

TRANSFORMING A TRILEMMA INTO A DILEMMA. A POLITICAL ECONOMIC APPROACH TO THE RECENT CRISES IN EUROPE

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Abstract: *The European Union with its sophisticated institutional system is the most important regional integration on Earth. This tight form of economic integration converges to the level that Dani Rodrik calls hyper globalization in his model, the political trilemma of globalisation. In this model Rodrik assumes that from the three desired element of world politics: deep economic integration, the nation state, and democratic politics only two can be chosen. We can either choose deep integration and the nation state but then we have to abandon democracy; or we can choose deep integration and democracy, but then we have to forfeit the nation state; or we have to circumscribe globalisation to maintain democracy and the nation state. This paper argues, that this trilemma is applicable to the European Union, although with some modification. In our essay we will reduce this trilemma into a dilemma based on the integration theories of neofunctionalism and intergovernmentalism. The recent two crises that hit the European Project, the financial crisis and near collapse of the Eurozone, and the refugee crisis both represent this dilemma. The monetary union and the common labour market, with the Schengen Agreement created an integrated economic area, while in the same time political governing institutions have remained weak that could not respond well enough in times of external pressure. The argument is, that the EU is 'over integrated' from an economic perspective, and cannot function properly without a matching level of political integration. This can be achieved either using the neofunctionalist approach and the path of Europeanisation, or using the intergovernmentalista approach. Our main conclusion is that based on events of the last 8 years, it is more likely, and that the intergovernmentalista approach is going to be used. However, this scenario has many possible negative outcomes, out of which the most likely is a multispeed Europe.*

Keywords: *crisis; Economic and Monetary Union; European Union; intergovernmentalism; neofunctionalism; Schengen Agreement.*

JEL Classification: *F50; F53; F55.*

1. Introduction

The European Union (EU) has been constantly in crisis since 2009. First came the Greek and the other sovereign debt crises, out of which the Greek one has not been solved yet, but it is rather like a never ending story, raising concerns over and over again. Then came, as the result of the Arab Spring in 2011 the migration crisis that put pressure on functioning of the Schengen Agreement and the Dublin Regulation, challenging the free flow of people and goods across the internal borders of the member countries.

Though it may seem, that these two issues are not connected, in reality they represent the same key fundamental problem: what we will call in this paper the 'over integration' of the European Union. Both crises are related to the creation of a highly

integrated common market, where the union not only eliminated traditional barriers on the free flow of goods, services, labor and capital, but also created additional policies to foster economic integration. A common point of these additional features is that it decreases the sovereignty of member states significantly, and that they require fine-tuned institutional-regulatory background to operate smoothly.

In the same time of these crises, the former unity behind the European Union has started to disappear, public support for the Union reached its lowest level. (European Commission, 2015) In March, 2017 the European Commission (2017) published a White Book about the future of the European Union. In that, probably because of realizing those problems mentioned above, the Commission proposes five different scenarios about the future of the union:

- Scenario 1: Carrying On: A European Union that will not change significantly in the near future.
- Scenario 2: Nothing but the Single Market: A European Union that is a single market only, probably giving up on achievements like the Schengen Agreement, and even probably the Eurozone.
- Scenario 3: Those Who Want More Do More: the scenario of a multi speed Europe
- Scenario 4: Doing Less More Efficiently: An integration that enhances integration in some selected areas, while giving up on integration on sensitive issues.
- Scenario 5: Doing Much More Together: A much tighter integration, member states giving up more sovereignty.

The aim of this paper to show, that out of these scenarios only two are likely to happen: scenario 3 and scenario 5.

If we accept that the European Union have become a deep economic integration, that should mean, that this should lead to a significant decrease of member states' sovereignty, while increasing and strengthening regional level governance. This is the consequence of Dani Rodrik's famous model on globalization that he first published in his article called "Feasible Globalizations". (Rodrik, 2002). The trilemma shows, that economic integration can happen only, if institutional differences are eliminated, that can be achieved either through market mechanisms, or through improving economic governance.

The paper will show that the trilemma of Rodrik can be simplified into a dilemma in case of the European Union. The question one can manage to introduce new forms and improve already existing forms of regional level governance within the European Union. The dilemma is, how this improvement will take place. We will argue that there are two possible approaches: one we will call the neofunctionalist approach of which outcome is scenario 5 of the European Commission's proposal; the other one is an intergovernmental approach, which might lead to scenario 2.

2. The need of a federal level governance – the neofunctionalist logic of integration

When talking about the European Union global governance means policy decisions made on the integration level. Concerning federal level governance in the EU we might say that there are two main functions of that. The first function of that what we might call operational decision making: using the given rules and competence. We might call that the executive branch. The second function is making new rules,

decision making procedures. We might call that the legislative branch. We think that the cause of crises in the EU is that the existing rules are not good enough. That is why we have to concentrate on the second function of governance.

The second function is basically equivalent to the decision about the deepening of the integration. Therefore we can discuss it using integration theories as these try to interpret the process mentioned above. There are two leading theories of regional integration concerning the European Union. The first one is neofunctionalism developed by Ernest Haas. (Haas, 1958)

The neofunctionalist theory basically suggest that the deepening of the integration is fostered by (1) intrainTEGRATIONAL institutions such as the European Commission or the European Parliament and (2) by business and other interest groups within the Union.

“He [Haas] also stressed the unintended consequences of previous integration efforts, which he called “spill over”; as groups realized that integration could serve their self-interest, there would automatically be spill over from one area of integration to another. In time, the process of spill over would lead to political cooperation and a transnational political community favouring more extensive and centralized regional or international governing mechanisms.” (Gipin, 2001: 351) This means, that a decision about economic integration about common monetary policy will lead to other policy coordination, due to the fact, that a common monetary policy can be maintained only, if there is i.e. a coordination of fiscal policies. In case of the Eurozone neofunctionalism means that the whole process of monetary integration can be seen as a self-reinforcing mechanism (Dyson, 2002a: 9 – 10).

The idea of neofunctionalism suggests that traditional methods of international and transnational policy making, negotiations change. More and more functions of the nation state are put on the level of integration. In this interpretation neofunctionalism means that the short run political interests of states won't influence the decision making of the integration and the “legislative” functions. The integration is not a bargaining process among equal nation states but an automatic or semi-automatic process.

In case of the Eurozone crisis one can clearly see the neofunctionalist logic within the suggestions of economists to deal with the crisis. These suggestions that emerged before and during the early days of the crisis all would decrease the sovereignty of member states and enhance the federal level governance. These solutions would include the strengthening of supervision over member states' fiscal policies even by creating a federal level independent fiscal body (see Wyplosz, 2002 and 2005), creating a rule based bail-out mechanism by establishing a European IMF like institution (Mayer, 2009 and Gros and Mayer, 2010) (at the very end the now existing European Stability Mechanism is something similar), the introduction of common Eurobonds (De Grauwe and Moesen, 2009), and the joint supervision of the common financial market through the creation of a banking union. Some of these suggestions have been introduced since, some of them do exist only partially, some of them were denied by some of the member states. In case of those that do exists, however, it took a long time to implement them, i.e. the European Stability Mechanism was established in 2012, three years after the first suggestions of a European Monetary Fund.

The same neofunctionalist logic can be applied to the case of migration and Schengen, too. Niemann (2006) identifies four key aspects that lead to enhanced integration in case of migration related policies:

- Functional-endogenous pressures: in this case a policy decision can be successful only, if some additional policy decisions are made in the same time, too. This is the classical neofunctionalist “spill over” argument.
- Exogenous pressures: in this case some external shock leads to the necessity of making other policy decision in the direction of deeper integration. This loosely fits the initial neofunctionalist spill over logic, and also fits quite well to both the Eurozone and migration crisis.
- Socialisation, deliberation and learning processes among (mainly governmental) elites: this is very similar to Dyson’s argument regarding the EMU, and relates to the concept of Europeanisation (see Dyson, 2002a!).
- The role of supranational institutions: European institutions, such as the European Parliament or the European Court of Justice.

In his paper, Niemann (2006) also shows, how did the regulation change before the migration crisis regarding the treatment of refugees. He shows that before the crisis from the above aspects, first, classical neofunctionalism had the strongest influence. The current crisis points out the importance of the first two aspects: an external shock might trigger spill overs, reforms are needed to get the integration functioning again. The main cause of the migration crisis is that while within the Schengen Area there are almost no internal border controls, the control of the external border of the integration, the registration of refugees and asylum seekers remains in the hand of national governments. The latter is regulated by the Dublin III agreement (Regulation (EU) No 604/2013 of the European Parliament and of the Council). The core idea of this regulation is that the registration and accommodation of asylum seekers is the task of that member state, through of which border the asylum seeker had arrived to the Schengen Area. That means, that the burden of dealing with immigrants’ lies on those mostly smaller and poorer member states that constitute the external Schengen border. In the same time, this also means, that the evaluation of asylum application is still in the hand of national governments, that maintain the right to have their own national legislation about evaluating those applications, hence there are no federal level regulations that define those variables based on what an asylee will be granted a refugee status.

These problems were not foreseen and took the EU and member states by surprise. There have been many suggestions made to deal with the problem, rather less successfully. (Carrera et al, 2015):

- The temporary relocation system – the quota approach: the core idea of this policy change is the relocation of refugees from countries on the border of the Schengen Area into all member countries of the integration based on their economic situation (more developed countries would take in more people).
- The hotspots approach: according to this suggestion the community itself needs to participate more in the registration and evaluation of asylum seekers, by setting up centrally funded and manned registration hot spots in troubled countries dealing with masses of immigrants.
- Safe third countries: currently all member of the Schengen Agreements can have its own legislation, which countries they consider to be a safe third country. This is an important regulation, because migrants arriving from safe third countries can be denied from receiving refugee status. The idea of the suggestion is to create a common list of safe third countries and this would be a huge step in the unification of asylum policies within the Union.

- Irregular migration, trafficking and smuggling: common action against illegal activities connected to migration.
- Funding: extra funds for frontier countries helping registering and accommodating refugees.
- The Commission's proposal for a European border and coast guard: another major step towards the creation of a common immigration policy suggests the creation of a common border and coast guard force. Obviously, this would decrease sovereign rights of individual member countries to control their own borders, hence it is opposed by some members.

What is common in these suggestions that they reflect to spill over pressures started because of the external shock of the Arab Spring. What is clearly visible from ongoing negotiations, that during the talks countries, though realizing the pressure, they rather put that aside and they focus on their national interest, hindering the effectiveness of common policies. And, however the logic that member countries follow is not new or surprising, decision makers will need to understand that unifying migration related policies will be a must if they want to maintain the logic of the Schengen Agreement.

3. The logic of intergovernmentalism

Intergovernmentalism pointed out the weaknesses of earlier theories: the neglect of national interest. After this a new theory of the European integration emerged: the theory of intergovernmental institutionalism. This theory, which later was simply called intergovernmentalism in many major textbooks (like Gilpin, 2001) was developed by Andrew Moravcsik in the 1990s. According to Moravcsik (1991: 25 – 26) the three key elements of his theory are:

- Intergovernmentalism: according to Moravcsik the most important actors are the nation states.
- Lowest common denominator bargaining and paying off of smaller states.
- Protection of sovereignty: Joining the integration means that a nation state has to sacrifice a part of its sovereignty in exchange of grants from cooperation, this case the integration. Thus nation states are interested in maintaining their sovereignty therefore “policymakers safeguard their countries against the future erosion of sovereignty by demanding the unanimous consent of regime members to sovereignty- related reforms. (ibid: 26)

The intergovernmentalists theory considers regional integrations (including the European Union) as a regime. The theory of international regimes has a huge literature (see Krasner, 1983; Keohane, 1984; or for a later more comprehensive one Hasenclever – Mayer – Rittberger, 1997). International regimes are “sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors’ expectations converge in a given area of international relations” (Krasner 1982: 186). According to the definition regimes change if the principles or norms of the regime change.

Changes and cooperation in international regimes are explained by several theories; though according to this neoliberal institutionalist approach these are the states that change their behaviour because of their national interest. In the intergovernmentalists approach however states are no longer black boxes: “they are entities entrusted to governments, which themselves are responsible to domestic

constituencies. State interests change over time, often in ways which are decisive for the integration process but which cannot be traced to shifts in the relative power of state.” (Moravcsik, 1991: 27) National interest can be traced back to internal politics. That, however, doesn't change the fact, that according to this intergovernmental approach European governance can be described as a bargaining process, where domestic politics of the member states play a very important role.

According to the intergovernmental approach European governance works as a bargaining process among member states and their governments, where the main explanatory variable is each nation's interest. These interests are the results of intra state debates, the interests of pressure groups and the vote-maximizing behavior of politicians (Moravcsik, 1991). In this sense the European integration is nothing else but the same two-level-game Putnam (1988) describes. Another important point is sovereignty-consciousness (Niemann, 2006). This encapsulates actors' lacking disposition to delegate sovereignty to the supranational level, or more specifically to yield competences to EU institutions. Sovereignty-consciousness tends to rise with waning trust in the objects of delegation, i.e. EU institutions, which, as we saw was happening after the 2008 crisis. This is nothing else as the opposition of what we called Europeanisation earlier in this paper. Based on this the future of the Euro and the Schengen Agreement is in the hands of utility maximizing politicians.

Regarding the reforms of the Economic and Monetary Union, the main battlefield of neofunctionalism and intergovernmentalism lies around the questions about fiscal federalism or the construction of a fiscal union. As Benczes (2014) shows the spill over logic forces the EMU towards the creation of such a fiscal federalism, however, in reality the road leading there is quite bumpy. And the obstacles are mostly the results of the individual advocacy skills of national governments.

The same is visible in case of the migration crisis. Since the outbreak of Arab Spring in 2011, member states have been dealing with migration pressure as a security problem, leading to individualized and non-cooperative answers. Dekalchuk (2015) shows in details the changing behavior of governments when refugees arrived to their border.

During recent negotiations member states' interests played a major role, and the changing attitude of governments often mirrored the changing attitude of popular opinion to maximize popularity. Just as the death of the young refugee boy Alan Kurdi, and the pictures of his body in newspapers shaped public opinion all over Europe in favour of asylum seekers, the criminal offenses committed by immigrant on New Year's Eve in Köln, or the terrorist attacks in Paris turned public opinion more against immigration.

4. A multi-tier Europe?

The idea of multi-tier Europe means that different countries of the European Integration engage themselves in different level of integration. The case of Economic and Monetary Union, and also the Schengen Agreement might be seen as one of this issue. However, with the two exceptions of Great Britain and Denmark in case of the EMU and Great Britain and Ireland in case of Schengen all other countries promised and are required to join the agreements as soon as possible after their EU accession. If this pledge could be enforced than we hardly could talk about multi-tier Europe in this case.

But after the outbreak of the two crises the picture is different. They put the problems of European level governance into the spotlight and the leaders of the integration have to choose now among the three possible scenarios of Rodrik. Though, as we said earlier, we should exclude the market based solution from the investigation. The other two scenarios depend on the decisions made by the national governments.

The two remaining options are: decreasing the level of integration or enhance European level governance. First let's consider the first option. In case of the EMU that would mean for a single country to leave the Eurozone. In case of the entire integration that means breaking up the Eurozone. Leaving the Eurozone can be costly for both the one that leaves and for those who stay. Leaving the Eurozone would result in high rate of inflation, bankruptcies in the financial sectors. This would certainly hurt the country's economy and society. But a potential exit would also mean the acceptance of default on the public debt which could cost a lot to the lenders as well. On the other hand if a country tries to continue paying back its debt that would cost also a lot because of the fiscal restrictions. Therefore we might argue that quitting the Eurozone is at least as costly for the rest of the member states as for the country in trouble. And as today we do not have any mechanism that handles quitting it is quite unlikely that it would happen. In case of the Schengen Agreement, reducing the level of integration would mean the reintroduction of border controls on internal borders. This would also have significant costs (according to studies the consolidated GDP of the area would drop by app. 0.8% (see European Parliament, 2016). This does not seem as catastrophic as the breakup of the Eurozone, but beside the economic effect it would also have a symbolic role, since the passport free zone is one of the most important symbol of the European Integration.

Governance in the EU is still based on the intergovernmental approach, and the EU still works as an international regime. There are several conceptions within regime theories that try to explain how norms and rules evolve and change in these institutions. The more liberal conception is that nation states recognize that if they cooperate and adhere to rules they agreed on, they all share benefits from it. Realists are more pessimistic about cooperation and rule making and say that this is only possible, if there is a hegemonic state that "supervises" other states behavior and lays down the rules of cooperation. Intergovernmentalists are in between that two views. Small states are usually bought off with side payments while larger states can veto significant changes. Therefore bargaining moves toward the lowest common denominator of large state's interest.

If we take a look at recent happenings in the European Union concerning the problems in the Eurozone, what we can see is that the proposed solutions including institutional changes and bail-out packages were subject of bargaining processes. These discussions were mostly prevailed by Germany and France the two largest country of the Eurozone. We do not want to present all the suggested solutions. What is important however to see that all of these suggestions would decrease member states sovereignty. What makes it even more painful is, that member states' fiscal policy will be circumscribed. But as fiscal policy is dominated by politics and political goals, therefore it is very painful for a politician to give up the control on it. The same is true for migration. Controlling borders and who passes them is a key part of domestic sovereignty that is hard to be given up.

This means, that there is a trade-off between deep integration and sovereignty, which can be modelled through a cost benefit analysis. But, when we are talking about costs, we must to include the political costs of deep integration, too. Based on

that it is a fair assumption to say, that there will be countries finding it too costly to engage in deeper integration, while for others the potential benefit might be higher. Based on that, it is a valid argument that those countries finding it more costly to integrate will be left out from further integration, while others will engage in such activities. And this is the scenario, the European Commission refers to as “Those Who Want More Do More” or the multi-tier Europe concept.

5. Conclusion

In our essay we merged two theoretical approaches of economic integration: Rodrik's trilemma of global politics and the integration theories of neofunctionalism and intergovernmentalism. Based on that we showed two possible outcomes for the European integration. One, where spill over pressures are automatically translated into policy decisions, and a flawless deepening of the integration happens. The possible outcome of this scenario is a deep integration, a federal-state like European Union. Regarding of the investigated areas that would mean a Eurozone with enhanced stability mechanisms regarding external and internal balances, the realization of fiscal federalism and redistribution. Regarding migration, the spill overs show in direction of the creation of a federal level immigration policy, regarding the controlling of external borders.

In case of the other approach, intergovernmentalism, the question is not about, whether these spill over pressures do exist? The question whether there will be any change due to the emergence of these pressures? What intergovernmentalism states is that the spill over pressure won't be translated automatically into a policy decision. Recent changes in the European decision making process gave a larger role to supranational transgovernmental bodies, large the European Parliament or the European Commission. The introduction of qualified majority voting makes it possible to vote down individual countries, while the introduction of enhanced cooperation makes it easier for a designated group of countries to introduce policies affecting only them.

The reason it is important to stress these changes, because if we accept the intergovernmentalista reasoning, it might happen that the actual policy outcome will be different from what the neofunctionalist logic would predict. At the very end, such an outcome might result and be interpreted as constrain on integration, and might also turn around integration. To stick with one of our examples, nowadays there are many countries (Denmark, Sweden, Germany, France, Austria) using temporary or permanent border controls: currently these are in line with the Schengen Agreement, however, it is very likely, that in the future this will change.

However, when we think about this intergovernmentalista scenario, it can be interpreted not only as a dissolution of the integration, but also as a partial continuation of the integration process. In this case we are talking about a multi-tier integration. In case of our examples that might mean the stabilization of the Eurozone and the Schengen Agreement by implementing those policies that are required to be carried out. In the same time, there might be member states, who would not accept these new rules, and most likely they will need to leave that particular cooperation; and there will be potential candidate countries, which would be not interested anymore to join the existing enhanced cooperation.

That doesn't necessary will mean the collapse or break up of the European Union. The Union itself will be what in the Commission's White Book is called scenario 2,

nothing, but a single market. And within that single market, different types of enhanced cooperation will come into existence, in which case the major explanatory variables of state behavior will be that of the intergovernmentalist approach. Whether this is in line with original idea of European integration is for everybody on her own to decide.

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