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A new era in the dynamics of European integration?[1]

Horst Hanusch and Markus Balzat[2]

Abstract

In the previous decades, the European Union (EU) has succeeded in integrating new member countries, in economic and in political respects. Three main reasons lie behind this successful integration process: First, the solidarity of richer EU members with their poorer counterparts, second, the effectiveness of the integration policies conducted by the EU, and third, the willingness of new member countries to arouse and accomplish an economic catch-up process towards EU average levels.

With the enlargement by ten new members in May 2004, the EU is facing the biggest challenge in its history. Thereby, the population of the Union will rise by 25%, while its overall GDP will increase by merely 5%. Apart from the economic problems that may emerge because of this discrepancy, further difficulties may arise because some of the new entrants are former centrally planned economies that have not yet completed their transformation processes towards free market-economies.

In this paper, we want to investigate whether the Union may be moving towards a new era in the dynamics of integration. In doing so, we will analyze some of the main challenges the EU will be confronted with in the near future. In detail, we have identified two types of challenges. On the one hand, these are *internal* challenges, being closely related to the structural adjustments of the Union. We will further differentiate these internal challenges into economic and political ones. On the other hand, there exist *external* challenges that predominantly concern the competitiveness of European countries in a global context. With regard to these external challenges, we will only deal with economic aspects.

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2 Faculty of Economics, University of Augsburg, Germany

One of the main findings of our analysis is that the EU will have to manage a highly difficult trade-off between the stimulation of Union-wide economic convergence and international competitiveness of its member countries. In the short-run, the process of European integration can well be deepened, given that the current controversies with regard to the financing of European support programs for poorer members and with regard to the implementation of a new constitution for the EU will be resolved. In the long-run, even if these controversies can be remedied, it appears likely that the dynamic process of European integration will not proceed as smoothly and as successfully as it did in the past. That is because the economic disparities across EU member countries have never been larger, and because the "development funds" now need to be distributed among a larger number of countries than in the past. Apart from these difficulties, it can be expected that the concentration on intra-European integration processes will be harmful to the international competitive strength of the entire Union, especially when this colossus confederation fails to take account of the economic desires of its strongest members. Certainly, the strongest nations within the Union are exposed to the pressures of international competition among highly developed nations on the basis of innovation and productivity. This kind of competition can be described as a Schumpeterian competition.

In the light of all these aspects, there are indications that a European Union of "two velocities" will emerge, whereby a core of countries will mainly pursue the objective to strengthen their international competitiveness, while the remaining members will be struggling to accomplish an economic catch-up process to intra-European standards.

1. Introduction

The EU is facing the biggest challenge in its history, namely the enlarge-ment by ten new member countries. Thereby, the population of the Union will rise by some 25 percent, while its overall GDP will go up by merely 5 percent. In addition to this discrepancy, some of the new entrants are former centrally planned economies that are still going through a structural transformation process that is aimed to implement the framework conditions of free market-economies.

Within the previous decades, the economic and political integration of new member countries into the European Union can be regarded successful processes. Three main factors have made it possible to accomplish these integration processes. These are first the solidarity of richer EU members with their poorer counterparts, second, the effectiveness of the integration policies conducted by the EU and third, the willingness of new member countries to arouse and accomplish an economic catch-up pro-cess towards EU average levels.

But never before have so many countries joined the Union, and never before have the economic gaps between old and new member countries been greater. The question thus is if these determining factors will work as well in the upcoming situation as they did in the previous decades when the EU has been enlarged. To answer this question, we want to refer to the challenges that the Union will have to face in the near future. If these challenges are too demanding and strong, a new era in the dynamics of European integration may arise.

To deal with these issues, we identify two types of challenges, namely internal and external challenges. While the *internal challenges* - being both economic and political in nature - are closely related to the structural adjustment of the Union itself, the *external challenges* that we analyze predominantly concern the economic competitiveness of single EU members and of the entire Union in a global context.

Our analysis will start with the Union's internal, institutional problems that characterize too well its current situation. In essence, these problems are partly economic and partly political in nature. While the Union's economic problems are closely linked to the intended enlargement, its political problems spring from the necessity to implement a new political constitution.

After having analyzed these internal problems, we will turn to some external challenges and hence discuss those aspects that are closely linked with international competitiveness.

2. Current internal challenges in the European Union

2.1 Economic challenges: Eastern enlargement of the EU

The enlargement of the European Union is no novelty in its history. Since the ratification of the Roman Treaty in 1957 by its six founding nations (Belgium, France Germany, Italy, Luxembourg and the Netherlands), the EU has been enlarged several times.[3]

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[3] In detail, Denmark, Ireland and the UK became members in 1973, Greece in 1981, Spain and Portugal in 1986, while Austria, Finland and Sweden joined the EU in the year 1995.

Until now, the continuous expansion of the Union has been accompanied by and has lead to an ever deeper economic integration in Europe, so that this process can be considered as a great success. If we measure this success in terms of GDP per capita levels across EU countries (see chart below), we observe that there is strong cross-national[4] convergence in large parts of the Union. Even those member countries that have only joined the EU in the late 1980s and that had been relatively poor prior to their membership have managed to catch up tremendously in the meantime.

But what are the reasons for this astonishing and successful European integration process? From an economic perspective, three main aspects can be mentioned. These are the solidarity of prosperous EU member countries, the effectiveness of the integration policy measures of the EU and finally the internal dynamics in new member countries.

In the following, these three aspects will be briefly addressed and critically analyzed, considering especially their potential effects on the possible development of an enlarged European Union in the near future.

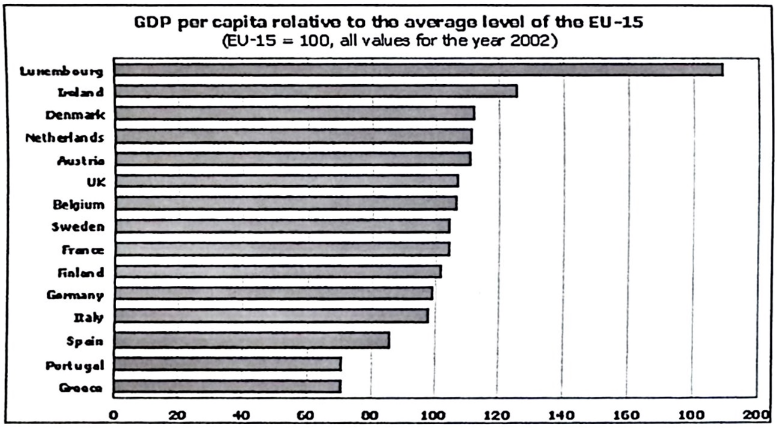

Chart 1: GDP per capita levels in the member countries of the EU-15 relative to the average level of the EU-15, 2002.[5]

4 However, GDP per capita levels (still) are much more disparate on the regional level. The effectiveness of the policy measures taken by the EU in order to enhance EU-wide convergence has therefore been criticized by Boldrin and Canova (2001). A lack of inter-regional convergence in Europe has also been found by Gianetti (2002), Cappelen et al. (1999) and others.

5 Source: OECD (2003).

a) The solidarity of the "donating countries"[6]

In the past, one of the most important factors of success has been the sustaining willingness of richer EU members to support their poorer counterparts. This solidarity, which is of course contingent upon the ability of a small group of countries to support poorer EU members, also had a major impact on the EU as a political entity. Due to this solidarity, a readiness on the European level has emerged with the aim to bear the national and regional re-allocation of resources and financial funds. As a consequence, the Union was able to pursue its principal target, namely to bring about similar productivity and income levels across its member countries.

But if we look into the near future, it seems that a noticeable change with regard to the solidarity of donating countries has occurred within the previous years. This applies especially to Germany, a country that has always attached great importance on the target to balance out inter-regional differences in the standard of living. Likewise, the idea of striving for inter-regional harmonization is reflected in the concept of co-operative federalism, a concept that is deeply rooted in the German constitution (*Grundgesetz*).

In recent times, however, it has become obvious that Germany tends to move away from the aims of regional and social equalization. Although these aims once constituted the foundation of the German "social market economy", the German political agenda of reforms appears to be increasingly oriented towards Anglo-Saxon concepts and values. These values are mainly based upon self-responsibility and personal achievement on the micro-economic level and upon the stimulation of economic growth, productivity and innovation on the macroeconomic level. The adherence to these values is observable across many social groups and across large parts of the political spectrum in Germany.

This change of views among policymakers and citizens alike can be explained by the recent historical developments in Germany. In 1990, the German reunification has been accomplished and highly celebrated, but in the years thereafter some major troubles in the internal integration process emerged. A large majority of the German population meanwhile seems to have exhausted the personal capacity of solidarity. Also, most of the richer and high-performing federal states in western Germany are increasingly casting doubts on the "solidarity pact" that they once signed with the

6 With „donating countries", we denote all those member countries of the EU that are net payers in the structural and cohesion funds of the EU.

poor and low-performing federal states in the eastern part of the country.[7] This shrinking willingness to give financial support for poorer regions not only concerns the internal integration process in Germany. Perceivably, it may also affect the upcoming enlargement of the EU and the subsequently required support of those countries that join the EU in the May of 2004. In other words, the solidarity with these new member countries of the EU can at least be questioned, since this changing attitude in Germany is not only a question of "willingness". Above all, it has become a matter of "capability". Indeed, the financial scope for the conduct of a policy of financial redistribution is diminishing more and more, and this is true for the social, regional and to a growing extent for the European sphere. The reason behind this process can be seen primarily in the costs of the German reunification. These costs become ever greater, while there is still no silver lining on the horizon in the catch-up of the eastern part of the country. Opposite to the initially rapid process of convergence, there is now empirical evidence that the five new federal states (*neue Bundesländer*) got stuck in a low-level equilibrium in terms of employment, growth and productivity since 1995.[8] From this background, there currently seems to be no possibility to bridge the existing and remarkable economic gaps between the two parts of the country.

Viewed from a broader, EU-wide perspective, it can be anticipated that the integration process of new EU members will also be affected if a country like Germany, which is the largest economy within the EU and which used to be the "locomotive" of the European integration process, loses its power in account of its internal diffi-culties.

b) The effectiveness of the integration policy of the Union

Almost as important as the willingness to give financial support for poorer member countries was the effectiveness with which the Union's administration in Brussels has set its ambitious goals into practice through its policy measures of financial redistribution. Two important examples of effective integration policy of the EU are the Structural Funds, which was created in 1975, and the Cohesion Funds, which was set up in 1993. Both of these two funds still exist.

In the aftermath of the current wave of enlargements, it is doubtful whether the integration policy instruments of the EU can work as effective as they did in the past.

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7 To stimulate and restructure the economy in eastern Germany, transfer payments from the western to the eastern part of Germany have amounted to some 2 trillion Deutschmarks. In the years 1993 and 1994, record payments of annually 220 billion Deutschmarks have been transferred from the western to the eastern part of Germany.

8 See Smolny and Stiegler (2003).

Tensions may arise because the income differentials between new and old EU member countries are larger than they have ever been before in the history of the EU. As a consequence of these income differentials, enormous financial efforts will have to be made to foster the economic catch-up process of the new members in Eastern Europe, while less financial means will be available for EU countries in Southern Europe. Since the number of countries and regions that qualify for the provision of financial benefits increases with the eastern enlargement of the EU, the absolute level of financial support per country or region will be much lower than it was before.

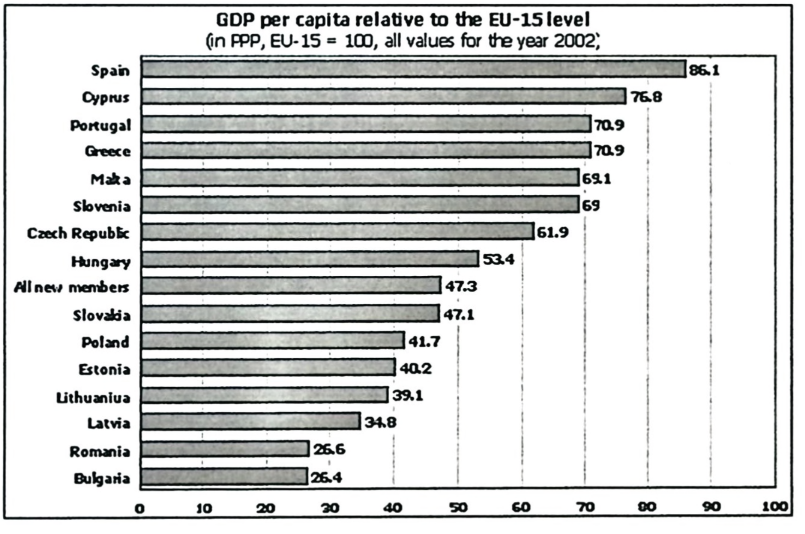

Chart 2: GDP per capita in designated EU members and in selected EU-15 members relative to the EU-15 average level, in purchasing power parity (PPP), 2002.[9]

Therefore, we have to ask ourselves whether the Commission will be able to make progress in the attainment of its main goal of achieving greater equality in income and productivity across Europe. In view of the real economic problems with which the larger member countries, notably Germany, France and Italy, currently

9 Source: Eurostat, *Structural Indicators Database*.

have to struggle, it may be required to introduce changes in the systems of regional financial redistribution in the Union.

c) The internal dynamics of new member countries

Apart from the already mentioned solidarity of richer EU countries and the effectiveness of integration policies, the internal economic dynamics of new EU member countries has been a further success factor behind the growing economic convergence of EU countries. To initiate a catch-up process towards the leading EU countries, poorer EU members had to make their domestic markets more flexible, especially their labour markets and their capital markets. But in these countries, the organisation of the energy system had to be deregulated as well. In addition, the public infrastructure had to be improved, the tax system had to be simplified and the tax burden for households and firms had to be reduced. Furthermore, the quality and the efficiency of social and health care systems had to be enhanced. These profound changes, which have been initiated particularly in smaller member countries (such as Ireland), and the economic dynamics that these changes ignited were of great importance to a successful integration process in Europe.

As for the internal dynamics in the new member countries in Eastern Europe, the situation will be different from earlier enlargements of the Union. Never before has the EU pushed its geographical growth so fiercely and never before has it taken in poorer countries. In addition to their low economic value added, many economies in Eastern Europe suffer from an unemployment rate that is almost twice as high as in Western European countries. Apart from that, it is the first time that former centrally planned economies - being still in a process of transformation towards free market economies - line up for joining the Union. Due to their structural weaknesses, these transformation economies already had to bring about major institutional reforms on the basis of the *acquis communautaire*[10] in order to qualify for EU membership. But although the installation of these profound structural changes has resulted in a convergence in many institutional systems (jurisdiction, administration etc.) and also in an acceleration of economic growth[11], there is still a lot more to be done in certain areas like the abatement of corruption and the destruction of powerful oligarch structures.

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[10] The *acquis communitaire* can be described as the body of common rights and obligations that is fulfilled and accepted by all EU members.

[11] See Busch and Matthes (2004).

In the following chart, this progress of institutional and economic catch-up is illustrated. The shown data are based on a composite indicator of convergence which takes account of economic, institutional, monetary and fiscal factors.[12] As the corresponding empirical results show, there is increasing convergence in all of the designated new members of the EU within the previous three years. Apart from this general and positive trend, it becomes manifest as well that there are remarkable differences in the absolute levels of convergence across the new members. At the lower end of the scale, we find countries such as Bulgaria and Romania. There, the remaining gap to EU-15 standards still amounts to 50%. At the upper end of the spectrum, countries such as Slovenia, the Czech Republic and Hungary can be found. These three countries are now only some 20% below the standards as they are set by the EU-15 country group.

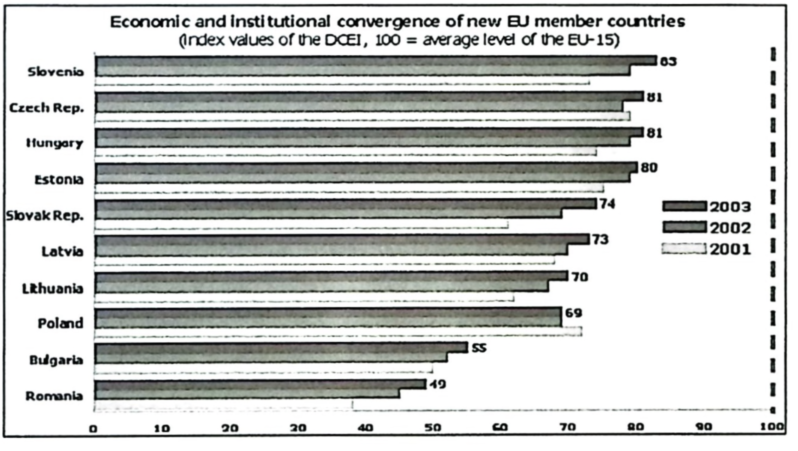

Chart 3: The Deka-Bank Converging Europe Indicator (DCEI).

In spite of these remaining gaps, the pre-eminent chances of the new member countries can certainly be seen in their competitive advantage in terms of unit labour costs. The difference in wage levels between Eastern and Western Europe is without

12 This indicator is called „Deka Converging Europe Indicator", abbreviated as „DCEI", and it rests on an evaluation scheme of economic and institutional convergence as developed by the Deka-Bank. *Source: Deka-Bank.* Values for the year 2003 are forecasted.

any question the main asset of the competitiveness of the new incoming countries in the short- as well as in the long-run.

2.2 Political challenges: A new constitution for the EU

The failure of the EU-summit in Brussels some months ago destroyed, at least in the present situation, many hopes and expectations for a new European constitution. The efforts made over years resulted in a void. A look at the European history, however, shows that such setbacks are not unprecedented events.

In 1954, the first European constitution, the European Political Community (EPC), along with the European Defence Community (EVG) failed in the French national assembly. After that, it was an initiative by the German chancellor Adenauer that has lead to the ratification of the Roman Contracts of the European Economic Community (EEC) and of the EURATOM agreement.

In 1979, the first European parliament was elected. Headed by the Italian Altiero Spinelli, a sophisticated European Constitution was elaborated. Although those drafts first got stuck in the national parliaments and the discussion lead there, the Single European Act was created and the single European market was established.

Now, which parallels can be drawn from these two cases as compared with the unsuccessful European Summit in Brussels and the current political situation inside the Union?

The "European idea", i.e. the aims to bring about European-wide political and economic integration, has ever since been based on the willingness of the EU members to give up some facets of their national sovereignty in favour of the community and in order to achieve a political and stable federation of European nations. This readiness to realize the European idea has helped to overcome most of the difficulties that emerged in the course of the unification process, providing ever new opportunities to the enlargement of the Union as well as to the deepening of its integration. In retrospect, even severe situations have been used as prosperous opportunities to achieve increasing political coherence within the Union.

Nowadays, however, when the recent failure of the EU summit in Brussels is critically assessed, we have to realize that it is becoming more and more difficult for the nations involved to find Union-wide consensus in the precise accomplishment of further integration and enlargement.

On the one hand, there are nations such as Poland and Spain that do not want to give up any further rights of national sovereignty and that insist on the status quo of actual agreements.[13] The current contracts, though, can be expected not only to constitute insurmountable barriers in financial respects but also to bring about a considerable slowdown in the existing dynamics of integration.

In addition, it will be even more difficult to come to terms in an enlarged Union that comprises 450 million citizens and (at least) 25 member countries. That is because a rising number of members brings about rising heterogeneity in cultural, economic and also in political respects. Already Public Choice Theory has taught us that under such circumstances, to minimize decision costs can only be achieved if majority rules, rather than unanimity arrangements, are implemented in political decision-making.[14] By rejecting majority rules ex ante, as it was done by some countries at the Brussels meeting, the costs of decision making will rise up to unexpected heights and the effects of specific national interests on European politics, necessarily become uncontrollable.

On the other hand, there are countries such as France and Germany (recently joined by Great Britain) that want to accelerate the European integration process. For that purpose, these countries are willing to give up more of their national sovereignty as they already did before. In their eyes, not all the present and designated member countries are willing and able to keep up pace with a speed of political integration as it is desired by the larger and richer countries of the Union and as it has been prevalent in the past. Therefore, according to these largest EU countries, it may be necessary to accept *different velocities* of integration and of economic progress within the Union. However, this would lead to an informal partition of the EU into two groups of countries. One group of countries will try to keep up with the standards as they are set by the rules of globalisation and international competition. A second group of countries will attempt to catch up to the present economic standards of the EU and will try to maintain the status quo of regional support and thus of financial assistance.

All in all, the current situation seems to set off a new era in the dynamics of European economic integration. It seems that a policy of insisting on existing agreements, including the variety and the volumes of financial support programs for poorer countries, cannot be financed any longer. Apart from this probable change, it may be expected that the efforts to maintain the high levels of regional support will undermine the economic performance of the entire Union because these high levels

13 At the moment, however, the harsh attitude of these two countries against the proposed constitution seems to have shifted to a certain degree, due to profound and unexpected political changes in recent weeks.

14 See e.g. Buchanan and Tullock (1962).

of support slow down the economic dynamics of the most successful EU countries that are exposed to a severe competition of international markets.

The questions thus are how these emerging and latent problems can be resolved and what instruments can be applied in a situation of rising difficulties stemming from the increasingly heterogeneous interests of an ever larger number of member countries in the EU. These issues lead us to some preliminary conclusions.

2.3 Preliminary conclusions

An easy and satisfying solution to the mentioned issues does not seem to be available. Looking for remedies to solve the internal problems discussed above, one has to consider the different economic as well as the variety of political challenges the EU is currently confronted with. In a nutshell, the Union now faces two huge demands: On the economic sphere, it has to deal successfully with a lack of financial means for economic integration. On the political level, it has to handle all the difficulties which go hand in hand with the intended implementation of a new constitution that needs to be acceptable for each member country.

The current public discussion of these topics is divided into two convictions, a pessimistic and an optimistic one:

The pessimistic camp is strictly rejecting any possibility to overcome the trade-off between financial aspects and the building of a political consensus. Policies that primarily focus either on the recent state of affairs or on an accelerating velocity of integration will lead to a severely reduced political weight of the European Union. In its present colossal shape, the Union cannot be governed any longer adequately in the one or in the other way.

In addition to this already deeply pessimistic estimation, the bad economic situation of the now financially most powerful nations is often brought into discussion. On the one hand, countries like Germany who belong to the group of states who pay more to the budget of the European Union than they receive back are almost at the end of their potential to cope with the financial burden imposed by Brussels. The kind of international redistribution which the future integration in an enlarged European Union would demand is no longer considered to be politically convincing to a majority of voters. On the other hand, those countries that have traditionally benefited from the European budget, like the nations in Southern Europe, and countries that are expecting to benefit from the support programmes, i.e. the new members in Eastern Europe, have high demands. At present, they are unwilling to adapt their high expectations to the financial bottlenecks and to the position taken by other members. Even worse, these poorer nations are still supported in their demands by the Commission itself.

Viewed pessimistically, and in the light of the unsatisfying outcomes of the Brussels summit, one could anticipate that the member states will be neither able to find an agreement with respect to these financial affairs, nor with respect to a new constitution for the Union.

Contrary to this group of pessimists and their viewpoint, there also exist a growing number of strong optimists. These optimists still believe in the idea of European integration and they euphorically rely on the healing forces of the "*zeitgeist*" and its ability to overcome the existing internal conflicts inside the EU, just as it was the case so many times before. In their opinion, one group of countries will be convinced to support the Brussels budget to a greater degree as they had planned before, and the other group will gain the insight that policymaking within the European Union has always been and will continue to be a game of playing "do ut des". While one group of countries will spend more money, the other group will deviate from its ambitious political demands and at last agree upon a reformed constitution. In this process of consensus-building, an important role will be played by the administration of the EU in Brussels. Particularly with its decision on the volume and the composition of the Union's budget, it sets a fundamental and politically legitimated guidepost with respect to the direction and orientation of the Union's future policy of integration.

Up to now, we have focussed solely on some of the internal problems and difficulties that affect the process of European integration in the near future. However, one has to take a more balanced and broader view and needs to consider the mighty challenges that develop from outside the Union. These external challenges will now be exposed.

3. The challenges from outside and political consequences

With regard to these external challenges, the main question is whether an envisaged solution to the above described internal problems can be able to increase the European competitiveness in a period of growing internationalization of business transactions. To fulfil this prerequisite, Europe very likely needs radical new concepts concerning the so-called European idea as well as the strategies and organisational forms to realize them. But wherefrom should these concepts come and on which theoretical background should they evolve?

To focus exclusively on the European level on the convergence between European regions, i.e. the catching up of less developed areas to the average levels of the entire Union, does not seem to be enough in order to cope with the real contests of the 21st century. Also, this strategy of concentrating on economic convergence inside the Union and to distribute money across nations, regions or social groups will produce financial bottlenecks. The only way to create the necessary financial means for such a policy of redistribution is to succeed economically in the processes of competition in which the most developed nations or regions are involved. In such processes, one loses ground if one fails to bring about permanent improvements. Economic success in a highly developed world therefore not only includes the willingness to cope with dynamic processes which continuously put the established institutions to the test. Economic success is also built on the willingness to contend with a process of *creative destruction* in the sense of Schumpeter (1934), a process in which innovation is the most important driving force of growth and economic progress.[15] By this process, all facets of human life are deeply affected because economic growth of firms, regions and nations will cause an increased welfare level as well.

To "cope with the best" therefore is the prerequisite for being successful in economic terms. Even more, it is the only possibility not only to catch-up but even to forge ahead. This insight has to be considered true not only for firms, but also for regions or nations and for the whole European Union as a distinctive and globally significant economic and political powerhouse.

After the end of World War II, a new situation of global competition has emerged. For a long time, the USA has been the economic and technological leader of the world in many respects. Nowadays, however, international competitiveness has to be defined by the performance of the so-called "Triad", involving Northern America, Western Europe and East Asia. In these three regions, the standards for success are determined, especially in innovativeness and technological progress, since these two aspects are the main forces of real economic growth in the highly developed parts of the globe.

Given these relationships, the European Union has already reacted. At the European summit in Lisbon in the year 2000, it set for itself various ambitious economic and technological goals. Above all, these goals entail the vision that the European Union should become "the most competitive and dynamic knowledge-based economy in the world".

[15] More detailed descriptions of this process can e.g. be found in Hanusch and Cantner (1992) or in Hanusch (2000).

But how do European nations perform in innovativeness if compared with the USA and Japan?

We will have a quick look at two types of indicators that are widely used in the literature to approximate innovative strength, namely the number of granted patents on the output side of the innovation process and the level of gross domestic expenditure on R&D on the input side. We will first turn to the number of granted EPO and USPTO patents, since both measures are indications of future innovative success.

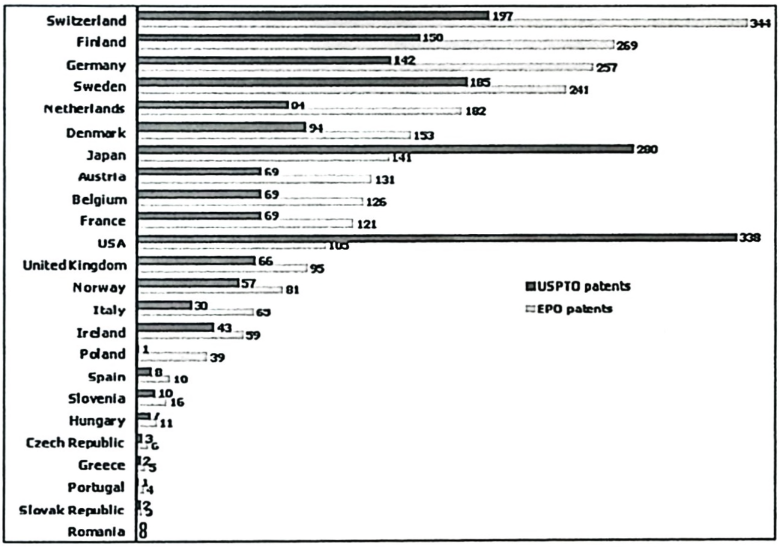

Chart 4: Granted EPO and USPTO patents per million population, by country.[16]

These data clearly show that there are large disparities in patenting activity across the countries listed. Even inside Europe, strong differences in patenting activity are observable. Southern European countries (Spain, Portugal and Greece) as well as the designated new EU member countries generate only a small number of patents and are far behind the leading countries, including Finland, Switzerland, Sweden,

16 All values are for the year 1999. Sources: OECD (2003), own calculations. Countries shown in the chart are ordered according to the number of granted EPO patents.

Germany and the Netherlands. These latter countries can well compete with the USA and Japan.

With regard to the level of gross domestic expenditure on R&D in percent of GDP, nearly the same picture emerges, as the following chart displays.

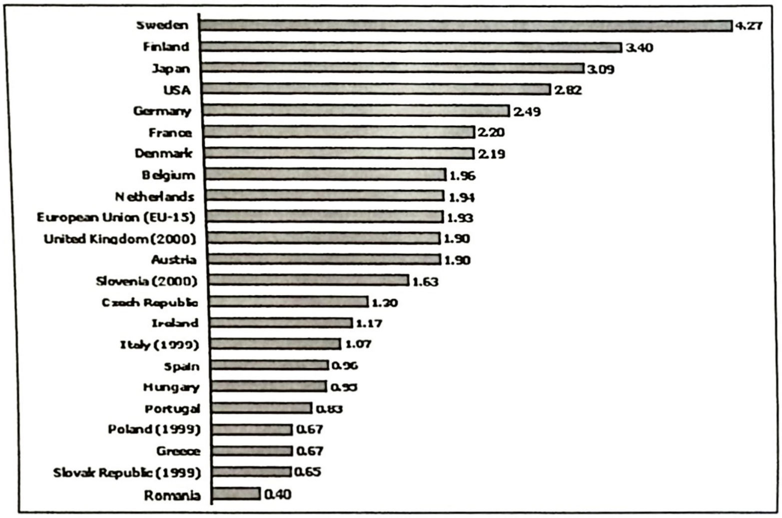

Chart 5: Gross domestic expenditure on R&D as a share of GDP.[17]

Which consequences for the future development of the EU can be drawn from these two comparisons?

On the one hand, it becomes apparent that there is a group of countries within the Union that long has laid the foundations for succeeding in global technological competition. These countries entail the Scandinavian countries, the Benelux countries, Germany, France, and the UK. It becomes furthermore obvious that Southern European countries and the new member countries of the EU are technological laggards, at least according to the shown indicators. They do not (yet) seem to have the ability to compete on technological grounds on a global level, not even on a European level.

[17] Source: OECD (2003). All values are for the year 2001, unless otherwise indicated in the chart.

In view of these cross-national differences, a rapid technological convergence cannot be expected, given that the development of technological strength is a cumulative, path dependent and long-term process. It would therefore not be surprising if an informal partition of the Union occurred, with one cluster of countries that is highly competitive in technological respects, and another cluster of countries that includes technological laggards. This informal partition in terms of technological strength and competitiveness would necessarily imply that a European Union of *two velocities* developed.

On the other hand, these national disparities will markedly concern the policy-making of the European Commission. Beside the objective of fostering regional convergence inside the European Union, the objective of improving technological strength and competitiveness in a global context needs to be pursued at least with the same priority, or even with a higher one.

An effective realization of this latter objective requires that financial and political support primarily goes to those countries that already now have a strong technological basis. Only these countries have the "absorptive capacity"[18] to allow for a successful utilization of the received support.

This also means that a profound structural reform of the composition of the European Commission and its policy agenda will have to be brought about in order to fulfill the two objectives of EU-wide convergence and of technological and innovative strength. Within the near future, it will become apparent whether or not the necessary reforms can be implemented. Already today, the three largest economies of the Union - Germany, France and the United Kingdom - seem to have grasped these internal and external challenges. Obviously, they are fully aware of their responsibility and of their decisive role in realizing the ambitious targets that the Union formulated in Lisbon four years ago.

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18 This term has been coined by Cohen and Levinthal (1990) who have dealt with the learning and innovation capabilities of business firms.

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