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THE INTRA-EU MIGRATION CHALLENGE IN THE LIGHT OF KALDOR'S LEGACY*

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The free movement of persons has been one of the fundamental building blocks of European integration from the beginning. The economics behind it implies that greater efficiency can be achieved if besides goods and services, the factors of production (i.e. capital and labour) can also move freely across a common market. Nevertheless, this setup was originally designed for an economic area where internal imbalances were modest. In fact, these freedoms have serious, originally unintended consequences in the 21st-century European Union (EU) where the original condition, even if implicit at that time, no longer applies. Nicholas Kaldor had actually warned about these threats many decades ago, saying that with the development of trade, initial differences among trading regions would grow in the absence of adequate compensating policies. Most lately, two large-scale events have accelerated intra-EU divergence and, consequently, migration: the Eastern enlargements and the recent financial and economic crisis. Our study focuses on the causes and potential implications of the intra-EU migration challenge in the light of Kaldor's legacy. Our main conclusion is that the original construct of European economic integration is not fit for the current realities in that it no longer ensures steady and balanced development across the EU.

Keywords: European integration, growth, convergence, Nicholas Kaldor

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"[The high contracting parties] determined to lay the foundations of an ever-closer union among the peoples of Europe, (...) anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favoured regions (...) have decided to create a European Economic Community."
Preamble of the Treaty of Rome, 1957

"(...) the Community is not viable with its present degree of economic integration (...) the objective of a full monetary and economic union is unattainable without a political union."
Nicholas Kaldor, 1971 (Kaldor 1978a: 202)

INTRODUCTION

The question may be asked in what way Nicholas Kaldor, who was primarily an economic theorist and economic policy adviser, can be related to European integration. In fact, the answer is: in many ways. This study aims at pointing out these links, by focusing on one specific aspect of European integration, namely the free movement of persons.

When the European Economic Community was established by the Treaty of Rome (TR) in 1957, the scene was obviously rather different than today. Furthermore, the TR was talking explicitly about two types of movements of persons: that of the workers and of the self-employed. A third category, the freedom of establishment, was also included in the TR, referring to individuals' rights in relation to starting or running businesses in other member states. In the first decades of integration then, this free movement right was gradually expanded with several more categories.

The Single European Act, based on the convictions and sensibility of Jacques Delors, the then President of Commission, already introduced social, economic, and territorial cohesion as a basic objective of European integration. In fact, Delors saw some of the threats deriving from integration itself and, accordingly, some common policies were introduced to counterbalance certain unintended consequences of integrating regions or countries at different levels of economic development. Then, with the Treaty of Maastricht, together with the EU, the EU citizenship was also established. This implied a fundamental change in this particular free movement right. However, at that time, the challenges and their potential magnitude were still not foreseen; we find very little and only marginal(ised) concerns about it.

Instead, the single currency project was launched and the euro was introduced in 1999. In parallel, the Eastern enlargement process was unfolding and, as a result, the EU was enlarged eastwards by 10+2+1 new member states (NMS) in 2004, 2007, and 2013, respectively. Another major event, with fundamental consequences for the European integration project, occurred in 2008 and the years to come: the global financial and economic crisis, and its specific European chapter, the eurozone sovereign debt crisis, which imposed further pressure and constraints on advancing integration further. For years, saving the eurozone was the main concern, leaving little efforts to deal with other issues that did not appear as acute for the moment.

At present, we experience a factious and struggling EU that has survived the financial and economic crisis, but has entered an existential-type of crisis. We do not know in what direction events are unfolding in the time to come; uncertainty in relation to the future of European integration is perhaps greater than ever since the beginning. A considerable aspect of the current challenges is the ongoing intra-EU migration, which actually takes the prior form of the measurable movement of active (often young, i.e. under 40 years of age), motivated and, to a large extent, well-educated workforce from the less prosperous periphery towards the much more resilient core. The trends imply social and, thus, political consequences in both the sending and the receiving countries. Impacts in the latter countries are communicated louder; suffice it here to recall the Brexit referendum and the preceding Vote Leave campaign. However, in our view, the consequences are in fact direr in the sending countries, for several reasons. The trends are not likely to change or turn.

Our main argument is that the current challenges of intra-EU migration could have been foreseen much earlier and that one source of explanations for what was going to come is the work of Nicholas Kaldor. In his writings and lectures, he pointed out to some highly relevant aspects of economic development and economic integration that are interpretable and, therefore, should be interpreted for the European integration project as well. In fact, Kaldor himself expressed his views on the common market and the idea of the common currency in the early 1970s. These ideas of his are fully consistent with his full legacy and should be heeded even today.

Our goal is to show the relevance of Kaldor's legacy in relation to European integration, and to the intra-EU migration challenge in particular, both at the theoretical and empirical levels. We believe it is never late to learn from our predecessors and to incorporate their wisdom into our work today.

THE ORIGINAL SETUP OF EUROPEAN INTEGRATION AND THE PRECEDING MAJOR ADVANCEMENTS REGARDING THE FREE MOVEMENT OF PERSONS

Even if the forerunner to European economic integration was the European Coal and Steel Community, established in 1951 following the 1950 Schuman Declaration, the true beginning was the adoption of the Treaty establishing the European Economic Community (EEC) in 1957. In Article 3, among the tools of the creation of the common market, we find "the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital".

Thus, from the beginning, the EEC targeted the common market as the level of integration to be realised among its member states. In a common market, not only the outputs of production (i.e. goods and services) can be traded without any barriers, but also the factors of production (i.e. labour and capital) can move freely. Accordingly, the free movement of persons has been one of the fundamental building blocks of European integration. It has been so fundamental that questioning it has been virtually unimaginable.

The economics behind the idea of the common market implies that greater efficiency can be reached if the market size is larger and if, besides goods and services, the factors of production are also mobile, and thus factor markets are also more efficient. In fact, in neoclassical economic theory, free trade in commodities already brings about factor price equalisation without the need for factor mobility (Samuelson 1948). However, reality is not as simple as that. First of all, the factor price equalisation model (built up with two countries and two goods) assumes that commodity prices are the same in each country, the same technology is used in production, and both countries produce both goods. It is easy to see that reality is not likely to fully meet these criteria. Still, the models of international trade have continued to build on these assumptions, arriving at the conclusion that everybody gains from trade.

By studying the respective text of the TR in detail, the underlying rationale can easily be detected. Title III contains provisions on the free movement of persons, services, and capital. Under this title, Chapter 1 covers workers, and Chapter 2 the right of establishment, still under the free movement of persons. Chapter 1 starts with Article 48(1) declaring the practically unalienable right of the free movement of workers. The TR is explicitly talking about workers, not persons though, and then goes on to provide details of employment in another member state and reviewing the work to be done in the transitional period.

The right to be self-employed in another member state is then included in the first article of Chapter 2, Article 52 of the TR. The rest of the chapter covers the various forms and sets up the agenda for the European institutions in terms of providing the legal background and ensuring a discrimination-free environment for the freedom of establishment across the EEC.

In effect, the freedom of persons was gradually expanded by secondary legislation. Provisions covered the right to stay in another member state with the intention of finding a job, and also to remain for a certain period of time after termination of employment. Other legislation set the rules and conditions for social security, including the rights of the family members of employees. Later, several further categories were defined to which the free movement rights also applied, among them students, old-age pensioners, certain professionals, artists and other independent individuals, etc.

Then, the next major step in legal terms was the adoption of the Treaty on European Union (TEU), or the Treaty of Maastricht. Among the resolutions of the high contracting parties listed in the Preamble, we can find commitments to "ending of the division of the European continent", "convergence", and "economic and social progress". The "objective to facilitate the free movement of persons" is also reaffirmed; moreover, European citizenship is called for. The concept of the "ever closer union" is repeated and the Treaty is "to advance European integration" by establishing the EU.

In the TEU, Part Two is about the "Citizenship of the Union". There are several aspects of this legal category, but most important to our study is that according to Article 8a of TEU, "[e]very citizen of the Union shall have the right to move and reside freely within the territory of the Member States". With this provision, the free movement right was finally extended to the maximum: citizens of any member state of the EU enjoy free movement and cannot be divested of this right without any well-founded reason.

At this point, we must mention the free movement right debate and, we believe we may say, the crisis that broke out in the course of the accession negotiations of the post-socialist candidate countries in 2001–2002. While the acceding countries asked for, and actually were given, hundreds of temporary derogations regarding their application of EU law prior, upon, and preceding accession (*Table 1*), the European Commission, the other party at the negotiations, was on the other hand claiming this single one: that the free movement of workers from the NMS not be introduced upon accession, but only following a temporary period of restriction. The proposition was accompanied by a hot political debate, in fact both in the EU-15 and in the accession countries. The former were not at all unified in this respect, some of them not finding it problematic at all, while others expressing major concerns about their labour markets being flooded with poor migrants from the East (Schimmel 2006). At the same time, the latter group of countries were talking about second-class citizenship and unfair treatment. Romano Prodi, the then President of Commission, put immense efforts into reconciling the many positions. The solution

Table 1. Number of derogations given to the 2004 accession countries by types

Countries	A	B	C	D	TOTAL
Cyprus	8	12	1	2	23
Czech Republic	8	6		2	16
Estonia	13	7	1	3	24
Hungary	10	13		8	31
Latvia	22	8		7	37
Lithuania	17	6		4	27
Malta	17	10	4	17	48
Poland	21	14	1	13	49
Slovakia	14	6	1	4	25
Slovenia	13	4	1	4	22
TOTAL	143	86	9	64	302

Notes: A: "shall not apply" or "shall postpone" the application of the *acquis* during a certain period of time; B: "may maintain" or "shall gradually adjust" the national legislation; C: "may grant" state aid, financial assistance, etc.; D: other types ("shall be excluded", "may exempt", "may consider", "shall be notified", "shall object", "may set", "may provide", "may open"). No permanent derogations were granted to the NMS.

Source: Ivanica (2003: 32).

that was constructed eventually turned out to be adverse in the several-decade-long practice of European integration: in the absence of an EU-level solution, temporary, at most 7 years of restriction (in a 2+3+2 system) could be imposed by old member states individually – but only if they intended to do so. Unsurprisingly, the vast majority of the countries did decide to impose such restrictions, with the United Kingdom, Sweden, and Ireland being the only exceptions in 2004 (Schimmel 2006).[1]

Nothing similar has ever occurred in relation to setting up the eurozone, managing the crisis, or any other event of similar scale in terms of the challenges they posed to integration and the free movement of persons. We can only regard the Cameron-Council UK-EU deal of February 2016 (EUCO 2016) as a comparably challenging event of European integration. The Council Decision summing up the results of these negotiations concerned, among others, the free movement of persons. The Decision expresses joint (UK-EU) commitment to strengthen the internal market, of which the free movements of good, persons, services, and capital are inherent compounds. Then the text acknowledges some very important aspects regarding the free movement of persons, including the challenges arising from the differences in the levels of social security among the member states. Eventually, the Decision concluded that some discretionary measures on behalf of member states might be justifiable on these grounds. As we know, on

[1] We find it important to note that the restrictions applied only to employment, but not to the freedom of establishing enterprises, to study in another EU member state, etc.

June 23, 2016, the majority of British voters decided that the UK should leave the EU. This way the UK-EU deal lost its relevance and legitimacy.

In our view, though, the Decision was indeed a moment of truth for the EU in relation to the free movement of persons. Up to that moment, this fundamental building block of European integration had never been challenged. However, we are all aware of the outcome of the Brexit referendum and thus, most unfortunately, the solutions to the social, political and, in fact least importantly, economic challenges, whose seeds were sown in this Decision, are not on the table, again. Instead, business as usual is to go on, while questioning the free movement rights in relation to persons apparently continues to remain a taboo, despite the warning that the Brexit referendum has sent.

THE CHALLENGE AT THE THEORETICAL LEVEL IN KALDOR'S VIEW

Nevertheless, the basic setup of the single market with its four freedoms had originally been designed, though rather implicitly, for an economic area where internal imbalances were modest. In fact, these freedoms have serious, originally unintended consequences in the 21st-century EU, in which this original condition of moderate internal differences no longer applies. Nicholas Kaldor had actually warned about some inherent flaws of European integration many decades ago. Some of his warnings were indirect (i.e. those on the consequences of interregional trade), but some were direct (expressed in relation to the UK's accession to the EEC in the early 1970s). In the following, we offer a brief overview of some of his lectures and writings that we believe are in some way related to our topic: the built-in challenges of European integration.

Our first source is a book containing Kaldor's lectures delivered at Yale University in 1983. Following the sudden and tragic death of Okun in 1980, a series of Arthur M. Okun Memorial Lectures was initiated at Yale in October 1983. James Tobin's preface to the book containing three lectures (Kaldor 1985) praises Kaldor as an original and insightful economist who, throughout his career, had preserved his free spirit and independent mind – just as Okun had done. Kaldor's third lecture in this memorial lecture series was "Interregional trade and cumulative causation". In the current of thought flowing through the lecture, Kaldor strove to explain why he thought that the market economy setup was a dead-end in its known form. In relation to the subject of our current analysis, the relevance of this particular lecture lies in the highly logical description of what Kaldor called, after Myrdal (1957), "cumulative causation". Kaldor also refers to Allyn Young's 1928 article in so far as that when there are increasing returns, economics takes a different turn from what neoclassical models imply, namely that change becomes endogenous.

If, in this theoretical setting, we take interregional trade (in other words, the exports of regions) into consideration, we witness a growing division of labour as an outcome. Taking Young's idea further, Kaldor points out that, "with an increase in the division of labour, capital and output grow together" (Kaldor 1985: 67), resulting in the tremendous accumulation of capital in certain regions, but no advancements of any similar scale in other, less developed areas. The former regions will, with the passing of time, become capital-intensive geographical centres where most of the technological progress takes place (Thirlwall 1983), contributing to even higher returns there.[2] As an obvious consequence, industry-driven output growth results in productivity growth in the above-described regions enjoying more favourable positions (Thirlwall 1983). This is also known as Kaldor-Verdoorn's Law (Targetti 2005).

In the Okun memorial lecture, Kaldor proceeds with his argument, contending that Samuelson's factor price equalisation theorem does not apply (Kaldor 1985). Instead, interregional trade increases the overall market size (another element of endogenous change), from which the more capital-intensive regions are able to benefit more (and more), a further process leading towards increasingly greater disparities. Thus, trade may well enlarge previously existing regional differences in productivities ever further.

The term cumulative causation in the spatial context refers to the fact that these trends are all self-reinforcing and thus, without any policies targeting the mitigation of the diverging effects, economic development will result in ever growing regional disparities – quite the opposite to the original intention behind European integration. As Kaldor puts it, "some regions gain at the expense of others, leading to increasing inequalities between relatively prosperous and relatively poor areas" (Kaldor 1985: 75). All in all, what Kaldor is saying is that the benefits of trade are not equally shared among the trading regions, but that the more developed regions persistently benefit more than the less developed ones.

The same problem had been discussed by Kaldor earlier, in his essay on regional policies (Kaldor 1978b), although from a slightly different perspective. In a lecture originally delivered in Scotland in 1970, Kaldor addressed the regional problem of the United Kingdom. After thoroughly reviewing the concept of "region" in economic theory and the role of "resource endowment" (Kaldor 1978b: 140), he presents the same argument as above, namely that even the most minor initial differences may grow so large over time as a by-product of regular economic development that, eventually, some regions will be condemned

[2] This argument is laid out in detail and with methodological rigour in Kaldor (1961).

for constantly aggravating underdevelopment in relation to the most prosperous ones. Nevertheless, Kaldor continues with assessing macroeconomic policies that could be used by the British government to handle these within-country regional inequalities. If we compare within-country regions to between-country regions, argues Kaldor, labour mobility is considerably larger in the former case and, as regards the latter relation, currency devaluation can be used to sustain external balance. Furthermore, in the within-country context, a national regional policy can be designed and implemented, and the national budget may serve as a financial resource to it. (In this respect, the biggest difference between a country and the EEC is that the former has a budget to finance its policies, while the common European budget is unsuitable for serving such goals.) Somewhat interestingly, Kaldor finishes his 1970 lecture with this sentence: "But these are thoughts for the distant future; long before they become practical politics we shall be deeply involved in the same kind of issues in connection with our negotiations to enter the Common Market" (Kaldor 1978b: 154).

It is widely known that at the time when the United Kingdom was negotiating accession to the European Economic Community (the Common Market), Kaldor was not at all in favour of accession. His main argument was related to what he saw as a major built-in flaw of European integration, namely that according to the Werner Plan published at the time, an economic and monetary union was to be established ahead of a political union. In Kaldor's view, this was a fundamental mistake in several respects (Kaldor 1978a).[3] First, due to the already discussed cumulative causation, especially in a currency union, "relatively fast-growing areas tend to acquire a cumulative competitive advantage over relatively slow growing areas" (Kaldor 1978a: 192), leading to increasing differences in productivity, which then results in the enhancement of the competitive advantage of the better-off regions over the less developed ones. Second, the monetary union necessarily requires at least some Community control over national budgets which, instead of leading towards political integration, would have a fully adverse effect. Third, as a joint consequence of economic and monetary integration and cumulative causation, "some countries will tend to acquire increasing (and unwanted) surpluses in their trade with other members, whilst others face increasing deficits" (Kaldor 1978a: 202).

Therefore, European integration would only be viable, says Kaldor, back in 1971, if there was real fiscal integration (and not just fiscal harmonisation) preceding the monetary union. Returning again to his idea that regular economic development in an integrated trade area results in growing inequalities between

[3] Kaldor wrote the original essay, published in 1971, as a counterargument to the UK's accession to the EEC (King 2009).

more and less prosperous regions, he states in relation to the fiscal integration he regarded as being inevitable that "[w]ith an integrated system of this kind, the prosperous areas automatically subside the poorer areas; and the areas whose exports are declining obtain automatic relief by paying in less, and receiving more, from the central Exchequer. The cumulative tendencies to progress and decline are thus held in check by a 'built-in' fiscal stabiliser which makes the 'surplus' areas provide automatic fiscal aid to the 'deficit' areas" (Kaldor 1978a: 205). The very fact that such a system was not intended to be launched in the EEC at that time was the main reason for Kaldor's opposition to the UK's accession. He continued with a criticism of the Community's initiatives for regional aid, claiming that "a central system of taxation" (Kaldor 1987a: 206) would be a much more viable instrument for fulfilling the purpose of reducing within-Community regional disparities – something that the foreseen common actions were not likely to achieve, in Kaldor's view.

In the 1970s, Kaldor did not pursue his thoughts on European integration any further. As we know, the collapse of the Bretton Woods system and the 1970s recessions washed away the full realisation of the Werner Plan. Jacques Delors, President of the European Commission in the 1985–1995 period, was the next European leader who took up the issue of advancing European integration further. The Single European Act was adopted in 1986, the Delors Report on the introduction of the common currency was presented in 1989, and the euro was in fact introduced in 1999, according to the plans, though not across the entire EU as originally intended. As Kaldor died in 1986, we do not know his views on these latter advancements. Nevertheless, if we read the Delors Report, we see that the Committee was indeed aware of the internal differences challenge so clearly explained by Kaldor: "Community policies in the regional and structural field would be necessary in order to promote an optimum allocation of resources and to spread welfare gains throughout the Community. (…) Economic and monetary integration may have beneficial effects on the less developed regions of the Community. For example, regions with lower wage levels would have an opportunity to attract modern and rapidly growing service and manufacturing industries. (…) Historical experience suggests, however, that in the absence of countervailing policies, the overall impact on peripheral regions could be negative. (…) Wage flexibility and labour mobility are necessary to eliminate differences in competitiveness in different regions and countries of the Community. Otherwise there could be relatively large declines in output and employment in areas with lower productivity. In order to reduce adjustment burdens temporarily, it might be necessary in certain circumstances to provide financing flows through official channels" (Delors Report 1989: Art. 29).

Even if so, the reformed regional and structural policies introduced by the Delors Commission from 1989 onwards have simply proved inadequate in size (mainly) compared to the effects arising from integration and the introduction of the single currency. Thus, their original goal to operate as countervailing policies has largely failed. In his memoirs, Alexandre Lamfalussy, who was a member of the Delors Committee drafting the Report, and a close colleague of Jacques Delors throughout the process of establishing the monetary union, acknowledged that the biggest mistake of the Delors Committee was that the competitiveness problem was mismanaged, which then came to the surface with the 2008 crisis (Lamfalussy et al. 2013). It seems that Kaldor was right and time is justifying him. Let us see what has happened in the EU in this respect.

THE CHALLENGE IN REALITY

In this section, we aim at showing empirically that Kaldor's warnings are to be taken seriously. In fact, the more developed parts (countries, regions) of the EU are much more attractive both for capital and for persons than the parts lagging behind. Kaldor had pointed out the large-scale capital accumulation processes in the more developed regions, as we demonstrated above. He did not consider labour movements, most probably because those were marginal in the EEC of the 1970s. However, this no longer being the case, our analysis targets the issue, based on Kaldor's reasoning. The cumulative causation appears to apply in relation to persons, not just capital, also enjoying free movement across the EU.

In the previous years, two large-scale events have contributed to the acceleration of intra-EU migration. First and foremost, with the Eastern enlargements, internal differences in economic development across the EU have reached new records. At the same time, the recent financial and economic crisis has brought about a prolonged crisis in the eurozone periphery, a crisis of not only an economic, but also of a social and political nature. We are not going to describe these here, but shall restrict ourselves to introducing some evidence that we believe are linked to Kaldor's theoretical considerations regarding the realities of European integration, and are in fact proving Kaldor in practice.

In our empirical investigation, we consider three elements of economic performance (while being fully aware that there may be many other relevant aspects): economic growth, GDP per capita, and employment in persons. We review trends on a broader time scale, from 1994 onwards, for two reasons: that was the year when the convergence period prior to the introduction of the single currency started, and it was the very same year when the Europe Agreements with the Central Eastern European countries (CEECs) aspiring for EU membership

Table 2. Grouping of EU member states

Country groups	Countries in the group
Core of EU	Belgium, Denmark, Germany, France, Luxembourg, Netherlands, Austria, Finland, Sweden, United Kingdom
Eurozone periphery	Ireland, Greece, Spain, Italy, Portugal
Post-socialist NMS	Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia

Note: Croatia, Cyprus, and Malta are not members of any of the above groups.

entered into force (within the legal framework of the EU, and European citizenship, described at the beginning of this article).

Accordingly, in order to show the persistent intra-EU differences, we have created three groups of countries: the core of the EU, the eurozone periphery, and the post-socialist NMS (*Table 2*). Unfortunately, data for 1994 were incomplete in the Eurostat database, so we had to take 1995 as our initial year. (As regards employment data, the first year when the complete database was available for the countries under investigation was 1999, so our analysis of employment trends starts at that year.) Because of the above-mentioned milestones of European integration that we claim have an impact on the investigated phenomena, we have created the following periods:

– 1994–1999: from the start of the convergence period to the introduction of the euro (for the eurozone periphery); from the entering into force of the Europe Agreements to launching accession negotiations (for the CEECs);
– 1999–2004: from accession negotiations to the first, biggest round of the Eastern enlargement;
– 2004–2009: from the first round of the Eastern enlargement to the worst crisis year;
– 2009–2013: the crisis years;
– 2013–2015: post-crisis years.

First, we present the results of our analysis concerning accumulated growth in the country groups (*Figure 1*). If we only look at the overall performance over the whole period (1995–2015), there is no room for concern or criticism: the post-socialist NMS have accumulated more than double the growth of the core, and the eurozone periphery has outperformed the core as well.[4] However, the picture is considerably gloomier if we take a look at the accumulation of growth in the respective periods. As for the eurozone periphery, everything was according to expectations until 2009: the less developed periphery has tendentiously grown more than the core. In fact, over the 1995–2009 period, the accumulated growth

[4] Growth data are nominal.

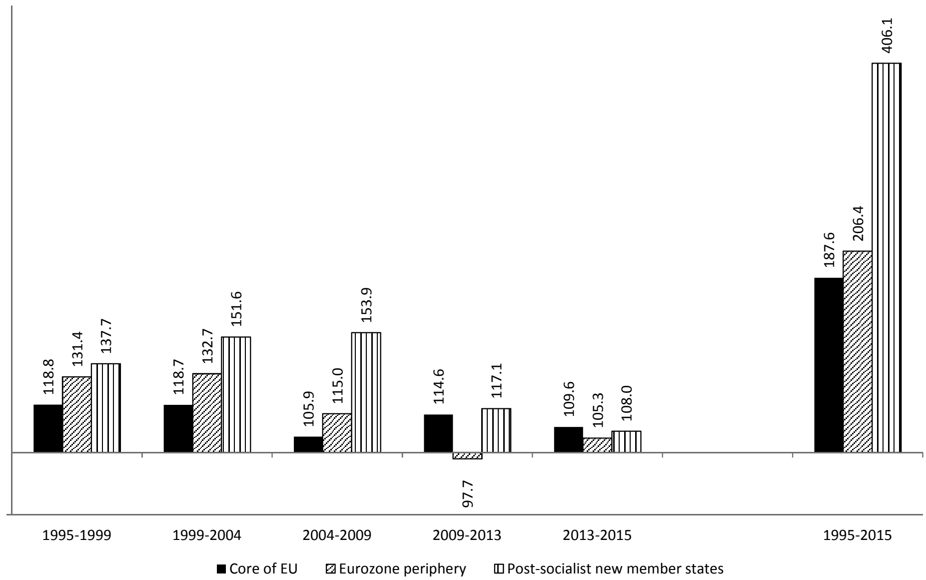

Figure 1. Accumulated growth in certain groups of EU member states, 1995–2015, %

Source: Own edition based on Eurostat data

of the eurozone periphery in 2009 was 200.6%, while the respective performance of the core was 149.4%. However, this advantage of the eurozone periphery has practically vanished since the outburst of the crisis; between 2009 and 2015, the core accumulated almost ten times more growth (+25.6%) than the eurozone periphery (+2.9%) did during the same period.

The Eastern enlargement was special in that post-socialist transition economies joined the integration with their specific heritage and institutional setting (Farkas 2011). Evidently, the growth potential in these countries was initially much higher than in the developed old EU member states due to the fact that they were in the course of catching up. Therefore, it is not surprising that the growth rates, and thus the accumulated growth, in the post-socialist NMS reached much higher levels than the respective performance of the core EU countries. The accumulation of growth in the NMS appear to have gained an additional momentum with the 2004 enlargement: at that time, these ten NMS were able to realise an overall +53.9% growth in just 5 years' time (2004–2009). However, similarly to the eurozone periphery, although not as severely, these countries were also hit by the outburst of the crisis in 2009. Since then, they have accumulated +26.5% growth, which is just slightly above the respective performance of the core.

Table 3. Accumulated growth in certain groups of EU member states, 1995–2015, %

Country groups	1995–1999	1999–2004	2004–2009	2009–2013	2013–2015	1995–2015
Eurozone periphery	131.4	132.7	115.0	97.7	105.3	206.4
Eurozone periphery (without Ireland)	129.9	131.1	115.4	97.3	103.1	197.0
Post-socialist NMS	137.7	151.6	153.9	117.1	108.0	406.1
Post-socialist NMS (without Poland)	131.8	167.9	153.9	112.9	107.8	414.5

Source: Own calculation based on Eurostat data.

We are aware that both groups of the periphery include two exceptions: Ireland and Poland. It is beyond the scope of this study to explain their special status in detail, but, among other specificities, both stand out from their groups in terms of growth, although for Poland this only applies for the post-2004 period during the years of EU membership. Accordingly, we were interested in looking at the two groups' performance, excluding these two members from their respective groups. Our findings show that our intuitions were right for the eurozone for all interim periods and overall as well, while we were right in respect of the group of the post-socialist countries in all periods but the 1999–2004 years and thus the overall period (*Table 3*).

All in all, we can say that prior to the crisis, convergence was underway in the EU: both the eurozone periphery and the post-socialist NMS were catching up with the most developed core. However, the crisis put an end to these favourable trends and, looking at the post-crisis period (2013–2015), even if it may be too short a time for drawing far-reaching conclusions, the return of convergence has not occurred yet.

While we were comparing these country groups across the years, the question was raised what exactly their weights have been in the EU economy and how these relative weights have changed through the years. *Figures 2* and *3* show the answers to this question. Very obviously, the core was, and still is, absolutely dominating the EU economy: from 1995 to 2015, even with much lower rates of accumulated growth, its weight has decreased from 73.9% only to 69.3%.[5] The eurozone periphery's weight is almost the same in 2015 as it was twenty years earlier. However, in the meantime, there were considerable internal processes: until 2009, the eurozone periphery grew as large as 26.3% per cent of the EU economy, before starting to lose its relevance again to the benefit of the core, which stood at 66% in 2009 and then started to relatively grow again.

[5] Though this may change with the United Kingdom exiting the EU – but analysing this is beyond the scope of this study.

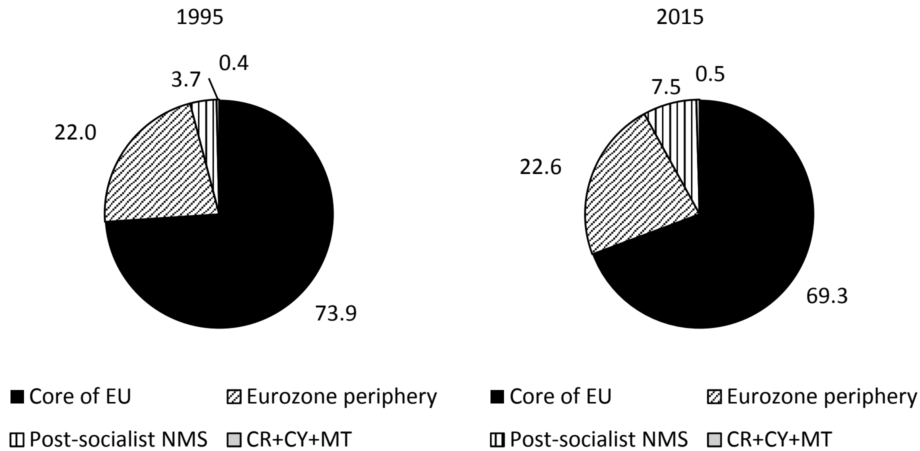

Figure 2. The weights of the country groups in the EU economy, 1995 and 2015, %

Notes: CR+CY+MT: Croatia, Cyprus and Malta.
Source: Own calculations and edition based on Eurostat data.

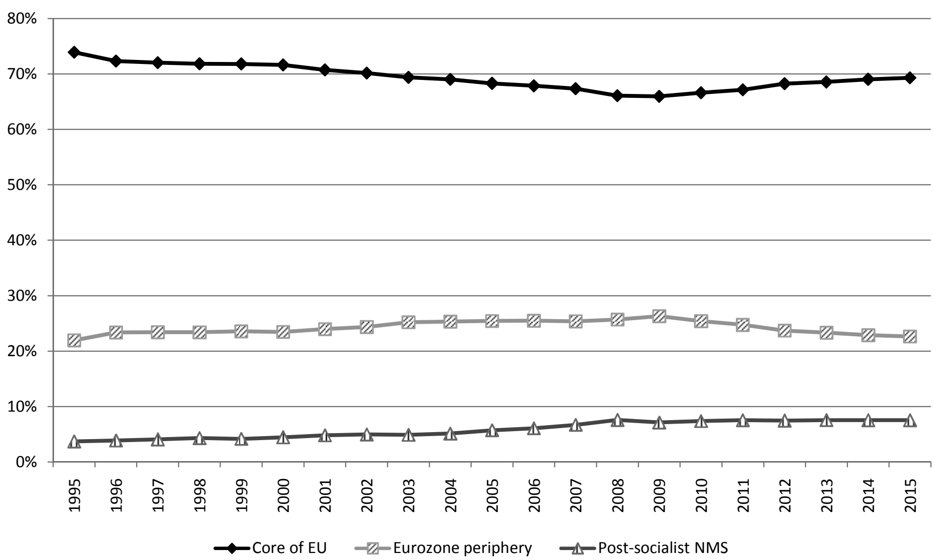

Figure 3. The weights of certain country groups in the EU economy, 1995–2015, %

Source: Own calculations and edition based on Eurostat data.

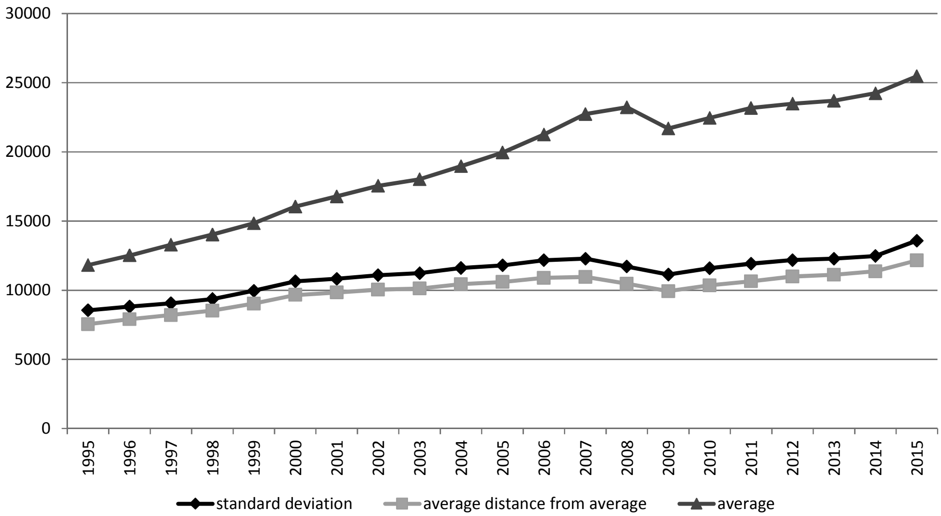

Figure 4. Standard deviation, average distance from average, and average of GDP per capita at current prices in EU member states, 1995–2015, euro

Source: Own calculations and edition based on Eurostat data.

The relative weight of the post-socialist economies grew steadily from the beginning of the reference period until 2008 when they accounted for 7.6% of the EU economy. However, in the next year, their weight fell back to a local minimum of 7.1%. Since 2011, this group of countries has held about a 7.5% share in the EU economy. Just for the record, the latest comer Croatia and the two small islands in the Mediterranean, Cyprus and Malta, have together had a share between 0.4% (1995) and 0.6% (2009) of the EU economy.

The next aspect that we analyse is the GDP per capita (current prices) in the EU member states. We again consider the 1995–2015 period. *Figure 4* shows the standard deviation, the average distance from average, and the average across the countries' data in all years of the reference period. What does the figure tell us? Very briefly: there is no convergence in the EU in terms of GDP per capita but, quite to the contrary, both standard deviation and average distance from average have been growing during almost the entire period. The only exception from these trends was the pre-crisis period 2007–2009 – but we all know that the price and wage bubbles in the periphery have burst and that the diverging trends have returned. Thus, those 3 years of convergence were not real, but bubble- (and credit-)driven.

Before turning to the analysis of the employment trends in the country groups, we must devote a few words to the competitiveness challenge. In order to show

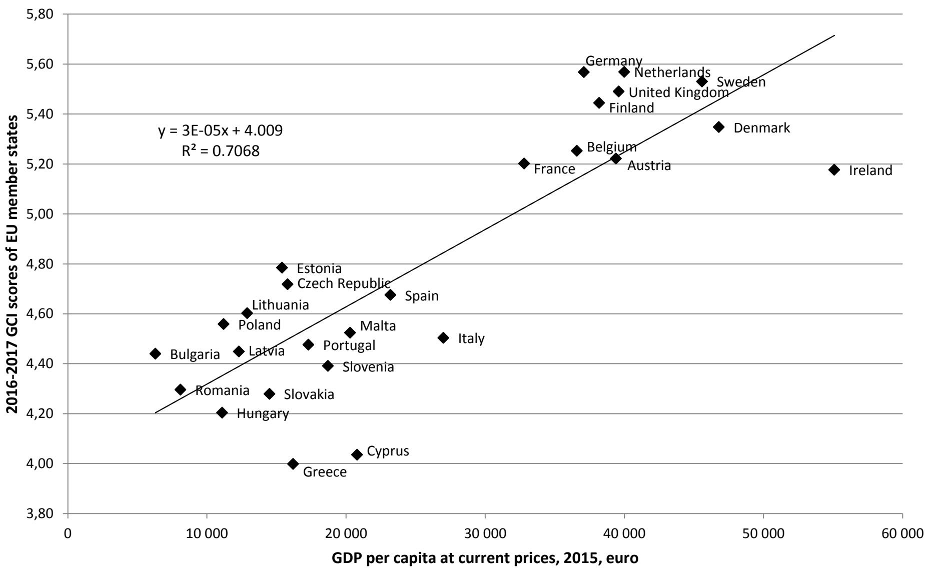

Figure 5. The 2016–2017 Global Competitiveness Index scores of the EU member states in terms of their GDP per capita at current prices (2015, euro)

Source: Own edition based on Eurostat data and the World Economic Forum Global Competitiveness dataset.
Note: For statistical reasons, Luxembourg and Croatia are missing from the dataset.

the internal competitiveness divide in the EU, we consider the Global Competitiveness Index scores of the EU member states according to the latest report (2016–2017). The GCI score is an index generated from 114 sub-indicators comprising both hard data (e.g. public debt to GDP ratio, export to GDP ratio, patent applications per million inhabitants, etc.) and soft data coming from the Executive Opinion Surveys carried out in the participating countries. Much criticism has been levelled at the methodology, even if there is sound and well-founded economics behind it (Sala-i-Martin 2010).

In *Figure 5*, we have put the 2015 GDP per capita data and the 2016–2017 GCI scores on the two axes of the chart. The EU countries form two distinct groups: there is a core (including Ireland) and a periphery (constructed by the southern eurozone and the NMS – the distinction between these two sub-groups is no longer more clear-cut). Ireland is in an exceptional position, but otherwise the divide is obvious, just as the positive and strong correlation (R^2=0.7068) between the two dimensions.

Finally, we examine employment data. As mentioned above, we only had complete datasets for the EU from 1999 onwards, this being the reason that we start our investigation from this year. In order to show the full realities, we do not consider employment rates (as they may remain stable even if there is emigration), but employment in persons. *Figure 6* shows the trends in the core of the EU, the eurozone periphery, and the post-socialist NMS. The picture is rather different from that of accumulated growth. The overall employment growth for the whole reference period (1999–2015) was the largest for the eurozone periphery (+18.2%), but most of this increase occurred in the first ten years of the euro. In the 2009–2013 crisis period, employment change in the eurozone periphery was minimal (+0.7%) and there has even been minor decrease (–0.2%) since the crisis.

The second biggest employment growth in persons was realised in the core of the EU: +10.4% in the overall period. Moreover, the core managed to increase the number of employed persons in all periods, even during the crisis. Last, but not least, the post-socialist member states are taken into consideration. Sadly, the overall employment in persons changed negatively in the overall period, even if by a small rate only (–0.2%). Of the four interim periods, the post-socialist NMS witnessed negative change in two (1999–2004, 2009–2013). The first might still be related to transition, but the second has definitely to do with the joint effects of the crisis and the free movement of persons in the EU.

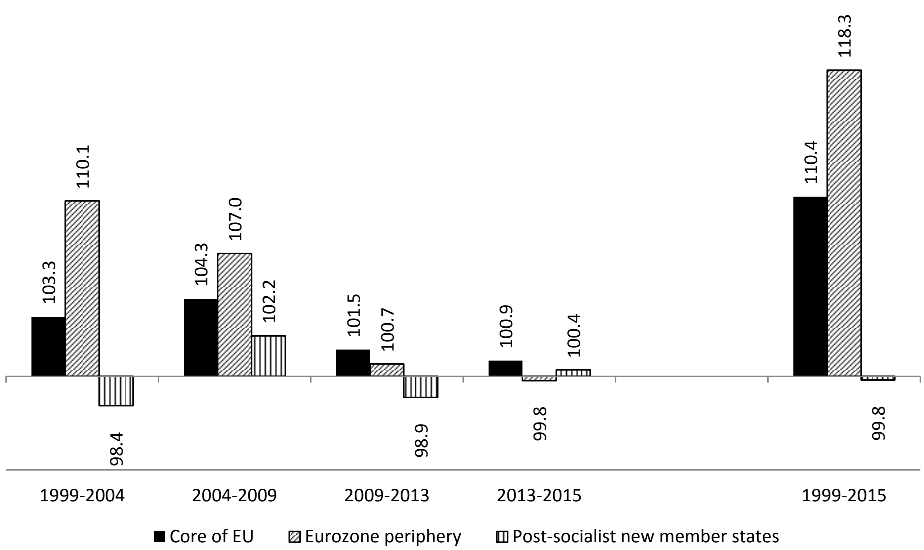

Figure 6. Change in employment in certain age groups of EU member states, 1999–2015, 20–64 years, persons, %

Source: Own calculations and edition based on Eurostat data.

Returning to the above-mentioned competitiveness divide, we have to mention that it evidently has a quality dimension as well. This lies in the fact that the core countries enjoy structural competitiveness, while the periphery is in a much less favourable position. Indeed, the core countries of the EU are the ones where most of the development of frontier technologies takes place in the EU. These countries are much more capital-abundant, and thus able to create high value-added and realise high income through selling high-end products and services in and outside the EU. At the same time, the periphery countries (particularly of the eurozone, but also of the EU overall) had to undertake painful adjustments in managing the crisis. These latter have been constrained to internal devaluation (eurozone periphery) or currency devaluation (non-eurozone periphery of the EU), and thus have slipped into (wage-)cost competitiveness. Their competitors are present to an increasing extent in the emerging part of the world, dooming them to lower added value and lower income levels in the longer term (Pelle 2015a). These trends are unlikely to end or turn soon, and may well provide explanations to the above-described post-crisis divergent trends in the EU.

All this is putting pressure, among others (e.g. political forces), on the free movement rights as well, as the more developed parts of the EU are much more attractive, not only for capital, but also for persons. Moreover, moving is becoming easier with the transport and communication technologies and costs of our times. If we look at intra-EU migration in the 21st century, we see that its scale is larger than ever, and is dominant in a one-way direction: from the periphery towards the core (Hárs 2016). In fact, in 2014, more than half of all intra-EU migrants were from the post-socialist NMS, with Romanian and Bulgarian citizens dominating within this group (Andor 2014). In many cases, the devastating economic situation in the peripheral countries appears as the major push factor of intra-EU migration (Hárs 2012) and thus, in fact, people do not emigrate for fun, but out of economic necessity. Looking at the demographic trends in more detail,[6] there is another internal underlying and seemingly unstoppable trend: people are at the same time moving from rural areas towards urban areas – again, from less prosperous to more developed regions. Intra-EU migrants are typically (younger) working age, willing to work, better educated than the home population, commanding demanded skills, talented, and motivated – often much more so than the home population that they leave behind (Blaskó 2014; Hárs 2016).

Actually, what we see is that practically whatever dimension we look at, we find largely similar intra-EU divergence patterns, be it the distance from Europe 2020 targets (WEF 2014), especially in relation to the social inclusion indica-

6 http://www.bbsr.bund.de/BBSR/DE/Home/Topthemen/bevoelkerung_europa.html

tors (Pelle – Laczi 2015; B. Kis – Gábos 2016), participation in the research and development framework programmes of the EU (Pelle 2015b), or the overall readiness for embracing the fourth industrial revolution (Kuruczleki et al. 2016). European integration is definitely to be revisited.

CONCLUSIONS

The Preamble of the Treaty of Rome spoke about an ever closer union among the peoples of Europe, the economic and social progress of member states by common action to eliminate the barriers, constant improvements of the living and working conditions of the people, strengthening unity, ensuring harmonious development by reducing the differences between various regions and the backwardness of the less favoured regions, and pooling resources to preserve and strengthen peace and liberty.

Rather obviously, in the 21st-century EU, these promises cannot be fulfilled. The mistake is not in the original ambitions, but in the setup of European integration, in that the policies dedicated to ensure cohesion are inapt for fulfilling the purposes for which they were initiated. This study did not analyse the deficiencies of these policies, but showed their failure through economic realities. Nicholas Kaldor had depicted these economic processes, starting in the 1960s. Even if we can find track of his ideas embraced by the European integration project, especially by Jacques Delors, the scale of the challenges appear to prevail over the scale of the success of policies to countervail them.

Another reason for the failures is that compared to the beginnings of European integration, not enough has been changed in the fundamental framework. Evidence shows that the original setup is unsuitable for the current European realities in the sense that it no longer guarantees the steady and balanced improvement of living standards across the EU. The issue should be addressed at the EU level as the problems are not manageable at the member states' level, precisely because the major root of the problems is integration itself, with its imperfect construct regarding the handling of persistent differences in the levels of development, growth, and attractiveness across member states.

Kaldor's projections were right in relations to these trends, even if he did not address the intra-EU migration of persons at that time, as it was not yet a problem. What he did predict correctly was that European integration would not improve the situation of the periphery very much. On the other hand, of course, it remains an unanswerable question what development path these countries would have followed in the absence of EU membership. All in all, Kaldor's clear-sightedness is much in demand today and in fact his implications still apply. As he said in his memoir: it is not at all a shame, but an achievement to make discoveries at later stages in a person's life, through studying scholars from the past (Kaldor 1986). Let's follow his path.

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