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ECONOMIC INTEGRATION IN THE FACE OF NEW CHALLENGES FOR THE EUROPEAN ECONOMY

INTEGRACJA EKONOMICZNA W OBLICZU NOWYCH WYZWAŃ GOSPODARKI EUROPEJSKIEJ

Recent events in the world economy, such as the pandemic and the war in Ukraine, have special implications for the countries that are part of the most advanced integration group in the world – the European Union (EU). In order to face new challenges, the EU must constantly evolve, because leaving the structure unchanged could mean stagnation and collapse. The paper aims to assess the functioning of the European Union in the conditions of the new 'post-pandemic' reality and the consequences of the war in Ukraine, and to review the prospects for further integration. The paper uses a diagnostic approach that involves establishing the actual state of affairs, assessing it, and considering the possibility of its improvement. As a result of the considerations undertaken, it can be assumed that the stability (and even the survival) of the EU seem to be favoured more by integration initiatives referring to the neo-functional theory and federal approach rather than the confederal approach. It is justified to increase the role of the political spill-over effect and the assumptions of heterodox economics. Historical experience leads to the conclusion that failure to take appropriate initiatives may trigger the disintegration mechanism and, consequently, the collapse of the European integration project.

Keywords: economic history; European integration; confederation; federation

Ostatnie wydarzenia w gospodarce światowej, tj. pandemia oraz wojna w Ukrainie, mają szczególne implikacje dla krajów wchodzących w skład najbardziej zaawansowanego ugrupowania integracyjnego na świecie – Unii Europejskiej (UE). Aby sprostać nowym trudnościom, UE musi podlegać ciągłym przemianom, gdyż pozostawienie niezmiennej struktury może oznaczać w konsekwencji zastój i upadek. Celem artykułu jest ocena uwarunkowań funkcjonowania Unii Europejskiej w obliczu nowej „popandemicznej” rzeczywistości i konsekwencji wojny w Ukrainie oraz przegląd perspektyw jej dalszej integracji. W pracy wykorzystano podejście diagnostyczne, które polega na ustaleniu stanu faktycznego, jego ocenie oraz rozważeniu możliwości udoskonalenia. Wyniki podjętych rozważań pozwalają przypuszczać, iż stabilności (a nawet przetrwaniu UE) bardziej wydają się sprzyjać inicjatywy integracyjne nawiązujące do koncepcji neofunkcjonalnej i federacyjnej aniżeli konfederacyjnej. Uzasadnione jest zwiększenie roli politycznego efektu *spill-*

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-over oraz założeń ekonomii heterodoksyjnej. Doświadczenia historyczne skłaniają do wniosku, iż brak podjęcia odpowiednich inicjatyw grozi uruchomieniem mechanizmu dezintegracji, a w konsekwencji – upadkiem projektu integracji europejskiej.

Słowa kluczowe: historia gospodarcza; integracja europejska; konfederacja; federacja

I. INTRODUCTION

The COVID-19 pandemic and the war in Ukraine are events that pose an unprecedented challenge to the existing international order. These events have special implications for countries that are part of the most advanced integration group in the world – the European Union (EU). It is hard to expect that the lack of correction of the current form of the functioning of the EU will be sufficient to cope with the radically changing conditions of the world economy. Due to the extraordinary importance of the integration project for the level of prosperity, and economic and political stability, not only in Europe but also in other parts of the world, the EU must function efficiently. Therefore, the EU should adapt to constant changes, as leaving the structure unchanged may result in stagnation and collapse.

The paper aims to assess the functioning of the European Union in the conditions of the new ‘post-pandemic’¹ reality and the consequences of the war in Ukraine, and to review the prospects for further integration. This will be achieved by exploring the following research questions: Will the conditions for the functioning of the EU change significantly as a result of new challenges for the European economy? What integration theories and approaches will be conducive to the stable functioning of the EU in the future?

The paper uses a diagnostic approach. The starting point is to establish the actual state of affairs (which allows for the identification of problems that require special attention), this is followed by an analysis and critical assessment, and finally by considering the possibilities for improvement (taking advantage of the perceived opportunities, identifying a possible path for further integration, and neutralizing observed threats). The purpose of this method is to construct an improved structure that better suits the present and future.

II. THE IMPLICATIONS OF THE PANDEMIC AND WAR FOR THE EUROPEAN INTEGRATION PROJECT

The global public health crisis caused by the COVID-19 pandemic and the Russian military aggression against Ukraine are events that have given rise

¹ In this paper, the term ‘post-pandemic’ should be understood as the totality of economic conditions resulting from lockdowns and macroeconomic policy in the EU implemented in connection with this situation. It should not be equated with the official end of the pandemic.

to long-term, multidimensional and interpenetrating processes that may constitute a prelude to changing the conditions of the functioning of the European Union.

The first symptom of these changes is 'greater tolerance for public debt' on the financial market after the pandemic crisis. This is due to the fact that the COVID-19 shock affected almost the entire world, and the instability of public finances that appeared after the increased fiscal expansion was difficult for investors to avoid. With regard to the EU, it is worth noting that in the face of the effects of the pandemic crisis, the position of the European Commission was completely different from that observed in response to the financial crisis of 2007–2010. At that time, the only correct recipe for the survival of the euro zone was a policy of savings and a ruthless fiscal regime. In 2009, the Excessive Deficit Procedure (EDP) was launched against as many as 18 EU countries. Meanwhile, in March 2020, in response to lockdowns, the Council launched the 'general escape clause' of the Stability and Growth Pact, which allowed member states 'temporarily to depart from the adjustment path towards the medium-term budgetary objective'.² The Commission's warning about the possibility of withdrawing fiscal support too quickly was also significant³. Following the experience of the euro area sovereign debt crisis in 2010, fiscal responses in many countries were very cautious, not only due to the EDP but also due to constrained debt market liquidity and increased risk awareness. After the pandemic crisis, this approach was dominated by the view that the consolidation of public finances cannot be merely an exogenous goal.

The change in the EU's approach to intervention policy highlighted problems related to the inadequacy of the Maastricht criteria for dealing with economic realities. Apart from the problems related to the consolidation of public finances that were apparent during the early days of the monetary union in Europe, it is now important to take into account the scenario that, this time, the current formula for the functioning of the EU based on these criteria has already been 'exhausted', and further reliance on the same guidelines can lead to stagnation and even collapse. As an important element of the global economy, the Union should function on the basis of criteria which are adequate to reality. Otherwise, the credibility of the entire Union may be undermined.

The above assumption results from the fact that a significant reduction in the level of public debt in the near future seems almost impossible in the face of such high deviations from the critical values – 60% of GDP. The conditions for a long-term tendency to reduce debt are also unlikely. In this context, in order to maintain the stability of public finances and to coordinate the fiscal policies of the Member States, even the mechanisms and reforms introduced after the financial and debt crisis, such as the Fiscal Compact, are insufficient.

The recent challenges to the world economy have also changed the conditions for monetary policy. Even before the Russian aggression, the literature

² European Commission (2021): 7.

³ 'A too abrupt consolidation would undermine the ongoing recovery, with negative effects on potential growth, market sentiment and financing costs...', European Commission (2022): 4–5.

indicated that in the ‘post-pandemic world’ the dogma of budget balance would collapse, and relatively higher inflation would be tolerated as a side effect of the increase in production.⁴ After the lockdowns were lifted as a result of the reduced threat of COVID-19, it was believed that the increase in energy prices in the markets was a temporary phenomenon. Even in the second half of 2021, the world’s largest central banks delayed interest rate raises, tolerating price increases exceeding their inflation targets. A shift in attitude was gradually observed at the turn of 2021 and 2022. The ‘post-pandemic’ rebound in consumption, together with new supply-side inflationogenic factors, significantly increased the risk of a permanent ‘de-anchoring’ of inflation expectations.

It is worth noting that in this period, the situation was so unpredictable that the President of the ECB, Christine Lagarde, after the first interest rate hike in over a decade in July 2022, stated that from the next meeting (September 2022) ‘we are not offering forward guidance’ and decisions would be made on the basis of current macroeconomic data. Previously, a similar position had been taken by other central banks across the world, led by the FED. Such an approach proves a significant change has taken place in the way monetary policy is conducted, as earlier both the ECB and the FED’s policies were considered to be very transparent, in line with the prevailing standard of the last few decades. Even a temporary departure from these assumptions illustrates the scale of uncertainty that monetary authorities have to face and proves the inadequacy of the current paradigm for dealing with the new macroeconomic conditions. The economic history of the world proves that no paradigm is permanent and ‘capable’ of explaining all economic phenomena – in particular global crises and their consequences. This was the case during the Great Depression of 1929–1933 and the oil crisis of the 1970s.

Limited transparency in the implementation of monetary policy also results from the fact that from mid-2022, stagflation has increasingly become a real scenario for the world economy. Differences in price growth rates in EU countries also turned out to be a threat. This situation posed an extremely difficult challenge for central banks, mainly due to the characteristics of stagflation processes. However, it was particularly uncomfortable for the euro area member states because such circumstances generate different levels of the real interest rate.

The tightening of monetary conditions in the euro area also creates another risk – a renewal of the sovereign debt crisis. Raising interest rates and phasing out programs such as APP, TLTRO III and PEPP renews concerns about the cost of debt servicing, the reduction of the ECB balance sheet, and reduced support for the bond market, which may result in an increase in the diversification of bond yields. It is worth adding that given this risk, in July 2022, the ECB prepared another unconventional tool to prevent the fragmentation of the euro area and a potential debt crisis. The TPI (Transmission Protection Instrument) is meant to help reduce the differentiation in bond yields.

⁴ Kołodko (2020): 41.

In the coming years, the difficult situation faced by the EU will also be determined by other challenges. The first challenge is the implementation of climate policy. Whilst the European Parliament announced a crisis in this area before the global pandemic outbreak (November 2019), the effects of lockdowns and the war have significantly complicated the planned energy transformation. The foundation of a green and sustainable Europe based on a circular economy is the European Green Deal. This plan is to be financed from 1/3 of the 1.8 trillion euro earmarked for investments under the Next Generation EU instrument as well as funds from the seven-year EU budget.⁵ The financing of investments will be based on private and public funds. It is estimated that in order to achieve the goals related to climate transformation, in the current decade it will be necessary to incur public expenditures of up to 1% of GDP annually.⁶ The problem is how to create favourable conditions for such investments so that they are not limited by fiscal criteria. The implementation of the idea of the European Green Deal is also associated with serious complications related to Russia's military aggression against Ukraine. The original assumptions of the energy transformation were mainly based on gas imports through the Nord Stream gas pipelines.

It cannot be ruled out that another parallel threat to the European Union resulting from the war in Ukraine will be the effects of a potential global food and humanitarian crisis. This situation could trigger mass migrations from countries dependent on Ukrainian grain to EU countries. The experience of 2015 suggests that the EU is not prepared for such challenges. This situation highlights the need for reorganization and changes in the regulations on agricultural production. As Elżbieta Mączyńska points out, the war in Ukraine proved that the 'European sense of well-being' may not last forever. Since business ties do not ensure the security of a given country, it is necessary to improve food management, not only in the EU but also around the world. The current sanitary and tax regulations are often 'absurd' and are not conducive to rational management. This is evidenced by the scale of food wasted yearly (90 million tons in the EU).⁷

The dilemmas and problems outlined above do not exhaust the wide spectrum of potential risks that may materialize in the future (e.g. the polarization of societies, disinformation and fake news, and geoeconomic competition). Observing the economic reality in recent months, it is hard to resist the impression that the conditions for the functioning of the EU after the end of the current turbulence will not be based solely on the assumptions on which the construction of this group was based. Although the final picture of the above events is unknown, it is necessary to discuss the further direction of the European Union's development, not only in terms of its effectiveness but also its survival.

⁵ https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en [Accessed 21 June 2022].

⁶ <https://www.bruegel.org/> [Accessed 21 June 2022].

⁷ Interview of Professor Elżbieta Mączyńska granted to the Polish Press Agency (<https://www.farmer.pl/fakty/kryzys-zywnosciowy-wymaga-zmian-w-regulacjach-dot-produkcji-rolnej,120578.html>) [Accessed 1 August 2022].

III. HISTORICAL EXPERIENCES AND THE PROJECT OF ECONOMIC INTEGRATION

Considerations focusing on the potential direction of European integration require a synthesis of theoretical trends that, in the past, were of key importance in reaching the current format of the EU's functioning. The current effect of integration processes in Europe is the result of the interaction of two opposing models: a confederation and a federation. The elements of the confederation structure within the EU include respect for national diversity and identity, the principle of subsidiarity, the functioning of institutions representing the national interests of the member states, and the enhanced role of national governments in making secondary legislation. The elements of the federal structure include, first of all, the fact that the EU has the status of an international organization, legal subjectivity, the functioning of institutions of a supranational nature, the existence of the European Committee of the Regions, the appointment of the European Council President, the implementation of common policies, the Primacy of European Union Law, and having a common budget, common currency and common symbolism.⁸

The current effect of integration processes was also possible both thanks to the functionalism and the neo-functionalism that emerged on its basis. Of crucial importance was the so-called spill-over effect (spreading the effects of integration processes to new areas of economic life).⁹ An important role is also attributed to the political spill-over effect, which consists in the 'spreading' of the results of economic integration into the process of creating supranational bodies, which, thanks to their competencies, give further impetus to the integration process.¹⁰

Neofunctionalists assume that the integration process is gradual and linear, which means that it is continuous and constantly moving towards a federation, for example. The neo-functional model does not allow for the possibility of inhibiting integration processes or even their cyclical disruptions.¹¹ However, periodic crises, such as the past financial crisis or the effects of the pandemic, energy and climate crises, force reflection on the theory of integration. In the face of new challenges for the European economy, it is worth paying attention to the assumptions of the so-called 'realist view', according to which the initially prospering integration process may, as a result of national conflicts, turn into a disintegration process and a return to traditional nation-states. Wolfgang Wessels indicates that European integration has never been a linear process based on the 'automatic' spill-over effect because it was constantly accompanied by the spill-back effect: the mechanism of 'undoing' integration processes or a certain stagnation. Examples include the failure to

⁸ Tendera-Właszczuk (2015): 209.

⁹ Borowiec (2011): 34; Kotliński (2012): 121.

¹⁰ Kubin (2007): 266.

¹¹ Zielińska-Głębocka (1999): 21.

establish a European Defense Community, to implement the Werner Plan, or to establish a monetary union as early as the 1970s.¹²

At this point, it is also worth referring to the historical experiences of monetary unions in Europe: the Scandinavian Union (1873–1914) and the Latin Union (1865–1926). In the case of the Scandinavian Union, the sources of the collapse can be found in the lack of a common central bank, the release of the Swedish krona due to the outbreak of World War I, the excessive increase in money supply, and the depreciation of the krone in Denmark and Norway. The factors decisive for the collapse of the Latin Union include the numerous counterfeits of the common currency due to the reduction of the metal content by Greece, as well as economic and political differences that resulted in a reduction of trust in the system. In the case of other monetary unions (Czechoslovakia, Yugoslavia and the Soviet Union), political aspects should also be mentioned as causes of the collapse. Volker Nitsch, examining the causes of the disintegration of currency unions (in 245 cases), notes that among dozens of variables, inflation is particularly important in forecasting the disintegration of currency unions (due to a large difference between the inflation in a given country and the inflation of other Member States).¹³ The analysis of historical experience allows for inference by analogy. It is not difficult to note that the current threats to the euro area are, to some extent, analogous to the reasons for the break-up of the above two groups. Problems related to the diversification of political preferences, putting the national interest over the interest of the entire Union, the proximity of an armed conflict, an intensive increase in the amount of money in the economy, and the weakening of the common currency¹⁴ exchange rate, are all pertinent today. Therefore, it can be assumed that the risk of activating the spill-back mechanism is currently relatively high.

The literature indicates that many problems of the EU, especially when it comes to the efficiency and effectiveness of its functioning, result from the lack of agreement and adoption by its member states of common priorities and assumptions concerning the integration model (this concerns both the political doctrine and the model of economic integration).¹⁵ Anna Södersten points out that ‘the EU is in limbo between federalism and flexible integration’.¹⁶ As a result, an incoherent, hybrid model¹⁷ of integration can be seen in the EU, which is significantly contributing to the crisis state of the European Union.¹⁸ The next part of the paper attempts to identify the desired direction of further integration.

¹² Wessels (1997), after: Zielińska-Głębocka (1999): 21.

¹³ Nitsch (2004): 2.

¹⁴ In 2022, the euro was for a long time below parity against the US dollar.

¹⁵ Tendera-Właszczuk (2015): 210–211.

¹⁶ Södersten (2023): 51.

¹⁷ Eva Heidbreder points out that the EU fits in all categories of the state classification (federation and confederation, and intermediate forms). For more, see Heidbreder (2022).

¹⁸ Tendera-Właszczuk (2015): 210–211.

IV. THE PROSPECTS FOR THE FUNCTIONING OF THE EUROPEAN UNION

An assessment of the prospects for the functioning of the EU often comes down to the dilemma of the choice of one of the two mentioned opposing target forms of integration: a confederation or a federation. The debate on this topic has been going on since the early days of the integration processes in Europe.¹⁹ Today, this problem still seems to be unresolved on theoretical grounds, but before the first signs of a pandemic appeared the idea of a confederation seemed more rational and realistic to implement. Dirk Jörke and Jared Sonnicksen point out that due to the heterogeneity of the member states and the great diversity of political traditions, practices and institutions, it is justified to be cautious about the ability to harmonize and centralize the EU in a federalist spirit. The federalization program could even intensify the widespread nationalist tendencies that have for a long affected the European political landscape and instead of salvaging and even reinvigorating integration, may instead contribute to the disintegration of the EU.²⁰ Brendan O'Leary emphasizes that the EU is not a state (although it has some 'statelike attributes') and there is no need to argue that the Union is a singularity in order to capture its legal and political form. The EU is a confederation, therefore creating a 'better EU' seems more rational and prudent if it is considered from within this approach instead of assertively moving towards federalism.²¹

Although it is difficult to disagree with the above arguments, the debate also includes opinions referring to the fact that the stable functioning of the EU and the euro area can be guaranteed by federalism.²² Currently, the complexity of decision-making processes in the EU has increased significantly. Artur Bartoszewicz points out that this process is heading towards making community decisions in the political, social and even ethical dimensions. The need to achieve the assumed goals at the supranational level implies the need to coordinate management in economic, financial and social aspects.²³ In the face of contemporary challenges, the question that should be asked is whether even an efficiently operating confederation would be able to counteract such powerful economic and political adversities.

Referring again to historical experiences, it is worth noting that well-functioning confederations no longer exist. Switzerland²⁴ (1648–1848), North America (1776–1789 and 1865) or the German Confederation (1815–1866) are examples of confederations that eventually took the form of a federation.²⁵

¹⁹ The concepts of Jean Monnet, Altiero Spinelli or Charles de Gaulle should be mentioned here.

²⁰ Jörke, Sonnicksen (2020): 229–230.

²¹ O'Leary (2020): 17 and 38.

²² For more, see Valiante (2011); Dunin-Wąsowicz et al. (2012); Kawalec (2017).

²³ Bartoszewicz (2016): 111.

²⁴ The official name (Swiss Confederation) is only a remnant of the period of the confederation system; Kubin (2007): 261.

²⁵ Kubin (2007): 261.

Secondly, the historical monetary unions (the aforementioned Scandinavian and Latin Union) broke up due to the lack of features characteristic of a federation. For the above reasons, in the literature the confederation model is often mentioned as an intermediate form between the extreme forms of stable integration structures: an international alliance and a federation. This means that the confederation is, in the long term, perceived as a temporary structure or simply an economically unstable structure.²⁶

The problem with the economic integration process stems from the fact that, in principle, there is 'nowhere to go back'. A standstill, in line with the assumptions of the realist view, could mean the beginning of the disintegration process. As a result of the phenomena presented in the previous part of the paper, there are justified fears that the current model and way of functioning of the EU has simply been exhausted, and the functional spill-over effect may be dominated by the spill-back effect. Therefore, in the face of the current threats to the EU economy, the concept that Grzegorz Kołodko calls 'an escape forward' seems to be the right solution.²⁷ In the context of the issues discussed, this means the intensification of the integration process, which will allow meeting the dynamics of the world, and thus enable the survival of the Union. In terms of European integration, these conclusions can be understood as postulates to take into account the assumptions of the neo-functional theory and federal approach rather than the confederal approach. This is due to the fact that at the present stage of the EU, the ties between economic and political integration cannot be separated, and a functional spill-over should be supplemented by a political spill-over.

In an attempt to identify the optimal direction of integration, it is inadvisable to be limited to the orthodox assumptions of the neo-functional theory, the federal approach, or any other theoretical framework. Södersten rightly points out that 'federalism, understood as "unity", where all member states pursue the same objectives and at the same speed, is not feasible'.²⁸ In terms of European integration, it is rather necessary to reorient the theoretical framework and supplement it so that the current effects can be maintained and the benefits of integration still outweigh the costs. In addition, the strengthening of the processes of European integration and 'an escape forward' must also win a vote of confidence in the European community. Such approval is now a fundamental issue because another risk for any undertakings strengthening cooperation within the EU is posed by populist groups, which, unfortunately, often under the guise of patriotism and Euroscepticism are characterized by the hallmarks of nationalism.

It is true that the progress of the integration process in Europe has always required strong political determination, but now, as Piotr Banaszyk and Marian Gorynia point out, more attention should be paid to global rationality, as well

²⁶ Galbraith (2016): 71–72, 173.

²⁷ Kołodko (2020): 64.

²⁸ Södersten (2023): 51.

as to the implementation of the metaphor of the ‘common good’.²⁹ As far as the project of European integration is concerned, this can even be understood as a partial translation of the community interest over the national interest. In the present circumstances, making such demands may seem excessive, but nevertheless, they seem to be very important issues.

Therefore, in the political discussion and rhetoric of the EU, the focus on ethical and social values seems to be of key importance, and the policy objectives should be perceived from the perspective of the aforementioned ‘common good’. To this end, in the debate at various levels, it is advisable to intensify the emphasis on the assumptions of heterodox economics, which the EU, incidentally, already uses in its policy. The assumptions of non-mainstream economics are promising for the development of political and economic concepts because they touch upon problems related to, among other things, inequality of opportunities and income, environmental problems and even moral capital. Mainstream economics ignores in its assumptions what seems to be the most important aspect of the modern economy – the volatility of the environment. On the other hand, heterodox economics takes into account the influence of the geographical environment as well as historical and institutional aspects.³⁰ It also takes into account the long-term perspective. The use of elements such as behavioural economics or evolutionary economics can be helpful in uniting European society regardless of changes in the environment, consolidating the belief that the integration project is unique and is very important for welfare.³¹ Unfortunately, the positive effects of these treatments may only be felt after time: over the course of many years, decades or even over several generations.

The aspects outlined above should contribute to the intensification of integration processes in Europe, which should be both horizontal and vertical. As far as horizontal integration is concerned, it should be noted that in line with the logic of historical processes taking place in Europe, namely the post-socialist systemic transformation and regional supranational integration, as many post-socialist European countries as possible should join the EU in the future. Full integration, which manifests itself mainly in the institutional community, is a good way to reduce development differences.³² Of course, this process may take generations, just as it took a century and a half to reduce the development gap between the rich North of the USA and the poorer South after the American Civil War.³³ At present, the potential integration of some countries is hampered by Russia’s imperial policy. Nevertheless, if the posi-

²⁹ Banaszyk, Gorynia (2022): 160.

³⁰ Horodecka (2017): 213–214.

³¹ The assumptions of heterodox economics could influence economic policy through two channels. The first would be an attempt to present the current problems and the possibility of solving them to the widest possible group of people through the media and the activities of organizations. The second channel would be popularizing non-mainstream economics through universities, teaching students and disseminating publications. For more, see Horodecka (2017).

³² It is also worth emphasizing there is a growing body of literature on the use of federalism as a tool of conflict resolution. For more, see Keil, Alber (2020). This is another argument in favor of this integration concept.

³³ Kołodko (2020): 56–59.

tive scenario of easing this policy is realized, the EU should strengthen its work in this area.

From the perspective of the euro area, it seems advisable to expand it. Increasing the area of common currency circulation strengthens a given currency as an international currency. For an individual country, being a member of a monetary union strengthens solidarity to a certain extent and fosters a sense of responsibility for the stability of the monetary system. Of course, at present, it is impossible to ignore the dilemmas related to the considerable differences in inflation levels among the members of the Eurozone. However, closer integration in this area (the admission of new countries to the zone) may also, to some extent, solve this unfavourable phenomenon. Banaszyk and Gorynia focus on the argument that the more Central and Eastern European countries join the monetary union, the greater their influence on the ECB's policies will be. Thus, the risk of ignoring the interests of this geographical region will decrease.³⁴

As far as vertical integration is concerned, it is necessary to consider what the next steps should be in order to build a 'Genuine Economic and Monetary Union'.³⁵ On theoretical grounds, the literature in this area provides many solutions, which primarily concern tightening fiscal integration. The most frequently postulated changes are the construction of various funds³⁶ and the mutualization of debts,³⁷ which would be the beginning of building a fiscal and political union in Europe. An unequivocal answer to the question as to which initiative has the best chance of implementation is also very difficult, since fiscal integration is much more complicated than monetary integration. However, it is concluded in the literature that, initially, even small projects in the right direction will contribute to a large increase in welfare even without ratification of EU treaties, for example in the field of fiscal transfers.

An opportunity to tighten economic ties in the EU may also be provided by the intensification of regional integration in response to the breaking of global supply chains. The future form of globalization is expected to be slightly different as a consequence of the COVID-19 pandemic. It is indicated that the place of extreme fragmentation will, to some extent, be taken by regional economic cooperation. The pandemic proved that 'what is cheaper is not always better'.

Activities to eliminate development differences with countries outside Europe should also be continued and intensified, which is particularly important in the context of a potential migration crisis, for instance. An example is the conclusion of negotiations on the 'post-Cotonou' agreement in April 2021, which sets the framework for cooperation with African, Caribbean and Pa-

³⁴ Banaszyk, Gorynia (2022): 158.

³⁵ This term comes from the report of the President of the European Council entitled 'Towards a Genuine Economic and Monetary Union' published in 2012. The document clearly stated that the target project of European integration should be a political union as fiscal discipline alone is insufficient.

³⁶ Form more, see Bénassy-Quéré et al. (2016).

³⁷ Form more, see Delpla, von Weizsäcker (2011); Ubide (2015); Tabellini (2016).

cific countries for the next 20 years.³⁸ These are key issues because reducing development disparities is in everyone's interest, as they cause conflicts. A state in which production capacities vary significantly between countries is unsustainable in the long run and may lead to the destabilization of the entire geographical region, revolution and even war, which in the face of the events that started on 02/24/2022 does not seem to be only a 'black swan'.

Strengthening the European integration project is also fundamental to economic integration in other parts of the world. This is due to the fact that the European project is closely watched by other groups: MERCOSUR in South America, ASEAN and SAARC in Asia, and SADC and ECOWAS in South and West Africa. If integration in Europe is successful, it will also intensify in other parts of the world,³⁹ which is also a good mechanism for combating developmental diversity in the world and maintaining political stability and peace.

The intensification of activities in the direction outlined above should take place as soon as possible. A counter-argument may be that the current world situation is characterized by instability and uncertainty, so more important initiatives should be postponed. However, it should be emphasized that as a result of the speed with which the pandemic crisis spread across Europe and the world, the theoretical discussion on the direction in which European integration should go turned into practical action. In the last quarter of 2021, work began on changes to the budgetary conditions in the EU. Other examples of progress and the tightening of European integration are loans taken out by the European Commission on behalf of the EU for the needs of programs such as SURE (Support to mitigate Unemployment Risks in an Emergency) and the Next Generation EU.

It appears that the 'solidarity test' of the EU member states in the face of unprecedented problems such as the pandemic and the war in Ukraine was passed. The actions taken in relation to counteracting the public health crisis proved that 'richer' European countries show greater solidarity with 'poorer' countries and feel responsible for fighting the crisis.⁴⁰ Moreover, the countries of the 'south' can be characterized by solidarity, as evidenced by the political agreement reached in July 2022 on the reduction of individual gas demand. In view of the above considerations, it can be concluded that the current extraordinary conditions for the functioning of the EU are also conducive to taking further important decisions aimed at strengthening the process of European integration.

V. CONCLUSION

The aim of the paper was to assess the functioning of the European Union in the conditions of the new 'post-pandemic' reality and the consequences of the war in Ukraine, and to review the prospects for its further integration.

³⁸ The Cotonou Agreement concluded in 1975, after its extension, was valid until 30 November 2021.

³⁹ Kołodko (2020): 257.

⁴⁰ Kołodko (2020): 33.

The basis for this assessment was a diagnostic analysis, which was achieved by determining the actual state of affairs, making a critical assessment, and considering the possibility of improvement.

Observing the economic reality, it is hard to resist the impression that the conditions for the functioning of the EU after the end of the current turbulence will not be based solely on the theoretical assumptions on which the construction of this group was based. The pandemic and the war in Ukraine seem to be the driving forces behind the change of the current paradigm in economic theory and integration theory. A solution to the new macroeconomic and political challenges seems to be closer integration, which requires enormous political determination and action based on the concept of the 'common good'. On the basis of these considerations, the authors agree with the view that the stability and even the survival of the EU seem to be favoured more by integration initiatives referring to the neo-functional theory and federal approach rather than the confederal approach. It is justified to increase the role of the political spill-over effect and the assumptions of heterodox economics. Horizontal and vertical integration of the EU and actions to reduce development differences are justified. Although such recommendations in the face of the current problems of the EU economies may seem excessive, historical experience shows that failing to apply them threatens to trigger the spill-back mechanism sooner than anticipated.

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