

How to make European integration fair and sustainable?

István P. Székely

Principal Adviser, European Commission, DG ECFIN

Honorary Professor, Budapest Corvinus University

Research Conference, University of Sopron

Sopron, November 23, 2023

The views expressed are solely those of the author and do not necessarily represent the official views of the European Commission

Conceptual Framework

Staying at the frontier: Pushing out the frontier

Convergence: Journey to the frontier of economic, social, and institutional development

Disparities

- Economic
 - Social
 - Institutional
 - Environmental
 - Political
- Sustainability
- Economic
 - Social

The life people live

Amartya Sen



Source: Székely, I.P. *The Impact of the European Union on the Economic, Social, and Institutional Development of its Member States*, Palgrave-MacMillan, 2024 (forthcoming).

Douglas North: Institutions matter!

➤ Institutions matter for **economic development**

The original rationale was based on *economic* arguments: transaction costs due to contract enforcement.

➤ Very relevant today, also for the EU:

➤ The more **knowledge-based** and **innovation-driven** the economy, the more institutions matter.

➤ The more **integrated** and **global**, the more

➤ The faster the economy is **changing**, the more

**Institutions
will matter
more!**

➤ **BUT intuitions are for people**, and what matters to them cannot be confined to economic development only

➤ Institutions matter **for all dimensions** and **super-dimensions**

a fundamental cause of **divergence** and **unfairness**

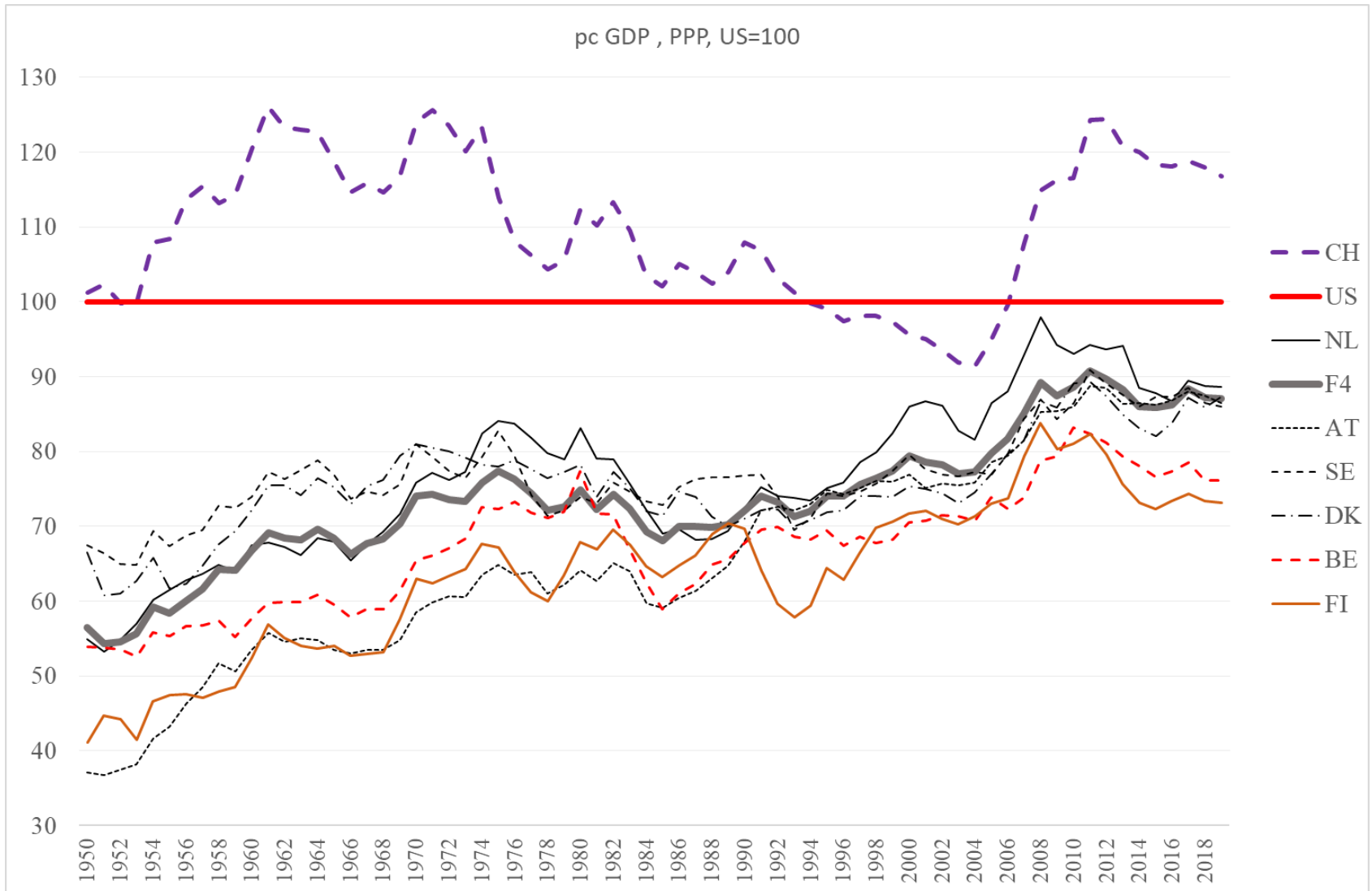
Heterogeneity

EU Member States at different levels of development

The EU should be beneficial for all member states

- **Frontier countries:** Countries at the frontier of economic, social, institutional, and environmental development.
- **Countries moving toward** a knowledge-based, innovation-driven economy and society
- **Catching up countries**

The Frontier Countries

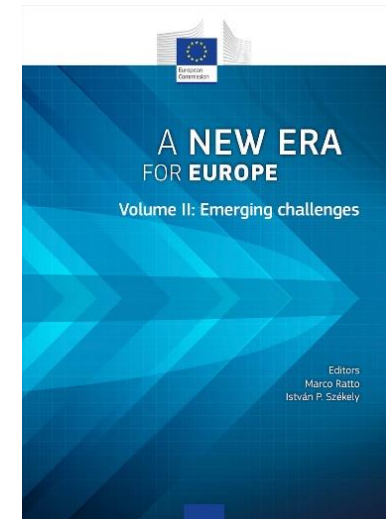


Source: Author's own calculations based on data from the Penn World Table, version 10.01 [Enlargement Waves pwt.xls](#)

The challenges of the future

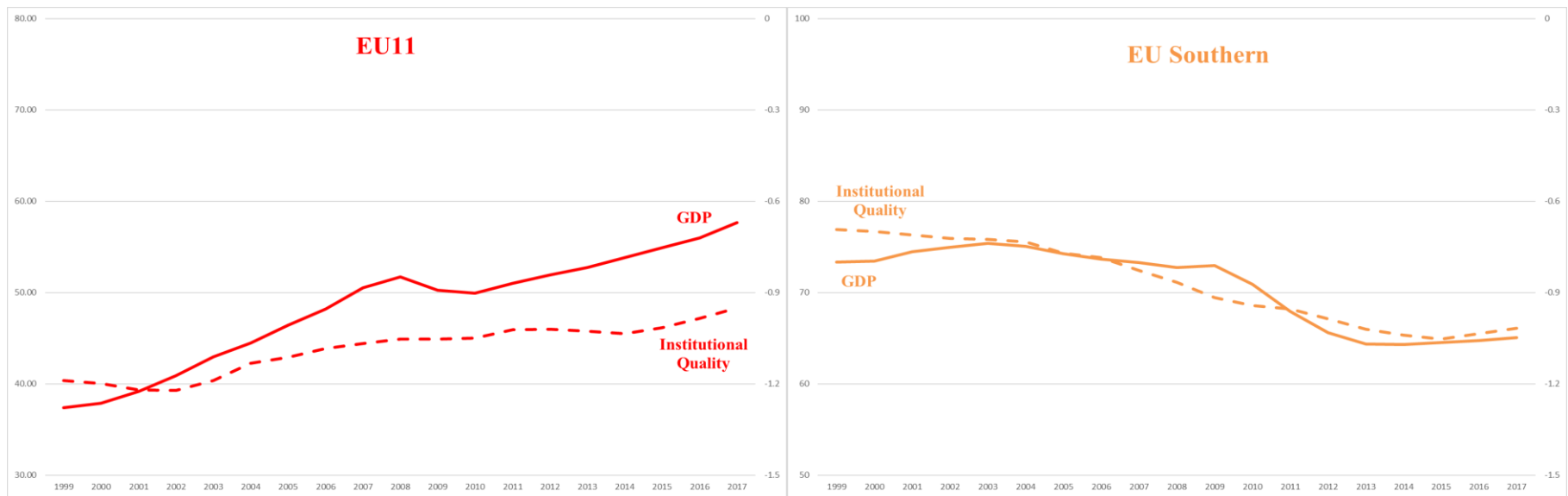
Sharpening or blunting the cutting edge?

- The challenge from Asia
- Geopolitics and geoeconomics
- Stalled EU reforms
 - Single market for services
 - Digital single market
 - Capital Markets Union
- Leader in green technology?
Green transition without digital transition?





Convergence-Divergence, and Institutions

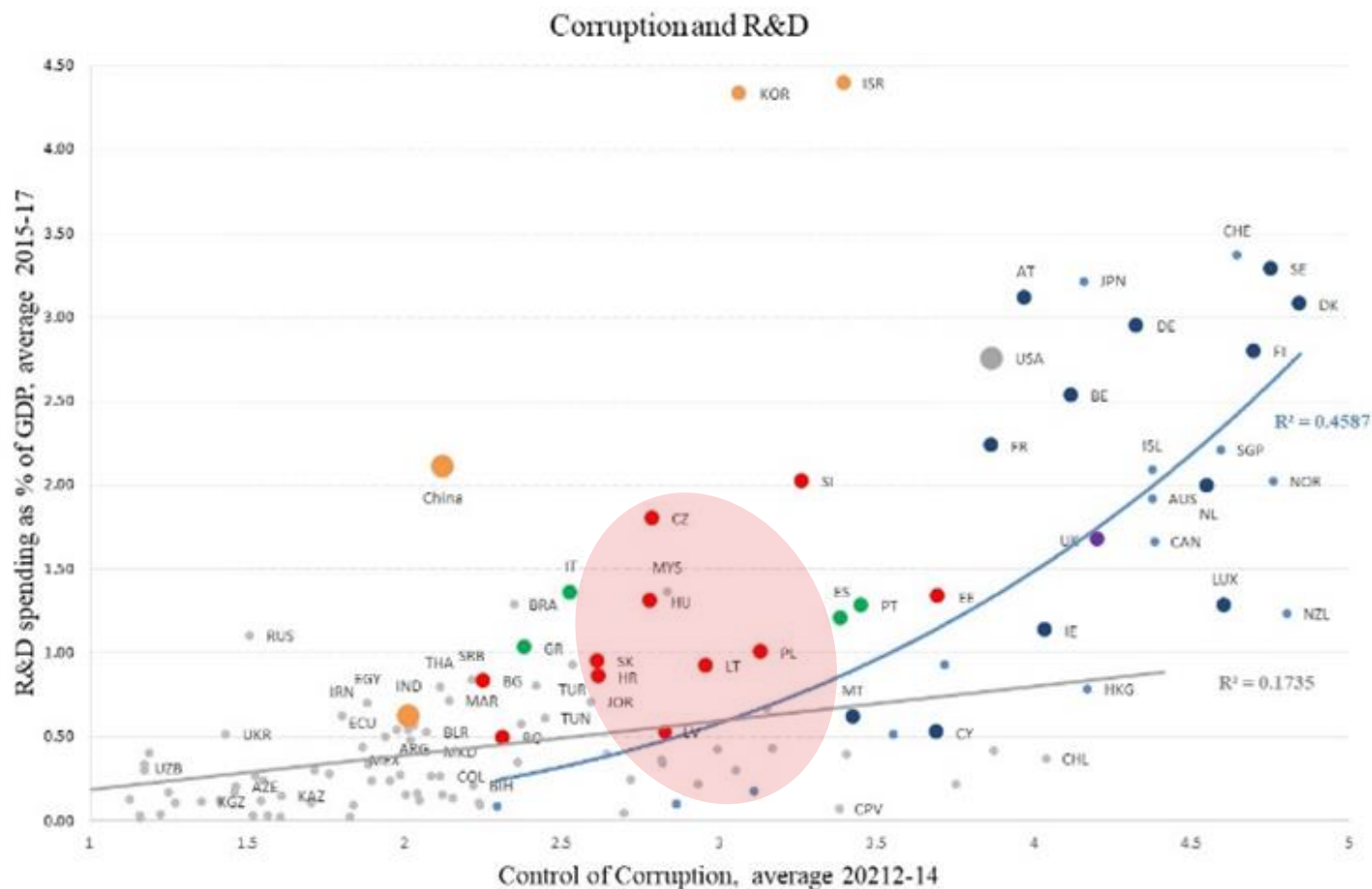


Sources: Székely, I. P. – Kuenzel, R. (2021): Convergence of the EU MS in Central-Eastern and South Eastern Europe: A Framework for Convergence Inside a Close Regional Cooperation. In: Landesmann, M. – Székely, I. P. (eds): Does EU Membership Facilitate Convergence? The Experience of the EU's Eastern Enlargement. Palgrave-Macmillan, Vol. I, pp. 27–87. Based on World Bank, WGI Note: Institutional quality (right axis) is the distance to the EU Frontier, based on an average of the WGI indices, and it is the average for the three preceding years. Per capita GDP in PPP relative to EU Frontier (left axis).

EU Frontier includes Austria, Denmark, Netherlands and Sweden; EU11 includes Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. EU S4 (Southern) includes Greece, Italy, Portugal and Spain.

Institutions and innovation

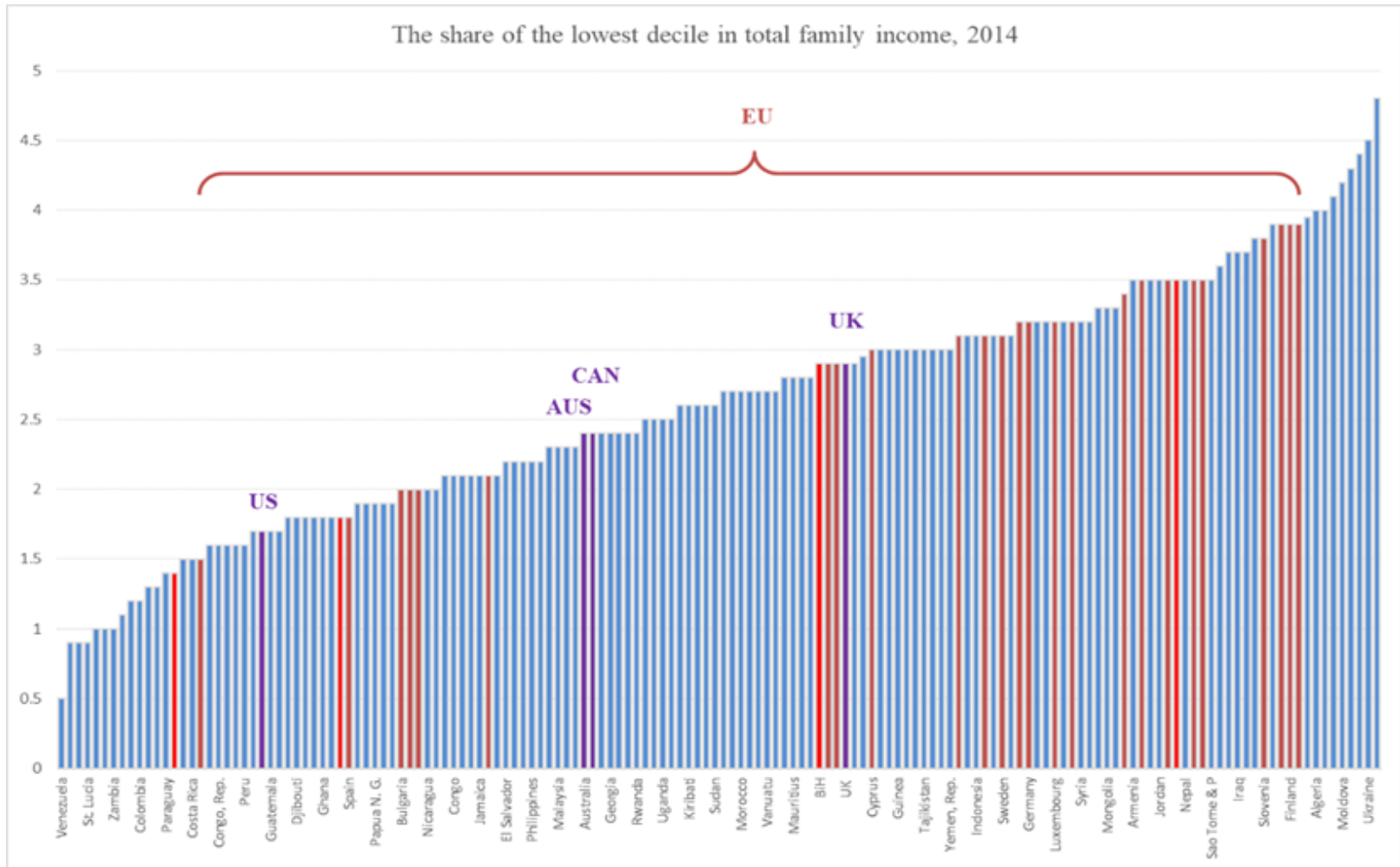
A highly non-linear relationship



Source: Buti, M. A. and I. P. Székely, 2021. The European Union post Covid-19: Preserving innovation's cutting edge and fostering social cohesion, *Acta Oeconomica*, 71 (2021) S1, 141–163. DOI: 10.1556/032.2021.00033

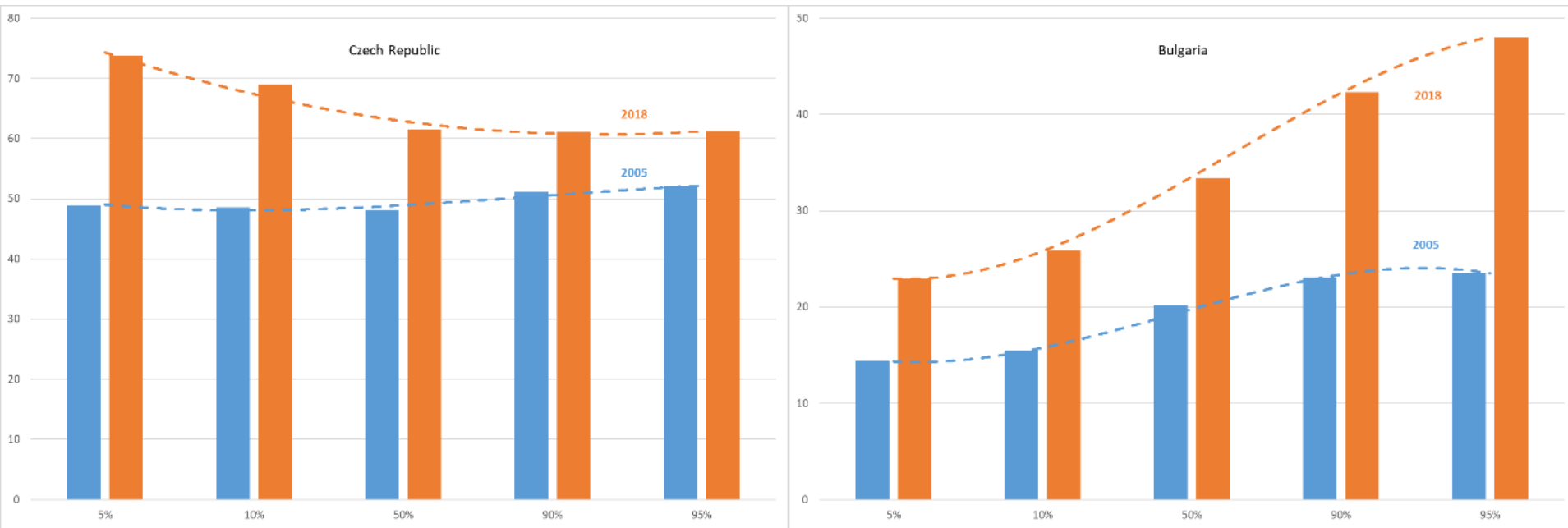
Heterogeneity

Is Fairness a European value?



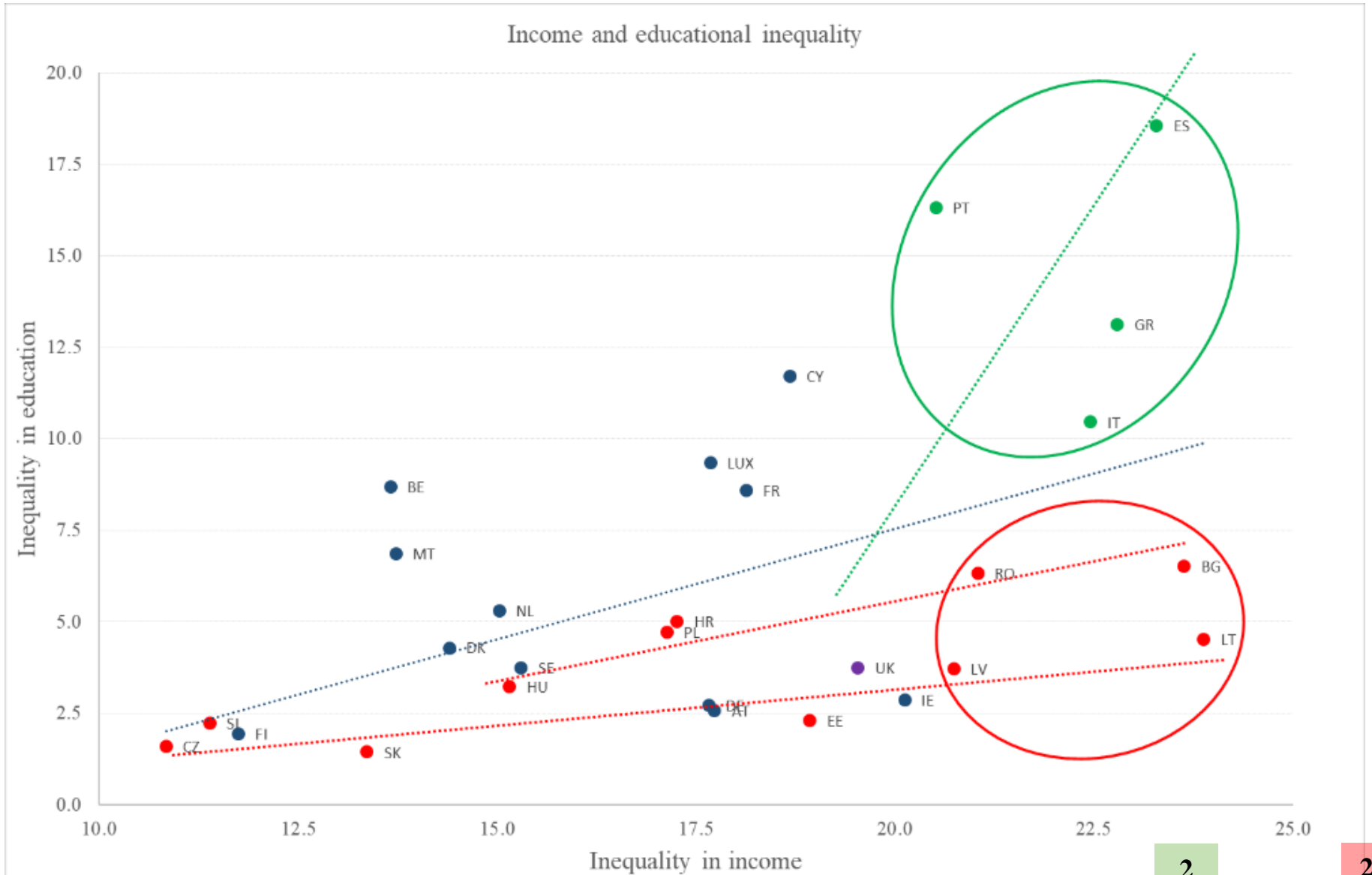
Convergence: Different journeys in different countries for different social groups

The EU should be beneficial for all social groups

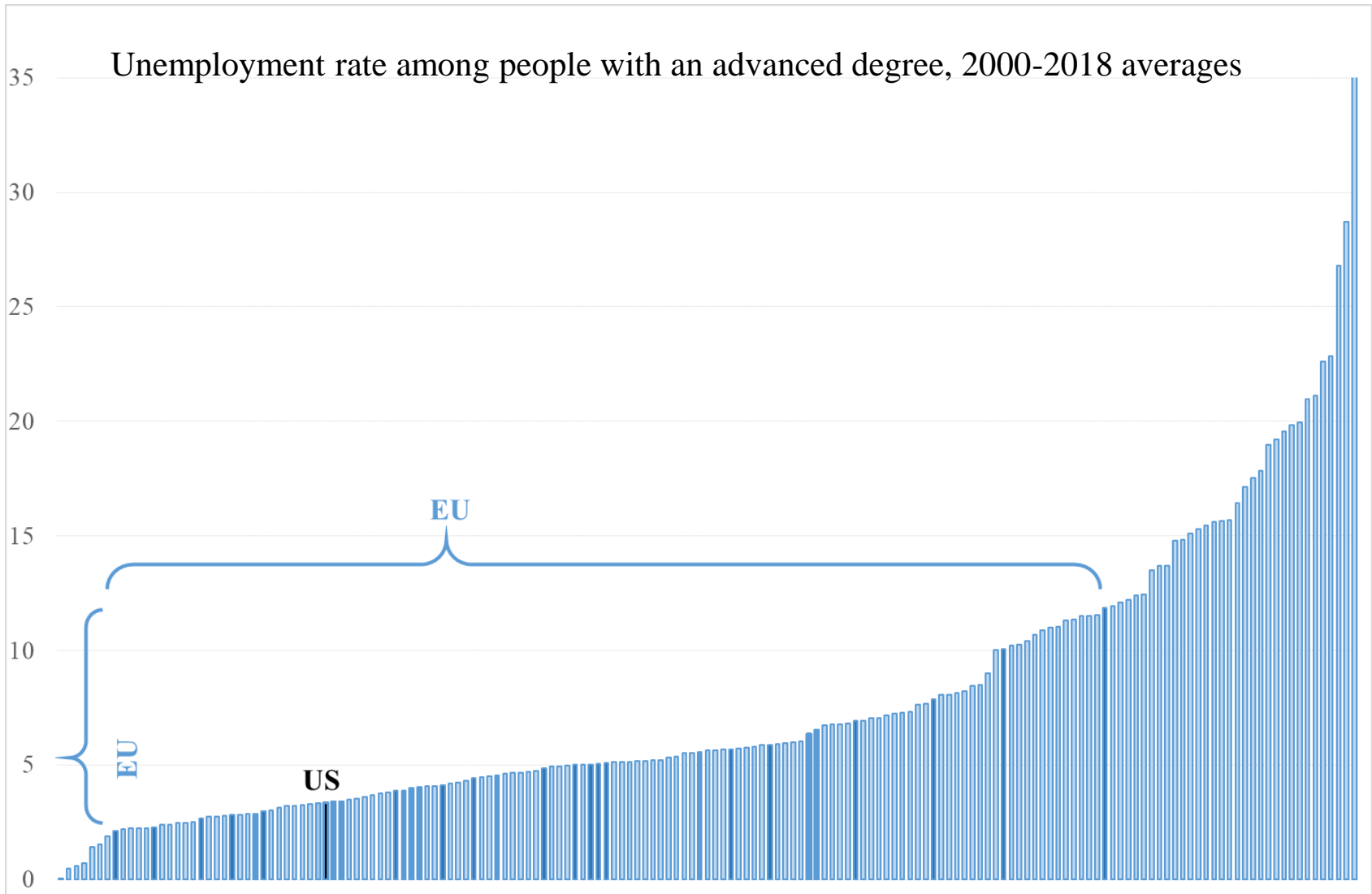


Heterogeneity

Social (un)fairness in the EU



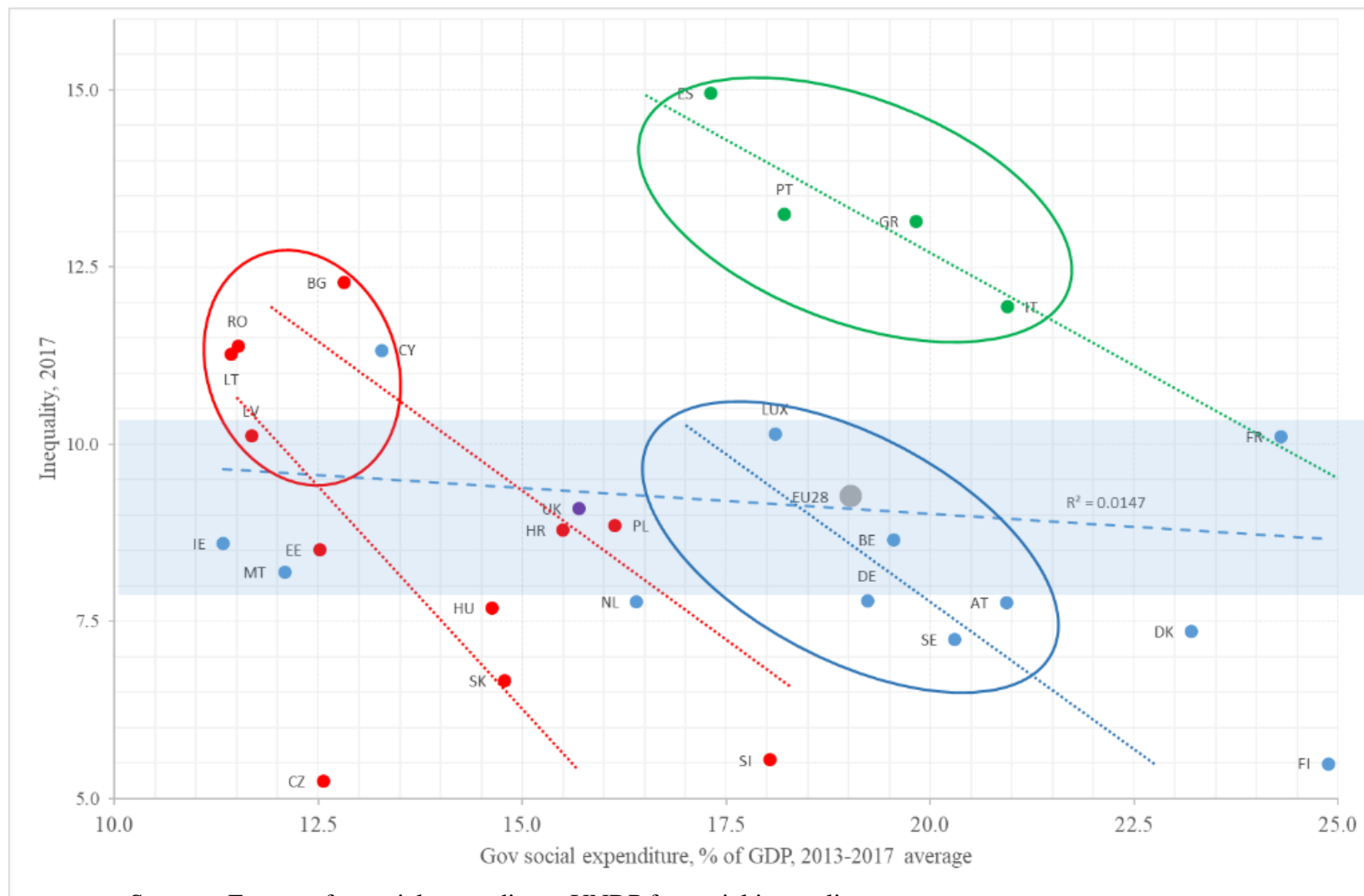
Utilization of human capital



Source: World Bank, World Development Indicators.

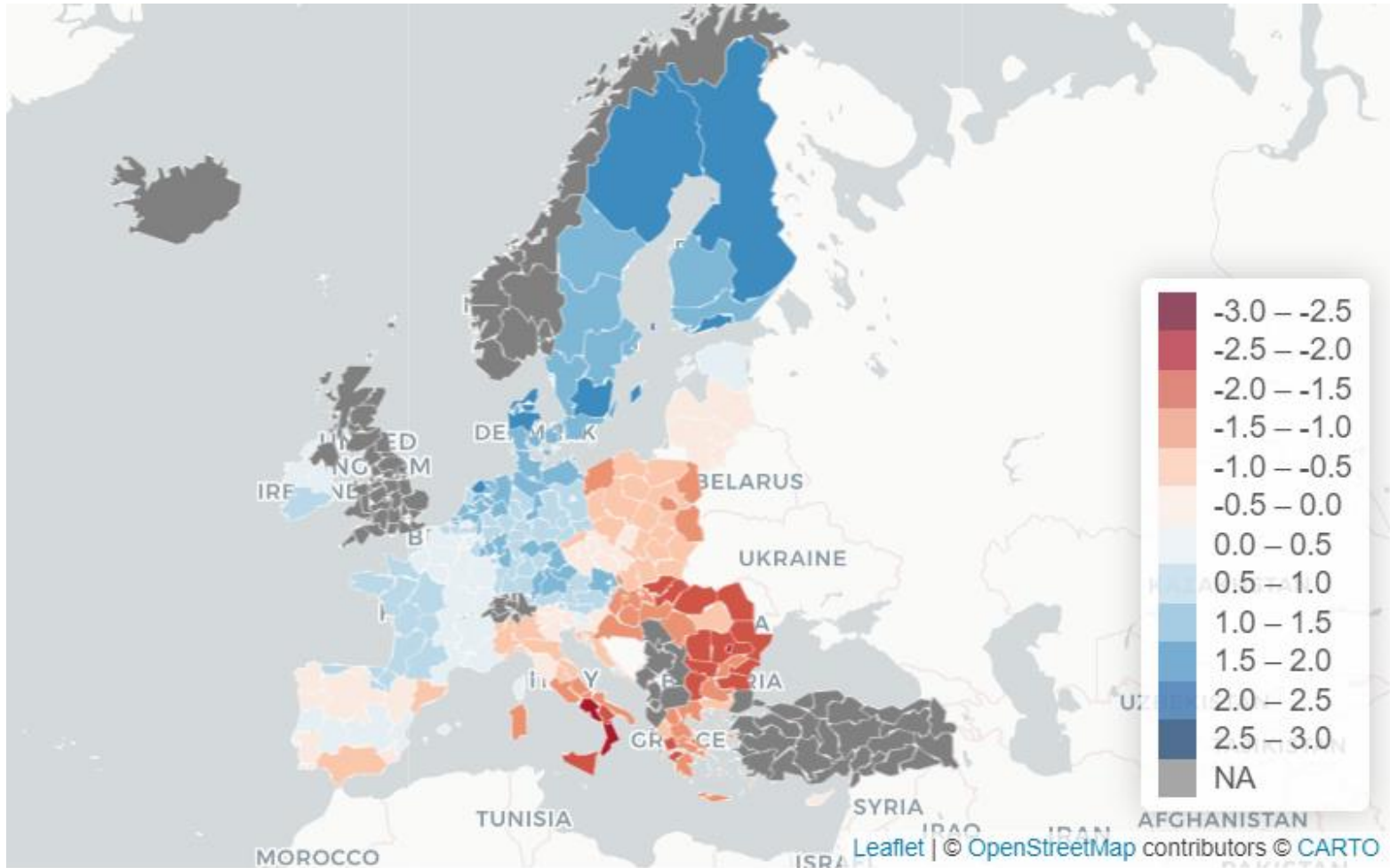
Note: The columns for the EU countries are shaded in dark blue, for the US in black.

Inequality and social spending in the EU



Sources: Eurostat for social expenditure, UNDP for social inequality.

Heterogeneity among and within countries
Unevenness of institutional quality in the EU



Source: Charron, Nicholas, Victor Lapuente, Monika Bauhr & Paola Annoni. 2022. Change and Continuity in Quality of Government: Trends in subnational quality of government in EU member states. *Investigaciones Regionales-Journal of Regional Research*, 2022(53), 5-23.

What can we do **together** in the Union?

Make the **institutional channel** work better

- Peer-to-peer learning
- Distributing knowledge and promoting good practice through European institutions, such as the Commission, ECB, and EIB.
- Make the **carrot** bigger: RRF
- Use the **stick** – should be a measure of last resort

Consider **European, national, and subnational** institutions **together**

- ECFIN Fellowship Prof. Eric Brousseau – European and national institutions
- ECFIN Research Project Prof. Ron Boschma – institutional relatedness – national and regional institutions

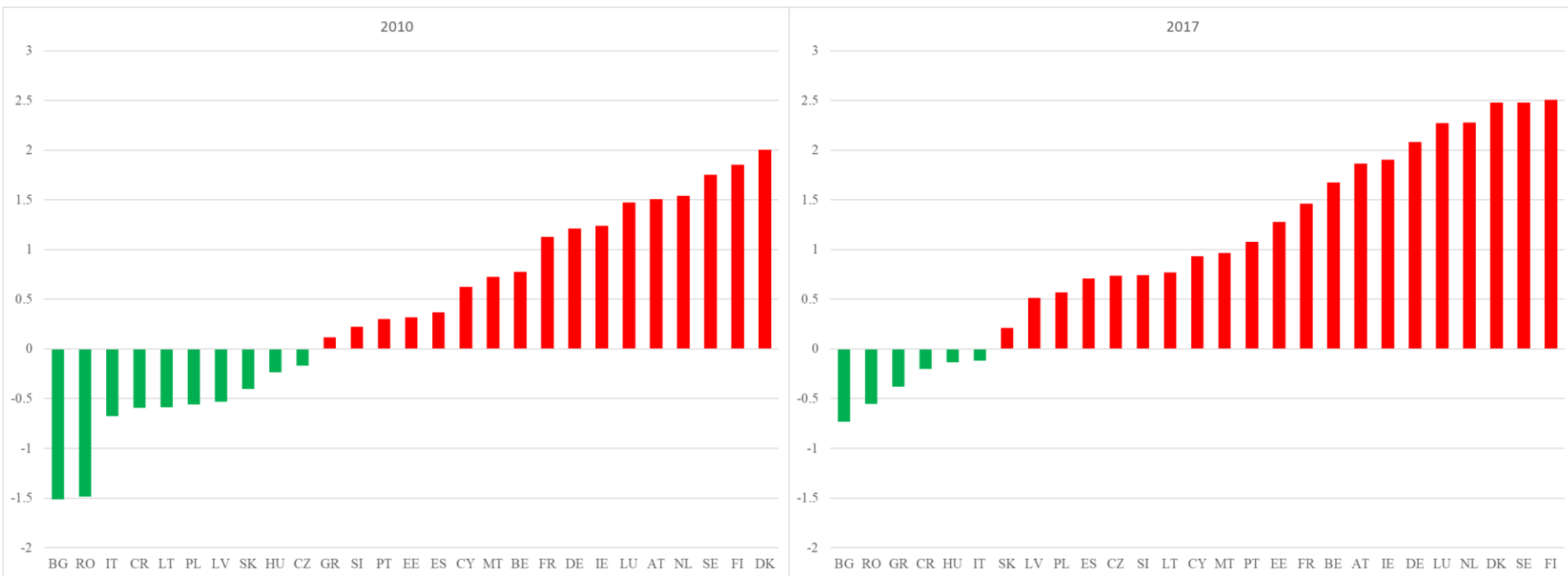
Recognize and understand **heterogeneity**

- "*United in diversity*" - make this an **engine**, not a **break**

What does all this mean for Hungary?

- Hungary is a country slowly approaching the transition to a **knowledge-based** and **innovation-driven** economy and society.
 - Institutional quality becomes critical for economic, social, and environmental development - **Cohesive institutions**
- How to **maximize** the **benefits** from EU membership?
 - Trade and investment channel works relatively well
 - Focus on the **knowledge** and **institutional** channels
- How to **mitigate** possible **negative effects**?
 - The **evenness** of institutional quality becomes critical
Among policy areas, levels of government
- How to **share** the **benefits** and **costs** **fairly** among people?
 - **Cohesive policymaking** (Professor Sir Tim Besley)
Social, educational, regional, health, housing

HU22 - Relative quality of institutions



Source: Author's own calculations based on data from the QOG EU Regional dataset 2020. <https://www.gu.se/en/quality-government>
Regional Gov Qual.xls

Notes: The distance between the shown countries and the NUTs region HU22 measured by the difference in overall EQI indicators divided by the standard deviation of EQI for the sample.

What can Sopron do?

A lot!

Sopron's history is a great a source of inspiration

Be **open** to the outside world, Europe and beyond

Learn from best practice

Focus on factors that makes similar towns in Europe **more successful**

Benchmark yourself to the best in the world

Continuously **improve the quality** of **local institutions**

Public expenditure management: allocative efficiency and implementation

Education: Make your schools outstanding, primary, secondary, tertiary, life-long learning

Continuously **move up** in the value chain everywhere

Services, B2B, digital, high-value added



An aerial night photograph of a city, likely Budapest, showing a dense network of streets and buildings. A prominent circular area in the center is brightly illuminated, possibly a park or a central square. The overall scene is a vibrant display of city lights against the dark night sky.

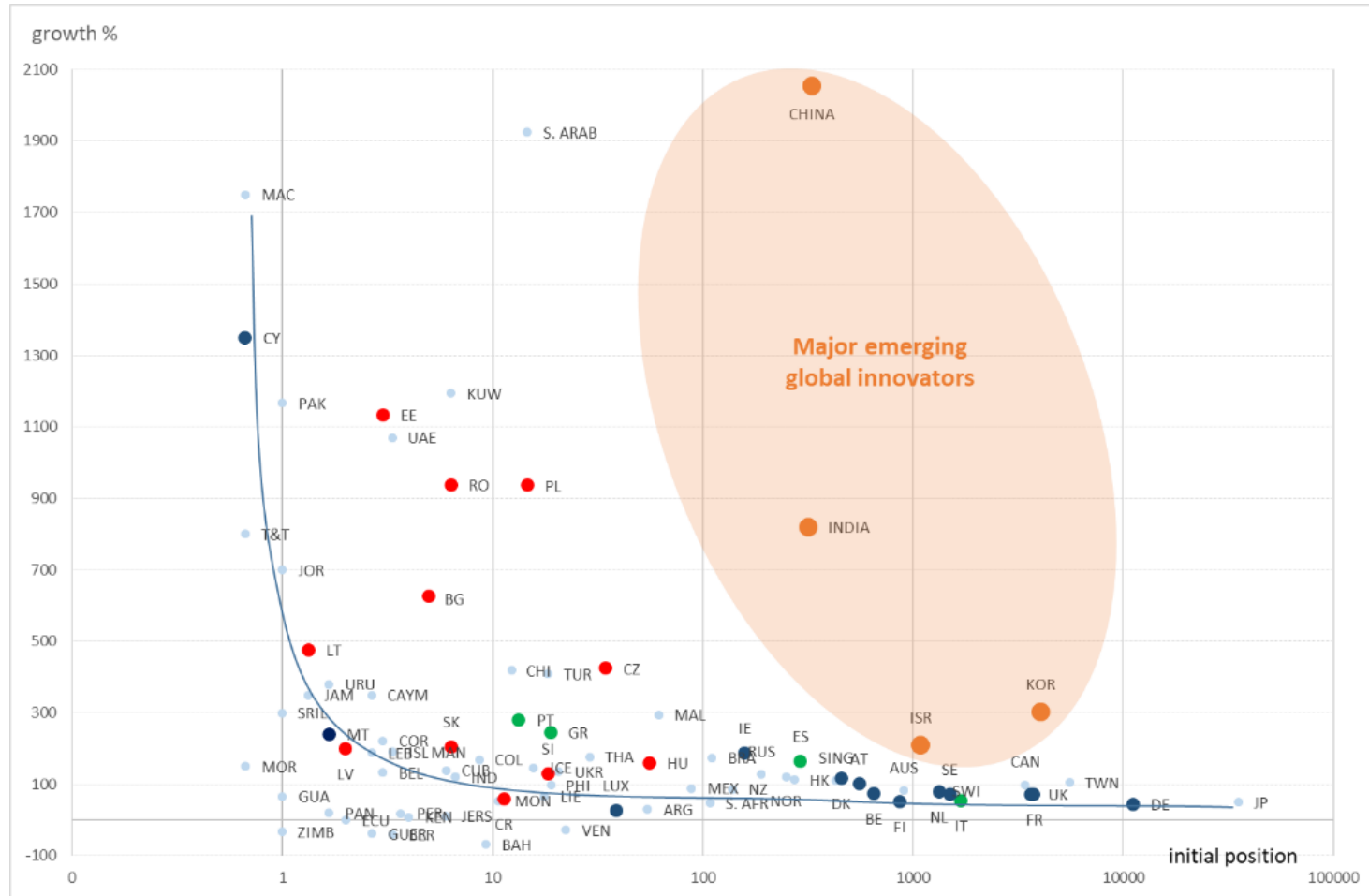
Thank you for your attention!

István P Székely

LinkedIn <https://www.linkedin.com/in/istvanpszekely/>
Researchgate https://www.researchgate.net/profile/Istvan_Szekely2

The EU's cutting edge: global trends in innovation

Convergence in new knowledge creation in the world 2004-2015



Source: U.S. Patent and Trademark Office

Note: Initial position is the average of the number of patents granted in 2002-2004, growth rate is for the average of 2013-15 over the average for 2002-04. Horizontal axe shows the logarithm of the observations. EU countries are in dark blue, red (EU11) and green (EU S4).

What can MSs, regions, and towns do to help themselves?

➤ Quality of national and subnational institutions

Increase and make more even – **Cohesive institutions**

➤ Formal and informal institutions

Design formal institutions to benefit from this interplay

➤ Institutional relatedness

Find the **winning combinations**

➤ **Cohesive policymaking**