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# Going All In: The Gamble of Globalization and European Economic Integration

By *LAUREN S. KOFFS*

## I. Introduction

**Globalization is a complicated concept.** It has vast effects due to its political, social, and economic connotations. To politicians, globalization is an ideal interaction between states. They characterize globalization to suit their political needs. For instance, Bill Clinton referred to it as the “world without walls”; to Tony Blair it was “inevitable and irresistible”; while George W. Bush labels it “ties of trade and trust” (MacGillivray 4). While these alliterations are catchy and appealing to an uninformed and therefore unsuspecting public, to the economic mind globalization comprises much more. This article focuses on globalization and its effects on European economic integration, as well as the conflicting nature of its relationship with nationalism and with the Common Agricultural Policy (CAP). It demonstrates that trusting globalization has reaped great benefits, with more to come in the future if continued advances in European Economic integration, coupled with the effects of globalization, are handled properly. Enacting correct policies, such as rallying public opinion in favor of globalization, will ensure that Europe profits from globalization and integration.

According to economist Paul Krugman, globalization is an all-encompassing phrase for increasing world trade and links among financial markets in various countries and numerous other modes in which the world’s borders are shrinking (qtd. in MacGillivray 5). Many economists’ definitions of globalization focus on the central role of trade and finance, not simply on social and political themes. Under this definition, however, to make trade and finance a central part of globalization, declining information and communications costs must also be taken into account when defining globalization. A substantial convergence in the individual governments’ economic policies, particularly those concerning the integration of their liberalized market-led development into that of the entire European Economic Area, are important as well. This affects the role of national sovereignty in the European economic relationship.

Since trade, finance, and globalization are the fundamental components of European integration or “Europeanization,” it is logical to question if the current system in Europe is in accordance with the original goals of the European Coal and Steel Community. In the post-World War II period, a certain social model emerged among the Western European countries to ensure lasting peace as they tried to rebuild. It is often suggested that globalization and Europeanization undermine that important social model. These skeptics make some valid points, but in reality they fail to consider how globalization and Europeanization positively affect and inform public policy-making (Hay and Rosamond 17).

Context, in the case of globalization, matters less than the ideas that main economic actors create regarding an economic scenario. Their ideas shape the results. The hyper-globalization theory proposes that in a globalized milieu characterized by the increased and free mobility of capital, “vicious competition between states will serve to drive down the level of corporate taxation” (Hay and Rosamond 5). Hay and Rosamond argue that policy makers act-

ing on a foundation of suppositions in harmony with their proposed hyper-globalization theory may actually, even if accidentally, bring about results that support hyper-globalization, irrespective of its authenticity. In fact, in certain cases such as the European Union, this theory can reach its fullest extent, as capital mobility is completely free.

According to European statesman Robin Cook, the economy is becoming increasingly global. Production can no longer keep up with trade, which is now growing at twice the speed of manufacturing; British Airways operates backroom work in India, while bakers in England hire dozens of new staff since English baguettes are selling well in France. Solutions that worked yesterday will not be appropriate for tomorrow (Cook). Due to international integration from former empires, world wars, and increased international interaction in general, people are trying and succeeding in new and different business ventures and outsourcing all over the world. Globalization is usually viewed as the breakdown of borders while at the same time experiencing an emergence of truly “global economic space.” This can be characterized by the mobility of capital, “and the multi- and trans-nationalisation of production. It is these developments that are said to compromise the agency of public authorities and, thereby, promote particular types of (convergent) neoliberal policy response” (Rosamond 3). In this sense globalization, due to its open nature and the mobility of goods and capital, has a profound impact on the policies of the EU.

Some feel the economic view of globalization is too narrow, but Indian economist Amartya Sen said, “globalisation is neither new nor a folly, but a global movement of ideas, people, technology, and goods from one region to others, benefiting the people at large” (The Indian Express). Globalization has been occurring in Europe in different forms since the Crusades. Using Sen’s definition, the effects of globalization on the European economy, and particularly on the European Common Agricultural Policy (CAP), may be discussed. The CAP was created in the 1950s as a way to ensure stable food production throughout Europe in the post-war reconstruction period. It acted as one of the original pieces of major legislation that began Europeanization. By the 1990s, the emphasis of the CAP shifted toward production limits and promoting environmentally sound farming, changes known as the MacSharry reforms. But in the early 21<sup>st</sup> century, the competitiveness of European agriculture produced a need for “a rural development policy encouraging many rural initiatives while also helping farmers to restructure their farms, to diversify and to improve their product marketing” (European Commission, Agricultural and Rural Development). The CAP generates funds to ensure that farmers are not paid just to produce food, but also to create income stability and protect tax payers. This encroachment into the agricultural policies of the sovereign member states, however, has created many problems despite its noticeable benefits.

## II. The Question of Nationality

One major objection to globalization and Europeanization is the idea that they challenge the national methods for deciding on policies and national forms of government. Hay and Rosamond question whether the European Union’s policies are the best approach to meeting the challenges of globalization: “Similarly, in European Union policy circles, we find the argument that globalisation presents a series of devastating challenges to established national modes of governance and moreover that a neoliberal variant of integration is the most viable form of engagement with the new global economic imperatives” (2). Their assertions are noticeably vulnerable to challenges from empirical evidence. However, it is apparent that forms of welfare cutbacks are occurring throughout Europe, and market integration and ‘Europeanisation’ are continuing.

When valuing the merits of Europeanization, it is important to examine the natural reaction of states to EU policies. Europeanization is a part of the EU agenda. Throughout the

fifty years of its existence, gradual integration has been one of the keys to the EU's longevity and success. It has also challenged the boundaries of nationalism and state loyalty. Changes that were made to national policies through European policies tested the patience and faith of all EU citizens. For example, restrictions on goods that are still sold but are no longer readily available and on those items which may be sold at all affect daily life in every member-state.

Technology has been a particularly important vehicle for globalization and, consequently, agricultural, societal, and economic advancement. Technology presents new possibilities for greater efficiency in performing tasks of all kinds. Technology increases not only efficiency but also output and potential for diversification of goods and services. In conjunction with technology, science plays a critical role in the process of globalization. Doctor Bokias argues that science

creates sustainable agricultural production systems which strike the right balance between competitiveness and the other elements of sustainability. In the competitive and sustainable agri-food sector there is a reflection of consumer demands and needs of society in an open world market. [And] a knowledge based agri-economy provides tools for policy makers and economic decision takers. (3)

Science and technology are important to globalization because they affect the global market and policies made for trade and agricultural production and appropriations.

The initial objectives set out in Article 39 of the Treaty of Rome include increasing productivity by encouraging technical advancement. The Treaty also ensured the most advantageous use of the factors of production, in particular labor, by securing accessibility of supplies, guaranteeing a reasonable standard of living for the agricultural community, stabilizing markets, and providing consumers with food at modest prices. As Kydd, Dorward, and Poulton state, "Yield increases are largely achieved by the use of more inputs: fertilizer, pesticides, irrigation water and energy for pumps and tillage machinery" (5). Yield is then directly linked with technological advancements, which Article 39 promotes. When it became apparent that the EU was overproducing, they were forced to amend the CAP so that all farmers were receiving land stewardship subsidies, and were, in effect, paid not to farm. In both instances new technologies in farming which were developed worldwide, such as fertilizers and equipment that help growth and ecological approaches like organic farming, were put into use in the European system. This new input aided the agricultural process.

Globalization allows for the enhancement of agricultural competitiveness. New biotechnology and breeding techniques aid in "growing of crops with lower production costs, increased eco-efficiency, and a greater added value" (Bokias 5). The integration of technological developments, such as information technology, also achieves this effect. Diversification and non-food bio-materials create "new or improved biological raw materials, meeting industrial food and non-food requirements, including bio-energy. [More] efficient farming practices reduce costs and/or offer environmental benefits akin to low chemical inputs and better crop rotation" (Bokias 5). In addition to this, Bokias argues that efficient animal production systems develop advances in diagnostic tests, risk assessment, surveillance systems, and animal welfare (5).

### III. Globalization and European Integration

The recent enlargement of the EU to include the Central and Eastern European countries (Czech Republic, Slovakia, Poland, Hungary, Slovenia, Latvia, Lithuania, Estonia, Cyprus, Malta, Bulgaria, and Romania) was, in itself, a form of globalization through Europeanization. Increasing the scope of the EU was a commitment to promote and diversify integration

with peoples once thought too different ever to be completely incorporated into the European ideal. Fritz Breuss, a professor at the Wirtschaftsuniversität at Wien, points out that older EU members are already making sacrifices, leading to considerable changes in the EU program. "The Agenda 2000 excludes an increase of the own resources from the presently 1.27 percent of GDP" (15). An increase in resources taken from GDP means that the costs of enlargement have to be paid by the fifteen EU member states established before the most recent accessions. The costs then come by saving transfers from the CAP and the structural funds. Reforming these two policy areas causes those countries "which were net receivers out of the EU budget...to bear a higher burden as the so-called net payers" (Breuss 15). This need to change to accommodate new members illustrates the fact that enlargement and integration inevitably lead to reform of the European Union's key policy areas, the CAP being one of the most significant.

Globalization creates increased competition, not only between outside nations and the EU, but also within the European Economic Area. Despite the advantages, however, this also creates economic problems. As Kydd, Dorward, and Poulton say, "for the rural poor in particular, the costs of accessing the new economic opportunities created by globalisation may be very high or, indeed, prohibitive" (14). Poorer European nations can not afford to keep up with larger, richer ones, especially since they receive a smaller share of the CAP. In some areas, globalization is challenging the "conventional wisdom about economies of scale in smallholder agriculture due to issues of transaction costs and market access" (Kydd, Dorward, and Poulton 17).

From a transactions cost point-of-view, the true benefits of a small-holder farm are found in the coordination of labor capital. There are, however, some critical areas that must also be identified. Kydd, Dorward, and Poulton (17) state that small farms are more liable to have high unit transaction costs in input and output markets. This happens because of fixed costs in exploratory actions through probability experiments. Also, they may not be able to utilize economies of scale when using draft animals or power technology such as tillers and pumps. These smaller farms are unable to keep up with the costs of new technology and have a major disadvantage in integrated Europe.

In addition to this, small farm owners endure severe disadvantages in credit markets. These credit disadvantages have not commonly been resolved by attempted policy interventions and do not help poor farmers under trade liberalization.

In many parts of the world and points in history the labour coordination advantages of the smallholder farm household have outweighed its disadvantages in other respects. However, as agriculture intensifies, the balance of advantages changes, as even small farms are driven to make more use of input, credit and output markets and also rising labour costs encourage substitution of power machinery for labour (power machinery is likely to have economies of scale). (Kydd, Dorward, and Poulton 17)

In some cases, as Kydd, Dorward, and Poulton explain, this propensity may be hastened by global inclinations toward sources of higher priced horticulture and floriculture in developing countries. Buyers then specify standards requirements that can most successfully be attained with the expert supervision and control of more large-scale ventures.

The European price-support policy, involving the price of excess products, raised problems in international business relationships between Europe and the United States. MacSherry's "set-aside" reform plan for European crops of 1992 raised ethical problems toward society and the developing countries where people continued to starve. Payments were set aside to limit production and encourage reforestation. In both instances, problems were a consequence of globalization.

It should be noted that while there are downsides for small, family-owned farms, there

actually may be some benefits. Though these small farms cannot compete with the larger conglomerates, this system frees up resources for other more productive uses. Without being able to provide unique products small farms will fail. While this can be disruptive in the short-term, in the long run the labor, land, and capital can be put to greater uses. From a global production and efficiency standpoint, this would be a good thing. The CAP is supposed to protect small farmers from suffering due to unregulated globalization, and yet they still cannot keep up with the larger farms. Conceivably, greater efficiency of resources will cause gains from trade to rise. Rather than being paid not to farm, this might motivate small farm owners to enter other areas of lucrative employment, thus furthering economic growth.

Europeans, even members of the farming industry, are willing to pay a considerable price in order to continue their traditional culture, and protecting small farms with the CAP is an important part of that. This means that while globalization is bound to keep moving forward, it will be regulated by agricultural protection at various levels. As Phillip Gordon of Yale University said, “The EU will eventually have to scale back its agricultural protection, but Europeans expect the EU to manage that process without causing the pain associated with living in an entirely unregulated world.” Whether or not the structural funds will be able to counterbalance any losses to the owners of small farms remains to be seen.

Even though the European Union inherently supports integration and globalization, there is an element that rejects incorporation. Maria Di Giacomo remarks that, “In the last decade the Common Agricultural Policy (CAP) has rediscovered the importance of regional territory and press for a definition and an individuation of cultural and geographical peculiarities, which give incentives and investments” (6). Nevertheless, as she explains, several countries belonging to the European Union continue to observe the EU from a production point of view.

Post-1945 institution-building in Western Europe may have supported the creation of a European Economic Area, but Dr. Rosamond points out that it would disregard the work of scores of economic historians to propose that the assimilation of the European economy began with the initiation of the European Coal and Steel Community in 1951. It has been a long process built over centuries. Dr. Rosamond believes that “Globalisation is good because it delivers the efficient allocation of resources on a world scale. Policies that support globalization (developed and delivered at both national and supranational levels of governance) are thus desirable because long run prosperity will accrue for the European economy, European firms and European citizens” (8). He clarifies that the establishment of the EU has been a long process that started with ties among states long before the formal institutions were put in place. As a result of this prior integration, it could be difficult to judge just how globalization affects Europe.

#### IV. Euroscepticism

In a simple context, “globalisation is precisely all about the increasing *irrelevance* of territorial units (most notably nation-states and national economies) and the transcendence of a fixed Westphalian geography” (Rosamond 5). National sovereignty and loss thereof has always been a contentious subject in the EU. Most closely associated with this is the concept of “Euroscepticism,” a term coined when scholars in the UK became concerned that the ever-closer union of the Treaty of Rome would detract from the national sovereignty of Great Britain. Euroscepticism is the idea that European integration is bad on various levels for nation states that wish to retain national sovereignty; as a result, all plans for further integration should be abandoned. Economically, skepticism (strongest in countries such as the UK which fear loss of too much sovereignty) comes from the fact that the Stability and Growth Pact (SGP) has been unevenly applied, something Rosamond refers to when discussing European integration. The SGP was meant to be a force for discipline and to maintain the European

Monetary Union, yet Ministers in charge of applying and enforcing the SGP have failed to bring sanctions against France and Germany. On the contrary, it has begun proceedings against Portugal, whose average debt is usually around the same as Germany and France and is minimal, as well as Greece, whose debt has recently been among the largest in the EU. Euroscepticism also tends to be issue-appropriate for each state. For example, Norway's euroscepticism centers on the EU's common fisheries policy which has the potential to be very damaging to Norway's economy.

The major issues for Eurosceptics are the Rapid Reaction Force, an extension of Euro-pol; the creation of Eurojust, a European Public Prosecutor; the EU Constitution; and the harmonization of taxation and welfare policies. While the EU does not have its own military, the Rapid Reaction Force was designed to answer immediate military threats. So far, the EU has been unsuccessful in formally establishing this force, though there are plans to do so by 2010. Eurojust has been established, but the Lisbon Treaty which would allow for a European Public Prosecutor has not yet been ratified by all member states. The Constitution needed unanimous approval to be accepted as law, but was defeated in France and the Netherlands and replaced by the less intrusive Lisbon Treaty. This assuaged most Eurosceptics. Taxation and welfare have long been harmonized, but the high taxes caused in part by welfare programs that infringe on national sovereignty still receive scrutiny from skeptics.

In the long-term, Rosamond (8) posits, the effects of globalization are good and some negative short-term effects may be worth incurring for the long-term benefits. The perception emerging from the Directorates General of Employment, Social Affairs and Equal Opportunities (DGESAEO) is that it is necessary not to portray globalization as intrinsically harmful. Yet Rosamond (9) discusses how the DGESAEO emphasizes issues such as the relatively high rates of unemployment, poverty, inequality, and differences in social and economic rights (in a context of economic change outside the model) in certain areas, particularly Eastern Europe. All of these factors may have long-term effects on countries' integration into the EU.

As of now, the ten accession states that joined the EU in 2004 and the two that joined in 2007 enjoy very little of the guaranteed free movement of labor and the economic benefits that are supposed to come with membership. These 12 states will not be allowed to officially use the common currency for several more years. Migrant workers are denied the ability to look for work in many of the Western states because these countries fear that the large poor populations of countries like Poland will enter their states and take low-wage jobs from their own people.

According to Adam Luedtke of European Union Politics, "In a...Eurobarometer survey, respondents from across the EU ranked the importance of immigration higher than terrorism, pensions, taxation, education, housing, the environment, public transport, defense and foreign affairs" (14). Essentially, disallowing these countries access to free labor movement and promoting concerns about immigration are a denial of the rights of European citizens living in them. This denial is justified under the guise that they are not yet ready to complete this part of their integration but that it should happen gradually. Luedtke states that, "the spectacular political divergence between mandate and results presents a puzzle: why has harmonization of immigration policies been so elusive, if such harmonization is seen as necessary for the EU to become a single market with free movement of labour?" (3). He explains that the answer must lie with national politics since at various times, harmonization proposals offered by member states, or by one of the EU's governing organizations, have been blocked by other member states. How long can the newer members afford to wait for the long-term benefits of globalization and integration? And to what detriment of the whole European Union?

Luedtke goes on to state that harmonization of immigration policies is not blocked because of perceived notions of strategic gains or losses but "because the proposed supranationalization of immigration control clashes with historically rooted *national identities*" (3). Some

scholars believe that European integration is an economic consideration and therefore national identity overrides immigration policy. When that is the rationale, national identity can only be considered in a bounded sense, despite the economic implications of immigration. As Sergio Romano wrote:

Europe has a single market, a single currency, a central bank. No member country can build an airport, decide how much milk can be produced by national cows or call something chocolate without consulting Brussels or conforming to the Commission's guidelines. No important merger or acquisition can proceed unless [the] E.U. competition Commissioner...has nodded his approval. But Europe has no minister for the treasury or the economy to provide the governor of the central bank and the business community with a blueprint for Union policy. The countries which signed the Schengen pact have common borders, but they still treat immigration as a national problem, have different quotas, and do not have a common minister of the interior or of justice.

There are clearly problems to the mechanics of European integration. But it is also clear that there have been advantages as well, through stable growth of the Euro, sustainable trade growth, and greater opportunity for political stability.

## V. Conclusion

As Dr. Rosamond states, globalization creates peripheral difficulties which are only countered successfully through the application of sound market principles at a supranational, EU level. "In a sense the challenge of neoliberalism is best met with further neoliberalisation. Globalisation is a force for good (almost by definition), but it is most likely to be a force for good only in situations where 'correct' policies are applied" (8). Of particular importance is the manner in which globalization has been interwoven into the dissimilar efforts of what Rosamond calls "norm entrepreneurs." These entrepreneurs rally public opinion through transnational systems of opinion-shapers and policymakers, contributing to the social composition of the European Community as a suitable and realistic economic area populated by distinct European actors (Hay, Watson, and Wincott).

The opening paragraph of the Presidential Conclusions to the Lisbon Special European Council of March 2000 mentions that the European Union is challenged with a quantum shift resulting from globalization and the trials of a modern, knowledge-driven economy. These trials affect every facet of peoples' lives and demand a fundamental alteration of the European economy. The conditions under which agriculture is currently practiced are becoming more and more globalized. Agricultural routines are modified more and more by international policy and choices that are dependent on trade policies, rather than by the uniqueness of the natural environment or by the complexity encountered in prevailing over them by designing inventive cultivation techniques and effective use of new technologies.

Globalization is an important aspect of international business due to its influence on everyday life, and has been made possible by the liberalization of investment and trade. Globalization is not a 'zero-sum game' where various people lose while others gain (Lamy). Though there are drawbacks, and the European system is not running completely smoothly, European integration is slowly proving to have created great benefits, both politically and economically. Rather than a zero-sum game, it is more of a win-win situation, as post-World War II economic history shows. It is and always has been a long-term process, and the full extent of how Europe will benefit from its efforts to integrate is yet to be seen. But Europe has profited extensively from globalization thus far and should continue to do so provided that it maintains its ability

for innovation, its long-term competitiveness, and its social market economy.

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