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## ROMANIA IN THE EUROPEAN UNION: POLITICAL INTEGRATION VS. ECONOMIC INTEGRATION

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### Abstract

*Although highly beneficial from a pragmatic point of view, Romania's accession in the European Union is problematic, especially in the long run and from a theoretical perspective. In the short run, adoption of european model emphasizes the advantages of economic integration. In the long run however, political considerations can dominate economic liberties.*

### Motto:

“Frankfurt, Bremen, Hamburg, Luebeck are large and brilliant, and their impact on the prosperity of Germany is incalculable. Yet, would they remain what they are if they were to lose their independence and be incorporated?” (Johann Wolfgang von Goethe, *Maximen und Reflexionen*, 1828).

Romania's accession in E.U. is, undoubtedly, a moment worth celebrating. It has a huge signification as romanians join with full rights a family of peaceful and prosperous people.

Still, there is a price for Romania's accession in E.U. This price is not related, as some are tempted to think, to the fact that Romania can become a “market” for western commodities or to the fact that romanian government would lose its capacity to grant privileges to crony businesses. The real price of european integration is the danger of conflating the “aquis communautaire” with the optimal institutional recipe for Romania's development.

Essentially, there are only two ways to allocate resources in society: the economic way and the political way. The former reflects the process of voluntary interaction among individuals searching for a better satisfaction of their needs. For this we can use alternatively the better known expression “market process” or “capitalism”. The political way implies the employment of coercive methods by the state authorities, which are also stimulated to fulfill their own interests. For this we can use as synonymous the words “socialization”, “centralization” or “central planing”.

For a long time, Romania's economy has been characterized by forced allocation of resources through political directives issued by the government. This situation persisted many years after the official fall of the communist political regime, due to an aggressive form of interventionism.

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Romania's accession to E.U. is beneficial because it weakens the mechanism used by the political authorities to exploit the wealth of the productive members of society to the benefit of interest groups specialized in rent-seeking. But it is insufficient because it does not acknowledge and consequently does not solve the inherent problem plaguing the political allocation of resources. In last instance, few people realize the reason for which European institutions and legislation are better than domestic ones. Often, most analysts emphasize the superiority of E.U. institutions in terms of "simplicity", "transparency" and "efficiency". These features are not essential for the advancement of the final goal – general wellbeing. Simplicity and transparency in legislation are not inherently good. For example, minimal law legislation, and, for that matter, all legislation about fixing prices, is very simple and clear. Moreover, if penalty for those who do not obey the law is high enough, then the law is also very "efficient", that is it will be observed probably in all situations. However, economists generally admit that such a piece of legislation has strong negative effects on economic development.

In fact, these criteria are not decisive. The crucial reason is the compatibility with the economic order based on private property and individuals' freedom of action within the framework provided by their property. Incidentally, the most basic principle of European Union, namely the freedom of circulation for labor, goods and capital, is consistent with this criterion. Consequently, the adoption of the main tenets of European legislation will have a significant positive impact on Romanian economy. For example, elimination of trade barriers will increase trade relations and deepen the social division of labor. Also, integration requires complete liberalization of energy and communication sectors, with equally positive effects on prices and consumer's satisfaction.

Instead of understanding this, the public at large falls prey to the illusion that "l'aquis communautaire" is the genuine recipe for economic development. E.U. has a specific institutional framework. Since West-Europeans enjoy a higher standard of living, and prosperity is, in turn, dependent on the quality of institutions, it results that European institutional structure won the historical battle against its ideological opponents. According to this perspective then, everything Romania has to do is to achieve a simple "institutional transplant", i.e. copy the European legislation and wait for results.

There is nothing farther from the truth. Economic theory and experience have shown repeatedly that nations grow rich to the extent that their members are free to accumulate wealth, without injuring the property of their fellows. It is true that in general, E.U. institutional framework is more permissive from this point of view. The expropriation of private property through heavy taxation, bureaucracy and discretionary monetary manipulation has been considerably slight in the western part of the continent than in our country. And this is not only an abstract theoretical observation. Having the freedom to choose the state in which they wish to be taxpayers, millions of East-Europeans have voted "with their feet", leaving their native country and going west. Institutional competition (or, from the state's perspective, fiscal competition) is the element which has forced Eastern political authorities to adopt, sooner or later, the West-European model.

However, despite its supremacy, E.U. is only a political organization, and presents the inherent weaknesses of all political organizations. Marinescu and Popescu (2006) illustrate this fact by pointing only to a single aspect of integration: "The Brussels bureaucracy, also called Eurocracy, has developed specific forms of hierarchical coordination and administrative harmonization (read *standardization*) in almost every

domain of public policy. The transposition of the 97.000 pages of European legislation means importing institutions, administrative structures, legal practices and economic policies. The *acquis* illustrates probably the best way the legislation can be turned into a governing (political) instrument, thus creating a radical discrepancy between Legislation (governing regulation) and Law (applying the rule of law through the distinction between good and evil). Moreover, the project of the European Constitution, the longest and most politicized constitution of all times - 270 pages and 70.000 words, in comparison with the only 17 pages and 4.500 words that the USA Constitution counts) is a clear example of European centralism at economic, institutional and political level”.

In the context created by E.U.’s enlargement, the conclusion european institutional model is the proper “recipe” for Romania’s future development is especially problematic. The integration of east-european states into the E.U. reduces the scope of institutional competition, with potential negative repercussions in the future.

Consider, for example, the monetary situation. Monetary competition among states is advantageous for individuals, because it forces governments not to use abusively their privilege as money producer. When a government makes inflation and devalues its currency, the existence of monetary alternatives provides honest citizens with a way to protect their wealth.

Until now, euro has proved to be a safer currency than leu. The perspective of euroization represents one of the factors that determined romanian government to reduce inflation. Yet the european currency is not intrinsically better than leu. It has proved to be more stable in order to resist the competition of other international currencies.

The same with taxation. Competition among states limits the fiscal burden governments can place on their taxpayers’ shoulders. Therefore, diversity and not “harmonization” is the guiding principle of optimal institutional framework. It is worth to mention here the example of Switzerland, a model of fiscal federalism that manage to resist in time. Switzerland is formed by 26 + 1 fiscal jurisdictions, and the marginal income tax varies from 23% to 48% in different cantons. The fiscality reflects, perhaps more than anywhere else in the world, the will of the population, which has access to important political decisions due to the wide-practiced referendum.

In the absence of competition, states are much less stimulated to refrain from committing abusive actions and adopting policies to expropriate productive individuals to the benefit of some interest groups. Yet this is precisely the context created by E.U.’s enlargement.

Until now, romanian state has proved to be more powerful and dangerous than the political establishment called E.U. Romanians are for the moment the winners of dismantling national political authority and adopting “l’aquis communautaire”. However, as its competitors tend to disappear, E.U. will assume naturally the position of Leviathan.

What is the solution, then? In order to find the solution we have to understand that Romania’s integration in the E.U. does not change fundamentally the road to prosperity. Integration represents, first of all, a process of remodeling of the political authority. Society will benefit from this process only to the extent to which political processes of wealth accumulation are weakened and voluntary (free market) methods are enhanced. An opposite situation is equally likely to occur, especially in the long run. And, in some cases, even very fast. See the famous case of european regulations on agriculture which will impact romanian peasants’ life right after our entrance in E.U.

Our chance to avoid repeating past experience lies in understanding the past. The road to prosperity consists in the acceptance of those institutions that generate adequate incentives for economic growth. The foremost institution is the private property right. Free interaction among individuals in society, without legislative and bureaucratic restrictions, is the optimal recipe for development and a better standard of living. The enforcement of mutual voluntary contracts which bring no injury to other people's property is the sufficient condition for promoting general wellbeing. Compared to this, integration in E.U. is only a necessary step, in the current historical context. Outside E.U. it is more difficult to preserve the functioning of a free market economy. This, though, should not make us less vigilant when it comes about defending free market principles inside E.U.

If we analyze the political positions taken by various E.U. officials during the last decades, the danger of extending political power to the detriment of market power is overlooked. Moreover, political unification (centralization) is considered an important complement (if not the crucial determinant) of economic integration. The confusion seems to be fueled by the general use of expression "integration" in all fields of social life. Thus, an essential aspect is overlooked. Economic integration, that is market enlargement, is founded on the framework of private property rights and free competition among individuals to obtain resources for a better fulfillment of their needs. Political integration implies an altogether opposite thing: more ample employment of coercive means and their harmonization at the level of an European super-state; put it shortly, political centralization

What is the projection in the political area of the economic principle of competition among property owners? Since private property rights are the ferment of economic prosperity, then freedom of association represents their necessary political complement. If we are not free to associate with (or separate from) other people, our property right is to that extent affected. In fact, the lack of freedom of voluntary association, in order to achieve any goals people deem important, without bringing any harm to other individuals' property, situates people in a state of slavery.

Therefore, between political integration and economic integration there is a real tension, and not an essential compatibility – as many would think. The former, i.e. political centralization, endangers the latter. If we wish to defend economic integration, then we have to advocate the dismantlement of statist barriers which prevent the free circulation of labor and capital; we have to support the enlargement of free competition among economic agents from different countries within a single European market. Overemphasizing the importance of political integration – centralization of collective decision-making in a super-state, with uniform legislation (regarding taxation and overall regulation of businesses) arising from the democratic principle of "majority rule", endangers the market economy. One should not forget, the complement of economic freedom is political freedom, these two are coextensive.

Therefore, the real solution for increasing Romanians' wellbeing (as well as the prosperity of all Europeans) consists in increasing the scope of competition, both in economic and political field. Political competition arises when individuals exercise their property rights and decide to associate with other people or refuse to do so. It results in a variety of regulations, legislations and customs that individuals adopt voluntarily, and in the possibility of changing them according to individuals' preferences. This process can

have two main outcomes. On the one hand, it can lead to a decrease in the number of different legislation until the most fitted legislation prevails if people adhere spontaneously to it. On the other hand, it can determine a larger institutional variety, if people choose to secede from the previous political organization. Thus, political unification and secession are two aspects of the same phenomenon, equally possible effects of freedom of association.

Based on these considerations, we reject the bureaucratic project of european political unification. Political monopolization realized through the use of coercive means – the lack of the possibility to separate (secede) from actual political organization – affects the fundamental right of free association and paves the way for a more ample attack on private property rights in the future. For those who still believe that coerced “harmonization” among E.U. members do not affect the functioning of the market economy, the recent debate on the issue the working time is an useful example. The existence of a common regulation in this field has a direct impact on the competitiveness of industries located in different regions and, in fact, on the ability of individuals to decide how to employ their labor. The position of Great Britain in this respect reflects a closer sympathy of the fundamentals principles of the market economy than many of other E.U. member states have.

The alternative model of building political communities by consent – jurisdictional and administrative decentralization – serves better the aspirations for prosperity of everybody and is the fortunate complement of “economic liberalization” achieved through european integration.

It is worth quoting the famous french philosopher and political scientist De Jasay: “The road to Brussels is paved with good intentions and the framers of these new constitutional arrangements are motivated by the best political correctness one could desire. They are preparing something that will be neither Soviet Russia nor Nazi Germany. In fact, whether knowingly or not, they are creating a new European constitutional arrangement largely as a reaction to these very same horrors. It is such a pity that they do not see the unintended but very probable effects upon the next generation of what they are now creating. In politics and economics, and perhaps elsewhere too, you often avoid doing harm by refraining from doing anything very much or, in the words of the 18th century French liberal Physiocrats, laissez faire laissez passer. But how will the sons who strive to correct the sins of their fathers learn this important lesson?”

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