the Europe's post-war era with the conclusion of the Conference on Security and Cooperation in Europe (CSCE)[170]. Also, the CSCE had a major long-term significance by pointing the importance of human security as inevitable part of international relations[171]. The CSCE also provided the framework for economic discussions and cooperation between East and West in Europe and a vehicle to start talking about the necessity of rights of people. Properly CSCE appeared as an institution only with the creation of the Organization for Security and Cooperation in Europe (OSCE), and OSCE was one of the last ones developments in diminishing the division between East and West.

Finally, the processes were followed by the revolutions in Czechoslovakia, Hungary, Poland, Romania, etc[172], and the collapse of the Soviet Union[173]. Eastern Europeans countries had followed the same way of getting Community membership, when the Soviet Union fall down in 1989. Positive European integration results encouraged Central and Eastern European countries to proceed with

---

[168] Young, p. 301.
[169] Hanhimäki, p. 213.
[170] Hanhimäki, p. 199.
[171] Hanhimäki, p. 214.
[172] Jacques Lévesque, "The East European Revolutions of 1989", pp. 311-332, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 3*, (Cambridge: Cambridge University Press, 2010).
[173] Alex Pravda, "The Collapse of the Soviet Union, 1990-1991", pp. 356-377, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 3*, (Cambridge: Cambridge University Press, 2010).

domestic reforms, which afterwards were awarded by new trade pacts and security partnerships[174]. As a result after 50 years of the Cold War, Germany was forced to be in a process of intensive communication and cooperation with its Western neighbours due to institutional links such as the ECSC or EEC[175]. European integration was seen as an essential element in order to reduce international alarm because of the reunification in 1990 and Germany continued to play an important role in expanding the constructed community borders including newly appeared post-communist Eastern European states. The processes commenced by European community construction started to merge the parts, which got so much divided by the beginning of European integration.

3.6 The Revision: Historical *Modus Operandi* in Europe

The whole construction of the European community was done and influenced by the overarching East West conflict. In Ludlow's words, "It was therefore inevitable that the Cold War had a substantial effect on the ways in which the countries of Western Europe co-operated with one another. There is also evidence suggesting that Western Europe's efforts to unite played a role in the evolution of the Cold War and especially in the way that the East-West struggle came to an end"[176].

Certainly after the end of the Second World War, European integration brought political and economic stability to Western

[174] Ikenberry, p. 549.
[175] Ludlow, p. 183.
[176] Ludlow, p. 180.

Europe[177]. "Indeed, it is no accident that the most ambitious era of international institution-building took place after 1945; these forms were bilateral, multilateral, regional, global, economic, political, and security-oriented. The democratic countries enmeshed themselves in dense institutional relationships"[178]. The new construction of integrated Europe in 1951 was done under the functional rather than federal principal basis[179]. Simultaneously, Europe's solution was challenging the existed bipolarity and ending with relaxation of East-West tensions in Europe[180].

The integration in the EU, as historical overview showed, was also spurred by the interest of welfare and prosperity optimization. A possible recovery plan, including aid from the United States of America, demanded to cooperate for a shared action and a common voice. Welfare maximization was a common interest and most likely the main driving force of the economic integration and the creation of the collective economic security community. In addition to that, the strengthening of security through collective means was proving successful, since the member states were keen to proceed further than environment was forcing to.

Both factors – war and economy played a significant role in the integration, regionalization and regionalism development within European states. Two different economic security systems were dividing the war-devastated region to make a choice, which way of ensuring economy protection and sustainability of the acceptable welfare level to opt for. As Buzan indicated in his ground-breaking study, there were two options – to close the borders and make

---

[177] Ludlow, p. 191.
[178] Ikenberry, p. 546.
[179] Walkenhorst, p. 11.

yourself self-sustainable, which in principle diminished the level of external threats, but reduced resilience and downgraded the conditions for development; or plug yourself in increasingly interconnected global net by increasing the level of vulnerability, but in response improving the resilience capacity by exploiting the common goods of the sharing market.

There was certainly any immunity neither in European politics (including the Cold War period) nor in European integration from the interaction with each other. As Ludlow argues, although both the Cold War and European integration were autonomous processes, "their paths intersected at multiple points throughout the four decades of their simultaneous evolution"[181]. The US role in reviving Europe was certainly provoking the Soviet Union and leading to the complication of the two superpowers' relations. However, American provided assistance for economic recovery and security development facilitated the independent European institutionalisation in a long run, which later on helped to bridge two different sides of the Iron Curtain. As Ludlow described, the European integration processes brought the Cold War "to a peaceful end and has guided the destinies of both halves of the once divided continent in the years since 1989"[182].

To conclude, the analysis of the institutional change provides an important insight into the understanding of the integration development on the European space after 1945. For sure, institutional analysis reflects the best the dynamics of European community's

---

[180] Hanhimäki, pp. 198-218.
[181] Ludlow, p. 197.
[182] Ludlow, p. 197.

construction. Their key role in community development partially explains the genesis of the European Union.

However, the new European community was constructed not only through formal institutions. As various scholars argue, another two components are extremely important in order to understand the zest of international politics in Europe since the end of WWII. First Europe became a bastion for democracy, liberal values, human rights and environment protection. The Cold War period marked the emergence of particular norms and the community formation around democracy, human rights, equality, socio-economic development and others. Consequently, norms' inclusion into analysis would provide a necessary insight, explaining how international politics have changed over time.

Identity, the last component of the package, indeed, would have supplemented the institutional approach. The long-lasting discussions about European identity have been playing an extremely important role in European politics and for this reason would have shed a light on the understanding how Europe became a constructed community and what effect identity or identities had to European international relations from constructivists' point of view. Having said that, identity studies forms a separate niche in European studies and numerous insights could be found elsewhere.

Thus, the investigation of the impact of three components – institutions, norms and identities - allows tracing completely the changes in the European politics and portrays Europe's path to a "constructed community". However, due to the space constraints only the institutional change has been analysed and portrayed here.

Chapter 4

European Quest for Economic Security II: Path to Security Community?

4.1 Introduction

Since the end of the Second World War, there were many processes ongoing at the same time in Europe. As Mansfield and Solingen well noted[183], regionalism was very much driven by the economic factors, generating a considerable amount of literature on the political economy of regionalism. This was also linked to the security analysis from a regional perspective[184]. Many economists were interested in the regionalism's welfare effects and its repercussions to the stability of economic system(s) worldwide. As many scholars noted, integration itself is about welfare maximization for the integrating states, and the formation (including application) of (coordinated) common policies in order to fulfil economic and welfare objectives.

---

[183] Edward D. Mansfield and Etel Solingen, "Regionalism". *Annual Review of Political Science, No. 13*, 2010, pp. 145-63.
[184] Mansfield and Solingen, p. 146.

Indeed, as numerous integration theories point out, countries start cooperation because of positive ramifications, such as higher economic growth, intensified trade or lower barriers for exchange. Regionalism proponents see this as a result of the political process, marked by cooperation and policy coordination, institutionalized practices, reinforced by states. Regionalization advocators stress about bottom-up undirected processes of social and economic interaction driven by the private actors. Usually, regionalization is observed as rapidly growing measures of trade and investment within the region than with the rest of the world[185]. In brief, the majority of the research of regionalism has concentrated on its welfare implications.

The exceptionality of the EU has been widely depicted in the academic scholarship. In fact, the distinction between the EU and the rest of the world is not without reason. In Telò's words, "the European continent still provides the most complex, rich and elaborated workshop of regional cooperation/integration in the world, namely of institutionalized integration"[186], which continues to be the main the EU merit. As a result, this section dwells into the question what are those distinctive features of the EU making it more than just simple economic arrangement. This part also shows that the EU is more than an economic confederation or market organization, and the EU's distinction from the rest of the regional projects worldwide could be seen much before the community was perceived to become a totally integrated institutionalized organization.

---

[185] Mansfield and Solingen, p. 146-7.

[186] Mario Telò, "European Union, Regionalism, New Multilateralism: Three Scenarios", p. 297, in Mario Telò, ed, *European Union and New Regionalism: Regional Actors and Global Governance in a Post-Hegemonic Era*. Burlington: Ashgate, 2007.

In order to do that, I start from solving the conceptual problem of definitions, juxtaposing different conceptualisations and theories about integration and regionalism. I challenge classical 'Balassian' understanding of economic integration, by showing how different types and ways of integration overlap, especially in the stage of economic union. I question whether it is possible to have an economic integration without political integration, and where is demarcation line, when the regional organization would be seen as a political union. At the same time I argue that since Single European Act (SEA) in 1986, European Economic Community (EEC) has been functioning more than as an economic union and since then could be called as European Union (the term European Union is used interchangeably to EEC regardless of the time span). I claim that 1991 Maastricht Treaty just continued the integration, which was started long years before signing the treaty. Ultimately, it is finished with representation of EU's exceptionality within regional arrangements and the analysis of different ways of overcoming negative effects of globalization and how this makes the EU as an economic security community.

Thus, it is necessary to acknowledge the different patterns of the construction of European economic security community. The forces of integration, regionalism and regionalization, and different aspects of them are examined to understand the exceptionality of the European example. Furthermore, it is essential to understand the concept of collective security community and distinguish the exact elements of economic security in the development of the European project in order to theorize on the effects of the collective economic security.

In brief, this chapter is structured as follows. I start from the introduction of regionalism, regionalization and integration concepts and theories. This section covers various understandings of economic integration and different aspects of it. First sub-section provides the conceptual analysis of differences between economic arrangements and economic union, and questions, whether Balassian and other frameworks are still useful to analyse economic regional organizations. The second sub-section analyses the particularities of the creation of the economic union in Europe and how the process was done. In the third section I distinguish the EU's differences from other economic arrangements mentioned beforehand and conclusion of previous subsections. Section four dwells on the theoretical background of collective security community, whereas in the following fifth section I argue why European Union should be seen as a(n) (collective) economic security community. The last part concludes the review of the Europe's path to economic security.

4.2 Regionalism, Regionalization and Integration

> *Regionalism spread rapidly, fuelled by a "domino effect" driven by legitimacy and a quest for prestige. Countries joined regional projects as a way "to enhance [their] political or economic credibility" both within and outside of their geographical areas.*[187]

The end of the Second World War marked the new era of international relations studies. The increased patters of economic and political development across the world intensified globalisation and

[187] Francesco Duina, *The Social Construction of Free Trade: The European Union, Nafta, and Mercosur.* Princeton: Princeton University Press, 2006, p. 33. [referring to Baldwin 1997, p. 871, and Yeung, Perdikis and Kerr, 1999, p. 20].

the need to reduce barriers to trade. The mushrooming of regional and inter-regional formations worldwide took a pace unseen before, especially after 1980s fundamental changes in the world economy. As Gamble[188] argues, the end of the Cold War and proceeding reunification of the world economy raised new issues, starting from borderless world, American empire and new medievalism with emerging clear regional blocs. The pace of globalization required collective action towards problem.

Moreover, developments in Europe and successful negotiation and ratification of the North American agreements increased the salience of regionalism. Consequently, regionalism studies resurged in the world politics[189]. Numerous amount of studies have been pursued, various definitions and conceptualisations have been provided in order to explain arrangements' phenomenon itself and simultaneously different types, patterns and ways of integration appeared in the academic scholarship.

However, suddenly became clear that arrangements between states cannot be so easily explained and defined. The discussions and disagreements in definitions what a region, integration and regionalism are; their types and categorizations still continue to be the epicentre of obstacles in analysing the phenomenon. Furthermore, as De Lombaerde et al[190] pointed out, there is a little

[188] Andrew Gamble, "Regional Blocs, World Order and the New Medievalism", pp. 21-32, in Telò, 2007.

[189] Kjell A. Eliassen and Catherine Børve Arnesen, "Comparison of European and Southeast Asian Integration", pp. 204-5, in Mario Telò, ed, *European Union and New Regionalism*, Burlington: Ashgate, 2007.

[190] Phillippe de Lombaerde, Fredrik Söderbaum, Luk Wan Langenhove and Francis Baert, "Problems and Divides in Comparative Regionalism", pp. 21-39, in Finn Laursen, ed, *Comparative Regional Integration: Europe and Beyond*. Burlington: Ashgate, 2010.

agreement on what to study and how, usually resulting in the theories, which tend to focus on different or related aspects. Finally, there is a significant bias in favour of European integration, leading to the distinction between the European Union studies and the rest of the world regionalism.

4.2.1 Theoretical Considerations: Economic Union vs. Economic Arrangements

The conceptualisation of the terms is one of the main problems in regionalism and integration studies. There is a wide range of definitions, starting from 'region', 'regional integration', 'regionalism' and others. Also, each of the concepts has different typologies and categorizations, frequently overlapping between each other. To make things worse, usually the same process is described by different concepts, leaving the room for ambiguity. Consequently, in this chapter I question how to understand economic union, what the features of the economic union are and what are the main differences between economic union and economic arrangements, and whether there is any agreement in academia regarding these issues.

In order to understand what an economic union is, I start from analysing the distinction between political and economic integration. As Jacob and Teune[191] emphasize, political integration starts when there is a relationship of community, which is seen through a

[191] Philip E. Jacob and Henry Teune, "The Integrative Process: Guidelines for Analysis of the Bases of Political Community," in Philip E. Jacob and James V. Toscano, eds, *The Integration of Political Communities*, Philadelphia: Lippincott, 1964, pp. 4-5.

collective action to promote mutual interests. According to Nye[192], the economic integration leads to the formation of transnational economy, whereas political – to the formation of transnational political interdependence. Political integration consists of institutional, policy, attitudinal and security community combinations, sometimes including jurisdictional and bureaucratic, which means that at the same time it affects other types of regional integration as well. As a result, someone would ask, whether it is possible to have transnational economy without the political convergence at the same time, and vice versa.

From Balassa's[193] point of view, economic integration consists of 5 stages: free trade area, customs union, common market, economic union and total economic integration, which is perceived as the unification of policies and institutions. Free trade area is the basic stage of removing tariffs and quotas for trade. Customs union is in a way an upgraded version of free trade by introduced common external tariff. The upper stage – common market implies the facilitation of free flow of factors, and harmonisation of economic policies is supplementing the creation of economic union on top of the common market. Above all is only total economic integration, demanding the unification of policies and institutions.

It is questionable, whether the last stage can still be seen as only economic integration, since it requires to unify policies and institutions, which needs not only economic cohesiveness via trade patterns and economic complementarity, but also common social and political background, at least in culture and ideology. From Higgott's

[192] Joseph S. Nye, "Comparative Regional Integration: Concept and Measurement". *International Organization*, *Vol. 22*, 1968, pp. 855-80.

perspective, this matters a lot in the places worldwide, where market economy and liberalism are less firmly fixed, since such issues can continue to sustain massive policy shadows[194]. However, the other understandings of economic union and other stages are not less problematic and should be analysed more in depth here.

Economic union, as defined by Balassa, is the harmonisation of economic policies. On the regional level it seems that it requires the process of both regionalism and regionalization at the same time. According to the Balassian definition, then there should be conscious policy of states to coordinate activities and arrangements designed to boost interstate collaboration and interdependence, simultaneously supported by market dynamics through natural economic forces and/or private sector actions[195]. Economic union demands both top-down and bottom-up processes to be functioning simultaneously.

Fabbrini[196] provides a framework, where the differences between economic and political integration are more evident. According to him, the difference between political and economic regionalism is in supranational public authority, which plays the main role in building a polity and integration itself leads to polity. In contrast to Fabbrini's conceptualisation, economic regionalism is usually distinguished from political one by inter-governmental or trans-governmental

---

193 Bela Balassa, *The Theory of Economic Integration*. London: Allen and Unwin, 1961.

194 Richard Higgott, “Alternative Models of Regional Cooperation? The Limits of Regional Institutionalization in East Asia”, p. 83, in Telò, 2007.

195 Shaun Breslin and Richard Higgott, “Studying Regions: Learning from the Old, Constructing the New”, *New Political Economy, Volume 5, No. 3,* 2000, pp. 333-352.

196 Sergio Fabbrini, “European Regionalism in Comparative Perspective: Features and Limits of the New Medievalist Approach to World”, *Agora Without Frontiers, Volume 14, No. 4,* 2009, p. 446.

governance for building a common market or a custom union. This division might seem helpful to understand, when a project is only economic, and when it becomes already a political one. However, one might argue that there are several issues even with this framework.

Obviously, the first steps of economic integration like free trade area or customs union could be achieved by following negative integration patters. Removal of tariffs or quotas, or in other words, national restrictions, is supposed to increase the free movement of the factors and at the end to create a common market. As Balassian definition of economic union shows, the process towards the harmonisation of economic policies requires removing the obstacles for open market circulation; here the introduction of the common rules in order to diminish regional and other inequalities by higher authority (representing a positive integration) is not necessarily included under the creation of higher authority. From Tinbergen's point of view[197], even a transfer of some powers or joint exercise is already a positive integration, nevertheless, he agrees that in reality positive integration remains extremely formless in economic union, which, as a result, means that economic union could be perceived still as a part of economic integration and economic regionalism can be achieved with negative integration.

Nevertheless, Balassian definition of economic union was never accepted without criticism. From Pinder's point of view[198], economic integration was usually associated with European Economic Community, and the term 'economic union' was used to define the economic destination of the EEC. One of the most influential

[197] Jan Tinbergen, *International Economic Integration*. Amsterdam: Elsevier, 1956, pp. 78-79.

arguments is again repeated here. *Integration itself is about welfare maximisation for the integrating states, and the formation (including application) of (coordinated) common policies in order to fulfil economic and welfare objectives.*

According to Pinder, economic integration consists of both negative and positive integration, "whose end is economic union"[199], although in theory it is about removing discrimination within the common market. The exception where negative integration is not necessarily supported with positive integration could be made only for a common market stage. Although, as the scholar points out, the example of the EEC after the Rome treaty just shows that the marks of positive integration are inevitable even at the earliest economic integration stages.

The ambiguity of the term raises another conceptual problem. If economic union could appear without any positive integration in theory, then, how it could be possible to distinguish it from common market stage? And vice versa, even if there is positive integration, for some European integration analysts, only from Maastricht Treaty the EU really experienced a pure common market, since the required characteristics were not working without making the project a polity. Thus, it could be argued from the EU's case and theoretical considerations, that starting from custom unions the arrangements require some positive integration measures, which leads to the polity creation.

---

[198] John Pinder, "Positive Integration and Negative Integration: Some Problems of Economic Union in the EEC". *The World Today, Volume 24*, 1968, pp. 88-110.
[199] Pinder, p.90

Finally, is it possible to reveal differences between economic union and other economic arrangements, if the term is so ambiguous? The academic scholarship does not provide necessary background for agreement on conceptualisation. On the one hand, either economic union is perceived as a rudimentary stage of political union, deviating from other economic arrangements with polity construction; or, on the other hand, economic union can be understood similar to other economic integration forms with difficulties in distinguishing, when is already an economic union, when it is only a common market. In order to see how exactly functions economic integration and how economic unions work in reality, the example of the EU is explored in the next sub-section.

4.2.2 The EEC/EU as an Economic Union

The economic integration in Europe exceptionally started from the customs union in 1957, with an agreement on European Economic Community. From some scholars' perspective, since the beginning it was more than announced in a customs union. It was already an organization, representing economic union even before signing Single European Act or Treaty of European Union (TEU) was signed in 1986 or 1992 respectively. One of the pioneers of this argument Pinder argues, that since the Treaty of Rome the EEC included some “'of the fruits' of positive integration”[200], which means that EEC can be seen as an economic union from the beginning of its creation.

Since its creation, the European Union was distinguished from other organizations with a high level of institutionalisation. The EEC was highly institutionalized via intergovernmental and supranational governance, which continued to be supported over time through inclusion of more cooperation fields, as, for example, in 1986 signed SEA, was supposed to unify the markets for goods, services, capital and persons. However, as most scholars argue the full impact of the SEA was impossible to achieve with only introducing the common market strategy, and the full impact of the SEA was felt only after signing the TEU in Maastricht in 1992[201]. In a nutshell, from the start the EU had a quite integrated governance system, which became over time even more linking institutional structures, policies, etc, bringing together national and supranational levels of decision making. As the analysis of the EEC shows the most important difference is a high institutionalisation level.

Among other French inspired EU integration model's peculiarities in achieving economic union, the EU governance was always based on the rule of law. For instance, the rule of law appeared in the community even before launching the European Customs Union. The European Court of Justice, open to anybody from the Union member states, was established in 1952, while the Treaty of Rome was signed just few years after. Since then, the Court has been playing a significant role in managing the Union's life and is one of the most important institutions in explaining and interpreting the EU law.

Furthermore, it is important to keep in mind, that The European Economic Community has had a long-lasting history of cooperation within the region, which according to Gaddis[202] was strongly supported by circumstances after the Second World War. In the reconstruction and building of the EU, the role of the USA was

---

[200] Pinder, p. 90.

[201] See for instance Fabbrini.

eminent. The USA was fostering closer cooperation and institutionalisation within the region. Also, the European Union formation was driven by inside factors, such as public-sector demand, which allowed creating a supranational structure, based on democratic legitimacy. Since its birth, the EU governance structure has been unique by trying to maintain the balance between national governments and supranational institutions, based on the prototype of a democratic country.

On top of that, the European Union has never been functioning only as an economic welfare facilitator to its member states. Initially it was created for the preservation of a welfare state. Most of the countries already shared common social models and socio-economic convergence was forecasted to bring benefits for all member states, but, since the end of Second World War, re-emerging Europa was looking for its role in the world politics.

Consequently, the EU has been creating, using and redeveloping a dense web of cooperative relations with a high diversity of various units including other regional arrangements and international organizations from other parts of the world. Of course, some of the cooperation patters have been due to former Europe's role around the globe. As a result, the observation of such a variety of institutions and mechanisms within European Union should not be surprising – the European Union was supposed to become one polity with regional political identity sooner or later.

Besides, someone may argue that only the TEU added a very important aspect to the European economic integration, finalizing it

---

[202] J. L. Gaddis, *Strategies of Containment: A Critical Appraisal of Postwar American Security Policy* (Oxford: Oxford University Press, 1982).

as a proper economic union[203]. However, as it was presented beforehand for the fulfilment of the requirements for being recognised as an economic union was not necessary to move towards monetary union, etc. It could be argued that European integration was never purely economic, since the start of the harmonisation of the policies, which by definition are one of the most important factors for the identification of an economic union, included not only economic means.

The particularities of the EU actually show that it is not possible to explain effective economic integration with presented perspectives on economic union beforehand. Since its commencement, the EEC was more than it was supposed to be, and its exceptionality is not in a very successful economic integration, but at that time unexpected/unusual intensive political cooperation from the scratch leading to the political union and polity formation[204].

4.3 Review: Regionalisation and/or Integration?

This section presented the conceptual discussion about the definition of an economic union. Different approaches are used to look for the answer, what are exactly the qualities of this economic integration stage and whether it is purely just economic integration, which makes economic arrangement to be called economic union. It is also shown that Fabbrini's framework for approaching regional projects is more useful and helpful to distinguish political integration projects from economic ones, but it is unclear where economic unions would

[203] Fabbrini, 449.
[204] Pinder. p. 90.

be positioned in presented conceptualisation; probably, in between of both regionalism ways.

However, from different points of view, it is difficult to understand what arrangement should be called economic union and what characteristics should be ascribed to it conceptually and from empirical analysis. In brief, in these sections it was shown that economic union is neither purely a political nor only economic organization.

The analysis of the EU revealed that the integration processes in Europe after the end of the Second World War have been pretty exceptional and much different from the ones in the rest of the world. Or it would be better to say, that there were nothing similar in cooperation patterns worldwide as it was in Europe. Economic union as such, and the EU example shows that integration has to be in both directions, combining economic and political regionalism.

Finally, future studies should draw a clear distinction between different stages or types of integration in order to make it more applicable for analysis. Also, as Padoan[205] suggests, maybe it would be much better to talk about economic aspects of regional agreements, in order to overcome the problematic conceptual division between economic and political integration, rather than trying to distinguish different categories.

[205] Pier Carlo Padoan, "The Political Economy of New Regionalism and World Governance", p. 37, in Mario Telò, ed, *European Union and New Regionalism*, Burlington: Ashgate, 2007.

4.4 Security Communities: the Concept and the Context

In the post-Second World War era the relationships between countries had faced various challenges and changes. The assurance of state's survival advanced in numerous directions. As threats' perception since the end of WWII was incessant, a scarce commodity of security has been looked after in diverse ways. Acting together was the only way devastated European countries could strengthen their own security. In this timeframe the concepts of collective security and security communities evolved. As both concepts received extensive attention in the literature of international relations, this section only briefly presents the understanding of a security community as providing collective security for the states collaborating together, as it is needed for showing how the EU became economic security community in the following section.

Security community by some authors is seen as a remedy for the insecurity of states in international arena. It is there to ensure the survival and provide support in the case of threat for its members in need. First used by Richard Van Wagenen at the beginning of 1950s, the concept is usually associated with Karl Deutsch and others groundbreaking study on communities. According to Deutsch[206], the defining feature of a security community should be integration, which reaches the extent that any disputes are solved without physical fights. He also argued that these communities are recognised by stable peace, not just simple and stable order.

[206] Karl W. Deutsch, Sidney A. Burnett, Robert A. Kann, Maurice Less Jr., Martin Lichterman, Raymond E. Lindgren, Francis L. Loewenheim, and Richard W. Van Wagenen, *Political Community and the North Atlantic Area*, (Princeton: Princeton University Press, 1957).

Deutsch characterised two main types of security communities – amalgamated and pluralistic, which were differentiated on the form the states were expecting to achieve a peaceful change by formal unification or keeping their sovereignty. As the Cold War unfolded, the concept regardless its theoretical potential and practical importance remained on the margins of international relations literature. As some scholars argue, historical context in Europe was pretty problematic for any formal security community creation as at that moment security as such was mainly related to military matters. Also, the shortfall of the United Nations to act as a pluralistic security community affected the attention devoted to the area. In addition to this, the integrationist approaches and European integration overshadowed the idea of amalgamated security community.

Scarce efforts to research security communities for Emanuel Adler seemed the result of the conceptualisation provided by Deutsch[207]. He insists that the old-fashioned concept comprised too many theoretical, conceptual and methodological problems, which resulted in the limited application of the concept in the academia. However, despite its rare and limited research agenda, the concept of security community made impetus for other future scholars. The revision of the concept, changing environment after the end of the Cold War and new developments in the international relations eventually brought back the concept of security community to the light again. Initially referring to the war-less region, it was further expanded by constructivists at the end of the century.

---

207 Emanuel Adler, "Imagined (Security) Communities: Cognitive Regions in International Relations", *Millennium: Journal of International Relations*, 26(2), 1997.

"Security Communities" by Emanuel Adler and Michael Barnett paved the way for the broader understanding what is security community[208]. The work examined various historical and regional contexts, where the conjunction of transnational forces, state power and international organisations facilitated the creation of security communities. By analysing these contexts – the relationships between international community and peaceful change - the authors unveiled numerous security communities, - their timing, existence and location.

Adler and Barnett also redefined the concept. The upgraded version of security community included shared values, identities and meanings, multifaceted open interactions and joint long-term interest. As Adler put it, security community is "a community of sovereign states agreeing on the unbearable destructiveness of modern war and on political, economic, social and moral values consistent with democracy, the rule of law and economic reform, to provide their collective security through a process in which member states come together on the basis of shared values and identities"[209].

Identity and social learning supplements the importance of material environments in the new definition. Their importance brings back to the essence of economic security, which core issue is the perception of threat. As Adler argues, a common understanding of the threat is of crucial significance for the formation of a security community. Hasan Ulusoy[210] corresponds to this by stating that shared identities

---

[208] Emanuel Adler and Michael Barnett, *Security Communities*, (Cambridge: Cambridge University Press, 1998).
[209] Adler, 1997, p. 258. Cited from Ulosoy, p. 4-5.
[210] Hasan Ulosoy, "Revisiting Security Communities After the Cold War: the Constructivist Perspective", Perceptions, Vol. 8, 2003, pp. 161-196.

and values are as important as shared understandings of threat perceptions for the creation of security community[211].

The concept of security community came back to fashion in the post-Cold War era, when it seemed relevant to generate 'blueprints for engineering a more peaceful and stable international order'. The constructivist approach took the lead in reviving the concept and expanding its endeavours from mainstream to the mode of constructivists' "understanding".

In the highlight of the revival of security community, the concept of threat received a substantial amount of attention as well. Being the core of security community, threats to security are no longer taken for granted and arising naturally just from material capabilities of possible opponents. Constructivists claim that threats are created in the light of many factors, including history, ideology, culture or communication[212].

To conclude, the mainstream definition of security community was substantially revised by the constructivists approach. Both scholarships agreed on the importance of threat perception, power and national interest for states' security. Mainstream "explanation", relating to the question "how", provides answers only about the origins of threat, the possible solutions ensuring security and the object of security. Constructivists' "why" provides the "understanding" - "why" certain security communities appear or threats are being constructed. As Krause[213] argues, both "how" and

[211] Ulosoy, p. 5
[212] Ulosoy, p. 11.
[213] K. Krause, "Critical Theory and Security Studies", *Cooperation and Conflict,* 1998, Vol. 33(3), pp. 298-333, particularly, p. 318.

"why" are important and related: if constructivism envelops explanation, mainstream contributes with analytical understanding.

Thus, the next section briefly explores the detailed elements of the creation of European economic security community, pointing to the elements of historical and integration developments in the region, and prepares the background for exhaustive analysis of economic security mechanisms at work in the up-to-date European Union. Not surprisingly, the main object of this thesis – European Union (European economic/regional cooperation) is perceived as one of the best examples of comprehensive security communities since its origins in the middle of the 20th century in the literature. Consequently, next section will briefly research the path of the EU to economic security community.

4.5 The Construction of the European Economic Community

As there are always two main questions 'how' and 'why', this section builds on the understandings of the 'why' and 'how' provided in the previous chapters and sections. Historical analysis and integrationist perspective placed an essential background for the in-depth exploration of the economic security institutionalisation and development in the European Union. Thus, this section uncovers the comprehensive institutions, enacted for the development of the community. More detailed economic security institutions are explored in the subsequent chapter, where they are examined in more detail and in the face of imminent threat – economic crisis.

The upgraded version of security community includes shared values, identities and meanings, multifaceted open interactions and joint long-term interest in addition to mainstream's integrationalist and institutionalist approach. European Union is notably the best example of comprehensive security community and one of the main security community frameworks analysed worldwide. In the evening of the discussions of the EU as a banking union and more calls for independence, like in the case of Scotland and United Kingdom[214], the question of the added value of economic community is extremely important.

As Ulusoy[215] argues, shared identities and values are as important as shared understandings of threat perceptions for the creation of security community[216] as presented in the previous section. Constructivist take on security communities for sure is essential, and there are numerous studies, discussing European values and identity, for which reason, so perceived "why" mode of security community seems almost like common sense when talking about European Union nowadays. It also seems that "understanding" about the EU as a security community prevails rather than "explanation", revealing how the EU became one.

Indeed, security community creation around the threat has been also a relevant factor in the regional development in Europe. As previous chapters showed, the possibility of war was relevant during whole Cold War period. Nevertheless, as chapter 3 shows, European cooperation from the beginning was more about economy rather than politics, thus economic threats are the ones to be looked for to explain

---

[214] At the time of writing, just a bit more than half of the United Kingdom citizens voted in the national referendum for option 'leave' rather than 'stay' in European Union, which raised even more attention on the added value and necessity of the European Union.

[215] Ulosoy, p.165.

[216] Ulosoy, p. 166.

the economic integration of Europe rather than military ones[217]. Institutions and their creation is the main object of this section for explaining the evolution of the EU as an economic security community. The analysis of institutions also corresponds to other existing paradigms' interpretation, namely, structure, trans-national or supranational bodies' erection[218].

The first major step in the creation of the European economic security community was the Treaty of Rome in 1957, launching the European customs union. According to Balassa's framework, this is already the second stage of regional integration, introducing the common external tariff on top of existing free trade area. Though, this stage is perceived only as economic integration, however, here starts creation of the common institutions and policies. From Deutsch's perspective, this union would be perceived of low intensity and little impact.

Since the creation of customs union, it took almost 30 years for the member states to proceed with the upgrade to the higher level of integration and shared institutions and policies. The Single European Act (SEA) in 1986 established a single market and embraced the first – the most important features of positive integration. The free flow of factors meant a strong political cooperation, unifying institutions and policies for the collective good. This could be seen as a major step towards promotion of mutual interests and constructing the essence

[217] This argument is also strongly supported by various scholars. For instance, Gaddis (1982), who argued that European integration was about economic reconstruction, and Nathaniel Copsey (2015), was advocating that integration was targeting prosperity promotion in addition to peace.
[218] Comment: indeed, constructivist approach would be also a very interesting take on the subject, since scholarship did not distinguish the different types of security communities even back in 1990s, for this reason the analysis of collective identity and values from economic perspective would be a substantial contribution to the understanding of the EU as an economic security community.

of economic security community. This step is one of the most important in ensuring market flexibility in the response of the crisis, where the different factors can freely move following demand and supply equilibrium.

However, the major change and upgrade could be seen from 1991, when Maastricht Treaty paved the way for economic and monetary union, by introducing the single currency – Euro in 2002. The treaty targeted harmonisation of economic and monetary policies and institutions, ensuring coordinated action in macroeconomics. Macroeconomic stability, as presented in the chapter, is the main shock-counteraction capacity. Being as important as flexibility to withstand the external threat, obtained macroeconomic stability allows a member state and collective security community to bounce back quickly after the shock.

Already then in 1991, the Maastricht Treaty represented acknowledgement of the total economic integration. As the following chapter is going to dwell deeper on the subject, it is important to mention that the treaty addressed partial unification of economic policies and institutions and highest possible to achieve integration level by Balassa was obtained already back in 1992. Pooled sovereignty and unification/increased harmonisation of the policies and institutions settled the core of the European economic security community, and the extensive unification and harmonisation afterwards are subject to detailed analysis for the impact assessment in the following chapters.

To conclude, the institutionalisation of the European Union can be seen as the finalisation of the other layers, indicated by Deutsch for the formation of a collective security community. Already shared economic history, the common perception of threat, similar values, though one might argue that the differences between EU member states still prevails on these matters, and day-to-day interactions facilitated smoother transition from customs union to the full economic security community with created full-coverage institutions and unified policies.

4.6 Concluding discussion

> *The world still awaits article X to bring out one unique theory to fully cover the post-Cold War theoretical debates.*[219]

There is no single theory, which could capture and explain the world after the end of Cold War. Gamble's indicated collective action towards the problems of various processes worldwide after the Second World War resulted in the regional blocs. Karl Deutsch advocated that these blocs are security communities, where member states would strengthen their own security through collective security. These blocs or communities were a collective action towards the problems of globalization, which expanded the list of traditional threats to the level unforeseen beforehand.

Europe, which lost its economic credibility during war, was a frontrunner in restoring its position in international relations. Nor surprisingly the extent to which regionalism took pace in the region made Europe exceptional. Built regional bloc emerged as the most complex, rich and elaborated workshop of regional cooperation and integration. European integration, which officially started from the

[219] Walt phrase, quoted from Ulosoy, p. 22.

customs union, culminated into economic and total union, with unification of policies and institutions.

As much as European Union and its predecessor European Economic Community was perceived as an economic union, it was rarely seen as an economic security community, though by definition it was created and served the purpose of security community from the beginning. Historical underpinnings and various theories and conceptualizations of integration overshadowed both collective action and security communities, but the changes in the international relations were forward-looking and continued shaping regions.

The main points about the benefits of collective action and shared institutions might not have been the main driving force behind the European integration, but for sure, eventually, could be seen as a goal or end-result of the achievement of total economic union, which European Union currently is. The rule of law, norms, democracy and other institutions defined by the treaties orchestrated the advancement of the EU collective action towards its security and survival.

Deutsch's idea that successful security communities achieve the common goals and collective action via integration, indeed, happened to be correct. His classification of such communities, however, turned to be less useful for understanding the European security community development. The forerunner of the EU, European Economic Community enacted supranational structure, which was based on democratic legitimacy, but since its creation has been unique for trying to balance the functions of national and supranational institutions. If chapter three was providing historical context for the peculiar development of the EU, this chapter went deeper on how the integration-regionalism and security community building happened in the region. These processes of integration-regionalism and forming security community are not separated, but interlinked, however, as well noted beforehand, quite overlapping.

After understanding in which conditions, basically 'why' and 'how' the economic security community developed in Europe in the form of European Union, it is time to examine the effects and direct impact of each economic security measure. As it is implied that the security community member states improve their security through collective security and the community facilitates the maximization of prosperity, the following chapters provide the exploration of the ramifications of the membership in economic security community to its member states.

Chapter 5

Economic Security Institutions at Work: Evidence from the EU

5.1 Introduction

The crisis, or in some cases crises, since 2008, severely hit the majority of European Union member states in different periods of time and length. Experiencing GDP growth most of the EU MS have been pursuing pro-spending policies till the financial crisis hit from outside. Public finances problems with liquidity issues culminated in the appearance of sovereign debt crisis, which became well known Eurozone or European sovereign debt crisis. Measures have been taken, the old institutions or mechanisms have been revised and improved, new institutions created, and some of the EU MS managed to get on the more positive economic wave.

However, the exogenous shocks not necessarily of economy origin can make an effect on economic security. Historically, politics and energy have been equally contributing to the reduced economic security. The last few years in the European Union, which just seemed recovering from the multifaceted economic crisis since 2008, the migrant flows (refugee crisis) and the popular vote of the United Kingdom to leave the union (the famous "Brexit" case) have changed the scene. Additionally to Eurozone crisis, these both issues equally demanded a clear union's response, revealing the most sensitive and complicated issues within the European integration framework. Consequently, the crises' environment in the EU turned to be described as the "EU crisis", for which new set of regulations, procedures and institutions, seems, came at the right time and place.

The financial (economic) crisis definitely revealed the uncertainty of national public finances. Public debts and deficits rose sharply in most of the member states. The nationalization of financial institutions was followed by the creation of rescue plans and support funds, making governments intervene or resume intervention in the European economy in general. In 2009, the crisis was seen as 'a golden opportunity' to reorient European economy towards eco-efficiency. However, economic recovery programmes and emergency measures paved the way for the abandoning the foundations of the EU economic security, and the new sovereign debt crisis came.

The pre-crisis EU economic governance had been tailored to primarily reinforce stability rather than provide supranational intervention capacity within the Eurozone. The shortcomings of such architecture have become apparent when the crisis hit. This existing architectural gap has not been receiving any particular attention since its creation in 1992, when the Economic and Monetary Union (EMU) has been established by the Maastricht Treaty of the European Union. The crisis response included the establishment of a set of regulations, procedures and institutions for monitoring, coordinating and sanctioning Member States and fulfilling the architectural EMU gap.

The main goal of this chapter is to analyse in detail the established economic security institutions, their rationale and the foreseen impact. To do so, it is important to understand, which elements of the new economic governance according to the theoretical framework presented beforehand contribute to the development and attaining of the economic security.

Second, it is also essential to see the comprehensive EU response in the case of crisis – how the community was capable to outweigh the negative effects of exogenous shock and provide necessary instruments for bouncing back and/or absorbing external threat. Additionally, as it covered in the following chapter, the EU itself has been perceived as a guarantor of financial stability by the markets during the crisis period, even before it has introduced instruments in place to help Member States in the case of bailout or excessive deficit/external debt.

Third, it is not enough to understand what has been created on the EU level. The domestic "impact" level is crucial, and particularly in the case of the EMU development member states' interests played a significant role, which should not be overseen either. Finally, in this particular crisis' management the European Central Bank has appeared as the main steward of economic security of the community and European interest. Hence, its actions and contribution should also be taken into account, since according to the Treaties such functions have not been envisaged.

Accordingly, this chapter is structured as follows. First, I depict economic security institutions at work, exploring where the main concepts operate. Second, I compare institutions and mechanisms of two different periods of European economic governance. I start from the creation of European Economic and Monetary Union (EMU) and economic governance till 2008 Economic crisis. I present and compare the new economic governance from 2008 – its evolution, the main institutions and measures in order to understand the community's response in the case of external shock. The fourth part dwells on the domestic level, or rather the intermediary layer between the EU and the domestic effects. It reveals the role of national interest in the crisis response within the EU, partly explaining, why the EU response to crisis was vague and slow and how the triumph of national over European interest created the context, where the need for supranational supervision was needed. Consequently, in the fifth section, I show, how the European Central Bank appears as filling the created vacuum of European interest. Its expanding role in the crisis management and in the finalisation of EMU is last, but not least, important for the understanding of the full picture of the economic security provision in the EU. Finally, the discussion of the operating mechanisms for ensuring economic security within the EU completes the chapter.

5.2 Economic Security Institutions in the EU

Just after the crisis a significant amount of literature appeared indicating that current Eurozone crisis, in particular, is the result of the "wrong" and not adequate economic governance measures. European Commission was strongly criticized by the policy analysts and scientists that non-compliance with already introduced EMU measures can lead to significant changes in the member states' performance. Increased debts and public deficits soared as a result of an expansive budget spending by national governments. Such policy paved the way to the increased numbers of sovereign debt, and left some of the governments completely unprepared to meet unexpected consequences of global effects of the crisis. Afterwards, the introduced austerity measures just skyrocketed the numbers of MS' both public deficits and debts. Even 'non-spenders' found themselves in the vicious position of the actual and relative debt in relation to gross domestic budget (GDP). This discrepancy is extremely visible, when the member states' performance is juxtaposed before and after the crisis (see Figure 14 and 15 in the Appendix). This is especially visible in the line of the average EU external debt, where regardless the introduced austerity measures, the external debt has been growing and became stabilised only in 2014, but still much higher than it could have been before the austerity measures.

As such the term 'governance' is not perceived as a field per se. It encompasses the aspects from many fields, like institutions, organizational behaviour, economic development and growth, political economy, comparative systems, and others[220]. Furthermore, it is widely agreed that the quality of institutions of governance significantly affects economic outcomes[221], though discussions about the measures of quality of institutions and the details of the causal mechanisms by which they affect economic outcomes remain open. Dixit[222] reminds very interesting part of the academic debate regarding political regime and economic performance. According to him, substantial freedoms and property rights are crucial for overall nation and human development. He argues that property rights are essential for having an incentive to save and invest, and together

[220] See Dixit, 2008, pp. 2-3.
[221] H. De Soto, *Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*. New York: Basic Books, 2000.
[222] Avinash Dixit, "Governance Institutions and Economic Activity", *American Economic Review*, 2009, 99(1), pp. 5-24.

with contracts' enforcement and collective action form the nucleus of good governance, necessary for economic development.

There are also other significant entries on the topic. Persson's study[223] as well tries to answer, which political environment provides the best conditions for economic development. He argues that there are precise combinations of government, which foster the adoption of more growth-promoting structural policies (he refers here to parliamentary, proportional and permanent democracies): parliamentarian vs. presidential, proportional vs. majoritarian.

Binswanger and Prüfer[224] show that economic governance, embracing the property rights and contracts' enforcement facilitate the emergence and enlargement of the economies of scale, allowing to benefit from the gains of specialisation and the advantages of new opportunities, which condition sustainable long-term improvements and rising standards of living.

European economic governance, frequently used to identify the overall package of institutions, regulations and directives in the European Union, as such is quite a contested concept. Its popularity in the academic texts and policy research, especially in the capital of the EU institutions, is unquestionable, however, its meaning and definition is more problematic question to answer.

---

[223] T. Persson, "Forms of Democracy, Policy, and Economic Development". Working Paper No. 11171. Cambridge, MA: NBER, 2005.

[224] Johannes Binswanger and Jens Prüfer, "Democracy, Populism, and (Un)bounded Rationality", *European Journal of Political Economy*, 2012, Vol. 28, pp. 358-372.

As it was already noted elsewhere, it is difficult to carve one single definition, what does really economic governance mean[225]. Williamson was among the first ones to use the term, and conceptualized “economic governance” as the “study of good order and workable arrangements”[226]. Dixit also tried to answer this question in the face of economic crisis. His provided definition stressed “the structure and functioning of the legal and social institutions that support economic activity and economic transactions by protecting property rights, enforcing contracts, and taking collective action to provide physical and organizational infrastructure”[227]. In addition, he provided the explanation, where exactly economic governance fits in the field of studies. To him, it “studies and compares the performance of different institutions under different conditions, the evolution of these institutions, and the transitions from one set of institutions to another”.

In the case of European Union, this term is usually used to refer to budget and fiscal rules that may sanction countries failing to control their public finances[228] - basically the macroeconomic stability side of resilience, as discussed in the conceptual economic security model. The European Central Bank calls it the “guardianship of fiscal sustainability”[229] with very strong emphasis on policies, institutions

---

[225] “The Euro Crisis: But what would economic governance mean?”, *The Economist*, June 21st 2010.

[226] O. Williamson, “The Economics of Governance”, *American Economic Review*, Vol. 95, 2005, pp. 1-18.

[227] Avinash Dixit, “Economic Governance”, University of Milan, Bicocca, Department of Economics, Conference on Endogenous Market Structures and Industrial Policy, June 5, 2008, p. 1.

[228] See *Financial Times Lexicon*.

[229] European Central Bank, “Reinforcing Economic Governance in the Euro Area”, 10 June 2010, [retrieved 2014-09-10] https://www.ecb.europa.eu/pub/pdf/other/reinforcingeconomicgovernanceintheeuroareaen.pdf

and instruments targeting budgetary policies. Thus, the chapter analyses the European economic governance mechanisms from the "conventional" European point of view, consequently, dwelling on the evolution of the institutions, transition from one set of institutions to another, and their performance in the following chapter.

In order to distinguish the so-called new economic governance from the "old" EU economic governance, I briefly review the most important agreements, developments and instruments within the created European Economic and Monetary Union (EMU), which was launched in 1992 after the Maastricht Treaty of European Union.

The introduction of a single European currency – Euro – provided benefits for participating members, simultaneously demanding a set of mechanisms for monitoring, coordinating and sanctioning within the newly created Eurozone[230]. It was clear from the beginning that not all joining member states were ready in the same way for monetary convergence, what urged for shared common monetary policies and other constraints to be put in place.

National exchange rate risk was eliminated by the agreement to renounce the exchange rate instrument, requiring member states in the case of external shock or crisis to make adjustments internally. It meant in the case of need, the MS could opt either for an internal devaluation and/or mobility of labour, since the provisions of the treaty stressed "no bailout" clause[231], encouraging Euro zone members to avoid moral hazard. The European Central Bank (ECB)

---

[230] Christophe Degryse, "The New European Economic Governance", *European Trade Union Institute Working Paper 2012*, No. 14, p. 13.
[231] Article 125.1, Treaty on the Functioning of the European Union (TFEU).

was created as a federal institution to implement the monetary policy of the newly created EU.

Back in 1992, there were two different views on how does a monetary union should work and what kind of effects should be seen of this particular integration. It was expected that monetary union would facilitate the convergence of economic policies, even without created a true economic government. The real convergence of economies, like growth, productivity, competitiveness and unemployment would happen automatically. As a result, no government institution, the equivalent of ECB on economic side of the union, has not been put in place. Though, the proposal for harmonisation of economic policies was rejected, the Treaty introduced the coordination of national economic policies[232] through Broad Economic Policy Guidelines (BEPG) and Stability and Growth Pact (SGP).

BEPG were usually seen as an historical outcome of the protracted development of the coordination of national economic policies. As the Article 103 of the Treaty of Rome identifies, member states shall consult each other and the Commission on economic policies. Only the Article 102A of the Single European Act stresses the 'convergence' of economic and monetary policies, hence, BEPG was created to facilitate a mutual "consultation" on economic policies between member states.

As the Article 121 of TFEU defines, the Council, as the main actor in creating the BEPG, ensures the coordination of Member States' economic policies. The Council is also the one responsible for monitoring economic developments and consistency of policies within BEPG in each Member State, including the coordination and

[232] Article 121, Treaty on European Union (TEU).

perception of economic policies as a matter of common concern. Adopted since 1993, BEPG covers macroeconomic, microeconomic and structural policies by stressing self-discipline, closer coordination of economic policies and a "sustained convergence" of economic performance.

Nevertheless, from a legal point of view, BEPG remained just suggestions-recommendations for a course without any legal obligation. The European Commission and the Council remained the main institutions responsible for the surveillance of economic performance, policies' coordination and convergence. Adopted annually since 1993, BEPG provided a reference point regarding economic stability, growth, budget and debt management, structural reforms, public finances and employment. In brief, the BEPG covered structural, micro and macro-economic policies without requirement for a harmonisation or convergence of taxation, wage coordination or investment policy[233]. Europe 2020 Strategy has accompanied this list with the guidelines on education, poverty and employment policies.

In contrast, the other economic governance instrument, Stability and Growth Pact imposed legal requirements regarding a budget deficit (not more than 3 per cent of GDP), a public debt (below 60 per cent of GDP) and a control of the level of inflation (price stability). The SGP has been functioning as a control system with multilateral reciprocal surveillance, comprising legal constraints, and preventive and corrective regulations directly applicable to all member states. The preventive component required annual submission of stability programmes from Eurozone members and convergence programmes

---

[233] Tobias Kunstein and Wolfgang Wessels, "The New Governance of the Economic and Monetary Union: Adapted Institutions and Innovative Instruments", *International Affairs Institute Working Papers*, 13|02, January 2013, pp. 2-6.

from others, whereas the corrective regulation has been designed to impose sanctions and fines. However, this corrective arm has never been used, even when four countries, namely Germany, France, Italy and Portugal, were noticed for excessive deficits. As a result, the SGP was suspended in 2003, with a new version of the SGP appearing in 2005, where the coordination of economic policies have been no longer included.

These two regulations – preventive and corrective arms – functioned as a control system for multilateral surveillance. Preventive instrument required annual submission of programmes, while the corrective arm was supposed to impose sanctions and fines, although, never used[234]. In the meantime, the Lisbon strategy, a medium-term programme, appeared targeting three issues under the 'open method of coordination' (OMC): economic competitiveness, jobs and sustainable development. Despite the fact that the strategy laid down certain common objectives and guidelines, the absence of real management propelled it to a failure. In 2002 excessive deficits and disagreement on the common action have marked the *de facto* suspension of the SGP at the end of 2003.

As it was shown beforehand, the EMU framework, created in 1992, constrained only a financial side of Eurozone members (also, just partially), leaving economic governance completely under national affairs. In other words, while monetary union's side was based on federalism, the economic side was functioning on an intergovernmental cooperation.

[234] Comment: Germany, France, Italy and Portugal were on the treat of sanctions for excessive deficits in 2002, as noted earlier.

Furthermore, "neither the BEPG nor the SGP put in place a true economic union between the Eurozone states, that is to say, involving real coordination of economic and public investment policies, financial regulation worthy of the name at the European level, harmonization of fiscal policies and better coordination of member states social policies in order to bring about a certain convergence of the member states economies"[235]. On top of that, one would argue that the period from 1992 to 2008 had been marked by deregulation policy – weak and ill-equipped the BEPG, the Lisbon strategy and limited short-term SGP, and a blind eye on Euro, its defects, and incomplete and inadequate rules.

Finally, introduced "open method of coordination" (OMC) with the Lisbon Strategy, and the reform of the SGP in 2004, which was not a priority on the political agenda, were merged together with the BEPG and other strategies into 24 new "integrated guidelines". The continuous rationalisation of the OMC and integrated guidelines marked deregulation period of the European economy. Neither the BEPG, nor the SGP put a true economic union between the Eurozone states, and in reality neither weak BEPG, Lisbon Strategy nor limited SGP functioned as an economic governance before the crisis in 2008. The asymmetry[236] between a centralised monetary union, and inter-governmentally coordinated (or even deregulated since 2004) economic union continued till the euro was called into question after 2008 Economic crisis.

[235] Degryse, p. 17.
[236] Comment: The asymmetry between a centralized monetary union and coordinated economic union was already observed in 1995. See Busch (1995), OSE (1995), or Pochet and Vanhercke (1998).

5.3 2008 Economic Crisis: Threat Rout and New Economic Governance

The expected economic convergence did not happen, and the years of deregulation paved the way for a financial and economic disorder after the crisis. Public deficits and debts rose sharply in most of the member states: first, because of pro-spending governments; second, after the implementation of austerity measures and recessed economies the stagnation followed and repay of the debts became even more complicated.

Most of the governments had to intervene in the economy, including nationalisation of financial institutions, providing support funds and rescue plans. The house of cards started to fall in the fall of 2008. Hungary, Lithuania, and then Romania, all appeared with significant balance-of-payments difficulties, which were covered by reinforced EU Balance of Payments facility, not to mention Latvia that received a loan from the IMF at the early stage.

EU governments' intervention in economy, finances and investment, which normally would have been targeted by the SGP, became widespread in the following year, which then required an immediate action in a budgetary discipline and even more. Year later, the EMU was shaken by revealed forms of accounting sleight of hand[237] and unpleasant numbers of real public deficits. Profound macroeconomic imbalances between Eurozone centre and periphery, regarding growth, productivity, trade, employment and competitiveness, became visible.

---

[237] Degryse provides an extensive overview of 'veritable hypocrites' ball', p. 20-21.

Rescue programmes, nationalization of banking sectors or special funds for financial institutions, and support programmes for national economies or rescue plans for industry were on all EU member states' agendas[238]. All EU governments were intervening and increasing the measures of public investment, for which the EU Commission turned green light without ever considering them as a distortion of competition or like public subsidies.

Normally, European institutions would have targeted such programmes as significant increases of public deficits and debts under the SGP framework, but this time, national interests were perceived as a temporary and necessary response to exceptional crisis' circumstances. These measures impaired the theoretical construction of the EU economic policy, including the rationality of economic actors, the efficiency of markets, deregulation, free competition and state non-intervention into the economy. By this, the EU member states followed their national goals and exercised their national interest even more than they could, or ever had done before the creation of the EMU.

It is important to note, that the necessity for rescue plans for the most struggling Member States can be seen as an additional economic security community capacity. Rescue packages for Greece, Ireland and Portugal became known as unprecedented austerity plans, imposed by the Troika (the European Commission, the European Central Bank and the International Monetary Fund). In relation to this, it is also essential to mention that some Member States introduced additional austerity measures by themselves in order to escape themselves from the excessive deficit procedure and possible Troika's intervention.

[238] Degryse, p. 19.

The rescue plans and individual austerity measures are not analysed in detail here (some, though, are covered in the following chapter). Obviously, their effects are extremely visible in the case studies of the countries, but the information of an each rescue plan is out of the scope of this text, and can be found elsewhere. Nevertheless, their importance in the new economic security capacity cannot be neglected, since, most importantly, these implemented rescue packages were not in accordance to the Treaties in place.

5.3.1 The First Round of the Measures: the EFSM and the EFSF

The first measures of New European economic governance, which came into effect for the whole EU after the crisis, were the European Financial Stability Mechanism (EFSM) and the European Financial Stability Facility (EFSF) in 2010. They ended "climatic Keynesianism" and were supposed to ensure a demanded budgetary discipline. The EFSM was created under the Article 122.2 TFEU and was followed by an intergovernmental agreement in the Eurozone to protect the single currency - Euro.

This regulation allowed an intervention on both national and European level, and justified the ECB's assistance for the countries with budgetary difficulties. The Member States were able to benefit from a loan or a credit, while ECB and the European Commission became responsible for the control of compliance with the aid conditions. A recipient member state had to provide an extensive recovery programme for re-establishing its financial stability.

The EFSF followed with 440 billion euros intervention capacity to provide aid for the countries in need. Consequently, the ECB started to intervene and buy back sovereign bonds on the secondary markets, contributing to the consolidation of member states' public finances. As Degryse depicted, the introduction of the EFSM and the EFSF, or new economic governance, "plunged [whole Europe] into a spiral of austerity"[239].

As mentioned noted elsewhere, Germany required extreme loan conditions and a substantial increase in a budgetary surveillance within the Eurozone. In Degryse's words, "Berlin and Paris began to dictate the measures they wanted to see taken by the other countries of the Eurozone"[240]. French-German duo's requests resulted in the creation of the European financial stabilisation mechanism (EFSM) under the Article 122.2 TFEU, and an intergovernmental agreement in the Eurozone, which was intended to protect the single currency.

The EFSM required an applying state to provide financial and economic recovery programme, describing measures for re-establishing its financial stability, making the European Commission and the ECB the main watchdogs regarding compliance with the aid conditions.

Months later, the European Financial Stability Facility (EFSF) was launched, as the last mechanism of the 'new economic governance', plunging whole Europe into austerity measures. The markets' expected the EU support came under strict conditionality and compliance rules.

---

239 Degryse, p. 27.
240 Degryse, p. 25.

5.3.2 Targeting Eurozone Crisis: Sovereign Debts and Six Pack

The appearance of more significant problems within the Eurozone members initiated the second package of the measures. In 2010, the European Commission launched the so-called 'Six Pack' – the set of six legislative acts (five regulations and one directive), trying to make economic governance more rigorous within the EU. These instruments mainly targeted budgetary issues, reformed the SGP and macroeconomic imbalances in the EU and the Eurozone.

The preventive and corrective arms were introduced for an adequate sharing of powers and responsibilities within the EU economic government. Nevertheless, disagreements on sanctions within the EU, Ireland's 'downfall', and the continuous reduction of countries' rankings by rating agencies pinpointed the second stage of the EU crisis management and new economic governance. National interests did continue to play a role in the formation of the EU economic governance, but the new mechanisms left even less room for national interests of affected member states.

After the Greece bailout, the European Commission, and not the member states, proposed a reform of the Stability and Growth Pact. In general, the Articles 5 and 136 of TFEU allowed specific measures to reinforce the coordination and surveillance of the budgetary discipline of Eurozone members[241]. Article's 352 TFEU flexibility's clause authorized a transfer of additional powers to EU institutions, if they prove to be necessary to attain the objectives set out in the

---

[241] Roberto Gualtieri, "Safeguarding the stability of the euro area and the enhanced instruments for crisis intervention: political and institutional dilemmas", p. 42, in European Commission and Directorate-General for Education and Culture, *European Economic Governance in an International Context*, Luxembourg: Publications Office of the European Union, 2013

treaties. The ‘Six Pack’ six legislative acts comprised of improved preventive and corrective arms, sanctions, budgetary frameworks and macroeconomic imbalances, aimed at reinforcing the EU economic governance and the financial stability in the region.

The procedure of “European semester for economic policy coordination” (shortly, European semester), a part of Six Pack, came into force for preventing excessive imbalances and the coordination of member states’ economic policies. In 2011 it received new functions as the formulation and surveillance of both the BEPG and the employment policy guidelines, presentation and evaluation of stability and convergence programmes.

The evaluation of member states’ National reform programmes (NRP), initiation of procedures to correct possible budgetary or structural imbalances, Annual growth surveys (AGS), Country-specific recommendations (CSR), and control over national budgets also fell under the new procedures of the European semester. In comparison to the pre-crisis SGP, the European semester received a much wider area of action. From 2011 it has been concerned not only with fiscal imbalances, but also macroeconomic ones. By this, it became much easier to impose sanctions or convert them into fines in comparison to previous regulation. Lastly, it became *ex ante* surveillance, which meant the evaluation of stability and convergence programmes should take place before major actions can be taken on national budgets in the EU member states.

In the aftermath of Greek and Irish rescues, during the meeting of the European Council in 2011, it was agreed to make the European Stabilisation Mechanism (ESM). The heads of states and governments decided to revise the Lisbon Treaty and create the ESM as a permanent measure, replacing both the EFSF and the EFSM in 2013. European Stability Mechanism was signed by 17 Eurozone states and national ratification processes followed, when the European Parliament approved the treaty's modification.

However, a sufficient basis for dealing with any possible future debt crisis in the Euro area have not been created. In Baltas' words: "the rules based framework for fiscal policy created by the excessive deficit procedure (EDP) and the Stability and Growth Pact (SGP) was insufficient to prevent a debt crisis despite its emphasis on keeping public deficits low and strengthening forward-looking budgetary planning[242]". The process of the Six Pack adoption took a year in the EU Parliament. In the meantime, Ireland had to rescue three banks and its public deficit tripled from 11.6 to 32 per cent of its GDP. The merry-go-round between the 'Celtic' tiger and financial markets did not receive a prompt response from the EU.

In a nutshell, although European Commission's proposed measures on how to strengthen both the EDP and the SGP were not all approved, Six Pack adoption did significantly improve the SGP and made it more binding[243]. As Baltas put it[244], the crisis intervention was based on ad-hoc manner and on temporary basis' responses, which did not complete the EMU. Neither pro-solidarity proposals for the EU finance minister and the EU debt agency[245], nor the Euro

---

242 Nikolaos Baltas, "Safeguarding the Stability of the Euro Area and the Enhanced Instruments for Crisis Interventions", p. 46, in European Commission and Directorate-General for Education and Culture, *European Economic Governance in an International Context*, Luxembourg: Publications Office of the European Union, 2013

243 Gualtieri, p. 41.

244 Baltas, p. 46.

245 Gualtieri, p. 42.

bonds[246] were accepted by Germany, because of moral hazard and the increase of German bond rates. Although at the end of the year, the EU member states agreed on the creation of the permanent European Stability Mechanism (ESM), replacing both the EFSF and the EFSM, international rating companies again downgraded Ireland's ranking, paying little attention to new commitments.

The last stage of 'new governance' continued a multiplication of regulations, treaties and instruments, challenging national interests and social cohesion within the European Union. These issues are the main objects of the following part.

5.3.3 The Last Upgrade for the Economic Security Capacity

The first and second packages of the instruments targeting the crisis did not work. Governments were forced to stop economy-boosting programmes and introduce austerity measures because of unsustainable public finances, soaring public deficit and debt. Increasingly stringent austerity measures were laid down on indebted peripheral European states – such as Ireland, Portugal and Greece, in order to receive financial assistance by the Troika. The appearing shortcomings of previous measures were 'corrected' by the implementation of another set of institutional innovations in 2011.

The SGP was reformed by the adoption of Six Pack. Six Pack itself 'received' additional 'Two Pack' and European Semester packs, which was supplemented by a Euro Plus Pact. 'Fiscal Compact' finalized the upgrade of the new European Economic governance in 2012. The difficulties to meet the required austerity measures have

[246] Degryse, p. 35.

shaken social background of the EU, including solidarity. Social unrest and protest against national parliaments, especially in harshly affected countries, raised awareness about democracy and relationship between national interest and the EU's perspective.

First, the introduction of European Semester within Six Pack consolidated structural reforms, investments, ex-ante budget surveillance and economic policies' coordination. Three main components were introduced: the Annual Growth Survey (AGS), the National Reform Programmes (NRP) and the Country-specific recommendations (CSR), which established EU intervention before member states' national decisions on budgets.

The Euro Plus Pact or, in other words, the Competitiveness Pact, proposed an intergovernmental initiative, thus, supplementing European Semester and attacked national performance regarding competitiveness, employment, tax coordination, viability of public finances and financial stability. Five non-Eurozone EU states joined project 'Euro+' Pact, which is compulsory for the Eurozone members. The European Commission had to accept just minimal evaluation role within this measure.

Second, finally adopted the 'Six Pack' was also upgraded with the 'Two Pack', allowing additional control over national budgetary policies by a 'common budgetary calendar', proportionality clause and loosening adjustment and orientation of investment.

Third, in July 2012, Germany and France proposed a permanent financial stability mechanism as an escape for the Eurozone. The European Stability Mechanism was signed by 17 Eurozone states and national ratification processes followed, after the European Parliament approved the treaty's modification.

The EU's 'exhaustive response' to crisis, including rescue plans and aforementioned measures, was not enough to terminate the downfall of Portugal. Lisbon committed itself for a deficit reduction programme, based on wages' cuts, raising taxes and extended privatisation, for 78 billion Euro Troika's rescue package.

Another set of institutional innovations came in 2011. Six Pack itself received additional 'Two Pack' and a Euro Plus Pact supplemented European Semester. Two Pack allowed additional control over national budgetary policies by a 'common budgetary calendar', proportionality clause and loosening adjustment, and orienting on investment.

Euro Plus Pact or, in other words, Competitiveness Pact, as an intergovernmental initiative, targeted national performance regarding competitiveness, employment, tax coordination, viability of public finances and financial stability. Five non-Eurozone EU states joined project 'Euro+' Pact, though it was compulsory only for Eurozone members. Competitiveness Pact was also complemented by the "Compact for growth and jobs", consisting of 120 billion euro budget.

The "Fiscal Compact" finalized the upgrade of the new European Economic governance in 2012. It required the governments to include the "golden rule", or "balanced budget rule" into their laws. The proposed treaty on stability, coordination and governance was supposed to improve budgetary rigour, discipline and surveillance, where 'Euro summits' would function as European economic government.

5.4 Handling Crisis: States' National Interest[247]

Every nation determines its policies in terms of its own interests/F. Kennedy

In the evening of the European Union as a banking union and more calls for independence, like in the case of Scotland and United Kingdom, the question of national interests comes as an extremely important. The (post) crisis EU's performance is far away from expected, and an economic recovery is still in the process. Further extension of the crisis made the European Commission, the European Central Bank and the EU member states to take serious measures for solving indebtedness and insolvency. Most of the measures taken during the crisis were not in accordance with the European treaties and have not brought the expected results.

This section appears not without reason. The European Union is a very particular organisation of the Member States willing to cooperate and integrate with each other. It is not officially a state, though, some elements are simply transferred and made equivalent as in the Member States. Thus, the particularity of the EU's course – be it regulations, directives or any other measures – at the end is the result of various players, mainly the Member States itself.

[247] This section is based on the paper "Post-crisis EU Economic Governance: No Room for National Interest?" presented at the Conference on *The national interest in European Union law and governance*, organized by Hungarian Academy of Sciences Lendület-HPOPs Research Group. The author is grateful for audience and other panelists' comments and questions.

Additionally, the domestic impact of the EU also varies greatly across its Member States.

There has been a lot of discussion, especially during the crisis about the lack of democracy (particularly, accountability) within the European Union and its institutions. This perceived asymmetry of power and accountability has been complemented with a union-wide elected European Parliament for several decades and the European Citizens Initiative since 2011, where citizens themselves can propose legislative acts directly to the European Commission, where the EC has a competence to act. In this way, the created institutions act on the interest of the Union and its citizens, but with a strong approval of national governments.

The role of national governments, seems, to play a crucial role in the actual domestic implementation of the EU laws, but they also significantly affect the general EU's stand and decisions. This influence is very important for the EU economic governance and economic crisis response. To understand the interests, I start from a brief overview of the theoretical considerations, putting the term in the historical perspective.

The national interest, as I argue in the following subsections, happens to be the explanatory factor for the economic governance set up and particular crisis decisions. Its existence also partially explains, why the EMU has never been fully completed. The existing room for national interest continued to take place even at the beginning of the crisis. The diverging interests of EU's member states in a way prevented the EU from common and immediate action to handle crisis from the beginning.

If one had rationally expected a strong and quick calming of the markets from the EU institutions, the agreement to be reached between Member States had turned out more complicated to reach. As much as supranational institutions felt the need to step in to defend European interest in the whole Eurozone plunging into the crisis (this is covered in the following section on the European Central Bank as a key player in the scene), the on-going interplay between big power national interests kept on shaping the institutions and economic governance decisions.

5.4.1 Theoretical Considerations: National Interest

Nowadays, the concept of 'the national interest' became indispensable from modern political life. This term appears in nearly every discussion among politicians and political scientists regarding policies. Sometimes, 'the national interest' is presented as an accepted fact to support one or another opinion regarding state's actions or policy change.

The concept of 'national interest' has a long history. Its roots can be traced back to at least the Renaissance Period from the 15th century, starting with Nicolo Machiavelli in Italy, who argued: "states may take harsh measures to protect themselves and ensure their survival"[248]. According to him, "nothing could be more moral than the interest of the Italian state"[249]. In the 18th century Jean-Jacques Rousseau concluded that the main focus of national interest is

---

[248] Michael G. Roskin, "National Interest: From Abstraction to Strategy". May 20, 1994, U. S. Army, Strategic Studies Institute, p. 1-2.

[249] Roskin, p. 1.

people, rather than ruler or ruling class[250]. Carl von Clausewitz claimed that all states' behaviour in international arena is based on their needs to survive and prosper[251].

Over half of millennium of the national interest tradition, the usefulness of the term has been as often contested as defended. Being central to theories of international politics, the concept's role in explaining states' actions was thoroughly revised since the end of the First World War, when an extensive amount of studies on national interest emerged. Realist approaches appeared with national interest as a primary issue in the field of study. Their proponent, Hans Morgenthau, bridged the ideas of Machiavelli and Clausewitz. Morgenthau [252] emphasizes the importance of power and suggests defining national interest in terms of power. Roskin delineates that national interest does not refer to power, but it's linked to feasibility, which is then defined by power[253]. Subjectivists Furniss and Snyder provide a complete definition for the decision-making approach in international politics: "The national interest is what the nation, i. e. the decision-maker, decides it is"[254].

Alexander Wendt puts it even clearer by explaining state interest as the "inter-subjectively constituted structure of identities and

---

[250] Yan Xue-Tong, "Chapter 1. The Concept of National Interest", p. 16, in Xue Tong, *Analysis of China's National Interests*. Montenerey U.S.: James Martin Center for Nonproliferation Studies, 2002; & Jean-Jacques Rousseau, *Social Contract*. The Business Press, 1980, p. 27.
[251] Carl von Clausewitz, *On* War, ed, and trans. By Michael Howard and Peter Paret, Princeton, NJ: Princeton University Press, 1976, pp. 80-81, 87-88, and Roskin, p. 2.
[252] Clausewitz & Roskin, p. 3.
[253] Roskin, p. 8.
[254] Edgar S. Furniss and Richard C. Snyder, *An Introduction to American Foreign* Policy. New York: Rinehart, 1955, p. 17.

interests' of states"[255]. He re-conceptualized the concept as an outcome of intersubjective processes of meaning creation. Another constructivist, Jutta Weldes, argued that the content of the national interest "is produced, or emerges out of, a process of representation through which state officials (among others) make sense of their international context"[256]. Then it becomes a meaningful object, representing the shared meanings of understanding of the world, international system and state's place in it.

From definitions and conceptualizations presented beforehand, the idea to draw the line between two different strands and broad categories no longer seems too much extreme. Terence J. Kersch[257] , who proposes division between *employing* and *understanding* 'the national interest'. He suggests distinguishing these two strands by practice vs. theory orientation. According to him, the "employers" are interested in how does/should a statesman conduct his business, whereas the "understand-ers" care what does the concept mean. Employing national interests are identical to national objectives, like security, wealth, etc. "The national interest" is an intrinsic principle of human action – "an internally embraced motive"[258], which does not refer to a state of affairs. For George and Keohane, irreducible (vital) interests comprise physical survival, liberty and economic subsistence[259]. Following Beard, Rosenau reaffirms that there are

[255] Wendt, 1992, p. 401.
[256] Jutta Weldes, "Constructing National Interests", *European Journal of International Relations*, 1996, 2(3), p. 277.
[257] Terence Joseph Kersch, "The Idea of the National Interest: A Conceptual Analysis in the Context of the Gulf War". PhD thesis, 1995 April. P. 43.
[258] Kersch, p. 84.
[259] Alexander L. George and Robert O. Keohane, "The Concept of National Interests: Uses and Limitations," in Alexander L. George, ed., *Presidential Decisionmaking in Foreign Policy: The Effective Use of Information and Advice*. Boulder: Westview Press, 1980, pp. 217-237. Particularly, p. 224.

neither self-evident factors nor conditions, which could be the best for a nation, and the decision always depends on subjective preferences[260] in the understanding group.

It is difficult to define the right approach to the concept. Different conceptualizations, varying classifications and more, tend to make concept meaningless. Different definitions of the national interest lead to observable division in different types, layers or variations of it. As Roskin noted that "one can make as many gradations and subdivisions in the national interest as one wishes"[261]. In order to proceed further and to be able to pinpoint national interest's place within new economic governance in the EU, I draw two main concluding remarks for the conceptualization here.

First, I follow 'people sovereignty' approach, since all the EU countries are democracies. As Nye claims, in a democratic state, "the national interest is simply the set of shared priorities regarding relations with the rest of the world… [a definition] does not accept the distinction between a morality-based and an interest-based foreign policy"[262]. In addition to that, public opinion cannot be denied and elected officials are the ones who play a key role in national interest. Therefore, in this particular work, national interest is not seen as an indicator or analytical tool, which helps explaining states' foreign policies. Following Roskin's[263] explanation, the object should be called a/the European Interest or European Order to make it analytically useful, which is not the case here.

260 Rosenau, p. 36.
261 Roskin, p. 9.
262 Nye.
263 Roskin, p. 14.

Second, I agree with both Roskin and Nye Jr. who argue that there cannot be identical national interests and that even objective threats are not obvious. In Roskin's words, "the best one can hope for is that their [states'] interests will be complementary"[264]. Also, I follow Roskin's point, that it is not possible to anticipate how "another country will define its national interest. Each sees things through different eyes"[265].

5.4.2 National Interest at Work within the EU: EMU and Crisis Measures

Despite the fact that there are many authors arguing that European integration is not compatible with national interest, such as Henrik Larsen, supplementing the position with an argument that there cannot be consistency between national interest and commitment to European integration, the EMU was driven by the belief that convergence would happen of its own record. Milzow also claimed that European integration was "an attempt to prevent precisely the foreign policy excesses the notion of the 'national interest' was seen to encourage[266]", which again would not really hold regarding economic governance till 2008. As it was shown beforehand, EMU framework, created in 1992, constrained only financial side of Eurozone members (also, just partially), leaving economic governance completely under national affairs. In other words, while monetary union's side was based on federalism, the economic side was functioning on intergovernmental cooperation. Consequently,

[264] Roskin, p. 5.
[265] Roskin, p. 6.
[266] Katrin Milzow, *National Interests and European Integration: Discourse and Politics of Blair, Chirac and Schröder*. New York: Palgrave Macmillan, 2012, p. 6

both EMU measures – BEPG and SGP – can be seen as friendly for EU member states' national concerns.

From the legal point of view, BEPG were just suggestions-recommendations for a course, without any legal obligations. Adopted annually since 1993, BEPG provided a reference point regarding economic stability, growth, budget and debt management, structural reforms, public finances and employment. In brief, the BEPG covered structural, micro and macro-economic policies, without requirement for harmonization or convergence of taxation, wage coordination or investment policy[267], which, as a result, meant complete performance of national interest. Thus, the convergence never took place, since member states followed their goals and interests.

After the fall of Lehman Brothers, as the initial stage of the crisis reveal, most European governments were following national interest in the Keynesian way. Rescue programmes, nationalization of banking sectors or special funds for financial institutions, and support programmes for national economies or rescue plans for industry were on all EU member states' agendas[268]. All EU governments were intervening and increasing the measures of public investment, for which the EU Commission turned green light without ever considering them as distortion of competition or public subsidies. Normally, European institutions would have targeted such programmes as significant increases of public deficits and debts under SGP framework, but this time, national interests were regarded as temporary and necessary response to exceptional crisis'

[267] Tobias Kunstein and Wolfgang Wessels, "The New Governance of the Economic and Monetary Union: Adapted Institutions and Innovative Instruments", *International Affairs Institute Working Papers*, 13|02, January 2013, pp. 2-6.

circumstances. These chosen measures impaired theoretical construction of EU economic policy, including the rationality of economic actors, the efficiency of markets, deregulation, free competition and state non-intervention into the economy. This allowed EU member states to follow national goals and to exercise national interest even more than they could, or ever did, before creation of the EMU.

Even at the peak of Greece crisis, national interests were playing the main role in the EU institutional and member states' responses. While aid mechanism was under consideration, both Germany and France were publicly denying possible rescue packages and demanding the reinforcement of budgetary discipline within the EU. Moreover, Germany was the first one demanding that intervention in Greece should be done only in cooperation with International Monetary Fund (IMF): together with Austria and Netherlands, they demanded to treat aid as loans, not 'subsidies', with harsh interest rates. Eventually, the Troika – the Commission, the European Central Bank (ECB) and the IMF – imposed an unprecedented austerity plan on Greece, making Athens and later, the whole Eurozone, thrown into turmoil. The requirements to increase VAT by 2 per cent, raise taxes on fuel, alcohol and tobacco by 10 per cent, freeze wages and pensions in public sector, and postpone the minimum retirement age, spread protests and social unrest everywhere in the country.

Strengthening of Euro Area's economic governance, which followed the continuing turmoil and downgrading of other Eurozone countries' public debts, was expected put an end for 'climatic Keynesianism'. The EFSM and EFSF marked the new stage of the EU economic governance. Although it might seem from the first sight

[268] Degryse, p. 19.

that all these mechanisms were introduced due to EU objectives and 'European interest' in fighting 'slow' recovery and public finances' problems, which is not exactly the case. It has to be noted that partial responsibility for the overwhelming turmoil in the EU falls on the national interest of the member states, particularly, Germany and France, which did not prevent fear and its effects on stock markets worldwide. Solidarity maintenance in the EU would have probably led to less fear and negative prognoses of countries' performance[269].

As mentioned beforehand, Germany required extreme loans conditions and substantial increase in budgetary surveillance within the Eurozone. As Degryse depicted, "Berlin and Paris began to dictate the measures they wanted to see be taken by the other countries of the Eurozone"[270]. French-German duo's requests resulted in the creation of a European financial stabilisation mechanism (EFSM) under the Article 122.2 TFEU, and an intergovernmental agreement in the Eurozone, which was intended to protect the single currency. In addition, ECB started to intervene and buy back sovereign bonds on the secondary market, whereas the Eurozone governments had to consolidate their public finances. EFSM required an applying state to provide financial and economic recovery programme, describing measures for re-establishing financial stability, making the European Commission and the ECB the main watchdogs regarding compliance with the aid conditions. A month later, the European Financial Stability Facility (EFSF) was launched, as the last mechanism of the 'new economic governance', which plunged the whole Europe into austerity measures.

[269] Comment: Degryse also provides several insights regarding crisis management and the U. S. president's role in it.
[270] Degryse, p. 25.

Disagreements on sanctions within the EU, Ireland's "downfall", and sustained rating agencies' reductions of countries' ranking, pinpointed the second stage of EU crisis management and new economic governance. National interests did continue to play a role in formation of EU economic governance, but the new mechanisms proposed by Commission – the "Six-Pack" and the reform of SGP – left even less room for national interest of affected member states. The "Six Pack" set's six legislative acts comprised of improved preventive and corrective arms, sanctions, budgetary frameworks and macroeconomic imbalances, aimed at reinforcing EU economic governance and financial stability in the region.

As for the role of national interest, it was German government that was asking for a treaty changes regarding the main limits imposed by it. They considered it insufficiently binding character of the provisions concerning Stability and Growth Pact, and the excessive deficit procedure. According to Gualtieri, once again it was Germany asking powers (supranational institutions) to intervene in the national budget procedure for European Commission, and to allow Court of Justice of the European Union to handle excessive deficit procedure (EDP) in order to enforce EU decisions[271]. However, automatic penalties, one of Germany's national interests supported by the European Commission, ECB, Austria and the Netherlands, was confronted by France, Italy and Spain, asking for a room of interpretation. Eventually, French president Nicolas Sarkozy convinced Angela Merkel to drop automatic sanctions, which raised ECB frustration and deactivated European Commission and the Council's expectations for stronger and more rapid sanctions.

[271] Gualtieri, p. 41.

The EDP and SGP were insufficient to combat the sovereign debt crisis. In the meantime, Ireland had to rescue three banks and its public deficit tripled from 11.6 to 32 per cent of GDP. Inexistence of EU prompt response thrust Ireland to financial markets' negative response. As in the case of Greece, the EU in general and, in particular, Germany, put a very strong pressure on Ireland, such that even a joint mission by "troika" was organized to the country. Similar path to Greek one followed - Irish government was accused of selling national sovereignty and austerity plan of extreme spending cuts, which was supposed to bring the public deficit below 3 per cent by 2014. Irish national interest was preserved only in the case of corporation tax, which remained unchanged, whereas, besides cuts and reductions, the government introduced new taxes and increased tuition fees for students. As a result, compared to a previously bailed-out Greece, Ireland did manage to preserve a part of the national interest. However, the electorate's point of view might not have been the same as of the government

Proposals for EU finance minister or EU debt agency[272], or Euro bonds[273] were rejected by Germany, concerned of its bond rates. Ireland only partially managed to escape from complete capitulation in front of 'troika', compared to Greece, which failed to do so. Eventually, at the end of the year, EU member states agreed on the creation of the permanent European Stability Mechanism (ESM), replacing both EFSF and EFSM, international rating companies again downgraded Ireland's ranking, paying little attention to new commitments.

---

[272] Gualtieri, p. 42.
[273] Degryse, p. 35.

"Two Pack", European Semester, Euro Plus Pact and the Fiscal Compact (the Treaty on Stability, Coordination and Governance in the EMU) had to correct the shortcomings of the previous measures. These measures, introduced mainly by France-Germany alliance ("Merkozy"[274]), significantly affected EU member states' national interests. In principal these measures introduced additional EU intervention to member states' national decisions on budgets. Euro Plus Pact (or Competitiveness Pact) was created for better viability of public finances and financial stability via competitiveness, employment and tax regimes. In July 2012, European Stability Mechanism, proposed by Germany and France as a permanent financial stability mechanism, was signed by 17 Eurozone states and approved by the EP.

The measures taken did not prevent the Portugal's fall. Lisbon committed itself for a deficit reduction programme, based on wages' cuts, raising taxes and extended privatisation, for 78 billion Euro Troika's rescue package. After Portugal's agreement with Troika, "Merkozy" proposed the final measure for completion of new economic governance – the "Fiscal Compact", requiring governments to include the "golden rule", or "balanced budget rule", into their laws. The proposed treaty on stability, coordination and governance was supposed to improve budgetary rigour, discipline and surveillance, where "Euro summits" would function as European economic government. The proposition was made to be adapted

[274] Initially French press dubbed Angela Merkel and Nicolas Sarkozy for entering the "unlikely marriage of convenience". See "Merkozy: marriage of convenience between French and German leaders becomes internet search term". *The Telegraph*, 07 December 2011 [retrieved 2014-06-10] http://www.telegraph.co.uk/finance/financialcrisis/8941200/Merkozy-marriage-of-convenience-between-French-and-German-leaders-becomes-internet-search-term.html

without compromise. Publicly, United Kingdom and Poland rejected the suggested treaty, but eventually, only Czech Republic and United Kingdom did not sign the agreement, which could also be seen as an expression of national interests.

Over the years of these EMU upgrades, European economic growth was euthanized by generalised austerity. This period was marked not only by growing popular discontent in Greece, Spain, Ireland, Italy, Romania and elsewhere. Numerous dramatic turns of events highlighted new economic governance. As Degryse noted, "resignation, falls of governments, unexpected announcements of referendums or early elections, revelations of secret letters, challenging of agreements reached, reports of urgent decisions, demonstrations, riots, strikes"[275], show the other side of the reforms, implemented to strengthen the European Union.

Germany and France were the main players in defining what the 'European interest' is and what should become 'national interest' for each member state. Beforehand described public reaction showed that, although "Merkozy" were successful in convincing the states' leaders in Brussels what are the objectives of their national security, the masses living in 27 EU member states had different perspectives on the issue. Both leaders managed to introduce or to reject the measures from the new European economic governance, as they wanted. In addition to the measures "Merkozy" "imposed" together, there are some other cases to mention. Euro-bonds option was incompatible with Merkel's understanding of German national interest – the strong epithets can be found recorded in the media – and, as a result, completely out of discussion. France, on top of everything, received desired "Compact for growth and jobs",

[275] Degryse, p. 66.

consisting of 120 billion euro. This idea also corresponded to Belgium, Spain and Italy's national objectives.

The remaining EU member states, seems to have been lost during the period of the crisis in the process of multiplication of regulation, treaties and instruments of new governance. There are only few exceptional cases, where some member states raised their voices regarding new measures and publicly rejected them because of national interest. This passivity of most of the EU member states can be explained by one of two possible scenarios. First, remaining member states' national interest completely overlaps with the EU institutions and big powers' expressed European interest. As such, regardless of the fact that measures are introduced without discussion with all member states, the new institutional framework is, right on the spot, perceived as necessary and corresponding to the member states' national interest. This appears to be highly unlikely, though. Second, most of the representatives of the member states still did not grasp how much intervention from Brussels became possible, and what are the future ramifications of the new economic governance framework.

To conclude, the national interest played a significant role in the last stage of new EU's economic governance. Two countries - France and Germany, were able to bring their national interest on the table. Proposed ESM, Euro Plus Pact and Fiscal Compact left no room for European debate, and despite ECB's objections, were directly implemented into economic governance. However, remaining countries either did not see any clashes between new economic governance and their national interest, or were simply not able to exercise necessary power to bring the national needs and objectives on the table. Thousands of the EU citizens felt left behind the border:

regardless of how do people vote and what do they think is necessary for their country, Troika, Brussels, or Merkozy will decide how the country should be governed, making even social democrats to implement austerity measures. Democratic accountability, as a part of national interest, has obviously been lost in the new economic governance.

5.4.3 Review: National Interest vs. European Interest

The hey-day of the 'national interest' passed when the concept was considered useful as a guide for the conduct of foreign policy and as an analytical tool for the analysis of international relations. In 1990s, a resurgence of national interests appeared in the public statements of European Political leaders[276]. The discourses of national interest had spread even in the countries such as Germany and France. The uncertainties of generational transition made the concerns of states' post-Cold War European and international roles quite apparent. Roskin argued that "the national interest approach is terribly old-fashioned"[277] and some thinkers argued it should or must be superseded by "world interest" or "world order" approaches, which go beyond the inherent selfishness of national interest.

Larson defined the paradox between an emphasis on 'national interests' and devotion to European integration as 'irrational consistency', a concept by Robert Jervis. Their critics argued that national interest could still predict the strategy of the state better than world order. One of them, Milzow, argued that the concept of national interest remains relevant to the understanding of European

[276] Milzow,p. 1.
[277] Roskin, p. 14.

politics[278]. He suggested integrating the concept of 'national interest' more fully into the analysis of European politics[279]. By analysing the interplay between the national and European interest, he sees 'the national' and the 'European' are closely connected and work as parallel frameworks, "whose relationship is not necessarily competitive and which may indeed support each other"[280].

In brief, all the EU's countries used the spacious room for national interest in between 1992 and 2008, even if in some cases the punitive measures were supposed to be introduced for not complying member states. The appearance of the first signs of multifaceted crisis started to change the rules of the game for most of the countries. If BEPG and SGP were perceived as constraining the EU member states, the measures of new economic governance that followed raised significant issues of accountability and social unrest around, with many still arguing that EU did not manage to reach the level of fiscal union.

In the case of new economic governance, there are several concluding reservations to be made. First, it is not possible to talk about a common European economic interest, if there are more than three completely different opinions regarding the same issue. The new governance framework broadly revealed the possibilities of contradicting and opposing each other national interest, and showed whose national interest were taken into account the most. Therefore, even if the European interest were theoretically possible, while complete convergence did not happen, there should be many different ways how to proceed with its implementation. This was

[278] Milzow, p. 5.
[279] Milzow, p. 7.
[280] Milzow, p. 8.

also particularly mentioned regarding harsh austerity measures and, especially, obligatory public cuts on spending in rescued countries, since public spending took different forms in different countries. Milzow's study also showed that member states' national interest differed in three policy fields that he analysed.

Second, this section captured the interplay between different national interests during different stages of new economic governance. The crisis-management regulations, treaties and instruments were treating national interests as less and less important in most of the cases. Imposed harsh austerity measures for rescued countries made governments to be Troika's marionettes. Strikes, riots, and other kinds of forms of social unrest that followed, did not have any effects on national governments, since Brussels or, to put it more explicitly, German-French alliance, was pulling strings behind the scenes. Democratic governments were no longer accountable to their electorate. From Rousseau's point of view, either the government was no longer a sovereign of the country, or the country was no longer able to exercise its national interest.

Third, Germany and France, with some other occasional countries, managed to put their priorities on the agenda and contribute to the changes in European economic governance. Germany and France, or 'Merkozy', managed to create the economic governance for the rest of the Union, as they thought was suiting the best their national interest or their perceived European interest. Removal of automatic sanctions in French case, and no discussion about Eurobonds represented a strong national interest of Germany. The introduced surveillance, regulation and intervention mechanisms, including new treaties, were also the expression of 'Merkozy' club's national interest of survival, which, in most of the cases, did not allow any discussion, or objection from other EU member states, and was negatively welcomed by the EU supranational institutions like the ECB and the EP.

5.5 The Role of the European Central Bank

Multiple directions Eurocrisis, including banking crisis, government debt crisis and economic recession, paved the way for a new role to the European Central Bank (ECB). ECB originated from the EMU, which centralized monetary policy with the creation of the European System of Central Banks and the ECB itself. All Eurozone members allocated monetary policy to the centralized system, where ECB, completely independent from the EU's institutions and member states, solely would decide and implement the common monetary policy for the Euro club.

As created EMU was characterized as "incomplete and open-ended mechanism"[281] by uneven integration of macroeconomic policies, strongly centralized monetary policy with ECB ahead was placed side by side with negative financial market integration and decentralized fiscal policy. Inexistent fiscal or financial union has been complicating the EU's reaction in the case of fiscal difficulties. As mentioned beforehand, Articles 123 and 125 TFEU constrained the ECB from allocating credit to the EU or Member states and prevented the EU from taking responsibility of its members' undertakings.

European Union faced several institutional changes within the crisis period. Despite the fact that national governments, seems, played the

[281] Francisco Torres, "The EMU's Legitimacy and the ECB as a Strategic Political Player in the Crisis Context", *European Integration*, Vol. 35, No. 3, 2013, p. 293.

main role in managing the crisis, some supranational institutions have seen their power increasing to some extent. The ECB in this case jumped as the only European institution, which could prevent credit disturbances, since intergovernmental funds were neither established nor possible to use for buying government bonds and support the countries like Italy or Spain. During the crisis the ECB provided liquidity, took additional supervisory roles and got involved in the creation of new institutions like EU banking union.

ECB succeeded in calming down the markets and relaxing outside pressure on indebted countries, stimulating the gravitation of power from national to the supranational level. ECB was also a leading character in the institutional change in the EU. Its proactivity to fight inflation in the Eurozone and maintain the stability of prices, as defined in its mandate, made the ECB to fight for the existence of the euro itself as well, eventually providing stability to the Eurozone.

Furthermore, the ECB intervened in the areas where the Bank was not authorised by its mandate. The Bank expressed its opinion in the areas as privatisation, centralisation of financial supervision, a framework for bank resolution, product and labour market reforms, "true oversight" of national budgets among others[282]. Buiter justifies ECB's intervention into the wider economic policy debates, which are not defined by its mandate and competences, as necessary in the case when political power challenges the ECB's role and expertise. These areas of intervention, where the bank was calling for the sound policy and structural reforms, were in the epicentre of euro area, which was affected by the sovereign debt crisis. As was noted earlier

[282] W. Buiter, "Monetary Economics and the Political Economy of Central Banking: Inflation Targeting and Central Bank Independence Revisited". Paper presented at

by others[283], the ECB has seen itself as the main source of stability and security within highly fragmented political system. The fragmentation issue became even more problematic in the face of crisis, when a complex structure of EU multi-level governance could not provide timely and uniform solutions to the problems. In this situation the ECB saw itself as a strategic player in extraordinary circumstances. As next section shows, the ECB has had also a strategic political role in between the Council and the EU member states.

From the ECB's point of view, EU member states policies should contribute to the development of the common EU policy and action (Article 120 of the TFEU), which should be coordinated by the Council. As noted elsewhere, the member states and the EU's responses to the crisis since the failure of the Lehman Brothers in 2008, were worse than the problems themselves and continued damaging relations between the states and the markets' trust.

Consequently, the ECB had to intercede in several episodes to provide comfort to highly beholden countries and banks. In the context of security markets ECB gas bought more than 200 billion Euro worth of bonds of countries in difficulties since May 2010. By December 2010, ECB doubled its capital stock. In December 2011 and February 2012 ECB provided banks with more than 1 trillion euro in long term cheap credit for buying government bonds.

In July 2012, ECB President Mario Draghi asked to "do whatever it takes to preserve the euro" Implicating that ECB would provide

the Central Bank of Argentina conference on "Monetary policy under uncertainty", Jun 4-5, 2008, Buenos Aires.

unlimited liquidity to keep Eurozone government afloat[284]. With Outright Monetary Transactions program the ECB has been prepared to buy unlimited bonds from the countries, receiving EFSF or SMP assistance and complying with financial conditions. Formally the ECB mandate was not changed and the ECB has seen itself acting within its mandate, these acts and devotion have been substituting the no bail-out provision in the treaties[285].

In 2012 the ECB also announced it is going to impose strong conditionality on the member states and the states were supposed to be ready to start the EFSF/ESM following the established guidelines for effectiveness[286] via OMTs in secondary sovereign bond markets. OMTs (Outright Monetary Transactions) substitute the SMP by changed price formation process in the euro area bond markets. The ECB received also monopoly in deciding when and how macroeconomic adjustment and precautionary programmes can be started, continued, suspended or even terminated if goals are reached or there is a case of non-compliance[287].

The ECB, also as a part of the Troika, supervised the member states of the rescue packages and plans. It was counterbalancing the International Monetary Fund in the created 'Troika'. Beforehand the ECB was strongly involved in the aid program to Greece and had to

---

283 See Padoa-Schioppa' speeches, 2000, the president of the ECB speeches (Trichet, 2011, or Draghi, 2012).
284 Mario Draghi speech on 26 July 2012, pleading to do whatever it takes to save the euro.
285 Frank Schimmelfennig, "European Integration in the Euro Crisis: the Limits of Postfunctionalism", *Journal of European* Integration, 36:3, p. 328. (pp. 321-37)
286 European Central Bank, "ECB President Introductory Statement to the Press Conference", 02-08-2012, Frankfurt am Main.
287 European Central Bank, "Technical Features of Outright Monetary Transactions", press release, 06-09-2012, Frankfurt am Main.

closely monitor the country regarding the conditionality measures imposed after the Greek debt was accepted as collateral[288]. In addition to this, the bank was also involved in shaping the reforms in some Eurozone members, like France, Spain and Italy. Recent operation of quantitative easing in June 2014, also announcing cheap long-term funding of European banks prolonged indirect ECB's assistance to EU economy.

Since introducing fiscal surveillance via ex-ante control of national budgets, following the "Six-Pack" (December 2011), and the "Two Pack" (March 2013) and the Fiscal Compact (The Treaty on Stability, Coordination and Governance in the EMU), the ECB has been assisting financially only the countries, which followed the established procedures.

Buiter argues[289] that the ECB as a truly operationally independent central bank lacks substantial accountability, for which reason unfavourable political reactions affect the ECB's credibility and output. As Torres claims, "the ECB is not a mere agency responsible for the implementation of monetary policy but also an actor in the political equilibrium of the entire EU *cum* EMU governance construct. Such a strategic role is particularly important in a crisis setting."[290]

As Torres shows, the ECB has been behaving strategically, incorporating the interests of individual member states and the

---

[288] Neil Irwin, *The Alchemists: Three Central Bankers and a World on Fire*. New York: Penguin Press, 2013, p. 245.

[289] W. Buiter, "Monetary Economics and the Political Economy of Central Banking: Inflation Targeting and Central Bank Independence Revisited". Paper presented at the Central Bank of Argentina conference on "Monetary policy under uncertainty", Jun 4-5, 2008, Buenos Aires.

[290] Torres, p. 291-292 from pp. 287-300.

Council, and at the same time achieving its objectives and sustainable development of economic policy in its mandate. It also showed support to general economic policies of the Union, as indicated in the Article 127 of the TFEU, and by following the EMU objectives did anything to secure the common currency of the Union. Torres concludes that the ECB safeguarded the EMU, which forced the Bank to introduce extraordinary measures and intervene in the wider economic policy debates[291].

In this period of crisis, the bank converged with the European Parliament on the issues regarding the monetary policy of the EMU and the bank's role within. Sharing a common supranational nature they found themselves representing the same interests of EU and the people of Europe rather than particular EU member states. They also agreed on new economic governance institutional architecture and the importance of synchronised economic policies within the EU.

In 2013 March the ECB also received the supervision of important banks via the Single Supervisory Mechanism, as agreed between the European Parliament and the Council. The Council later on agreed also on Single Resolution Mechanism, regarding progressive mutualisation of national bank resolution funds superior than 10 years.

SGP and the Lisbon Strategy, continued by the Europe 2020 Strategy since 2010, did not provide sufficient sustainability for the EMU in the face of crisis. New institutions, such as the European System of Financial Supervisors, ESFS, the European Financial Stability Facility, EFSF and the ESM, and non-standard policies, like the Securities Market Programme (SMP), the Long Term Refining Operations

---

[291] Torres, p. 295.

(LTRO), and Outright Monetary Transactions (OMT) have been created and authorised for the purpose of crisis management. These measures significantly enlarged also the role of the European Central Bank. The ECB's role as a lender of last resort has been strengthened and the bank's role in supervising the European financial system has been expanded. Previously under national competences, these new non-standard policies of the ECB extended the powers of supranational organisation and, seems, have been changing the nature and degree of economic and political integration as agreed in the Maastricht Treaty[292]. These current *ad hoc* changes still have to become part of the treaties in order to become permanent and efficient instruments in the European Union. However, the ECB's performance during the crisis showed that the created EMU guardian managed to step in and lead the exceptional policies, pushing for a "gradual and structured effort to complete EMU"[293].

5.6 Conclusion

The post-crisis EU's economic performance has been far away from expected, and economic recovery has been in the process. Some of the EU member states were among the first (and the worst) hit in the world, starting in 2008. Few years afterwards, unsustainability of national public finances swept away another share of the EU Member States. Further extension of the crisis made European Commission, European Central Bank and the EU member states to take serious measures for solving indebtedness and insolvency. Through various

[292] Torres, p. 288.
[293] Torres, p. 297, quoting M. Draghi "The Future of the Euro: Stability through Change" Contribution from the President of the ECB, published in *Die Zeit*, 29-08-2012.

forms, such as Economic and Financial Affairs Council (ECOFIN), European Council, Euro Group and Euro Summit, EU member states sustained the situation of the countries in difficulty by various mechanisms, however, as it can be seen not at once, but in several rounds. Most of the measures taken during the crisis were not in accordance with the European treaties and have been a difficulty to implement.

The provisions of the Maastricht Treaty in 1992 stated that neither European Union, nor Eurozone, could provide any aid for a country (or countries) in budget difficulties or insolvency. As the Treaty affirms, the principal idea behind non-existence of 'bail out' clause was a self-discipline and avoidance of moral hazard.

The idea about a certain form of European economic government has been present, but there was an expectation that the entrance to the EMU might automatically provide real convergence of economies in terms of growth, productivity, competitiveness and employment. Also, it was imagined that member states' independence in effective convergence would allow avoiding asymmetrical shocks.

The idea of harmonization of economic policies, or common European economic government, was rejected due to the expected optimal development of the Eurozone economies and national interests, as one can see from the crisis management measures. This, according to monetarists' point of view, should have been ensured by a free market mechanism.

On the other hand, Keynesian economists were raising concerns, arguing that increasing monetary integration will demand even tighter coordination of economic policies. The Maastricht Treaty was followed by monetarists' expected way of economic development, and monetary union, with a federal institution to implement monetary policy – the European Central Bank, being established as a result. Though criticisms appeared, pointing to the asymmetry between a centralized monetary union and barely existing coordination of economic policies within the EU, the actual change did not happen until the last years.

Pochet[294] claims that all actors had a very clear view of the social stakes of the Economic and Monetary Union, leading to economic convergence 'via the market', rather than via 'guided' economic convergence. 2008 Economic crisis and following Euro crisis revealed the shortcomings of the 20 years ago created EMU's framework and structure. In the face of the crisis, only the Broad Economic Policy Guidelines (BEPG) and Stability and Growth Pact (SGP) were reminding of the supposed-to-be Economic and Monetary Union.

It is important to mention that deregulation followed the EU economic governance until the Eurozone entered the crisis in 2008. The existing financial regulation was equipped with weak, short-term or limited instruments and procedures (or it was seen and perceived by some in that way), since the Lisbon Treaty promoted open coordination and rationalization of macroeconomic and microeconomic processes within the Member States. Eurozone crisis undoubtedly revealed lack of instruments for coordination, from fiscal to public borrowing policies, from wage to investment regulation. The belief of the authors of the Maastricht Treaty in 1992 about convergence happening 'of its own accord' did not get materialized.

---

[294] Pochet, 2008.

The measures taken in the meantime of the crisis were coming in several rounds. The three packages varied in terms of time taken, the extent of intensity and intervention. First, only two instruments were created to fight “slow” recovery after the crisis – the European Financial Stability Mechanism (EFSM) and the European Financial Stability Facility (EFSF). Short afterwards, the second package of measures followed due to the appearance of more significant problems within Eurozone Members. In 2010, European Commission launched the so-called “Six Pack” – the set of six legislative acts (five regulations and one directive), trying to make economic governance more rigorous within the EU. These instruments mainly targeted budgetary issues, the reform of the SGP, and correcting macroeconomic imbalances in the EU and the Euro zone. Thus, preventive and corrective arms were introduced for adequate sharing of powers and responsibilities within the EU economic government.

The first and the second package of the instruments targeting the crisis did not provide the needed results. The appearing shortcomings of previous measures were corrected by the implementation of another set of institutional innovations in 2011, when The European Semester and the Euro Plus Pact were introduced. “Six Pack” was supplemented by “Two Pack” combination, and “Fiscal Compact” had upgraded the new European economic governance in 2012.

In the meantime, most of the European governments had to stop economy-boosting programmes and to introduce austerity measures, due to unsustainability of public deficit and debt. Increasingly stringent austerity measures were laid down onto the indebted peripheral European states - such as Ireland, Portugal and Greece – in order to receive financial assistance by the Troika, a group of international lenders consisting of the European Commission, International Monetary Fund and European Central Bank. However, difficulties to meet the required austerity measures have shaken social background of the EU, including solidarity. Social unrest and protests, especially, in the harshly affected countries, raised awareness about democracy and welfare, and the relationship between national needs and the EU's perspective.

The national interests were playing a significant role in shaping the political agenda on EU economic governance. Also, there was a room for exercising national interest. However, Morgenthau's point about the importance of power in national interest fits the best to describe the EU crisis politics. The analysis of new European economic governance shows that some big countries, like Germany and France, were able to use the opportunities to exercise their power (even before the crisis).

Some authors even explicitly put down that Berlin, in return, received new economic governance and austerity measures for its concession regarding rescuing Greece, the creation of the EFSM and the ECB interventions in the markets. However, smaller (or economically weaker) countries, like Greece, Ireland and Portugal, had to face an opposite situation – completely neglect the national interests and act against popular will by accepting and implementing extremely harsh conditions.

Consequently, the European Union reduced state's autonomy in budgetary policy, centralised financial market supervision and introduced unprecedented collective liabilities. Technocratic in nature reforms inaugurated significant changes in the EMU. These revisions increased the role of the European Central Bank. The ECB became responsible for the European financial system and appeared as a lender of last resort. European Commission's role in fiscal supervision also expanded, whereas the institutional package enlarged with a new intergovernmental organization, such as the ESM.

SGP and the Lisbon Strategy, continuing as the Europe 2020 Strategy since 2010, did not provide sufficient sustainability for the EMU in the face of crisis. New institutions, such as the European System of Financial Supervisors, the ESFS, EFSF and the ESM, and non-standard policies, like the Securities Market Programme (SMP), the Long Term Refining Operations (LTRO), and Outright Monetary Transactions (OMT) have been created and authorised for the purpose of crisis management.

Previously under national competences, these new non-standard policies extended the ECB's mandate formally, which in practice changes the nature and degree of economic and political integration, as agreed in the Maastricht Treaty[295]. However, these current *ad hoc* changes should be part of the treaties as voted and ratified constitutional changes in order to become permanent and efficient instruments in the European Union. On top of that, the ECB played a proactive role in the crisis intervention programmes in highly indebted countries and banking supervision.

The main crisis response solutions were intergovernmental, since from the beginning the EU was not equipped with crisis management mechanisms. New institutions were enacted and additional

---

[295] Francisco Torres, "The EMU's Legitimacy and the ECB as a Strategic Political Player in the Crisis Context", *European Integration*, Vol. 35, No. 3, 2013, p. 288 from pp. 287-300.

responsibilities expanded already existing ones. These changes helped governments to maintain the track of financial and economic affairs within the countries. The new measures should also deepen the EU integration. As a result, the European Union showed that it could design new treaties, further empower supranational organizations and expand already existing ones' mandates informally, if it deems needed.

Chapter 6

The Performance of European Economic Security: Stability and Development

6.1 Introduction

European economic security community is for sure one of the most complex and comprehensive security communities in the world. Its outreach almost equals state provided benefits with a multiplication effect. As small states were joining the EU in 2004, there was an extensive wave of scholarship, explaining how much the EU helps to overcome vulnerabilities, and increase resilience[296]. Most of the literature did not analyse the causal relationships, nor exact effects, because the improvement effect was simply too obvious, or to uncover the processes within a black box between the EU and the domestic impact, seemed, too complex and multifaceted to do.

[296] See Roderick Pace, "Malta and Eu Membership: Overcoming 'Vulnerabilities', Strengthening 'Resilience'". *European Integration* , Volume 28, Issue 1, 2006, pp. 33-49, or Dorothee Bohle and Wade Jacoby, "Flexibility Revisited: International Markets and the Small States of East-Central Europe", paper presented in the ISA Convention Montreal, Quebec, 2011.

In the face of crisis, things started to get worse. Complexity of economic governance became a burden, convergence and cohesion seemed to be absent and disappointment has been growing. As it was shown in the previous chapter, some states were left without a choice to proceed with the policies, which seemed demanded by the citizens or national governments. Recent "Brexit" vote "no" for the EU, waves of turn-arounds in the elections and a growing gap between the EU and its member states are important signals not to be missed. For this reason, the understanding of what are the exact effects of the European Union, as an economic security community, for the EU as a whole and on individual member states, is crucial.

In this section I analyse to what extent an economic security institutions have affected economic security via vulnerability and resilience measures in the EU. Economic resilience, as conceptualised in the chapter 2, is divided into two categories of measures, namely, macroeconomic stability and flexibility-regulation. Such division stems from Buzan's early work on non-traditional security in the early 1990s[297].

He points out that economic security cannot be obtained completely, since none of the states can have stability and flexibility at the same time, especially in democratic regimes. Being vulnerable for being exposed to the global markets and other economies is the main defining factor. According to him, only the closed economies like the former USSR, could reduce vulnerability at the expense of resilience and general economic development. Nowadays, vulnerability aspect is even more accurate, since globalization increased interconnectedness and interdependence.

[297] Barry Buzan, *People, States and Fear.* Colchester: ECPR Press, 2008. First edition, 1991.

In theory, both economic globalisation and integration (regionalism and regionalisation) should have contributed to the increased levels of vulnerability across the EU Member States. The 2008 Economic crisis, even if it does not seem at first glance, has been affecting sharply the most vulnerability countries in the EU.

Macroeconomic stability and flexibility-regulation – both important arms of economic resilience are going to be analysed also in this chapter. Though Buzan did not conceptualize further flexibility and stability for empirical research, there are already a significant number of studies employing these concepts. The economic security mechanism, constructed in the chapter 2, is followed here for the empirical investigation of the EU Member States' performance over time in terms of economic security.

Indeed, macroeconomic stability factors are extremely important, since they correspond to the expected direct effects of European economic governance, as analysed in chapter 5. Here, the term "European economic governance" refers to budget policies, thus, making the budget a central object for the study. The fiscal condition of the budget, being one of the main issues and causes for Eurozone debt crisis, as one of the most important factors for macroeconomic stability, is going to be analysed in depth as well.

Public debt and inflation, remaining two variables for analysing macroeconomic stability, are connected to each other and to a budget deficit too. Both measures indicate quite well the health of state's public finances and economy, and are usually acknowledged in economic studies. Moreover, all three factors form the core of the euro convergence (or Maastricht) criteria for joining the third stage of the European Economic and Monetary Union, what makes them extremely important.

On top of that, all three measures were the main target of the whole new economic governance, as described in the section 5.3. Consequently, a high level of macroeconomic stability should indicate a good performance of shock counteraction capacity, which is measured in the study by inflation, budget and public debts.

Flexibility-regulation refers to other institutions, empowering states' markets to absorb exogenous shocks. As was noted in the chapter 2, there are various approaches to analyse the institutional quality and their results. Various scholars raised the importance of market regulation, democracy related institutions (the so-called good governance), investment to human development[298] and approaches towards sustainability.

Of course, there are various existing measures of economic outcomes and institutional quality. Economic outcomes are usually measured by the actual level (absolute numbers) or growth of GDP (relative numbers), though this measure of institutional quality faces many conceptual and econometric problems. Institutional quality alone is measured by even wider combination of variables. For example, World Bank looks at six measures: voice and accountability, political

---

[298] It is essential to mention that in most of the previous research and even conceptualization here, unemployment has been perceived as a macroeconomic stability factor. However, analyzing better the level of unemployment indicates much more market flexibility and investment in human development, rather than exact results of economic policies, targeting fiscal performance. For this reason, unemployment is analysed as part of flexibility-regulation, rather than macroeconomic stability factor.

instability and violence, government effectiveness, regulatory burden, rule of law, and control of corruption[299].

These measures are here combined into "flexibility" section. Of course, there is extremely wide selection of measures, but in this study I will employ only openness and participation as a representative of general (or also known as good) governance qualities[300], and convergence criteria - investment and unemployment[301]. The latter two variables are at the core of European Union's Sustainable Development Strategy (EU SDS), and are chosen here as the main indicators of sustainable socio-economic development.

Gross Domestic Product (GDP) is usually among the most important indicators while referring to economy. In the analysis of economic security GDP has been used extensively, as extensively its usage has been criticised. For sure, GDP is the first indicator to look at, but it has its own limitations to reveal information about exact economic performance. Since economic security mechanism does not include GDP performance over time, the short overview in **Figure 6** (see Appendix) depicts the patterns of economic growth in the EU Member States since introduction of the Euro.

Indeed, there was economic growth before the crisis, and strong economic contraction in 2009, but simultaneously, it is visible that EU

---

[299] D. Kaufman, A. Krayy, and M Mastruzzi, "Governance Matters IV: Updated Governance Indicators 1996-2004". Washington, DC: World Bank research paper, 2005.

[300] Comment: it is also planned to include government effectiveness from the World Bank as an indicator to the good governance.

[301] Comment: There are obviously even more factors, important for this study, however due to scope limitations, they had to be omitted.

Member States did not get locked at the bottoms of the crisis' years. Majority of the countries did not manage to come back to the pre-crisis growth levels, but most of them made to put the growth back on track. This brief insight into economy already reveals that economic security community effect worked and the EU countries showed substantive level of resilience.

While GDP growth shows one picture, GDP per capita (**Figure 7**, see Appendix) portrays a different side of the growth and the years of integration within the EU. Interestingly, the crisis effect on GDP per capita is just very slight and decrease is not so visible, in comparison with the **Figure 6**. However, the welfare gap within the EU did not change much: Luxembourg is an extreme outlier and Bulgaria is the lowest performer. It shows that convergence did not happen in the EMU as it was expected, and member states have still very different economic powerhouses, when controlled by the number of citizens. As a result, tenfold discrepancy between the lowest GDP and the highest signal that cohesion and structural funds operation will need to be in action for many years in order to achieve "catch-up" of less developed regions.

To conclude, this chapter provides the empirical part of the effects of economic security, created by the treaties and institutions. As much as institutions speak about themselves, whole EU and its Member States' operation and achievements are equally paramount. The empirical part provides the evidence that the effects of economic security capacity, created by the establishment of the community, are not only in the treaties and institutions, but make a difference in obtained well-fare and economic development. The following sections (6.2, 6.3 & 6.4) showcase the general effects of European Union on its Member States' vulnerability, macroeconomic stability and flexibility, and provide more in-depth exploration of different outcomes of pre- and post-crisis economic security institutions at work. Section 5 revises the crisis' performance and the measures results for member states. The final section summarizes results and concludes the chapter, indicating the directions for the future research.

6.2 Vulnerability in the EU

Economic Vulnerability, as described in Chapter 2, has been perceived historically as a constant and stable feature of the country. Inherent lack of the physical base, like natural, land, human or even financial resources was seen as not subject to policy and subject to change. Many researchers beforehand would not even recalculate it, since inherent weakness, smallness and dependency, especially before the Second World War was constant. The end of 20th century and economic globalization challenged this view, and the following analysis just confirms that vulnerability is subject to policy and policy change and global environment, and, as Friedman once wrote, the system in which you are logged in makes a huge difference and nothing is stable in economic globalisation. Thus, vulnerability cannot be taken for granted, and has to be analysed the same way as resilience.

Economic openness – one of the main reasons why some of the countries were extremely hit by crisis – has varied over time in the European Union Member States. As **Figure 8** (see Appendix) shows, the integration process within the Community facilitated significantly the increase in international trade, and we can see the effects of different stages of European economic integration.

For sure, some countries even before joining the European Union had already significant levels of openness, and this could be seen especially for the new member states, which joined the EU in 2004. The small states, as dwelled in the second chapter, are naturally more prone for the higher levels of economic openness, and the **Figure 8** confirms it.

In general the cumulative effect for the whole European Union could be seen in the **Figure 9** (see Appendix). The economic openness in the member states has been constantly rising with some fluctuations, and only in 2009, during the crisis, there was a slight contraction. For this reason, it could be said, that single market strategy and its development as part of the integration process is getting its pace. In brief, EU could be seen as a slight contributor for the increase of this vulnerability, however, available UNCTAD and World Bank data shows that majority of world states had to open their economies and increase their participation in the international trade.

The second factor of economic vulnerability – export concentration – did not change so much over time (**Figure 10,** see Appendix). The enlargement results are also barely visible. Most of the countries' performance is stable, however, the data was not available before 1995, and for this reason it is difficult to make far-reaching conclusions.

On the other hand, the calculated EU average (**Figure 11**, see Appendix) shows a different pattern of the change within the community. Indeed, one would think that enlarging the Community should positively contribute to the Member States' export concentration and provide bigger possibilities for diversifying the exports market, however, the effects are minimum. To summarise, most of the EU countries are doing relatively well in terms of export concentration. The index, where "0" means no dependency on exports concentration, the EU on average and individual member states are doing quite well. Of course, some individual member states still have where to improve their dependency on exports.

The last indicator of economic vulnerability – the dependence of strategic imports – the accumulated index[302] depicts (**Figure 12**, see Appendix) very interesting patterns of EU Member States performance over time. The general pattern is that majority of EU Member States rely on strategic imports, and this could be seen together with economic openness as the main vulnerabilities of the Community members. However, there is one very important data limitation in this case: the calculated index does not allow excluding the dependence on strategic imports from other EU Member States. Taking into consideration the volume of intra-EU trade, dependency on strategic imports from outside the EU would be much lower.

The EU average of dependence on strategic imports (**Figure 13**, see Appendix) just confirm the pattern visible in the individual states' performance. A sudden drop in 1960s, and then increase in 1980s, and very slight decline from 2000. It has to be mentioned, that new millennium was not only a change point for UN Millennium goals and development agenda, but also raised the hot debates within the EU on the importance of sustainability and diversification. For these reasons, it could be expected that dependence on strategic imports

[302] The author calculated DSI (Dependence on Strategic Imports) as percentage of imports of food, agricultural raw materials, fuels and manufactures imports as important for states' survival.

might lessen by some percentages in the future, however, not significantly.

To conclude, economic vulnerability of the EU as a community and its member states have been changing over time. The increased economic openness made the EU member states extremely vulnerable to the exogenous shocks. Their reliance on strategic imports show that individually member states (without excluding EU dependency) are quite vulnerable here as well, but data limitations should be taken into account before making strong conclusions. Nevertheless, export concentration shows very positive stance of all EU member states. Finally, it should be noted that the relationship of the membership in economic security community on the states' performance in economic vulnerability is quite low, and the participation in the EU only slightly increases economic vulnerability of its member states.

6.3 Macroeconomic Stability Performance

The effects of economic security community for the European Union are under-researched. Scholars were analysing the supporting programmes, funds allocation and various policies with occasionally estimated effects. This and next section of the chapter presents the evaluation of the development of EU economic security and impact on Member States. As was indicated earlier, economic resilience, consists of two parts – shock-counteraction and shock absorption.

Shock-counteraction is achieved by sound macroeconomic stability of the states. Macroeconomic stability, in this study defined as a budget surplus or deficit, public debt and inflation, are the most important factors, indicating the healthiness of a state's economy. Macroeconomic stability or member states capacity to withstand a shock has been the main target of European economic governance since the creation of the EMU. In the face of crisis, as was analysed in chapter 3, European Union collectively introduced even stronger oversight and control over the member states' fiscal endurance.

Fiscal endurance here is analysed through the lenses of the external debt, budget balance and inflation rate. These three criteria's importance dates back to the Maastricht Treaty and forms the core requirements for entering the Euro zone. As a result, the collected data covers quite substantial period, providing substantial insight into the effects of economic security community on the macroeconomic stability within the EU. It is important to note, that crisis period is as well covered as much as data was available. However, the author thinks it is too early to evaluate the crisis effects and member states' performance, for this reason, the conclusions drawn here should be taken with precaution on the matter of the effects of new economic governance.

External debt and its relation to the gross domestic product is one of the main indicators of the state's economy. As it is visible from the graph in the **Figure 14** (see Appendix) that the old member states, even before the introduction of the Maastricht criteria, had very different fiscal position. However, even after the crisis majority member states managed to keep their public debt below the threshold of 60 per cent. It is important to note that for some member states, like Bulgaria and others, the years before and after the accession to the EU mark a significant difference in their public debt.

On the other hand, graph in the **Figure 15** (see Appendix) clearly shows that all the countries' external debt has been growing since the economic crisis, and that since introduction of Maastricht criteria, the EU average debt was steadily decreasing, showing that additional supervision measures actually worked.

The budget balance, being the second indicator of the withstanding capacity of external shock, provides completely different picture. The effects of the introduction of new institutions on balancing the budget within the EU clearly had a resonance in the member states' budget balances. As graph in the **Figure 16** shows (see Appendix), the old members of the economic union had the most trouble before Maastricht to put their budgets on positive track. Majority of the countries had budget deficits up to minus 16 per cent, not counting the crisis period, when most of the governments experienced difficulties.

In regard to post 2008 EU member states' performance, it is clearly visible that only very few countries managed to keep the budget balanced since then, and majority still experiences problems in keeping the targets of new economic governance and golden rule of a balanced budget met.

The EU average, as **Figure 17** shows (see Appendix), the same as for the EU average of external debt, since the EMU, there are positive changes in the EU as an economic security community. It is visible, that the EU average budget deficit decreased by 5 per cent in between 1993 and 2000. Moreover, similar pattern of balanced budgets is visible after the introduction of new economic governance measures, targeting budget deficit and demanding the implementation of "golden rule" of balanced budget. It is important to mention, that average clearly portrays also the period of formal suspension of EMU rules on balanced budget (SGP as mentioned beforehand).

Inflation, similarly as balanced budget for majority states was an extremely difficult task. Especially, the new member states' performance before joining the EU show how much additional discipline countries had to obtain within the EU.

While deficits and debts did not improve much since the new economic governance institutions were introduced, inflation measures (as HICD – Harmonized Indices of Consumer Prices), as visible in **Figure 18** (see Appendix), came back to the pre-crisis fluctuation levels. Even outliers beforehand, seems, found the instruments to keep price stability in control.

The overall EU average of inflation (**Figure 19**, see Appendix) strongly supports the effects' correlation with institutional development within the EU over time. The EU member states since 2000 managed to control price stability, and even during crisis it did not reach the peaks as beforehand.

To conclude, macroeconomic stability criteria set in the EMU and later reinforced by new institutional packages, seem, positively affected the EU as an economic security community's performance. All three criteria on the EU level had improved over time, and even in comparison with the post-2008 economic crisis period, the EU maintained obtained macroeconomic stability, and as a consequence could be seen as quite resilient in shock-counteraction.

6.4 Flexibility-Regulation Development in the EU

The other part of economic resilience, frequently found in the literature as governance efficiency, regulation, flexibility and other, is equally important. In most cases, since macroeconomic stability is extremely difficult to obtain, the states' survival and performance very much depends on the labour market, citizens' development, and existing good practises in sustainability and good governance. Not without reason, this capacity is called "shock-absorption".

The level of unemployment portrays market efficiency in this study. Microeconomic market efficiency affecting business, capital and labour market are perceived having an effect on the level of unemployment.

Unemployment in the EU member states, as **Figure 20** shows (see Appendix), has been fluctuating significantly in most of the EU member states. Various institutions were enacted for tackling this problem EU-wise, but labour market inclusion has been significant problem in the countries. EU single market (the free move of capital, people and goods) still lags behind the expectations. However, it is visible from member states' data, and even more expressive in the **Figure 21** (see Appendix) of EU average, that whole EU unemployment was slightly decreasing since 1994 till the crisis hit in 2008.

To summarise, market efficiency is still the area, where significant improvements have to be made. The effects of 2011 Competitiveness pact and the Pact for jobs and growth did not have a significant effect on employment results – only very tiny drop is visible in the EU average. Positive patterns of working institutions are there on the EU scale, but since the 2008 economic crisis only minority of individual member states managed to achieve the pre-crisis level, and accumulated EU data shows, that employment is extremely important issue to tackle in the future.

The second part of the flexibility – good governance indicators, democracy, rule of law, property rights or corruption forms the core of the criteria for the EU Member states to join the Union and remain there. The so called Copenhagen criteria ensure that the states are complying with the minimum requirements of democracy and provide equal opportunities for development of citizens, business and other units in the country. The importance of these institutions and relationships with economy was already analysed extensively beforehand elsewhere, for this reason these aspects are not explored in more detail here. The performance graphs of the good governance in the EU member states' is provided in the Annex, showing that all members sustain more or less similar levels of property rights, fight with corruption, and most importantly the rule of law.

The social human development is frequently analysed as healthiness of the citizens and measured by the life expectancy at birth, indicate that the quality of life in the EU member states has been significantly increasing over time with exception of few observations over time as **Figure 22** depicts (see Appendix).

The whole EU picture, however, reveals that on average life expectancy got slightly decreased with enlargement, but in the last years continues catching up with the development path since 1960s (**Figure 23,** see Appendix). It is important to note that since 1960 the life in the EU member states increased from 70 years to 79, which is a great achievement of the EU economic security community.

The last factor of flexibility sustainability is frequently analysed through the lenses of the investment to the future, new technologies and research and development. EU encourages member states to allocate at least 2 per cent of GDP to Research and Development, however, not all the EU countries invest similar amounts for sustainability and development (**Figure 24**, see Appendix). Some of the members barely invest more than 0.5 per cent of GDP, whereas there are performers capable to allocate even more than 3 per cent for R&D.

However, the average EU real investment strongly declined, as pictured in **Figure 20** (see Appendix), since the 2008 Economic crisis. It dropped from 27 per cent to as low as 20 per cent on average per EU member country, which also related to general performance of the EU economic community and existing high levels of unemployment.

6.5 Economic Security and Crisis Performance in the EU

The multi-year economic crisis has started in 2008 and has been evolving since then. Financial crisis started with smaller and relatively new EU Member States, like Latvia, Estonia, Lithuania, Hungary, reaching its climax significant insolvency problems in Greece, Ireland and Portugal (PIIGS countries as referred in the media). The reasons for the crisis within the EU varied greatly, leaving majority of MS with soaring budget deficits and skyrocketing external debts.

It is important to note that in vast majority of the countries, the problems have started from the private borrowing. Most private debts were coming from the housing bubble, which has been observed for quite several years before the Lehman Brothers' collapse. Banking system collapses across Europe and the bailouts transferred private debts to government ones. In addition, the governments have been pursuing pro-growth policies and investment in the post-bubble recession economies. In this way, both government debt and banking sector failure have been reinforcing each other.

6.5.1 Crisis in Greece: 3 Bailouts, Austerity Measures and Not a Single Bank involved

The Greek financial and economic crisis has been particular in comparison to other EU Member States, which had experienced significant difficulties and/or reached for international/European financial institutions support. Being one of the most corrupted countries in the EU based on the perceived corruption index, collecting barely two thirds of taxes and suffering from about ¼ of shadow economy, continuous trade deficit and general structural weaknesses.

The problem of Greece could have appeared even earlier. Since joining the EU, Greece has been experiencing negative peripheral effects of joining the bigger market. The increased vulnerability via economic openness and dependence on strategic imports resulted in the continuous trade deficit and growing external debt. Additionally, Greece faced harshly increasing labour costs after the introduction of the euro. However, due to fraudulent statistics these problems have not been well highlighted. The data credibility problems have been noted since the creation of the euro, when EUROSTAT could not forecast GDP growth, country's deficit and debt accordingly.

The Greek government spending beyond its means came under magnifying glass only after the economic recession swept across the EU in 2008. A shortage of investment in international markets reached also Greece. A sudden drop in private funding and soaring government debt, which appeared to be miscalculated and poorly estimated for years, could have been solved with depreciation of the currency. The "Grexit" (Greece exit) option has been widely discussed. Indeed, the coming back to former currency drachma, its depreciation would have helped to facilitate investment and pay back the debt in a cheaper currency. Due to negative ramifications for the EU itself, IMF and some Member States in particular, this option was not discussed in depth.

Greece exceptional case of having a sovereign default without a bailout eventually needed 3 bailouts by the Troika and several austerity packages. Poor GDP growth, government debt and deficits, budget compliance and data compatibility were indicated[303] as the main causes of the economic problems for the country. The structural economic reforms and permanent and temporary austerity measures were put in place already in 2010, but the positive results of the reforms would not have been achieved on time.

The Greece debt foreseen to be 120 per cent for 2010, was actually closed with 150 per cent ratio after the bailout. However, even with the first 110 billion euro loan for 3 years, the country's performance plunged. The expectation for debt to GDB ratio came to 198 per cent

---

[303] "Stability and Growth Program 2010", Greek Ministry of Finance, European Commission, January 2010.

for 2012, which lead to debt restructure agreement and a significant "haircut" of Greece loans.

As a result, the government had to reduce significantly spending and improve tax collection. With revenues falling 15 per cent in 2009, the government introduced structural reforms in both directions. To fight tax evasion a major reform was needed in the ineffective tax collection system. The promotion of electronic payments was expected to reduce the share of the "black" market and improve the government revenues. The VAT increase also followed and reached 23 per cent - the same as in other countries with difficulties in the EU. Additional taxes have been also put in place.

Public sector was also reformed. The privatisation has been on full speed by reducing public owned companies' number from 6000 to 2000. The salaries have been cut and the bonuses and additional salaries either reduced, or completely abolished. For this reason, in general salaries fell by 20 per cent between 2010 and 2014 in Greece. Pensions have been significantly reduced and the retirement age prolonged from 60 to 65 years for women. Unemployment fell to 25 per cent (youth even more than 50 per cent), not to mention estimation of almost half of the population living below the poverty line in 2014.

In brief, Greece economy, as one would have expected from the other examples in Europe, did not respond positively to bailouts and austerity measures. The need for deficit to decline to a level compatible with debt-to GDP-ratio was apparent, but deficit reduction did not prevent a debt increase since 2009. Three loan packages did not provide a significant improvement to Greece economy, and following austerity measures had damaged the economy. Wages' deflation, jobs' reduction and less collected taxes made it even harder to pay the skyrocketing debts.

The popular response to the crisis, government measures and austerity packages have been enormous. Due to space limitations it is not going to be covered here, as it also received extensive media and academia coverage in the past several years. The economic turmoil reinforced political changes, however, the strong Troika's intervention did not leave different governments much room for manoeuvring.

To conclude, Greece recovery is still far away and difficult to foreseen. Tax evasion is still estimated to be 34 per cent in 2017, which indicates difficulties to collect the budget and pay international loans. The Greek GDP had fell more than 26 per cent in the recent years and recession is still widespread. For sure, the problems in Greece are stemming from years of data hiding and manipulation, but a significant portion of the current situation might be the result of probably too fast Greece integration in the EU and certainly in the Eurozone. To uncover exact side of increased vulnerability and periphery economic imbalances due to integration might be a difficult task, but a needed exercise for a proper creation of the Union and cohesion achievement.

6.5.2 Celtic Tiger – Ireland' Fall and Rise

Ireland has experienced one of the highest growth in the history of the country starting from 1995. The exceptional growth of "Celtic Tiger" has been facilitated by a low level of corporate tax, which has been attracting foreign direct investment since then. Bond funding and banks borrowing have been increasing too – from 15 billion to 110 billion between 2004 and 2008, mainly due to low ECB interest rates. The "triumvirate" of adoption of poor policies has been joined by a housing (real property) bubble, as in other crisis worst hit countries.

The banking problem has been particular in Ireland. Six main Irish banks increased its borrowing from 16 billion euro in 2003 to almost 100 billion by 2007, making it half of the Ireland's GDP. The attention of the supervisors have been on the strong side of the banks rather than the weak one[304]. A high exposure to one source of risk (aka "credit concentration risk") had been overlooked significantly, or as Eichengreen[305] noted that lack of supervision had contributed to the excessive borrowing in the international money markets.

The first signs of economic recession had been seen already in 2007, when revenues from taxes arrived approximately 5 per cent below the estimation. The hidden loans started to appear and Irish government proceeded to the unlimited guarantee of all debt owned by six main banks in 2008. As a result, the Irish budget had been significantly revised by the introduction of extensive cuts in social, health and education areas, which led to social unrest, protests and demonstrations in the country.

Balancing a budget required a significant reduction of the deficit. The economic adjustment has been achieved by significant cuts in public sector, mainly by salaries reduction, and by decreasing social welfare

---

304 Karl Whelan, "Ireland's Economic Crisis: The Good, The Bad and the Ugly", Paper presented at Bank of Greece conference on the Euro Crisis, Athens May 24, 2013 (Retrieved 4 July 2016).

305 Barry Eichengreen, "The Irish Crisis and the EU from a Distance", January 2015, International Monetary Fund.

payments. In addition, the taxes have been raised and VAT was alleviated to 23 per cent. The economic contraction followed in the years and reached 15 per cent. On top of this, the unemployment has been significantly growing since the end of 2007, leaving more people on social benefits and forcing emigration.

In the meantime the imminent collapse of financial institutions brought the 64 billio euro bank bailout. The deepening recession in the country, the bank bailout were the main reasons for the government's request of the Troika's assistance. As the measures for budget cuts have been in place already since 2008, the 85 billion euro 3 year economic adjustment programme since the end of 2010 just calmed the international markets.

The additional budget cuts continued, including the closure of the police stations and decrease in child benefits. Dissolution of the government as a result of Troika's bailout, protests and change of the government marked additional effects in political landscape of Ireland. The unemployment was soaring at 15,1 per cent in 2012. As many scientists showed[306], Irish recovery price has been put on the labour market and especially on the middle class tax payers. The internal adjustment worked and the Troika bailout has been exited in December 2013 after the liquidation of the banking problems.

A slight recovery has been seen in Portugal since 2014 with 4,8 per cent GDP growth reaching 6,7 per cent in 2015 and decreasing

[306] Aedin Doris, Donal O'Neil and Olive Sweetman, "Wage Flexibility and the Great Recession: The Response of the Irish Labour Market", *IZA Discussion Paper*, No. 7782, 2014, and Christoper T. Whelan, Helen Russel and Bertrand Maître "Trends in Economic Stress and the Great Recession in Ireland: Polarization, Individualization or 'Middle Class Squeeze'?", *Social Indicators Researcg*, Volume 126, Issue 2, March 2016, pp. 503-526.

numbers of employment to 8,8 per cent by the same year. The government has been changed again, which is an important sign of political instability within a country, and the concerns about accuracy and reliability of the economic recovery figures remain, leaving the sustainability and of the path of economic revival an open question. However, it is important to note, that in all these years, Irish government succeeded to keep the relatively low 12,5 per cent corporate tax rate unchanged to continue attracting inward investment.

6.5.3 Portugal's Recovery Path

Portugal followed the path of the countries, which faced difficulties after the banking sector problems. However, the bailout of two main banks would not have been such a big problem, if there has not been waves of speculation, high levels of risky credit and general mismanagement of structural and cohesion funds in addition to growing public sector costs over the past decades.

Thus, Portuguese public debt has been created over some time. The summer of 2010 has been marked by pro-spending and recession revival policies, similar to other Eurozone countries. Money injection to the markets for economic stimuli might have yield its results, if not the appearance of two main banks' losses. Already high national debt in comparison to GDP, sharply increased after the bailout of two main Portuguese banks, which had accumulated losses for years due to bad investment, embezzlement and accounting fraud. The combination of public and private interests in saving the banks had also been observed.

Some of the crisis path for Portugal have been already covered in the section 5.3, while analysing the EU's response to crisis, however, the domestic impact and measures applied within the country are of interest here. It is important to note that starting in 2011 with the request of 78 billion bail-out 3 year economic adjustment programme, which has been equally split between IMG, EFSM and EFSF with 5,1 per cent interest rates, Portugal finally paid off all the bailout debt in 2016.

Signed in May 2011, economic adjustment program[307] had a significant effect on the Portuguese economy. 9,8 per cent GDP growth in 2010 has been slumping down yearly since then, and reach barely 3 per cent in 2013. The salaries have been frozen in public sector, and the higher ones have been cut by 14,3 per cent. Pensions cut, public sector workforce reduction and general policies for labour market flexibility have been also implemented. Government spending on health and education have been substantially reduced military budget included, several tax benefits abolished and value added tax increase for various products.

In addition, Portuguese government abolished some bank holidays and prolonged working hours for private sector employees by 30 minutes a day without extra pay. Bonuses have disappeared for people earning more than 1000 euro a month and for others were drastically reduced. On top of this, the government had postponed various investment projects, like two high-speed railways projects, while continuing widespread privatisation, which effects might be too early to estimate.

[307] Paul Pedroso, "Portugal and the Global Crisis: The Impact of Austerity on the Economy, the Social Model and the Performance of the State", April 2014.

Being one of the most advanced and best performer in the region of Western Europe before the crisis, Portuguese economy was not without flaws. Tax hikes and salary cuts in addition to other austerity measures as in other Eurozone Members bought record levels of unemployment – almost 15 percent (2012). The ECB has been also providing additional support via Outright Monetary Transactions (OMTs), which indirectly helped to sustain bonds' reasonable yield level.

However, as in majority of the countries, a difficult economic environment has brought changes in the political atmosphere. The elections in October 2015 had brought anti-austerity post-electoral left wing coalition of 51 per cent of the parliament member, which the President of Portugal refused to govern. As a result, the minority right wing coalition has been invited to form a government, nevertheless, not successfully, and bringing eventually the Socialist Party to form a government. In conclusion, harsh economy, excessive deficit procedure together with bailout economic adjustment programme have been a difficult experiment for Portugal both politically and economically.

6.6 EU Economic Security Capacity

In this chapter, the effects of the EU new economic governance instruments on the most important areas of states' economic and social development of EU countries had been studied and presented. Initial EU economic governance was set after the creation of European Economic and Monetary Union (EMU). The creation of a single European currency provided benefits for participating members, but simultaneously demanded common monetary policies and other constraints, since not all joining member states were ready in the same way for monetary convergence. New treaty also demanded general economic development convergence within the new currency zone, including economic government, which should have ensured such processes. EMU suffered from an architectural gap, which made it impossible for it to deal with coordination, fiscal and public borrowing policies, as well as wages and investment regulation. Some instruments of this governance were abandoned even before the crisis.

The fathers of the Treaty expected that the real convergence of economies, like growth, productivity, competitiveness and unemployment, would happen automatically. It was presupposed that monetary union would have an integrative effect. European Central Bank (ECB) became a federal institution of the implementation of the common monetary policy. On the economic side of the EMU, the Article 121 TEU suggested a possible coordination of national economic policies. 'No bail out' clause was introduced to avoid moral hazard and force self-discipline, allowing neither the EU, nor the Eurozone to help a country in budget difficulties. The created asymmetry between a centralized monetary union and at best, coordinated economic union was observed already in 1995. As Philippe Pochet showed, all the main actors knew well what the social stakes of the EMU are since 1998[308]. Up until 2008, Broad Economic Policy Guidelines (BEPG) and Stability and Growth Pact (SGP) were the only procedures and instruments representing EU economic governance[309].

[308] Philippe Pochet in Pochet and Vanhercke, eds, 1998, p. 70.
[309] Degryse, p. 9.

For this reason, the 2008 crisis severely hit the majority of European Union member states, though, in different ways. Sudden financial breakdowns, Eurozone crisis (sovereign debts) marked the post-crisis European Union. This revealed the shortcomings of the EMU, launched in 1992. Without economic convergence and prevailing deregulation past years of the EU paved the way for financial and economic disorder. The uncertainty of public finances was also revealed: public debts and deficits rose sharply in most of the member states. The nationalization of financial institutions was followed by the creation of rescue plans and support funds, making governments intervene, or resume intervention in the European economy in general.

As evidence from the EU data show, the EU as an economic security community experienced positive results from integration and institutionalisation. Indeed, economic vulnerability increased over the time, however, most of the scholars argue that this is an inevitable phenomenon in the face of economic globalisation. It was noted also in the small states studies that smaller countries experienced various dependencies for centuries. It would be interesting to compare the performance of the EU members and outsiders over time, to see what the actual effects are in the case of increasing economic openness and vulnerability *per se.*

The other subjections on resilience reveal the importance of the created European Economic and Monetary Union. All measures had a significant effect on the member states' performance in both macroeconomic stability and flexibility areas. It is important to stress that after 1992 most of the EU countries managed to control their external debt, budget deficit and inflation measures. The development of the European economic security community also fostered democratic values from freedom to property rights, fighting corruption and rule of law. The years in the EU positively correlates with the improvements in the human development and growing investment, including the one to research and development.

Of course, 2008 crisis did not leave without a mark, and a slight recession is still visible and only some countries reached pre-crisis levels, but majority still has to work on reaching the previous performance levels. The ongoing patterns of crisis and exogenous shocks require sound policy and institutions, ensuring the patterns of future development.

The analysis of three the most affected countries since 2008 – Greece, Ireland and Portugal have shown that the European Union support played a significant role in receiving the loans and calming the markets. In the case of Portugal and Ireland, which actually had to request for Troika's intervention due to saving banks from insolvency, are performing much better after the intervention than the Greece, where even several interventions have not brought the expected results.

Greek default probably could have happened even before the economic crisis swept across the globe. After the provision of loans and austerity measures, Greece still remains in a deep recession and its economic recovery is neither forecasted nor sustainable. As has been covered already in the chapter 5, indeed, there were more factors in the Greek crisis. Possible "Grexit" would have strongly affected the countries, like Germany, France and others. The solution "sold" for countries in difficulties only brought negative ramifications, and a genuine decision will have to be made sooner or later.

This solution is extremely important for the countries, which like Greece, are extremely exposed to the EU internal market. Majority of small states in the EU have highly open economies and get financial difficulties quicker and stronger. Their larger vulnerabilities have to be outweighed by more than structural and cohesion funds, which per se do not improve their vulnerability measures. Indeed, financial support contribute immensely to Member States flexibility, which might help in the face of crisis to absorb the shock with internal restructuration, and the created financial mechanisms can help in the macroeconomic stability side. However, there are no instruments created to improve MS vulnerability.

Indeed, as it can be seen, vulnerability does not fluctuate as much as flexibility or macroeconomic stability, and in a way could be seen as a result of long term resilience performance within a country. Additionally, as much as it is associated with the physical capacity of the country, which in some cases cannot be affected with short term policies, the long term investments can pave the road for significant changes in several decades or centuries.

The resilience performance in the analysed countries largely depended and the positive signs have been seen due to significant adjustments within labour markets across the MS. All the cases had proven that democracies face much more turmoil due to economic adversaries. Social unrests, protests and demonstrations did not change completely the implementation of austerity measures. The changes in the governments due to acceptance of rescue packages did not bring actual differences either, leaving the citizens puzzled about the whole idea of democratic elections, if the governments are forced to implement entirely opposite policies than expressed by voters.

These challenges have to be addressed hand in hand proceeding with strengthening and improving the EU as an economic security community. It has been shown elsewhere, but illiberal regimes cannot ensure conditions necessary for sustainable economic and human development in the country[310]. The tendency towards illiberal regimes, like in Hungary and Poland, cannot be seen as an example to follow, and such infectious trends should be handled with utmost care for the long term developments in the region and security community, as chapter 3 and 4 display. In addition, as Nogués and Quintanilla explore[311], the domestic political institutions play a crucial role in the formation of cooperation frameworks. Last, but not least, to proceed for further upgrades to the economic security community, the states need to have similar economic and political institutions as they reinforce each other.

The unclear Greece situation is an important window of opportunity to understand the limitations or even drawbacks of forming such security communities and to find the cure for appearing discrepancies for Member States. As researched by Mansfield and Solingen[312], the economic arrangements cannot work between different development level units, and any kind of integration or regionalisation arrangement between economic adversaries would lead to negative security.

---

[310] See Acemoglu and Robinson, *Why Nations Fail*, 2012, for instance.
[311] Nogués and Quintanilla, "Latin America's Integration and the Multilateral System", in P. De Melo, ed., *Dimension of the New Regionalism*, Cambridge: Cambridge University Press, 1993.
[312] Edward Mansfield and Etel Solingen, "Regionalism", *Annual review of Political Regionalism*, 2010, Volume 13, pp. 145-163.

Current ongoing creation of banking and/or social union, and unclear United Kingdom's opt out depict the *problematique* of multi-speed, multi-layered European Union. Blurry prospects for the future integration constrain the development of the EU economic security community. Nevertheless, this is the exact moment when the benefits and drawbacks of the economic union should be clearly investigated and understood, facilitating the clear path of strengthening and improving economic security community.

The EU provides the multiplication effect and ensures the positive outcomes and support to especially smaller member states. The created new crisis' mechanisms empower the EU to intervene immediately into member states with financial liquidity problems. The strengthened system of macroeconomic stability and improvements in the regulation-flexibility together provide a promising institutional background for the development of stronger economic security capacity for both shock absorption and shock counteraction in the future.

Chapter 7

Conclusion

Economic security aspects, crucial for the countries' existence, continue being on top of governments' agenda. Even almost a decade after the worldwide financial turmoil, there are still many questions to answer and issues to solve. The European Union, as one of the most advanced economic security communities in the world is an interesting example to analyse security communities' functioning, institutions, development and performance.

The thesis is combined from various articles, tackling economic security. The chapter on Economic Security Mechanism provides the framework to understand and analyse economic security. Being a contested concept for several decades it has been referred extensively, but with minimal cross-referencing and conceptual development. This article stems to revive the discussion about what exactly does economic security mean and how it should be defined to be widely applicable and insightful.

The created framework for analysis of economic security juxtaposes both economic vulnerability and economic resilience, as initially foreseen by Buzan and other authors in the field. However, the following conceptualisation look from a different angle to the creation of economic security capacity. Resilience, which is meant to outweigh the “inevitable” vulnerabilities, employs both shock absorption and shock counteraction functions. The author argues, that they both are equally important for a state’s capacity to respond to exogenous shock, and their operationalization is crucial for having a high explanatory value of the model.

Before actual analysis of economic security within the EU, chapter 3 underpins the historical environment and circumstances in which the development of the economic security community to be took place. The initial stages and origins of institutional set up explain the exceptionality of the formation of the European cooperation framework. As this chapter shows, the particular circumstances contributed to the development of the community, and its progress was not based only on economic or political incentives.

Chapter 4 dwells on the different theories and approaches explaining the processes, which happened in Europe since the end of Second World War. It oversees the exact path of the creation of cooperation network and the creation of a security community, which afterwards is analysed through the lenses of the security communities’ proponents. The chapter is concluded by the reasoning, why the created economic arrangements in Europe since their inception have been the European economic security community, which now works with a multiplication effect to its Member States.

The exact evidence of the functioning of the EU as an economic security community, Chapter 5 extracts the particular institutions at work and elaborates on the specific upgrades the EU has pursued for handling economic crisis. Member States’ role cannot be under-looked in both performance and the creation of new institutions with the community. The examination of national and European interests try to partially explain the complicated relationship between the EU economic governance, its measures and their performance in different Member States.

It defines how created discrepancies between economic and monetary integration within the EU impaired EU economic security capacity. The different considerations among the EU MS also explain the prolonged and not necessarily the best response to the crisis, leaving the EU in the crisis bubble for several years. Nevertheless, the financial crisis, seems, has provided an opportunity to revise mechanisms at work and create more European interest based the EU, with institutions, like the European Central Bank, which reflect, preserve and act according to the EU's needs.

The final chapter studies the actual European economic security capacity via the lenses of the framework created in the chapter 2. The analysis of Member States' statistical data over several decades proves that vulnerability, indeed, increases, when countries decide to join cooperation frameworks like the EU. Economic openness playing a crucial role in MS' exposure for exogenous shocks is for sure responsible for majority of the EU MS difficulties, when financial crisis hit in 2008, and is important to be analysed more in depth.

On the other hand, the evaluation of economic security bring the evidence of both macroeconomic stability, and flexibility-regulation effects within the EU. The collective action towards strengthening a fiscal position had brought a significant visible effects in the union, even if just for short, and the flexibility-regulation institutions, as seen, have been performing even with the evident crisis effects in the continuing development and improvement across the EU Member States.

Bibliography

Adler, E., "Imagined (Security) Communities: Cognitive Regions in International Relations", *Millennium: Journal of International Relations*, 26(2), 1997.

Adler, E., Barnett, M., *Security Communities*, (Cambridge: Cambridge University Press, 1998).

Alting von Geusau, F. A. M., Pelkmans, J. (ed.), *National Economic Security: Perceptions, Threats and Policies*, (Tilburg: John F. Kennedy Institute, 1982).

Amstrup, N., "The Perennial Problem of Small States: A Survey of Research Efforts". *Cooperation and Conflict*, 11(3), 1976.

Atkins, S., S. Mazzi and C. Easter, "A Study on the Vulnerability of Developing and Island States: A Composite Index", (London: CS, 1998).

Baker Fox, A., *The Power of Small States: Diplomacy in World War II*, (Chicago: Chicago University Press, 1959).

Balassa, B., *The Theory of Economic Integration*, (London: Allen and Unwin, 1961).

Baldwin, R.E., "The causes of regionalism", *The World Economy*, Vol. 20, Issue 7, 1997.

Baltas, N., "Safeguarding the Stability of the Euro Area and the Enhanced Instruments for Crisis Interventions", p. 46, in European Commission and Directorate-General for Education and Culture, *European Economic Governance in an International*

Context, (Luxembourg: Publications Office of the European Union, 2013).

Oscar Bernhard – *Die Idee des Kleinstaats im Deutscland des 19. Jahrhunderts* (Säckingen, 1923, Buchdruckerei Fr. Mehr)

Binswanger, J., Prüfer, J., "Democracy, Populism, and (Un)bounded Rationality", *European Journal of Political Economy*, 2012, Vol. 28.

Björkdahl, A., *From Idea to Norm: Promoting Conflict Prevention*, (Lund: Lund University, 2002).

Bohle, D., Jacoby, W., "Flexibility Revisited: International Markets and the Small States of East-Central Europe", paper presented in the ISA Convention Montreal, Quebec, 2011.

Bohle, D., "Countries in Distress: Transformation, Transnationalization, and Crisis in Hungary and Latvia". *Emecon 1,* 2010.

Eyvind Bratt - *Småstaterna i idéhistorien. En studie i alder statsdoktriner* (Uppsala, 1951, Almqvist & Wiksell).

Breslin, S., Higgott, R., "Studying Regions: Learning from the Old, Constructing the New", *New Political Economy, Volume 5, No. 3,* 2000.

Briguglio, L., "Preliminary Study on the Construction of an Index for Ranking Countries According to Their Economic Vulnerability" (UNCTAD/LDC/Misc 4: 1992).

Briguglio, L., "The Economic Vulnerabilities of Small Island Developing States", The Study for Regional Technical Meeting for the Global Conference on the Sustainable Development of Small Island Development States, Port of Spain, Trinidad and Tobago, 1993.

Briguglio, L., "Alternative Economic Vulnerability Indices for Developing Countries" (Report prepared for the Expert Group on Vulnerability Index, 1997).

Briguglio, L. and W. Galea, "Updating and Augmenting the Economic Vulnerability Index". *OPISS, No. 4* (Malta: ISSIUM, 2003).

Briguglio,L., G. Cordina, S. Vella and C. Vigilance (eds), *Small States and the Pillars of Economic Resilience* (London&Malta: CS&ISSIUM, 2008).

Briguglio,L., G. Cordina, S. Vella and C. Vigilance, eds. *Profiling Vulnerability and Resilience* (London&Malta: CS&ISSIUM: 2010).

Buiter, W., "Monetary Economics and the Political Economy of Central Banking: Inflation Targeting and Central Bank Independence Revisited". Paper presented at the Central Bank of Argentina conference on "Monetary policy under uncertainty", Jun 4-5, 2008, Buenos Aires.

Butter, A., *An Introduction to Mini-Economics*, (Amsterdam: B. R. Grüner Publishing, 1985).

Buzan, B., *People, States and Fear* (2nd ed.), (New York: Harvester Wheatsheaf, 1991).

Buzan, B., “Economic Structure and International Security: The Limits of the Liberal Case”. *International Organization*, 38(4), 1984.

Buzan, B., Hansen, L., *The Evolution of International Security Studies* (New York: Cambridge University Press, 2009).

Chander, R., “Measurement of the Vulnerability of Small States” (Washington: Report prepared for the Commonwealth Secretariat, 1996 April).

Christmas-Møller, W., “Some thoughts on the Scientific Applicability of the Small State Concept: A Research History and a Discussion”, in Höll 1983.

Clark, C., Payne, T., *Politics, Security and Development in Small States* (London: Allen/Unwin, 1987).

Von Clausewitz, C., *On* War, ed, and trans. By Michael Howard and Peter Paret, (Princeton, NJ: Princeton University Press, 1976).

Crowards, T., “Defining the Category of ‘Small States’“. *Journal of International Development*, 14(2), 2002.

Crowards, T., “An Economic Vulnerability Index for Developing Countries, with Special Reference to the Caribbean: Alternative Methodologies and Provisional Results”, (Caribbean Development Bank, 1999).

Commonwealth Advisory Group, *A Future for Small States: Overcoming Vulnerability* (London: Commonwealth Secretariat, 1997).
Curmi L., "Governance and Small States". *OPISS, No. 4* (Malta: ISSIUM, 2009).

De Rusett, A., "Large and Small States in International Organization: Present Attitudes to the Problem of Weighted Voting*". International Affairs*, 30 (4), 1954.

De Soto, H., *Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, (New York: Basic Books, 2000).

Degryse, C., "The New European Economic Governance", *European Trade Union Institute Working Paper 2012*, No. 14.

Deighton, A., pp. 125-126, in William Hitchcock, "The Marshall Plan and the Creation of the West", in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1,* (Cambridge: Cambridge University Press, 2010).

Deutsch, K.W., Burnett, S.A., Kann, R.A., Less Jr., M., Lichterman, M., Lindgren, R.E., Loewenheim, F.L., Van Wagenen, R.W., *Political Community and the North Atlantic Area*, (Princeton: Princeton University Press, 1957).

Doris, A., O'Neil, D., Sweetman, O., "Wage Flexibility and the Great Recession: The Response of the Irish Labour Market", *IZA Discussion Paper*, No. 7782, 2014.

Dixit, A., "Economic Governance", University of Milan, Bicocca, Department of Economics, Conference on Endogenous Market Structures and Industrial Policy, June 5.

Dixit, A., "Governance Institutions and Economic Activity", *American Economic Review*, 2009, 99(1).

Duina, F., *The Social Construction of Free Trade: The European Union, Nafta, and Mercosur, (*Princeton: Princeton University Press, 2006).

Eichengreen, B., "The Irish Crisis and the EU from a Distance", International Monetary Fund, January 2015.

Eliassen, K.A., Børve Arnesen, C., "Comparison of European and Southeast Asian Integration", in Mario Telò, ed, *European Union and New Regionalism*, (Burlington: Ashgate, 2007).

Fabbrini, S., "European Regionalism in Comparative Perspective: Features and Limits of the New Medievalist Approach to World", *Agora Without Frontiers, Volume 14, No. 4,* 2009.

Furniss, E.S., Snyder, R.C., *An Introduction to American Foreign* Policy, (New York: Rinehart, 1955).

Gaddis, J.L., *Strategies of Containment: A Critical Appraisal of Postwar American Security Policy* (Oxford: Oxford University Press, 1982).

Gamble, A., "Regional Blocs, World Order and the New Medievalism", in Telò, 2007.

George, A.L., Keohane, R.O., “The Concept of National Interests: Uses and Limitations,” in George, A.L., ed., *Presidential Decisionmaking in Foreign Policy: The Effective Use of Information and Advice*, (Boulder: Westview Press, 1980).

Gerring, J., “What Makes a Concept Good? A Criterial Framework for Understanding Concept Formation in the Social Sciences”, *Polity*, Vol. 31, No. 3, 1999.

Griffiths, R.T., “Economic Security and Size” in Clive Archer, Alyson J. K. Bailes and Anders Wivel, eds, *Small States and International Security, (*New York: Routledge, 2014).

Gualtieri, R., “Safeguarding the stability of the euro area and the enhanced instruments for crisis intervention: political and institutional dilemmas”, in European Commission and Directorate-General for Education and Culture, *European Economic Governance in an International Context*, Luxembourg: Publications Office of the European Union, 2013).

Hacker, J.S., Huber, G.A., Rehm, P., Schlesingen, M., Valleta, R., *The Economic Security Index: A New Measure of the Economic Security of American Workers and Their Families* (Rockefeller Foundation, 2010).

Hager, W., “Perceptions of Economic Security” in: Alting von Geusau, F.A.M., Pelkmans, J. (ed.), *National Economic Security: Perceptions, Threats and Policies*, (Tilburg: John F. Kennedy Institute, 1982).

Handel, M., *Weak States in the International System,* (London: Frank Cass, 1981).

Hanhimäki, J.M., "Détente in Europe, 1962-1975", p. 204, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 2,* (Cambridge: Cambridge University Press, 2010).

Higgott, R., "Alternative Models of Regional Cooperation? The Limits of Regional Institutionalization in East Asia", in Telò, 2007.

Hitchcock, W., "The Marshall Plan and the Creation of the West", p. 158, in Leffler, M.P. and Westad, O.A., eds., *The Cambridge History of the Cold War Volume 1,* (Cambridge: Cambridge University Press, 2010).

Hitchcock, W. I, *France Restored: Cold War Diplomacy and the Quest for Leadership in Europe, 1944-1954* (Chapel Hill, NC: University of North Carolina Press, 1998).

Höll, O. (ed), *Small States in Europe and Dependence* (Vienna: Braumüller, 1983).

Höll, O., "Introduction: Towards a Broadening of the Small States Perspective", in: Höll, O. (ed.) Small States in Europe and Dependence, (Viena: Braumüller, 1983).

Höll, O., "Kritische Anmerkungen zur Kleinstaaten-Theorie". *Österreichische Zeitschrift für Politikwissenschaft*, 7(3), 1978.

Hogan, M.J., "European Integration and German Reintegration: Marshall Planners and the Search for Recovery and Security in Western Europe", in Maier, C., Bischoff, G., eds, *The Marshall Plan and Germany* (New York: Berg, 1991).

Ikenberry, G.J., "The Restructuring of the International System after the Cold War", p. 546, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 3,* (Cambridge: Cambridge University Press, 2010)

Ingebritsen, C., "Norm Entrepreneurs: Scandinavia's Role in World Politics", *Cooperation and Conflict*, 37(1), 2002.

International Labour Organization, *Economic Security for Better World,* (Geneva: International Labour Office, 2004).

Irwin, N., *The Alchemists: Three Central Bankers and a World on Fire*, (New York: Penguin Press, 2013).

Jacob, P.E., Teune, H., "The Integrative Process: Guidelines for Analysis of the Bases of Political Community," in Jacob, P.E., Toscano, J.V., eds, *The Integration of Political Communities*, (Philadelphia: J.B. Lippincott Co., 1964).

Janeliūnas, T., *Komunikacinis saugumas*. Vilnius: Vilniaus Universiteto Leidykla, 2007.

Katzenstein, P.J., *Small States in World Markets: Industrial Policy in Europe*, (Ithaca: Cornell University Press, 1985).

Kaufman, D., Krayy, A., Mastruzzi, M., "Governance Matters IV: Updated Governance Indicators 1996-2004". Washington, DC: World Bank research paper, 2005.

Kennedy, P., *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* (New York: Random House, 1987).

Kersch, T.J., "The Idea of the National Interest: A Conceptual Analysis in the Context of the Gulf War". PhD thesis, 1995 April.

Kirt, R. and Arno Waschkuhn, "Was ist und zu welchem Zweck betreibt man Kleinstaaten-Forschung? Ein Plädoyer für die wissenschaftliche Beschäftigung mit kleinen Nationen", in: Romain Kirt and Arno Waschkun (eds.), *Kleinstaaten-Kontinent Europa: Probleme und Perspektiven*, (Baden-Baden: Nomos, 2001).

Kokštaitė, M., "The Resilience Index Revisited: The Case of Small States" (Vilnius: Vilnius University, 2009).

Knorr, K., Trager, F.N., (eds), *Economic Issues and National Security* (Kansas: University Press of Kansas, 1977).

Knudsen, O.F., "Small States, Latent and Extent: Towards a General Perspective", *Journal of International Relations and Development*, 5(2), 2002.

Kramer, H., "Kleinstaaten-Theorie und Kleinstaaten-Aussenpolitik in Europa", in Arno Waschkuhn (ed.), *Kleinstaat, Grundsätzliche und aktuelle Probleme*, (Vaduz: Verlag der Liechtensteinischen Akademischen Gesselschaft, 1993).

Krause, K., “Critical Theory and Security Studies”, *Cooperation and Conflict,* 1998, Vol. 33(3).

Kunstein, T., Wessels, W., “The New Governance of the Economic and Monetary Union: Adapted Institutions and Innovative Instruments”, *International Affairs Institute Working Papers,* 13|02, January 2013.

Kuokstis, V. and Ramunas Vilpisauskas, “Economic Adjustment to the Crisis in the Baltic States in Comparative Perspective” (paper for 7th Pan-European International Relations Conference in Stockholm, 2010);

Leffler, M.P., “The Emergence of an American Grand Strategy, 1945-1952”, p. 77, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 1,* (Cambridge: Cambridge University Press, 2010).

Lévesque, J., “The East European Revolutions of 1989”, pp. 311-332, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 3,* (Cambridge: Cambridge University Press, 2010).

de Lombaerde, P., Söderbaum, F., Wan Langenhove, L., Baert, F., “Problems and Divides in Comparative Regionalism”, pp. 21-39, in Finn Laursen, ed, *Comparative Regional Integration: Europe and Beyond,* (Burlington: Ashgate, 2010).

Luciani, G., “The Economic Content of Security”. *Journal of Public Policy*, 8(2), 1988.

Ludlow, N.P., “European Integration and the Cold War”, p. 181, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 2,* (Cambridge: Cambridge University Press, 2010).

Maier, C.S., “The World Economy and the Cold War in the Middle of the Twentieth Century”, in Melvyn P. Leffler and Odd Arne Westad, eds., *The Cambridge History of the Cold War Volume 1,* (Cambridge: Cambridge University Press, 2010).

Mansfield, E.D., Solingen, E., “Regionalism”. *Annual Review of Political Science*, *No. 13*, 2010.

Milward, A., *The European Rescue of the Nation-State,* (London: Routledge, 1992).

Milzow, K., *National Interests and European Integration: Discourse and Politics of Blair, Chirac and Schröder, (*New York: Palgrave Macmillan, 2012).

Neumann, I.B., Gstöhl, S., “Lilliputians in Gulliver’s World?“, in: Ingebritsen, C., Neumann, I., Gstöhl, S., Beyer, J., Small States in International Relations. (Seattle: University of Washington Press and Reykjavik: University of Iceland Press, 2006).

Nogués, J., Quintanilla, R., “Latin America’s Integration and the Multilateral System”, in P. De Melo, ed., *Dimension of the New Regionalism, (*Cambridge: Cambridge University Press, 1993).

Joseph S. Jr. Nye, “Collective Economic Security”. *International Affairs*, 50(4), 1974.

Nye, J.S., “Comparative Regional Integration: Concept and Measurement”. *International Organization, Vol. 22*, 1968.

Pace, R., “Malta and EU Membership: Overcoming ‘Vulnerabilities’, Strengthening ‘Resilience’”. *European Integration*, No. 28 Vol. 1, 2006.

Padoan, P.C., “The Political Economy of New Regionalism and World Governance”, in Telò, M., ed, *European Union and New Regionalism*, (Burlington: Ashgate, 2007).

Pechatnov, V.O., “The Soviet Union and the World, 1944-1953”, p. 106, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 1,* (Cambridge: Cambridge University Press, 2010).

Pedroso, P., “Portugal and the Global Crisis: The Impact of Austerity on the Economy, the Social Model and the Performance of the State”, April 2014..

Persson, T., “Forms of Democracy, Policy, and Economic Development”. Working Paper No. 11171. Cambridge, (MA: NBER, 2005).

Pinder, J., “Positive Integration and Negative Integration: Some Problems of Economic Union in the EEC”. *The World Today, Volume 24,* 1968.

Pons, S., “The Rise and Fall of Eurocommunism”, p. 58, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 3,* (Cambridge: Cambridge University Press, 2010).

Pravda, A., “The Collapse of the Soviet Union, 1990-1991”, pp. 356-377, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 3,* (Cambridge: Cambridge University Press, 2010).

Rappard, W.E., “Small States in the League of Nations”. *Political Science Quarterly,* 49, 1934.

Roskin, M.G., “National Interest: From Abstraction to Strategy”. May 20, 1994, U. S. Army, Strategic Studies Institute.

Rousseau, J.J., *Social Contract*. The Business Press, 1980. (1762 Amsterdam for first publication)

Nouriel Roubini and Stephen Mihm, *Crisis Economics: A Crash Course in the Future of Finance* (New York: The Penguin Press, 2010).

Schimmelfennig, F., “European Integration in the Euro Crisis: the Limits of Postfunctionalism”, *Journal of European* Integration, 36:3, 2014.

Schultze, C.L., “The Economic Content of National Security Policy”. *Foreign Affairs,* 51:3, 1973.

Sieber, E. *Die Idee des Kleinstaates bei den Denkern des 18. Jahrhunderts in Frankreich und Deutschland* (Basel: 1920).

Sundelius, B., "Coping with Structural Security Threats", 298, in: Höll, O. (ed), *Small States in Europe and Dependence* (Vienna: Braumüller, 1983).

Telò, M., "European Union, Regionalism, New Multilateralism: Three Scenarios", p. 297, in Telò, M., ed, *European Union and New Regionalism: Regional Actors and Global Governance in a Post-Hegemonic Era*, (Burlington: Ashgate, 2007).

Telò, M., ed, *European Union and New Regionalism*, (Burlington: Ashgate, 2007).

Thorhallsson, B., *The Role of Small States in the European Union*, (Aldershot: Ashgate, 2000).

Thorhallsson, B., "The Size of States in the European Union: Theoretical and Conceptual Perspectives", *European Integration*, 28(1), 2006.

Taleb, B., *The Black Swan: The Impact of the Highly Improbable*, (New York: Random House, 2007).

Tadjbakhsh, S. and Anuradha M. Chenoy, *Human Security: Concepts and Implications* (London & New York: Routledge, 2007).

Tinbergen, J., *International Economic Integration*, (Amsterdam: Elsevier, 1956).

Torres, F., "The EMU's Legitimacy and the ECB as a Strategic Political Player in the Crisis Context", *European Integration*, Vol. 35, No. 3, 2013.

Ullman, R.H., “Redifining Security”, *International Security*, 8(1), 1983.

Ulusoy, H., “Revisiting Security Communities After the Cold War: The Constructivist Perspective”, *Perceptions*, Vol. 8, 2003.

United Nations, “Report of the Third Session of the Committee for Development Policy” (2001).

United Nations Development Programme, *Human Development Report 2010,* (New York: Palgrave Macmillan, 2010).

United Nations Development Programme, *Human Development Report 1994* (New York: Oxford Development Press, 1994).

Waschkuhn, A. (ed.), *Kleinstaat, Grundsätzliche und aktuelle Probleme*, (Vaduz: Verlag der Liechtensteinischen Akademischen Gesselschaft, 1993).

Weldes, J., “Constructing National Interests”, *European Journal of International Relations,* 1996, 2(3).

Wells, J., “Composite Vulnerability Index: A Preliminary Report”, (London: CS, 1996).

Wells, J., “Composite Vulnerability Index: A Revised Report” (London: CS, 1997).

Westad, O.A., “The Cold War and the International History of the Twentieth Century”, in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 1,* (Cambridge: Cambridge University Press, 2010).

Whelan, C.T., Russel, H., Maître, B., "Trends in Economic Stress and the Great Recession in Ireland: Polarization, Individualization or 'Middle Class Squeeze'?", *Social Indicators Research*, Volume 126, Issue 2, March 2016.

Whelan, K., "Ireland's Economic Crisis: The Good, The Bad and the Ugly", Paper presented at Bank of Greece conference on the Euro Crisis, Athens May 24, 2013.

Wiberg, H., "*The Security of Small Nations: Challenges and Defences*". Journal of Peace Research, 24(4), 1987.

Williamson, O., "The Economics of Governance", *American Economic Review,* Vol. 95, 2005.

Young, J.W., "Western Europe and the End of the Cold War, 1979-1989", in Leffler, M.P., Westad, O.A., eds., *The Cambridge History of the Cold War Volume 3,* (Cambridge: Cambridge University Press, 2010).

Yeung, M.T., Perdikis, N., Kerr, W.A., "Regional trading blocs in the global economy : the EU and ASEAN" (Cheltenham : Elgar, 1999)

Xue-Tong, Y., "Chapter 1. The Concept of National Interest", in Tong, X., *Analysis of China's National Interests*, (Montenerey U.S.: James Martin Center for Nonproliferation Studies, 2002).

Appendix

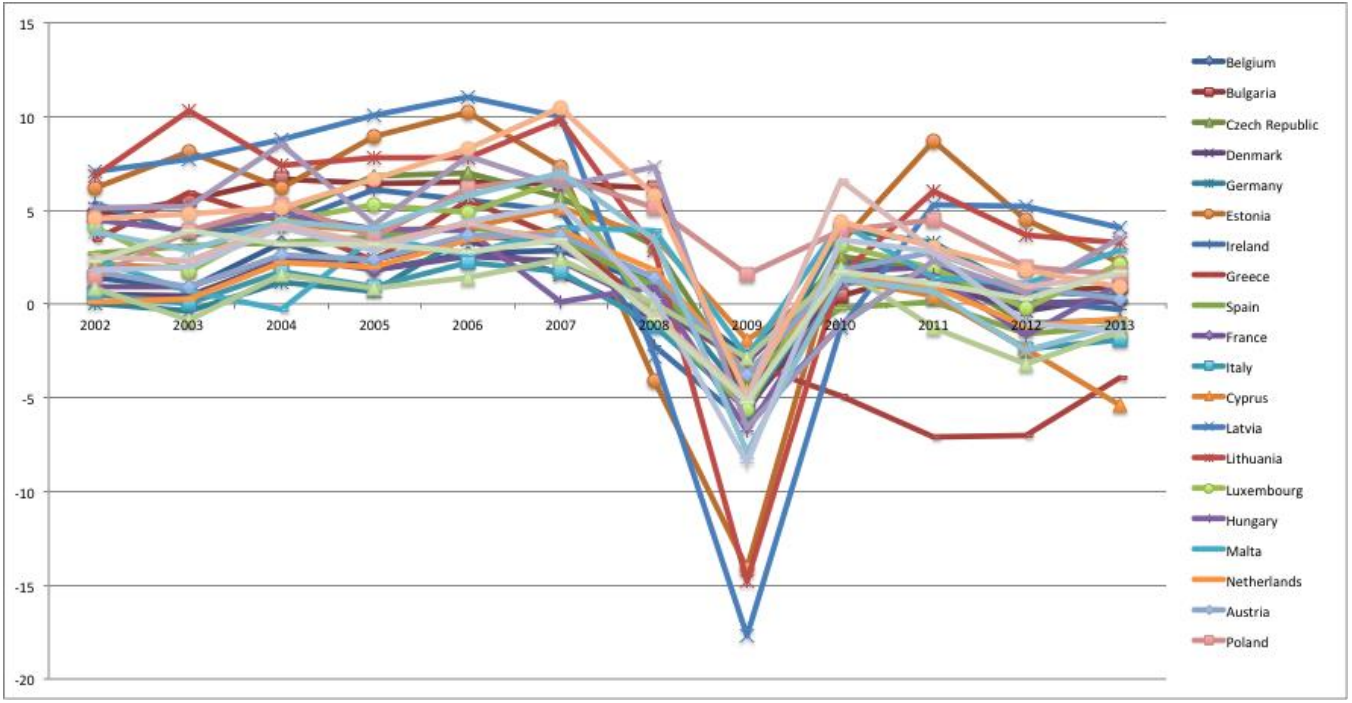

Figure 6 GDP Growth in the EU Member States

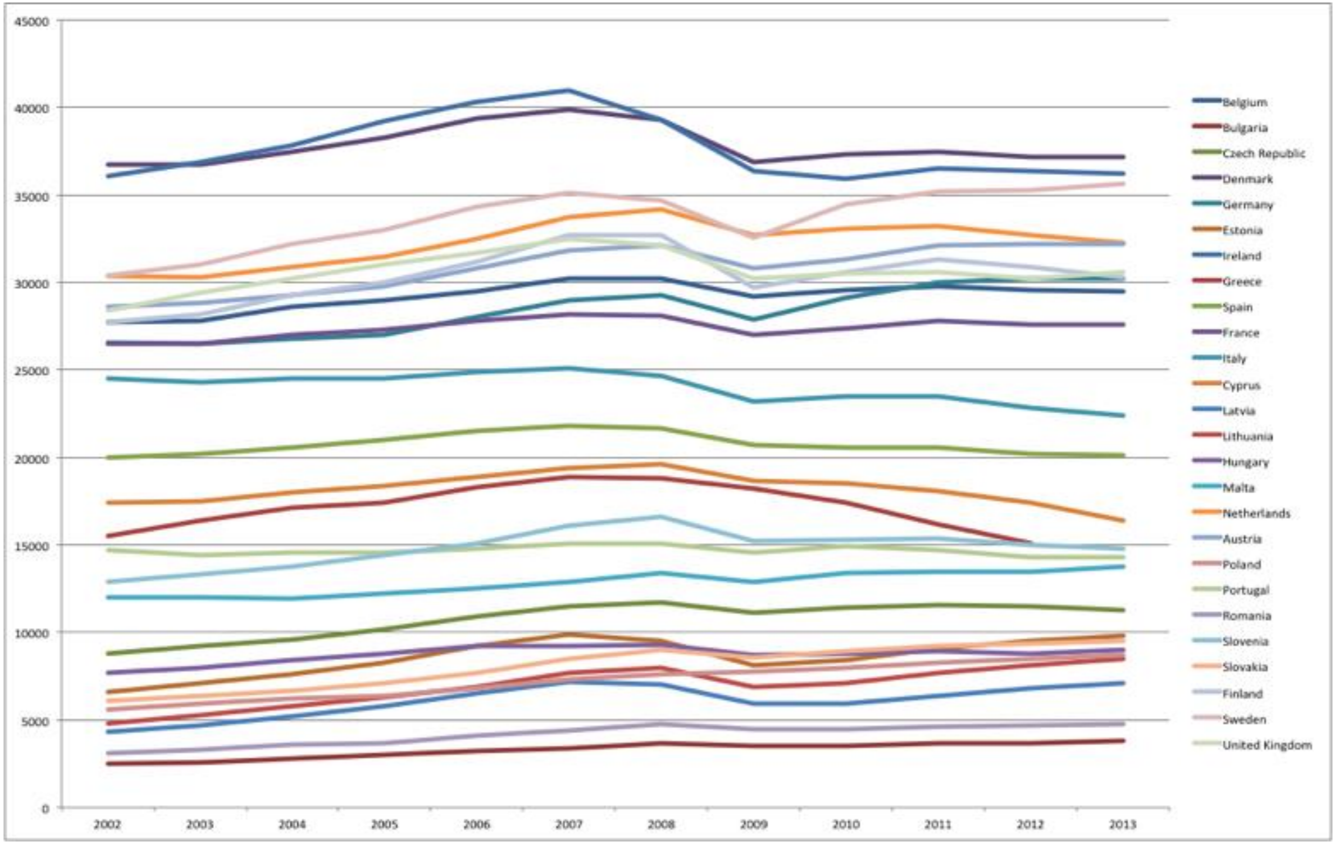

Figure 7 GDP per Capita in the EU [Luxembourg omitted as an extreme outlier]

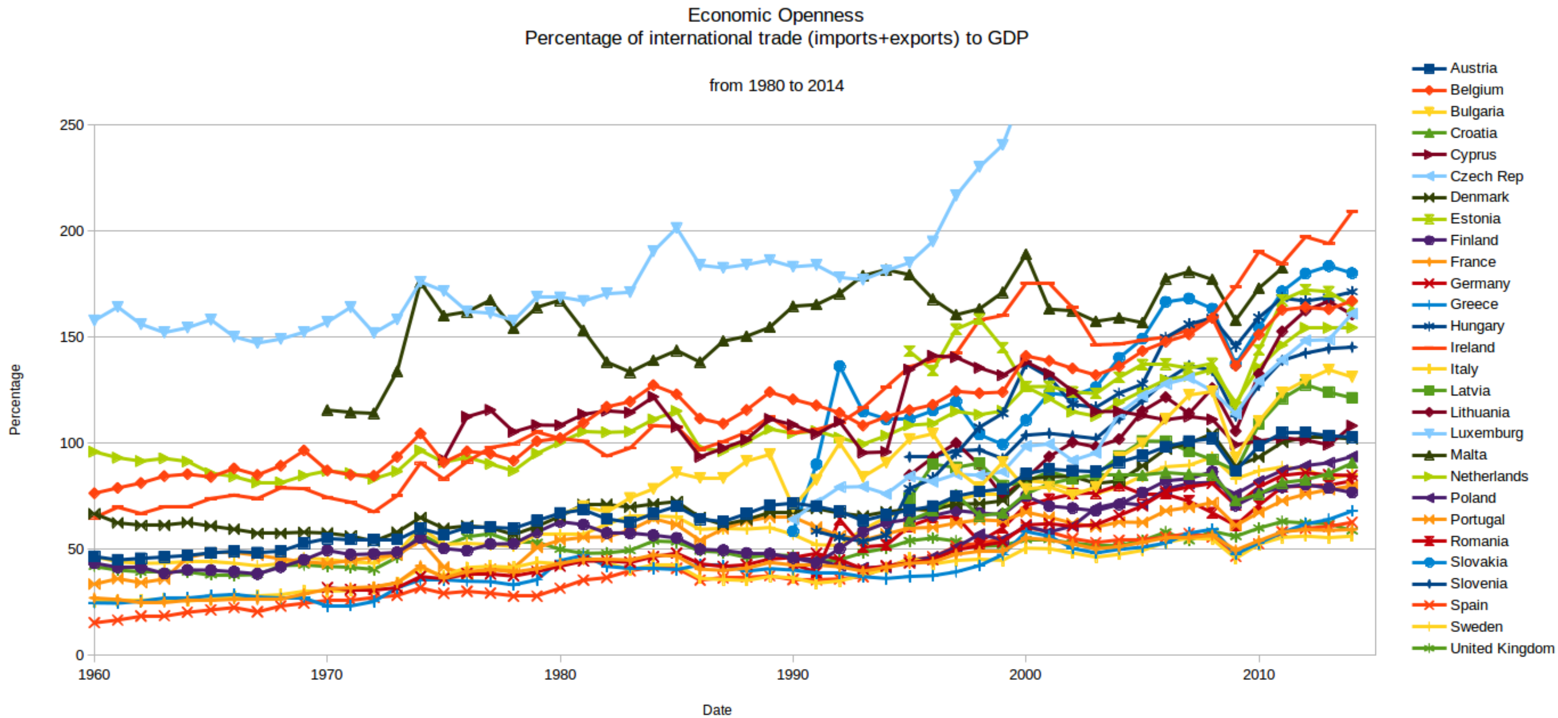

Figure 8 Economic Openness in European Union Since 1960s

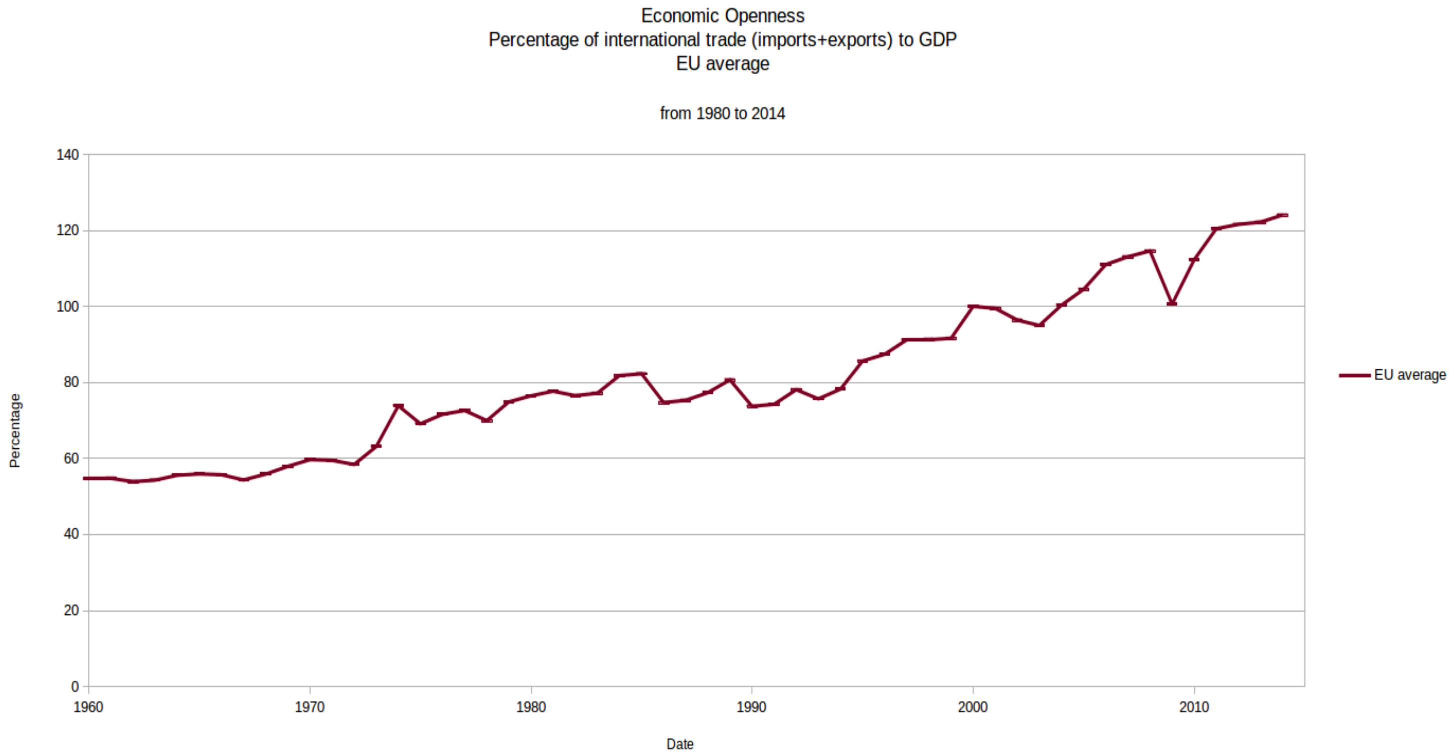

Figure 9 EU Economic Openness (average)

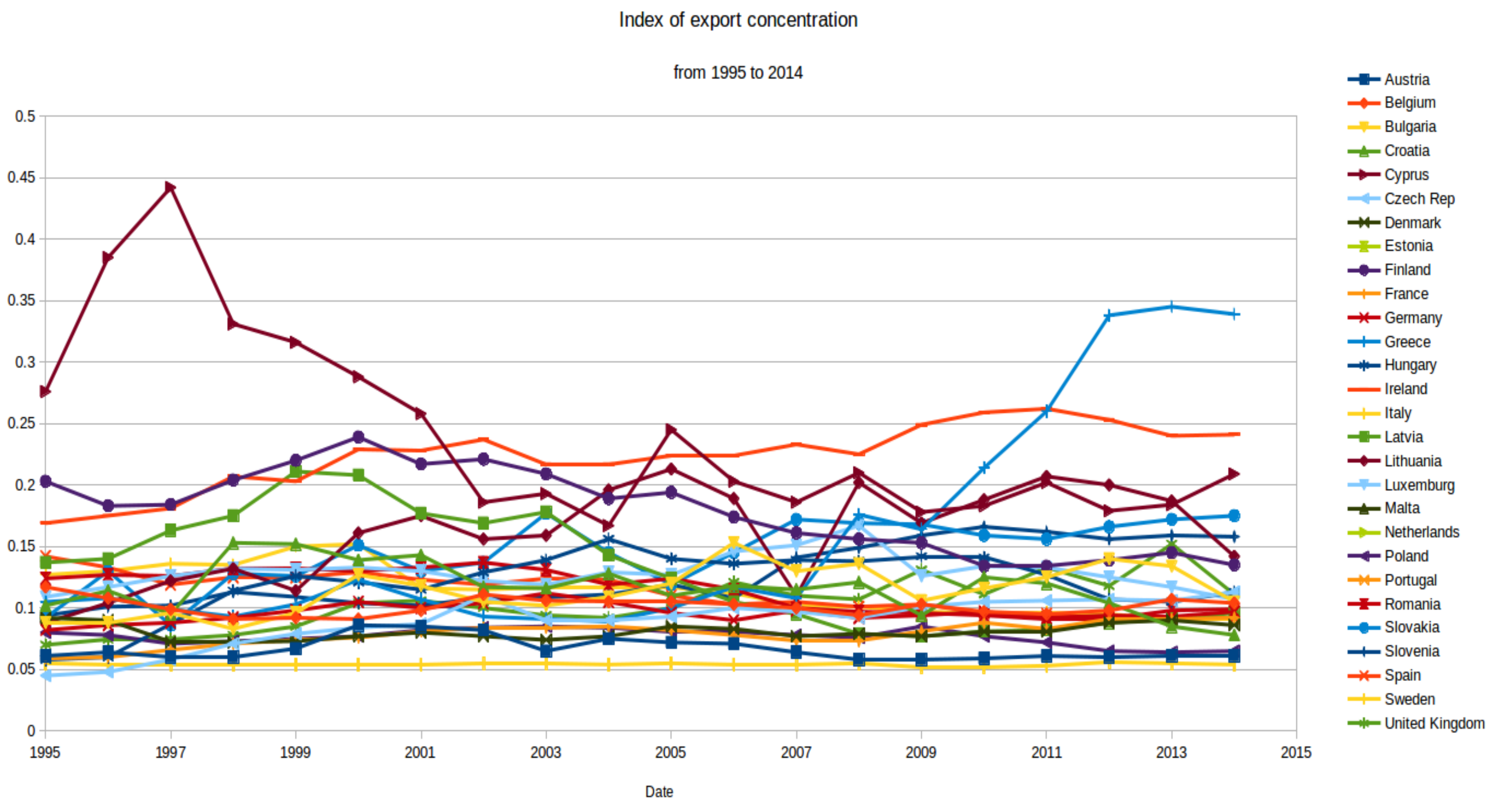

Figure 10 Export Concentration in the EU Member States

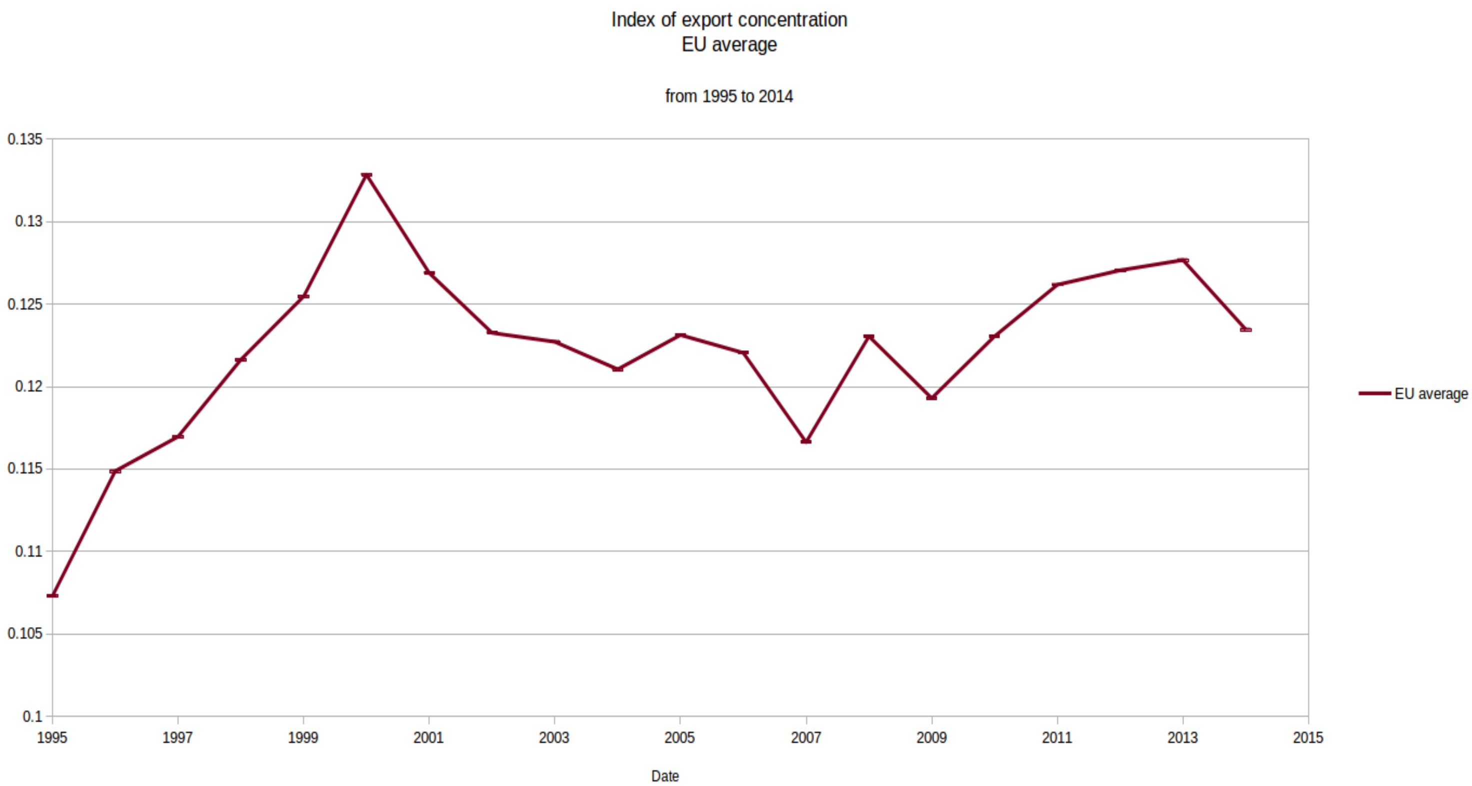

Figure 11 EU Export Concentration

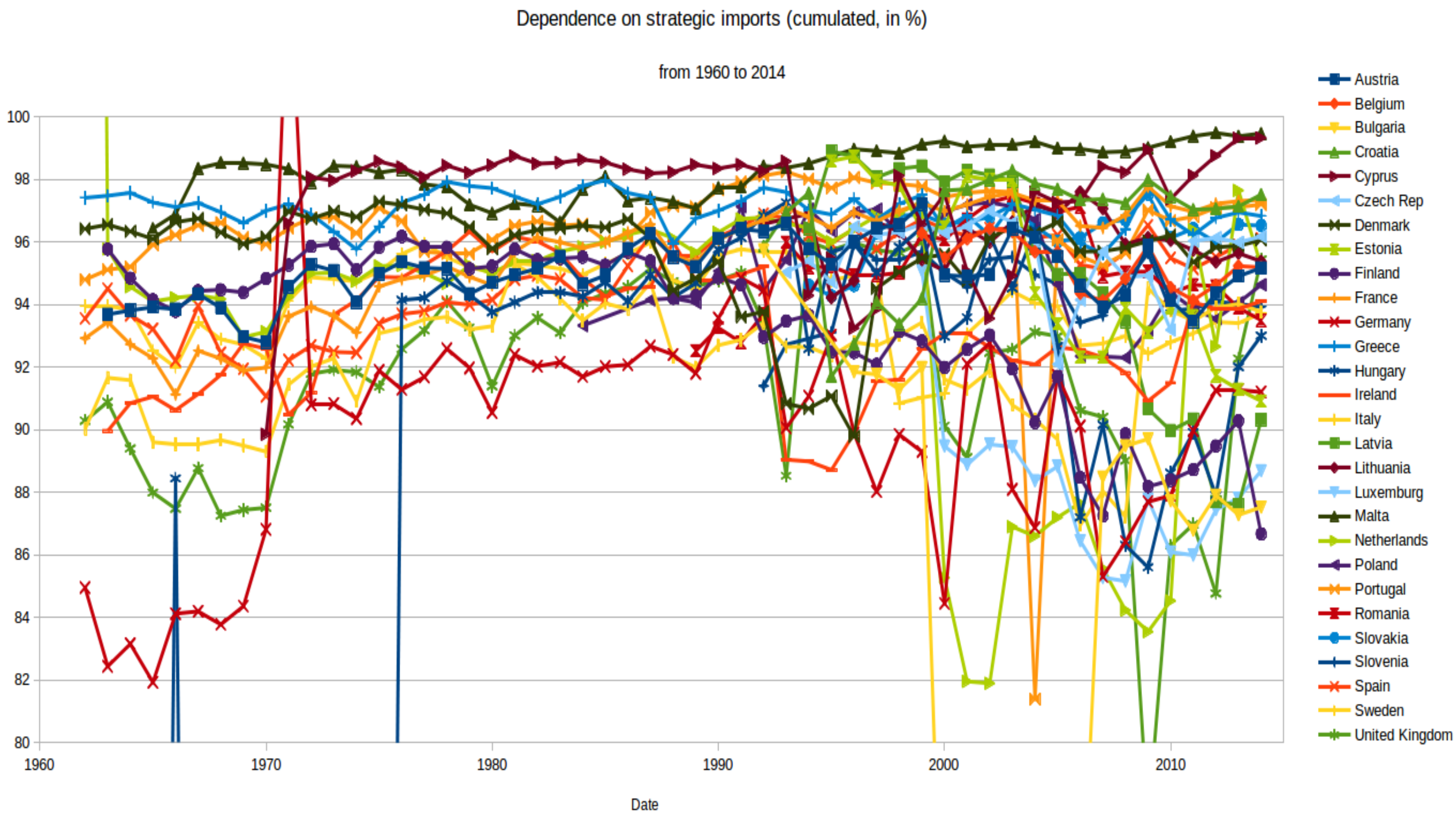

Figure 12 Dependence on strategic imports in the EU member states

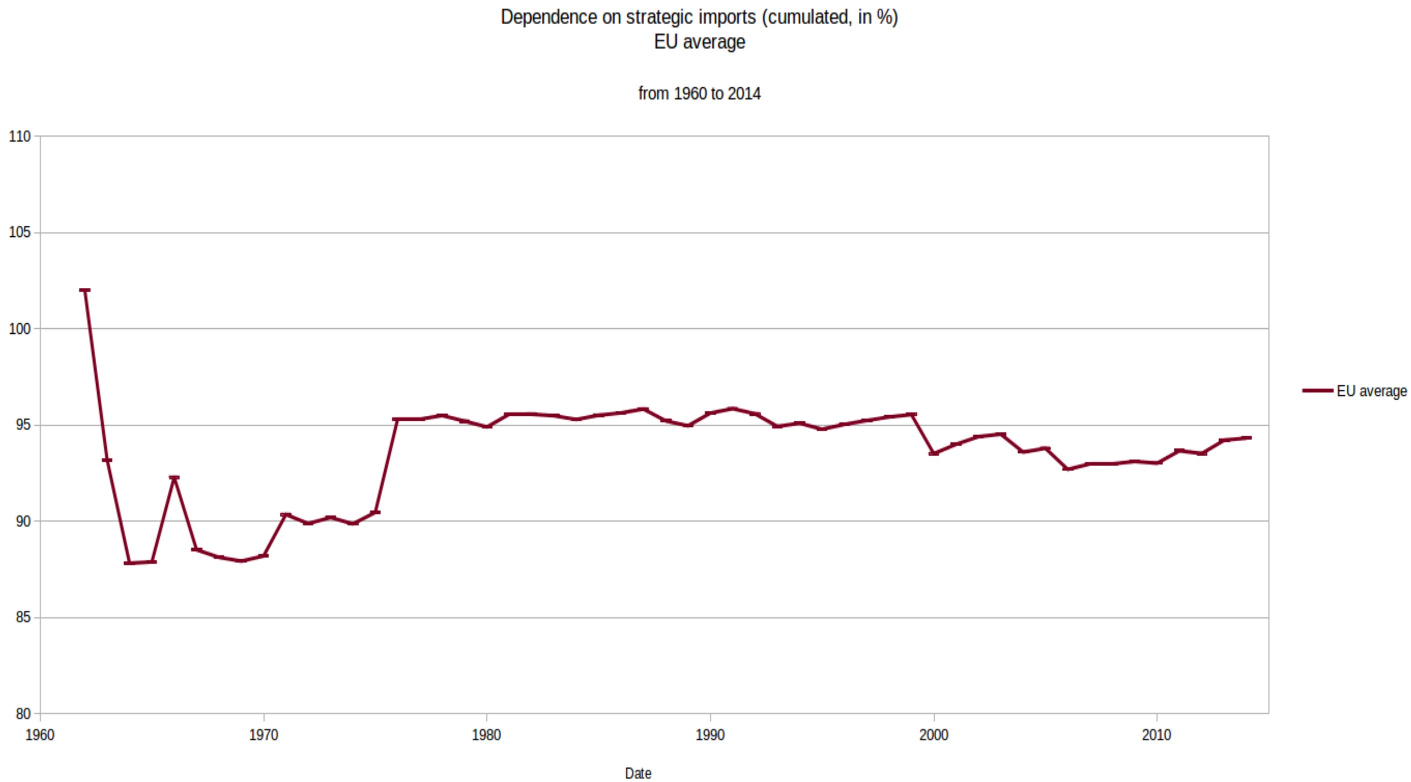

Figure 13 EU Dependence on Strategic Imports

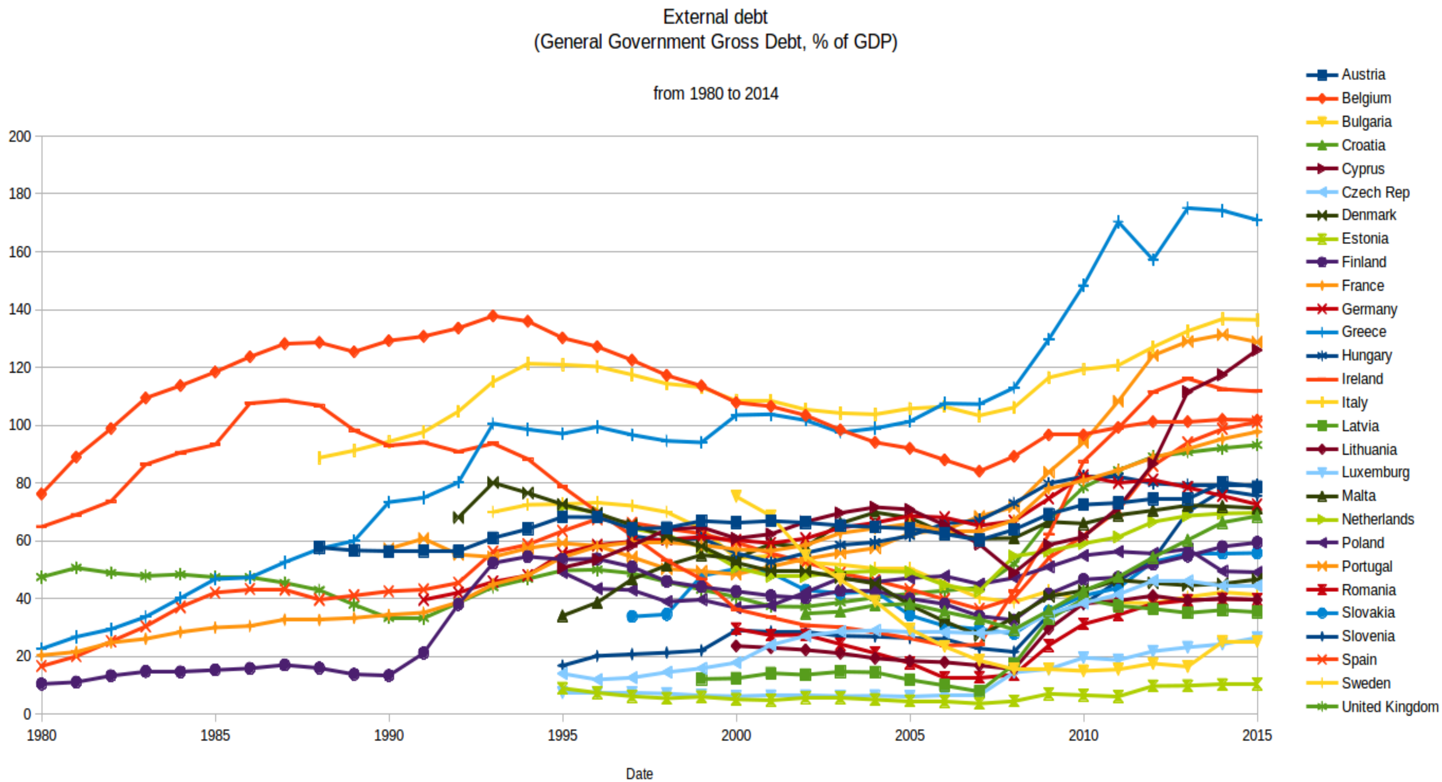

Figure 14 Public Debt in the EU Member States

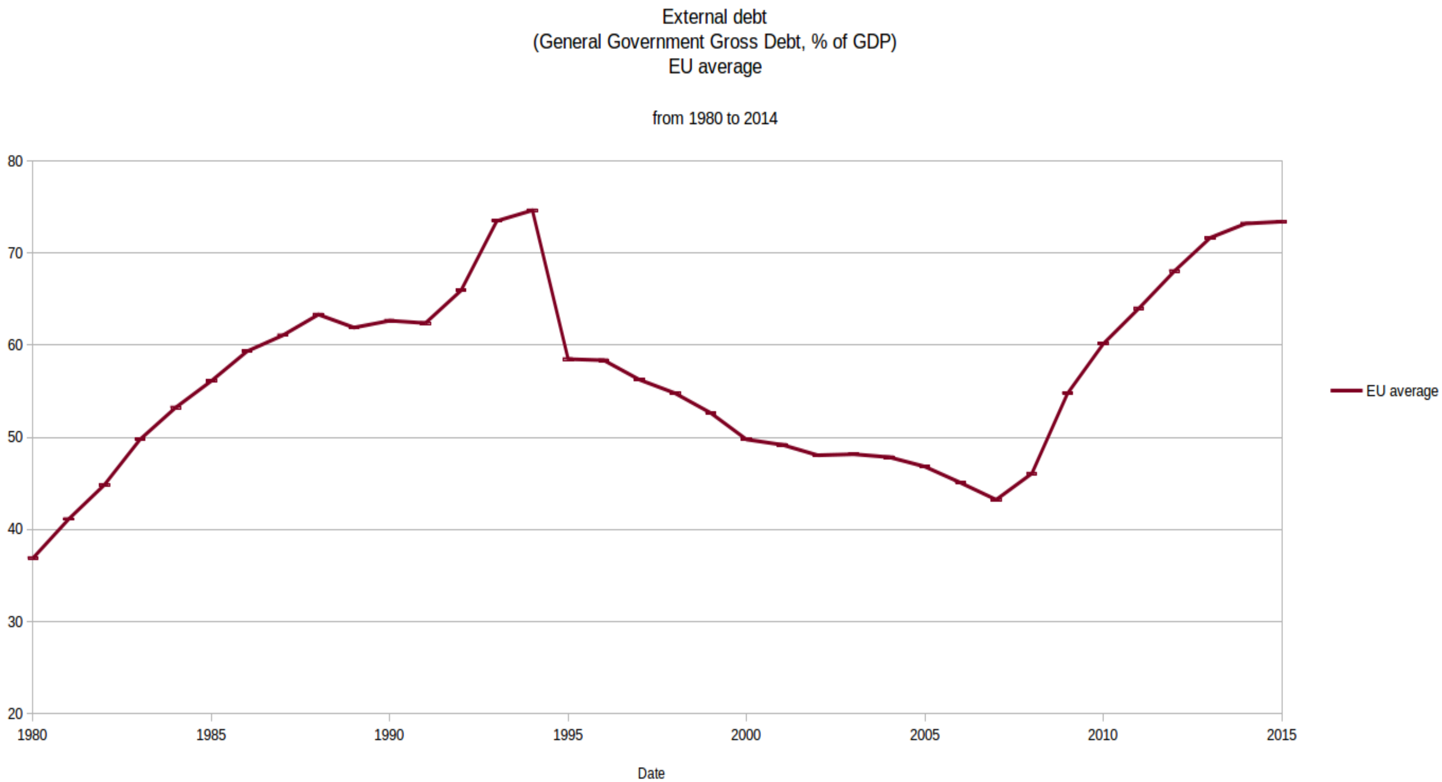

Figure 15 EU External Debt

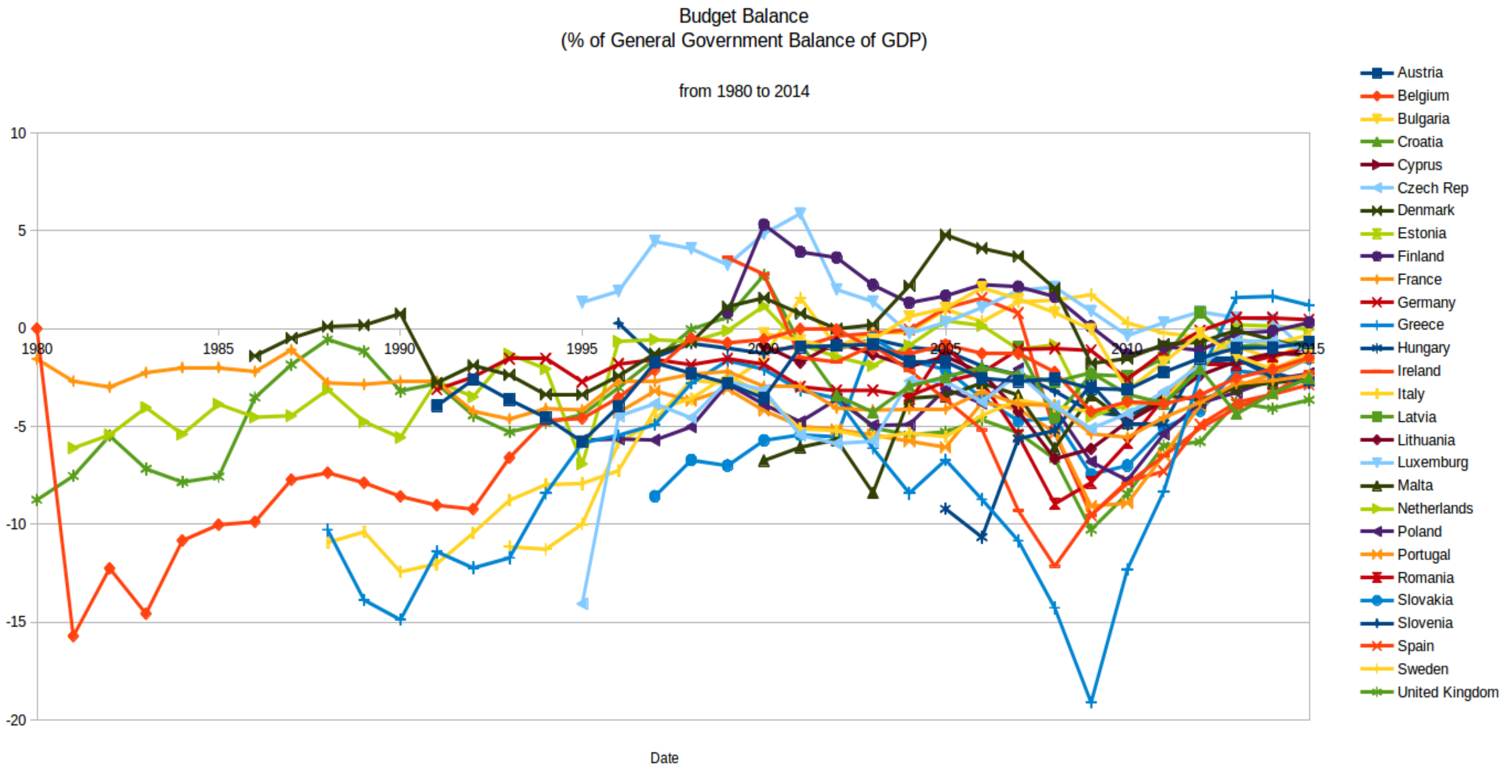

Figure 16 Budget Deficit in the Eu Member States

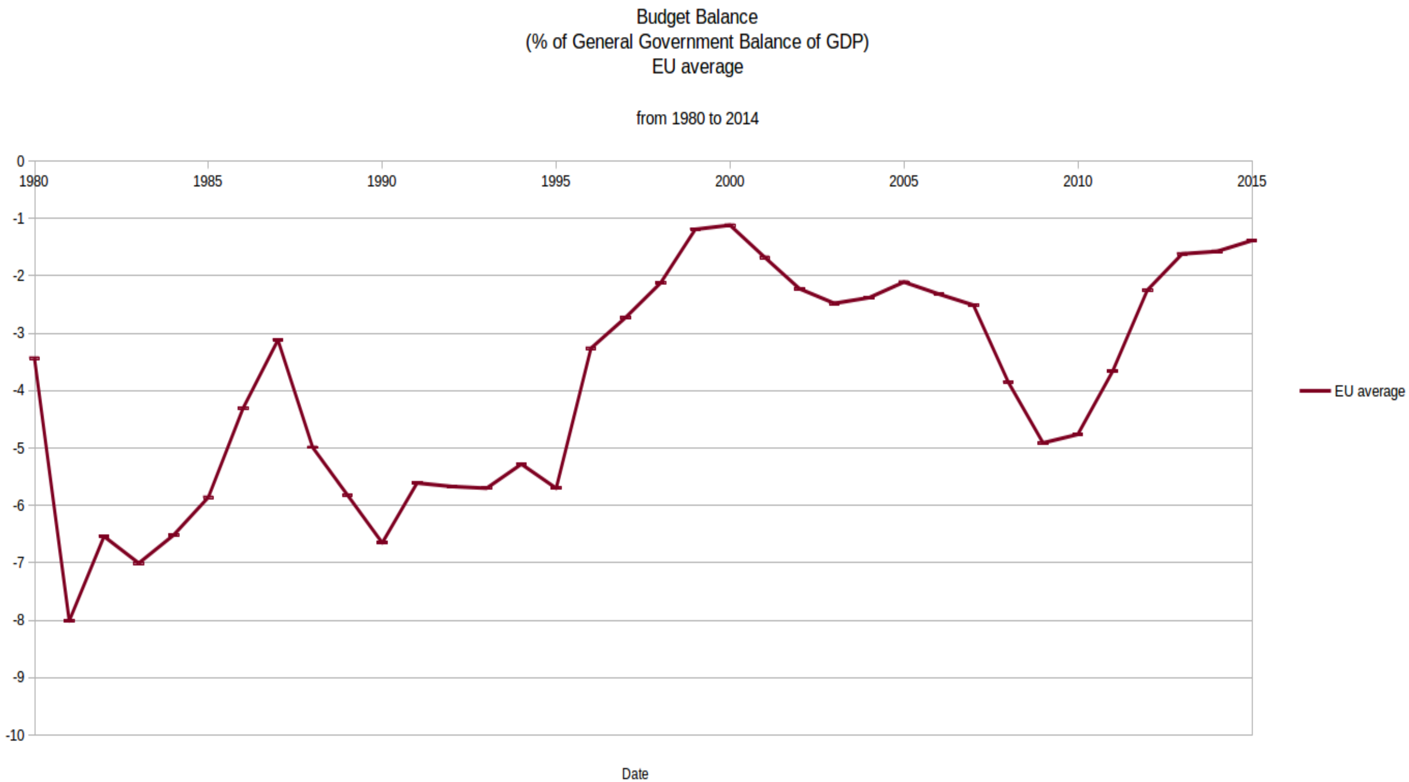

Figure 17 EU Budget Deficit

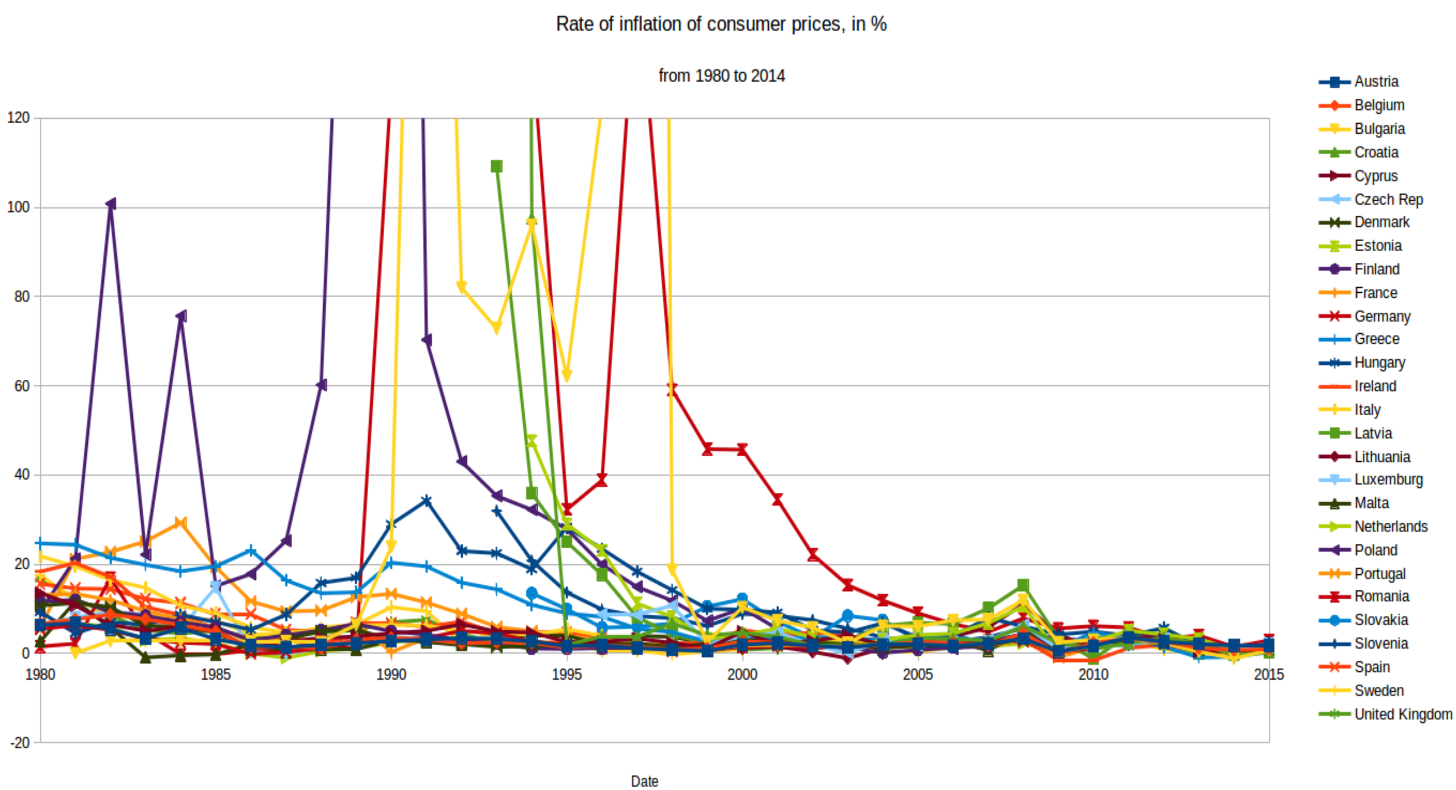

Figure 18 Inflation Rate in the EU Member States (HICD)

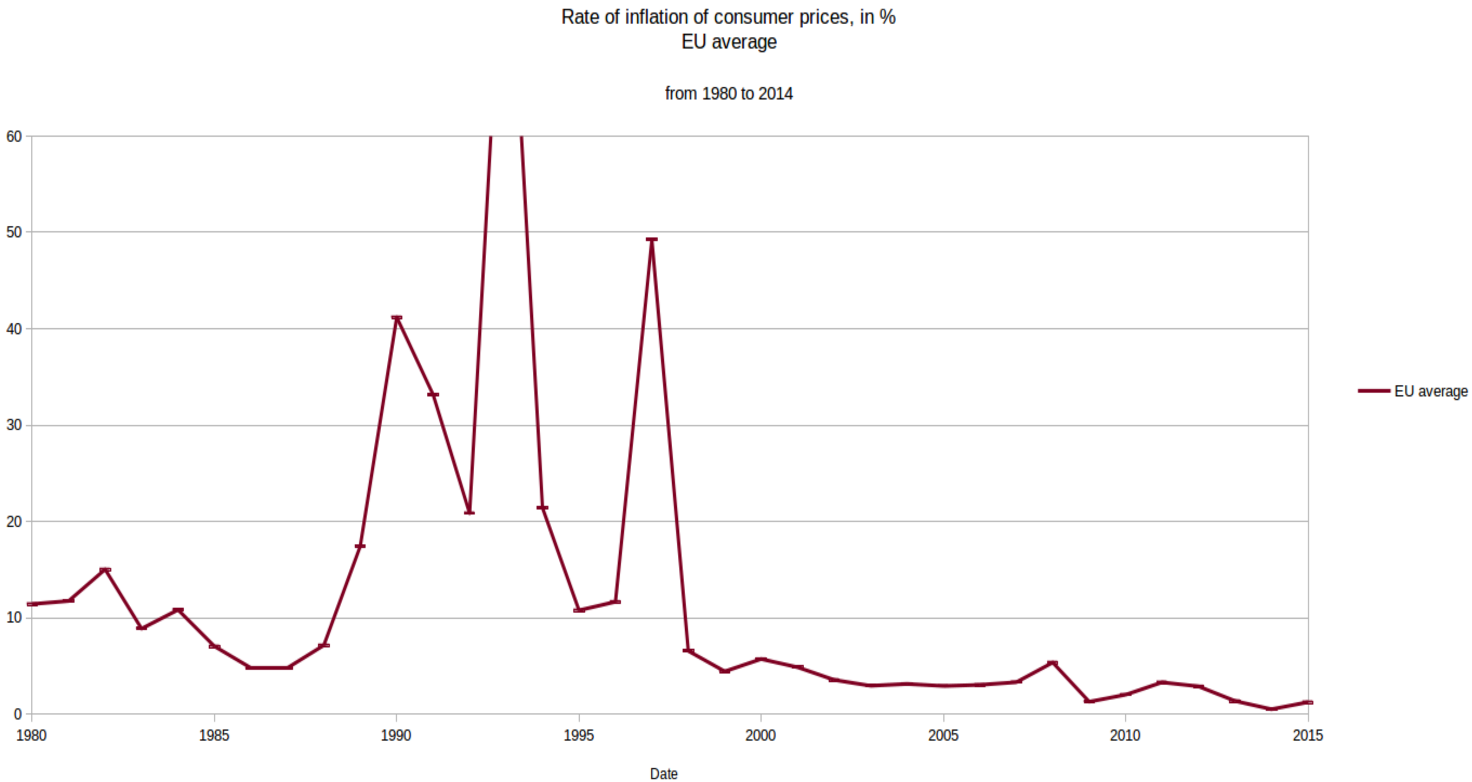

Figure 19 EU Rate of Inflation

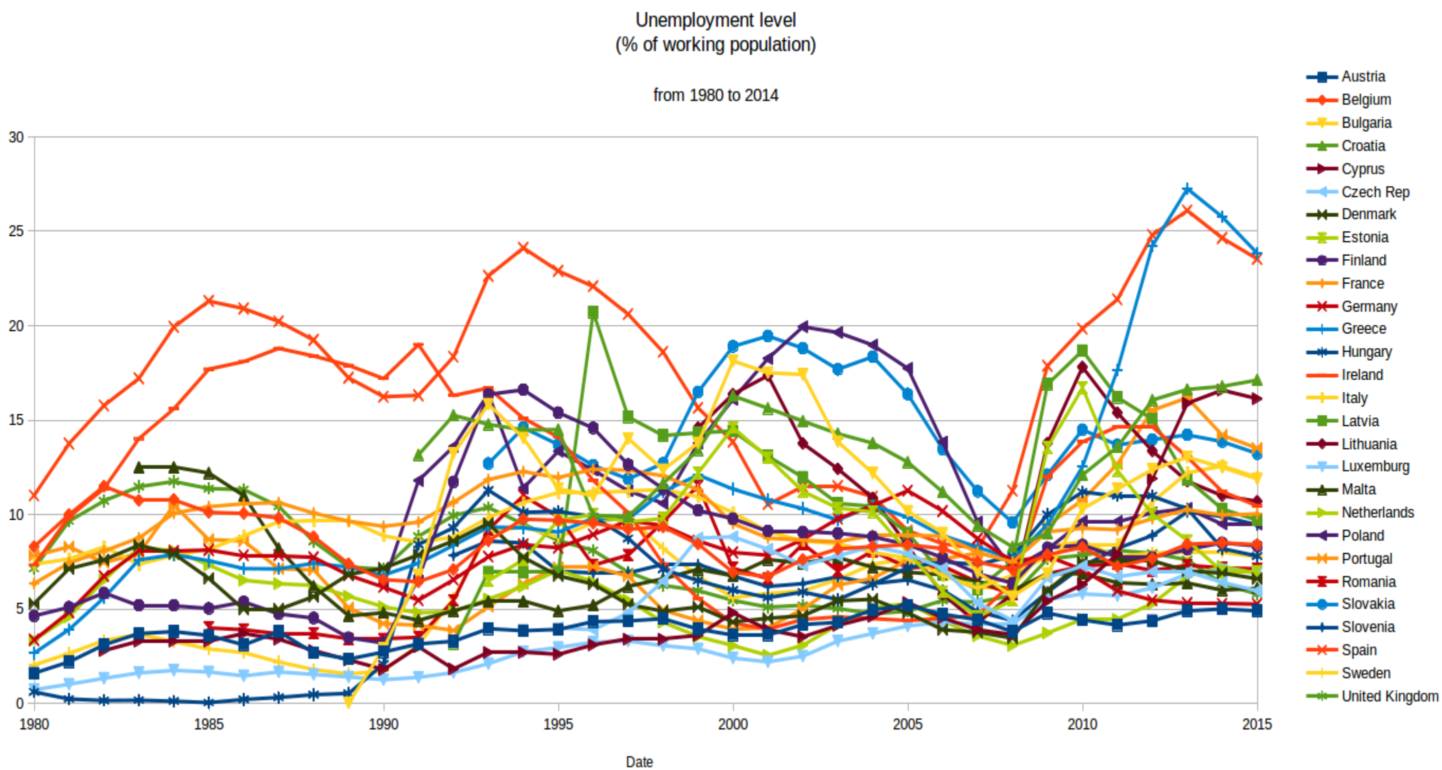

Figure 20 Unemployment in the EU Member States

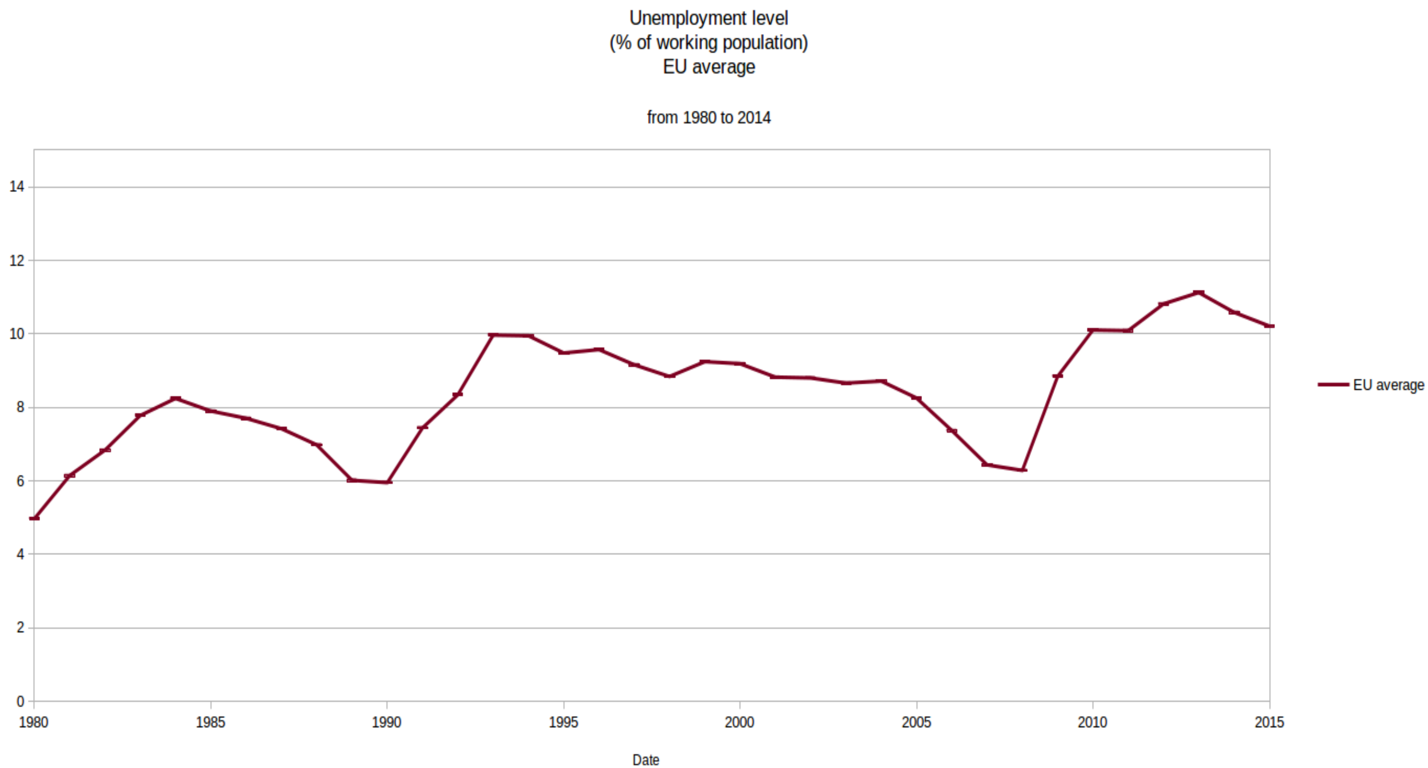

Figure 21 EU Unemployment (average)

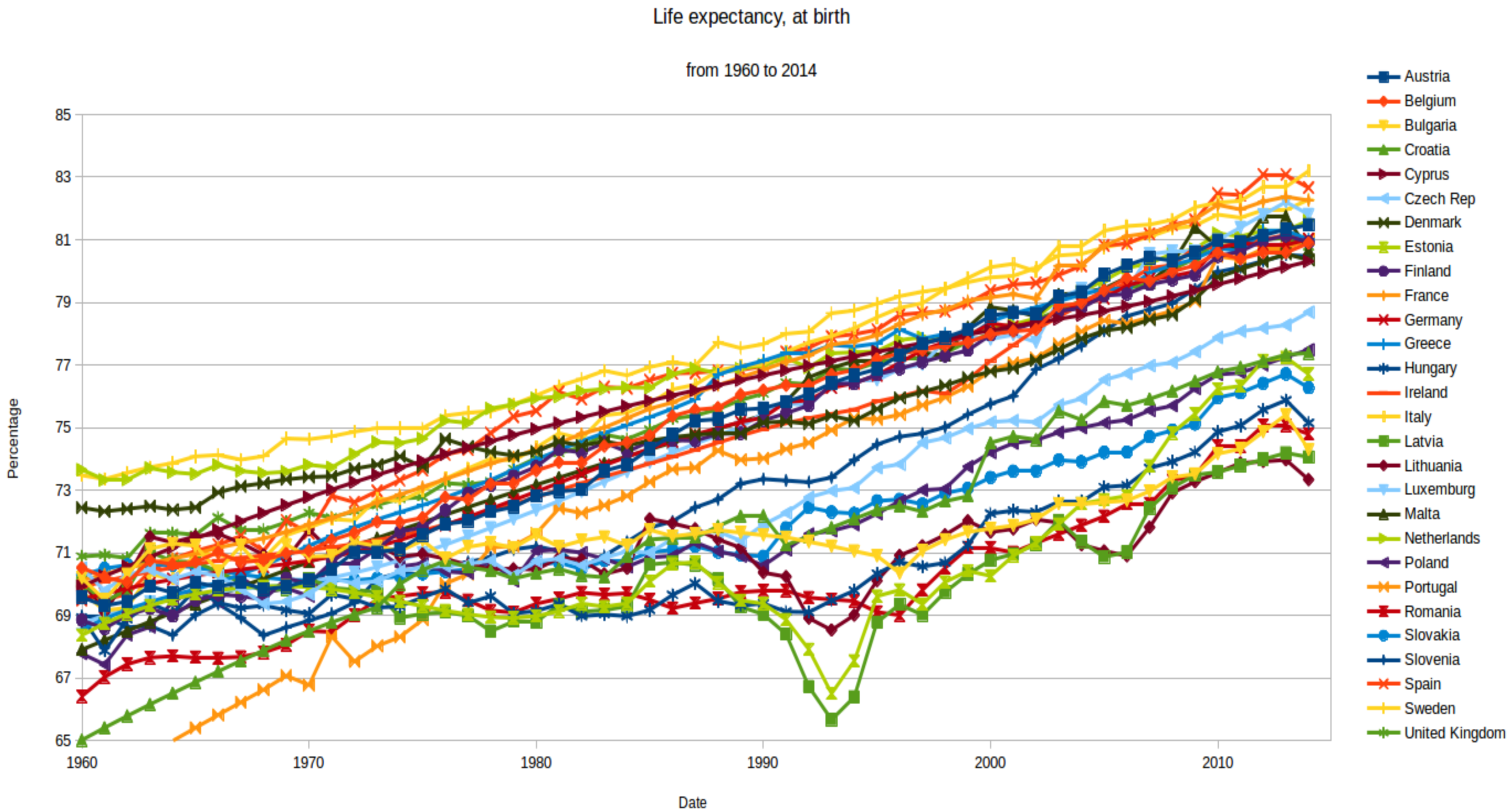

Figure 22 EU Member States Life Expentancy

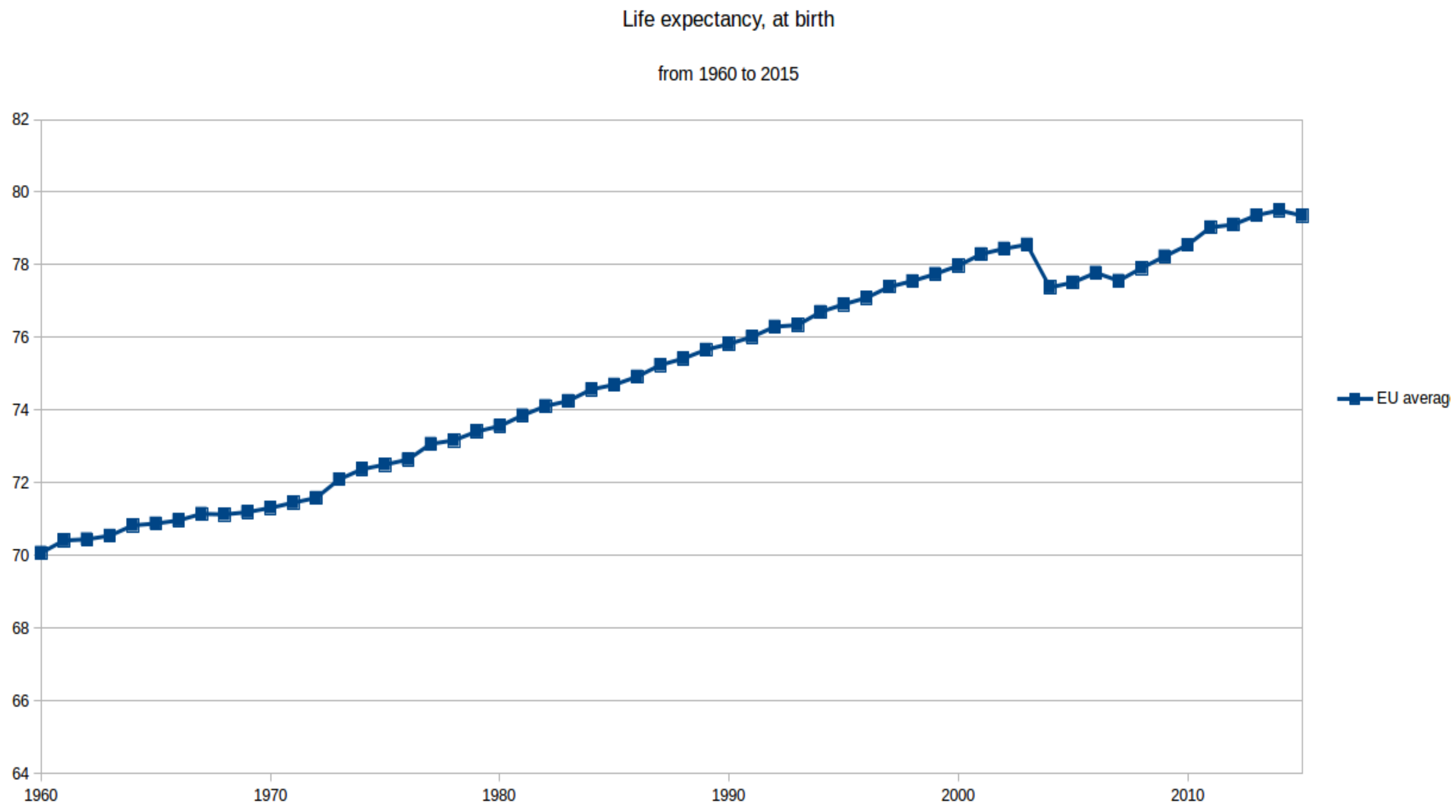

Figure 23 EU Life Expectancy (average)

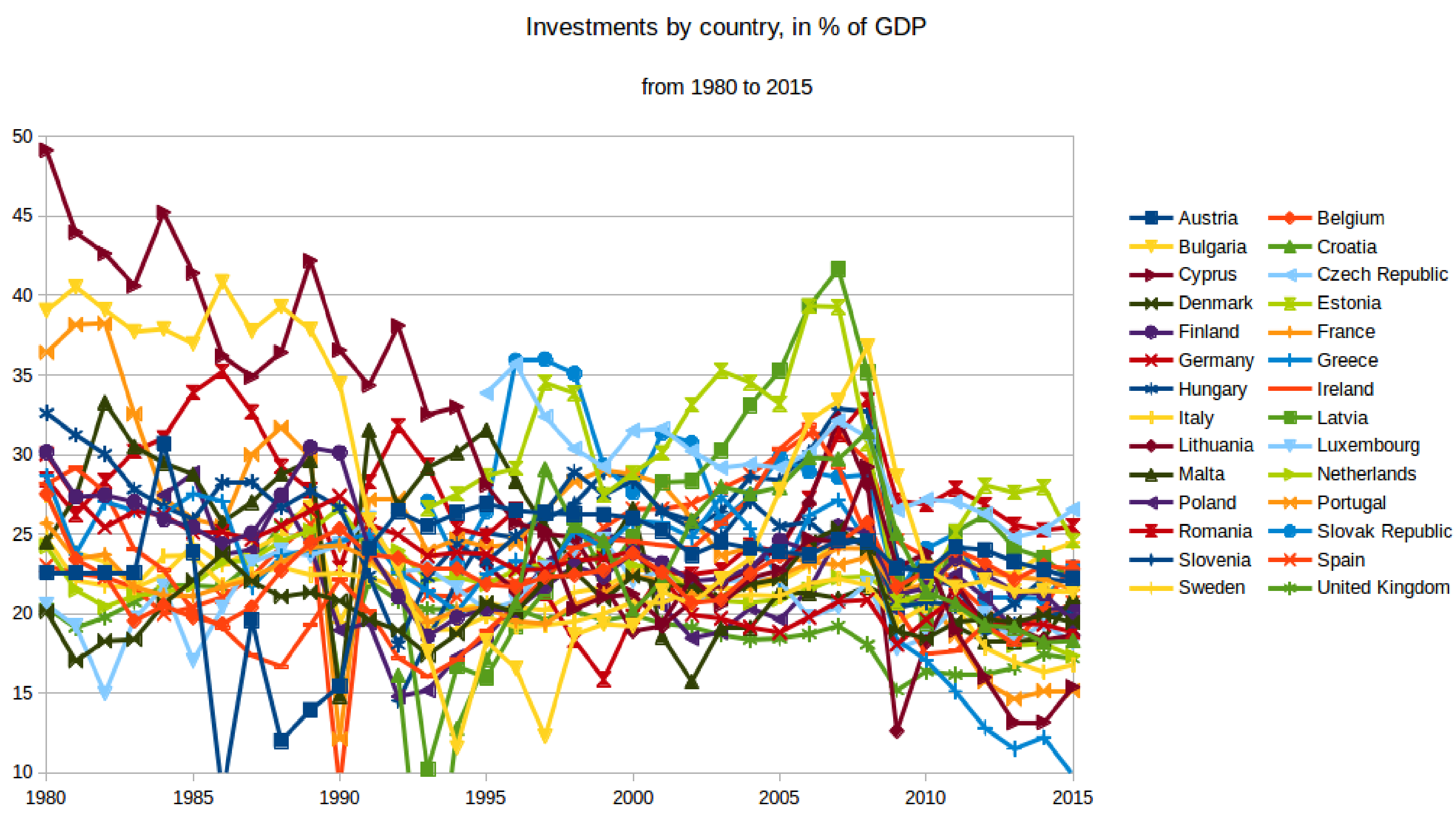

Figure 24 Investments in the EU Member States

Figure 25 EU Investment (average)