

Europe reborn or Europe regress?

LÁSZLÓ CSABA*

There is a high degree of gloom and expression in the discourse over the European Union. The language used by politicians and the press alike tends to be confrontational, visions of the European «superstate» as well as of egoistic net contributors dominate. Attempts by the British Presidency in the second half of 2005 to reshape expenditure priorities and push long overdue reforms as part and parcel of the 2007-2013 financial perspective failed. Representatives of the four Visegrád countries rejected the British suggestions with great vigor, without even considering these as a base for negotiations. When a modified version was made public, the Hungarian PM issued a statement rejecting it before even having considered what was a complex set of interrelated propositions, with reference to the projected diminishing of the size of the budget.¹ It seems that the «bigger the better» approach of the socialist period is on the return. And while one has sympathy with Commission President José Manuel Barroso in his anger over cuts of the inflows, it would surely be politically simplistic and academically unfounded to contend, that a bigger EU budget were equal to a stronger Europe, and conversely, by definition, a smaller budget with a weaker integration. Being aware of the large number of critical studies on EU spending (Midelfart-Kravnik and Overmas, 2002, Swinbank and Daubjerg, 2004) as well as the growing role of nationally funded joint projects, such as in the field of environmental protection, or even the deployment of the rapid reaction force in Macedonia, the identification of the financial perspective as a share of GDP with European policies and institutions and the commitment thereto seems hasty at best.

In reality the eastward enlargement of the EU can be qualified as the greatest success of European integration to date. At the negligible cost of 0.15 per cent of the GDP of the EU-15, ten – and with Romania and Bulgaria by 2008 twelve – formerly Communist countries could be brought to the family of European nations. The process of Europeanization, i.e the interplay of EU-level and domestic institutions and policies has been underway for over 15 years. This has helped to shape the workings of new democracies, the evolution of market institutions, and not least to bring about the critical minimum of policy consensus that has been needed for the shaping of relevant institu-

* The author is Professor of Economics and European Studies, Central European University and Chair, Committee on Economics, The Hungarian Academy of Sciences.

tions and the conduct of policies that may run counter to vested interest, such as trade liberalization and ensuring price stability via an independent central bank.

In sum, despite all conceivable criticism about the quality of the market order or of the functioning of democracy, which may well be legitimate, it is beyond doubt that the EU managed to stabilize its «backyard», both in terms of security policy and in terms of economic conditions. A glance of the statistics on economic activity might suffice to prove that new members have been showing regularly more robust economic activity indicators than the incumbents. While GDP growth in the euro area decelerated from the 1996-2000 period of 2.7 per cent to 1.3 per cent in 2001-2004, Slovakia registered 3.7 and 4.6 per cent respectively, Hungary 4.0 and 3.6 respectively, Latvia 5.4 and 7.5 per cent, Lithuania 4.3 and 7.7 per cent, Estonia 5.6 and 7.0 per cent (source: ECB: *Statistics Pocket Book*, Frankfurt M, October, 2005, p. 37). In sum, the post-communist economies have put their house in order out of their own initiative, prior to joining the EU (a great difference from the experience of Southern enlargement, when significant sums, on occasion reaching up to 4 per cent of local GDP were provided by the EC in terms of assistance). Moreover these countries have clearly brought vitality in terms of new trade and investment opportunities, whereas inflated fears of mass migration – 370 to 650 thousand per year in some forecasts – have proven unfounded. The actual outflow of people was in the hundreds and thousands, not reaching even ten thousand in the case of Hungary. This happened for the simple reason that all those who wanted to leave have already left in the 1989-2004 period.

In sum, the original 1957 project of the founding fathers has been by and large completed. Some countries, true, have decided not to join, or the EU has not yet agreed to their inclusion. However, the idea of creating a community where war is unthinkable, where common values rule, where rule of law and parliamentary democracy are no longer subject to doubt, where the market economy has been re-established, i.e the original agenda of the Rome Treaty is basically accomplished. All these have been taking place in a period of sustaining growth. In the new member states inflation has been arrested and their joining the single currency is a matter of time only. While the debate over how long a time it takes is heated, still, from the long run perspective this accomplishment defies most of the skeptical tones that were voiced at the onset of transition.

However, the *perception* of European integration differs fundamentally from the facts and figures. In the East the bargains over macroeconomically insignificant sums, as well as over forms of support that defy the basics of public finance, such as direct income support to farmers, have created an atmosphere of frustration. The latter has been overshadowing the major accomplishment of having entered into a regulatory frame which creates, for the long run, much more favorable conditions for sustainable growth, than that of anybody left out.

Meanwhile in the West enlargement has coincided with *three overlapping crises*. In fact, as we shall show below, enlargement has though not triggered these, still, given its modalities, it *has undoubtedly contributed* to these crises, rather than to their solution. Volumes have been written on these complex matter, for the sake of brevity I shall confine myself to listing these.

A. The *identity crisis*. For the generation of the founding fathers, but also for those of the Mitterand-Kohl-Delors cohort the meaning of European integration, the move towards *finalité politique* was a given, not requiring special justification in terms of cost-benefit analysis. The idea of the «ever closer union» has never been seriously questioned and this helped overcome deadlocks and crisis situations, that have always followed the evolution of European integration (Dinan, 2004). However, with a generation of politicians born after World War II this intuitive and intrinsic pro-integrationism or federalism has become questioned. When Baroness Thatcher wanted «her money back» in 1984 and attained the unfamous British rebate, this was seen as a price to be paid for the queer British to be kept inside Europe. Two decades later Germany, but also Scandinavian members, Southern and Benelux members tend to see the EU in purely financial terms. While this is mistaken in analytical terms, perceptions shape policies more than facts do, especially in a world dominated by electronic media. While the emergence of soft law, the progress of European policy transfer, the emergence of meso-level coordination together have turned the deepening project a reality (Wallace and Wallace, eds, 2004) policy-makers have gradually but unambiguously have been converted to the intergovernmentalist, minimalist perspective. In so doing the question of «why Europe?» and «what is the value added of jointly doing things that may be done separately» have been more frequently been raised. The median voter, but also the median policy-maker considers European integration as a fact of life, a given, not worthy of reflecting about. In a way, having accomplished the original objectives the EU has fallen victim to its own success. The attempts to create new vision, be that through the three successive intergovernmental conferences of Turin, Nice and Laeken, or via the Lisbon Strategy, have failed to master this task. If we have no answer to what Europe stands for, it is difficult to come up with visions, without visions there is no strategy, without strategy no grand project, without project there is nothing to be implemented. Muddling through remains the name of the game.

B. *Policy crisis*. The EU has clearly underwent a set of policy crises. Except for the single currency, all major policy areas have been saddled with failures and forward looking projects, such as that of European financial regulation (of the Lámfalussy Committee of 2001) or of opening up the services sector, as proposed by the Bolkenstein Directive of 2004, have suffered serious setbacks. But this is not the whole story. All traditional major EU policy areas tended to end up in dead alley. The Common Agricultural Policy, accounting for still over 40 per cent of Community spending in the internet age,

could be reformed in a very incremental manner only (Daubjerg, 2003), despite ever more radical reform proposals that have come from the Commission and net contributors ever since 1988. Structural funds have proven to be of limited avail in fostering regional convergence. While some convergence, especially nominal, could be observed in the 1990s, per capita GDP of the regions have not been converging (Rodokanis, 2003). Also in those cases when convergence could be observed, it is difficult to disentangle the contribution of EU spending as against the overall economic environment and the disproportionately much more powerful national fiscal and monetary incentives. The existence of Cohesion funds were rightly put in question already back in 1999, with all four original cohesion countries having attained their objective of qualifying for the eurozone. Despite this the fund remained and new members anxiously fighting for its survival.² In the area of common foreign and security policy, the Helsinki headline goals of setting up a 60 thousand strong rapid reaction force have clearly been missed, despite the war on terror. The Lisbon Strategy of catching up with the USA has been trimmed during its re-launch of March 2005. Last but not least, the Stability and Growth Pact of 1997, an attempt to introduce rules-based fiscal policy both in the EU and inside its member-states has undergone a major reinterpretation during the Brussels Council of 22-23 March 2005. This allows for a considerable room for calculating deficit items and growth, and the Eurostat, as well as the ECB have been under constant pressure from politicians to accommodate the tendency towards soft, populist policies.

In the political arena the Constitutional Treaty was meant to signify a new beginning, by consolidating the status quo and creating a limited room for further deepening. However, it has been clear for participants of the Convention from the very outset (Haensch, 2003) that the disagreement among member states is such, that any radical proposal will be thwarted by somebody, with reference to «vital» national interest. Also the atmosphere of distrust, that emerged during the unlawful boycott of the right wing Austrian government and exacerbated by the wars in Afghanistan and Iraq, has proven unfavorable to a meaningful text.

In a way the Constitutional Treaty was lacking operational significance. It has not paved the way for further enlargement, it has not made decision-making simpler, it has not related to most what pertains to money. Therefore its rejection by the French and Dutch electorates in the first half of 2005 does not necessarily have unfavorable policy repercussions for the daily conduct of affairs. Much of the meso-level and spontaneous, bottom-up activities, such as of environmental groups, the creeping legislation by the Commission and the European Parliament, obliging member-states in an ever growing set of fields, has been going on. However the rejection, triggered basically by fears and perceptions, emotions rather than calculation, has been a clear signal. This says no to further deepening and further enlargement alike, for the rejec-

tion reflected basically the fears triggered by the racial strains, that have later become manifest in violent suburban riots in both countries.

C. The *institutional crisis*. Perhaps the most visible crisis sign of the EU is the inability to manage its decision-making structures. The very fact that Council Sessions last for two-three days and nights, that top politicians bargain over macroeconomically insignificant issues, or of questions totally unrelated to the daily lives of their electorate speaks for itself. The informal institutions of the EU, that used to work and allow for the bridging of irreconcilable positions, namely informalism and collegiality have been eroding. This has to do both with the increased number of actors as well as the steeply diminishing levels of mutual trust among these. The fundamentally intergovernmentalist structure of the EU has not been reformed prior to enlargement. Suggestions to cut back the size of the Commission, the Parliament and of working languages and veto gates have all foundered in the three intergovernmental conferences cited above. As a consequence an «intimate circle» of the Council session can hardly be below 100, with PMs, foreign ministers, one person taking notes each, and one interpreter per delegation constituting it. The more EU politics has been perverted into showbiz for domestic audiences, the longer the secrecy of voting sustains, the more each player plays for the domestic audiences Brussels bashing, the slimmer are the chances of meaningful – or indeed, any – compromise. Regular attempts by Ecofin members to influence ECB, the weakening of the Commission, the open rivalry between Commission and Parliament, the extension of the co-decision mandate of the latter, that makes it capable to spoil any party, without, however, the chance of setting up a new one, have all contributed to the laming. This is exacerbated by the divergent courses of the member-states on a number of vital issues, from Iraq to fiscal sustainability. And the EU is known to be a club built on voluntary compliance, rather than sanctions and court-style enforcement (Braga de Macedo, 2001). If a club is no longer composed of gentlemen, the oversight, even the operation may be endangered. Neither the joint monetary policy, nor the common foreign policy line can be effective if voluntary compliance can no longer be taken for granted.

New members on their part were quick to emulate the (mal) practices of incumbents in terms of intergovernmentalism, in terms of maximizing their own benefit, in terms of rejecting any vision that would go beyond immediate political gain. This has, of course, contributed to the crises that have already been alive and well by the time the accession of 2004 has materialized.

THE STATE OF THE UNION

1. The state of the Union at the threshold of the two financial perspectives, marked by the rejection of two major documents that were meant to

shape its future: the Constitutional Treaty on the political field and the Financial perspectives for as elaborated by the Luxemburgian and British.

Though the Constitution, as discussed above, has been largely inoperative given the amount of time and energy invested into its elaboration, and given the fact that new members were already involved in its elaboration, the rejection by the electorate of two of the original founding six members could not be seen but a slap in the face of the entire political elite, whose laboring has been turned down by the citizens.

There are at least two ways one may want to look at this largely unexpected outcome. Looking from a political perspective, one can but wonder what made top politicians, especially in France, venture into this exercise. The consideration of splitting the Left was obviously a miscalculation, as the Right in France has been traditionally equally split over European matters. Likewise the Dutch constitutional order does not require a referendum over something which is essentially an international treaty, by no means replacing the basic law of Holland. The blind faith of the political class in the integrationist tradition of the Dutch did not take into account the sea change that was observable by the first years after 2000. But looking from the sociological perspective the rejection might be interpreted as a sign of healthy democratic features. More precisely it provided an unexpected, but unmistakable feedback to the political class, uncovering the well known, but never acknowledged drift between the political class and the «men on the street». In a way, the EU, in its exclusive, exclusionist and often self-centered intergovernmental bargains has been unmasked to be involved in issues that are of no relevance to the electorate, and conversely, deeply disinterested in matters that are of concern to the electorate, such as immigration, unemployment, slow growth and a system of education neglecting the needs of the labor market.

Likewise the rejection of the Financial perspective for 2007-2013 and the lasting inability to come to a quick and mutually acceptable correction *may be read in two ways*. At the immediate level it might be seen as a failure to reach agreement by two subsequent presidencies despite the fact that bargaining positions have been quite near by June 2005. Also, in purely technical and diplomatic terms, the chance of a major overhaul are dim, since the outcome is a result of several years of dovetailing national positions. But obviously, at least at the time of writing, everybody uses the debate for showing patriotism to his domestic audience, therefore even minor concessions may prove politically unlikely.

On the other hand, the defining feature of a crisis is precisely the *discontinuation* of the previous practices, emergence of new rules of the game and the formation of new priorities in response to the challenge. This is called «the benefit of crisis» (Drazen and Grilli, 1993) which is seen by the literature of policy reform as a window of opportunity. Just owing to the cataclysm vested interests previously opposing any change may be overrun. If we look it in this perspectives, and follow the initiatives of the British, but on a number of issues also of other net contributors, we can no longer take it for granted that

e.g. the Chirac-Schröder agreement over not to touch farm subsidies until 2013 can survive. The idea to launch a major overhaul, if for no other reason, because of the pressures coming from the WTO talks and the need to conclude the Doha Round on world trade liberalization, such changes might become simply unavoidable. We may only speculate in political terms and advance academically better substantiated normative views with not immediate significance for policy-making if we were to sketch the outcomes that may come. But a de-emphasis of farming, especially the still dominant production-related subsidies, and the appreciation of Lisbon related tasks, as well as of spending on justice and home affairs is a most likely outcome. Also the common foreign and security policy, to be discussed later, requires additional funding over and above the currently envisioned sums.

2. It would be wrong to draw an entirely gloomy picture of the Union only because of recent political setbacks. In reality, *the history of the EU is also one of crises*, and despite – even among – these the process of deepening has been going on, and has gained irreversible dimensions. The more we appreciate the relevance of new theories of Europeanization, stressing the relevance of constructivist elements as well as of the non-governmental actors of various sorts, from regions to citizens' movements, the more we appreciate the relevance of ongoing regular get together and coordination by technocratic agencies and the state administration of member states, the less we feel the loss of a not very operational document, or the voting down of a normatively poorly founded financial perspective as a serious defeat. Activities of EU organs and also the interaction among various fields has not been stopped by the stalemate. For instance the rulings of the European Court of Justice continue to exert direct and implementable influence over individual members. Likewise the recent ruling of the European Central Bank of rate hike, defying the calls from Ecofin and major parts of the press (as e.g. *Financial Times*, 30 Nov. 2005, editorial) has shown that the logic of integration has not been stalled. Likewise the ever expanding role of social and environmental legislation is hard to overlook.

Most important among these, however, is the ongoing development of the Single market, triggered by the overall drive to deregulation, the IT revolution and global processes, such as those in the airline industry or in the evolution of global financial markets. There is no way to stop these at the borders of the EU. By contrast, the functioning of the euro allows for citizens and corporations to make more cross border comparisons, the IT to foster cross border shopping and sourcing, enlargement allows for enhanced reliance on outsourcing. In sum, the veto players – mostly bureaucrats, unions and some monopoly producers – can no longer resort to easy protectionism as they used to in the first decade after adoption the Single Market Act. It will be hard to push the ghost of liberalization back to the bottle, despite the temporary defeat of the Bolkenstein Directive in the summer of 2005 at the EU level. Services, accounting for three fourth of wealth creation, can no longer be ex-

cluded from the workings of the single market, the more regulated and fast track way, the better.

3. The *single currency* has proven to be an unanimous success. Technically speaking, though the European central Bank has continuously missed its headline goal, as defined in its 2003 may interpretation of «below but close to 2 per cent per annum», still, price stability has been secured for all practical purposes. While in 1991-95 the harmonized index of consumer prices grew by 3.2 per cent on average, preparation for the single currency has delivered an improvement to 1.6 per cent in 1996-2000. Following the attainment of/ or qualification to the euro club, a degree of consolidation fatigue emerged, exacerbated by such major external shocks as terrorism, the burst of the bubble of the new economy, the increase of oil prices from 12 to 60 dollar a barrel and many more. Under these circumstances the 2.2 per cent average HICP in 2001-2004 and the 2.2-2.5 per cent recorded in the third quarter of 2005 is a great achievement (all data from: ECB: *Statistics Pocket Book*, Frankfurt M, November, 2005, p. 18). The euro, having lost first sizably its external value, has gained strength against the yen and the dollar, with 2004 seeing a year of complaint against its excessive strength (then around 1.30 dollar per euro), finally in 2005 stabilizing around 1.20, or roughly equal to its starting line of 1.17. In sum price stability could be maintained and the euro has become an internationally accepted legal tender and store of value as well as a means of transactions, especially in the private sector.

This achievement is all the more remarkable, since the *fiscal framework* that was to ensure and support its smooth functioning has undergone *serious shocks*. The Stability and growth Pact, which is a supplement to the Treaty on the European Union as of Nice, 2001 is, according to the ruling of the European Court of Justice as of 13 July 2004 a legally binding part of the acquis. However, the political pressure to find exemptions and excuses for postponing fiscal adjustment has been continuous, among old and new members alike. This is not the place to re-iterate the complexities of this matter (Csaba, 2005), however it might be enough to note that the fiscal framework, that was meant to ensure that both components of economic policy work for noninflationary growth has been weakened by the reinterpretation of March 2005. In short, the latter allowed for a series of economically unjustified but politically convenient interpretations and creative accounting, which let trespassing governments run irrespective of the consequences of their policies for the long run. In short, this reinterpretation has taken the wind from the critical voices that would have called for more fiscal stringency in the new members, where fiscal deficits were bloated. For instance, in the Czech Republic, once a bastion of fiscal conservatism, deficits attained 5.9 p.c in 2001, 6.8 p.c. in 2002, 12.5 p.c. in 2003 and 3.0 p.c in 2004. In Hungary, the same data were 3.5 p.c, 8.5 p.c., 6.5 p.c. and 5.4 per cent in 2001-2004. In the case of Slovakia the same data run as follows: 6.6 p.c, 7.8 p.c, 3.8 p.c and 3.1 p.c. In Poland the general government deficit in 2001-2004 ran at 3.7 p.c., 3.3 p.c., 4.8 per

cent and 3.9 per cent (according to ECB: op. cit., p. 48). In short in the good years, when their growth was regularly more robust than of core EU, the Visegrád countries have *missed the opportunity for fiscal corrections*. On the contrary, they made digressions which have nothing to do with laying the groundwork for future growth, since these deficits followed basically increments in consumption and sustaining institutions, not investments or development of institutional infrastructure.

Fiscal profligacy has had *different repercussions for the old and new members*. For the old ones, already incumbents in the club, fiscal laxity has not brought about imminent punishment. At the political level, since it has been the three biggest states which were not playing by the rules in 2001-2005, that account for over 67 per cent of joint GDP of the eurozone, punishing these via the excessive deficit procedure has proven politically infeasible. Markets by contrast were more concerned about the instability in the USA and Iraq than with the EU states. In relative terms it was the instability and vulnerability of the US and Japan that lent support to ailing Europe, therefore the punishment that might otherwise have been expected from capital markets has not materialized. It is also true that the numbers of the Stability Pact and their observance (or non-observance) bear only indirect relation to the issue of price stability, that was the major objective. By contrast, for new Europe the missing of targets has become more of a problem. They are not yet members of the club of the single currency. They see current account and fiscal deficits growing. For these economies joining the stability club, i.e. the eurozone, would be a great plus, in political and business terms alike. However the distance to this has been increasing. The moving of the target date of entry by the Visegrád countries to 2009 and 2010, in case of Poland even farther, is a clear acknowledgement of their inability to cope. The drift is all the more embarrassing, since the small new EU states, such as Estonia, Slovenia and Lithuania already in 2007, Latvia, Malta and perhaps Slovakia and Cyprus may join the eurozone already in 2008, and Bulgaria with its currency board regime may well qualify by 2009. Being left out for these postcommunist countries is not so innocent as it is for Sweden or Denmark, not to speak of Britain, where robust economic data ensure the continued interest of capital markets in these economies.

4. *The Lisbon Strategy* of the EU has been an attempt to modernize Europe and to provide a vision for the period, when the visions of the Delors-Mitterrand-Kohl period of parallel deepening and widening seemed about to be accomplished. The original strategy, as adopted in 2000 contained a number of utopian elements, such as becoming the most competitive club of the earth, or the extension of the social rights, without caring much about productivity and structural reforms. As reflected in the soul-searching report of Wim Kok Commission, as well as in the Council deliberations of march 2005, a more realistic assessment had to be elaborated. First, instead of having over 170

indicators to be assessed, a more business-like strategy was elaborated. Second, the proper sequence between growth first and social improvement next was decided. Third, in order to operationalize the strategy, national programs had to be elaborated and submitted, together with semiannual progress reports.

In the current phase the revised strategy aims at the spread of IT in the traditional branches as well as in improving education, so as to help young people to enter the job markets. With support to lifelong learning elder people are meant to be retained/or reenrolled/ to the labor market. However, none of these commendable goals can be implemented, if member states continue to eschew painful, but necessary labor market reforms and welfare streamlining, that would allow to diminish the *disincentives to work and the disincentives to employ* new personnel. At the time of writing quite timid measures are being made in most EU countries except for Britain and Scandinavia. For this reason in some members, such as Poland and France unemployment continues to be public enemy number one, with their current levels of 17.7 and 9.4 p.c respectively, above the euro area average of 8.6 p.c (ECB: op. cit., p. 41).

5. Finally, as discussed in the previous section of this study, the wholesale *rethinking of major expenditure policies* of the EU has been underway. This applies to the common agricultural policy, to regional spending and common foreign and security policy. In each of these areas ideas abound, but political will seems to be limited at best. For this reason the horse-trading over the financial perspective may perhaps trigger some more forward looking solutions than the ones currently contemplated in the corridors of power. The inability to find compromises along the old lines is perhaps the best incentive to think over the basics anew. At the time of writing, however, it is more a normative than a forecast that could be made with a fair degree of probability.

WILL NEW MEMBERS FORM A COALITION OF THE NASTY?

By the coalition of the nasty we mean a behaviour that is denoted in the more academic European studies literature as intergovernmentalism, or a focus on the unilateral defence of what is perceived to be the national interest. This is deeply rooted in a materialist perspective of *Realpolitik*, that considers the ideational component of European integration and most of the initiatives of the founding fathers as filthy talk, and focuses on the tangible material benefits, mostly in terms of official transfers and the net balance of those. As long as this is the success indicator, EU bargains are seen as zero sum games, therefore the chances of bridging the diametrically opposed views are minimal. The coalition of the nasty means as set of ad-hoc coalitions, where those disinterested in any change of the status quo find allies among neutral parties in order to ensure *the blockage of any major change* that may bring about uncertain benefits in the future – in other words policy and institutional reforms. Looking through the angle of social learning new members have been perhaps even too quick in learning the «established practice» of incumbents, at

even too quick in learning the «established practice» of incumbents, at least as far as the past 15 years was concerned.

This lack of vision has to do with *a variety of factors*. First, in the long period of accession new members were told not to come up with new ideas. Indeed, the stipulations of the Amsterdam Treaty, precluding any new opt-outs has been a clear signal, as was the *acquis* screening. The useful tactics has always been to keep low profile, in order not to hurt anybody inside the club who might veto. As a consequence the stance of not getting involved in visionary debates, not to comment on principles has become one of the strongest features of all those who had anything to do with EU matters in the new member states. Experiencing the disharmony among incumbents participation in the Constitutional Convention has only strengthened this feature. Second, the populist turn in politics made new members politicians all to eager to emulate incumbents in «protecting the national interest against Brussels», with a mere 0.94 per cent of joint GDP being redistributed via Union channels. Third, the materialist perspective, that neglects and negates those truly idealist views, that prompted the founding fathers to launch the entire exercise, has become dominant. The EU is seen, despite repeated claims to the contrary, as a milking cow for the new members, who tend to identify in their domestic policy games the net recipient position with the net contribution of EU to their well-being. This is understandable from the point of view of mass media, however it is plainly wrong, as the major gain is the improvement of their quality as a secure investment spot, via *enhanced credibility* of their regulatory system. Last but not at all least the resultant general euro-scepticism prompts players to adopt non-compromising stances also over matters of minor importance.

Given the growing number of players assertive «intergovernmentalism» is bound to produce deadlocks and uneasy situations. The three day three night sessions of the Council are just the tip of the iceberg, but quite telling of the outcome. Likewise the foot-dragging over policy outcomes that bare no relationship, in theory or practice, to the declared principles, such as the Lisbon Strategy or solidarity, is unlikely to produce sustainable outcomes. One of the most weighty innovations brought about by the British presidency has been the initiative to change the rules of the game during the 2007-2013 financial perspective, including the Schröder-Chirac deal of 2002 on farming. The latter is a must anyway, else the EU stance over the Doha Round will be lastingly jeopardized.³ Since it is well known that over 80 per cent of farm subsidies accrue to large farmers, over 2000 hectares, ones whose income position is by no means below average, the sustainability of the regime on grounds of tradition and sectoral concerns does not seem to be warranted (Swinbank and Daubjerg, 2004). Likewise it is unlikely that regional spending may be justified and sustained, if the principle of solidarity, represented by the Commission only, is not being observed. Since if it is competitiveness and administrative capacity, rather than level of development of regions that matters, it might be just as well to turn to global financial markets. This is so for the simple reason

that less bureaucracy and less political predetermination may imply – and often does imply – significantly less transaction costs for most corporations, municipalities and individuals alike.

The situation is all the more paradoxical since the lack of vision (pragmatism) low key approach to EU matters is an imminent reflection of the myopia saddling domestic policies of the member-states, old and new. While the challenges of globalization, both economically and socially are imminent (cf. eg. more recently Kolodko, ed, 2005), the nature of media politics is such that important issues tend to be crowded out by entertaining ones. In the age of infotainment weighty issues, such as terrorism, the spread of infectious diseases, vulnerability of the IT system, migration, but even such traditional concerns as the Balkans or the Middle East tend to be crowded out from popular attention. As a consequence not many informed decisions can be taken. The priority of the oft-invoked «median voter» is precisely *not to face* these serious, embarrassing and often unresolved challenges, where no easy answers are at hand. The rejection of the Constitutional treaty, the low key or adverse publicity of Lisbon Strategy, the ritual mockery of the common foreign and security policy, not confined to the tabloids, together do not bode well for more forward looking policies. However it is precisely the latter that are in demand should Europe wish to establish itself as a major player of international relations, and avoid the regression into a free trade area.⁴ While the latter seems less likely, given the irrevocable ties that have emerged in the process of Europeanization across the areas, from legally binding pieces of legislation to activities of regions and the civil society, it is an age-old insight that anything that does not grow is likely to regress. Therefore the currently observable stagnation of political integration, as well as of the deepening project (especially in the area of services) is a cause for concern.

It is therefore hard to overlook the drift between descriptive and normative planes of our analysis. In the first dimension the emergence of the coalition of the nasty seems to be an accomplished fact, judging by the tone and substance of the policies adopted by the new members. These clearly focus unilaterally on maximizing official transfers, whereas all other items, be that of political integration, future oriented plans or the advocacy of further enlargement seems to have been pushed to the background. On the other hand, the theory of «benefit of crisis» quoted above draws on the broad historical experience of overcoming deadlocks owing to an unexpected breakdown and/or unconventional political initiatives that allow for previously non-realistic solutions to materialize. For the new members their recent experience with the implosion of the Soviet Empire might be a case in point.

THE WAY AHEAD

It is the nature of the *cumulation of strains* and the resultant crisis that does not allow for any forecast over how and when changes might occur. The only thing we can advance in terms of prediction, based on the unsustainabil-

ity of the status quo, is that it must change under any event. There is no way how we can get meaningful answers to new questions, such as future enlargement, e.g. with Turkey and Ukraine, if the analysis is based on the usual *ceteris paribus* assumptions, as it has become customary in the public administration as well as in most research institutes. There is not even a relevant question to ask, if the enlargement by Turkey is, e.g. assessed on the base of weighting of votes as elaborated in Nice, or in terms of extending the current dairy quotas on a large country. Although it is true, that in terms of per capita GDP and agricultural employment Turkey is not less advanced than is Romania (with about 5000 dollar per capita GDP measured on purchasing power parity and about 30 per cent of the population employed in farming), however this is more of a drawback for Romania than an argument in favor of Turkey. It is equally certain that merely by joining in the social and economic model of Romania and Bulgaria are unlikely to become less Southeast European than before. The experience with Greece in the 1980s as well as with Portugal in the past decade is indicative of the possibility and probability of lengthy adjustment periods that may last for decades.

In order to be able to be meaningful European analysts are well advised to adopt a postmaterialist – rather than a postmodernist – vision, where value judgements and long term considerations of the European security order regain their original significance. It is hard not to reckon with the fact that the current disinterest in broader issues and the focus on material gain reflects the *diminished fear* that followed the collapse of the Soviet Union with its mighty army, and the underestimation of the threat of terror up until at least the Madrid and London attacks. In the light of the latter a gradual reassessment may occur, with the Barcelona process of cooperating with Mediterranean countries gathering new momentum.⁵ The issue of further enlargement, especially with such large and diverse countries as Ukraine and Turkey becomes feasible only after thoroughgoing *reforms of internal arrangements* of the EU will have been accomplished. These are unlikely until a new vision, following that a new strategy, from which a new enlargement project is being elaborated. Likewise the successful management of the Western Balkans, where state building, nation building and Europeanization should, in theory, *form an integrated strategy*, that would require basically more innovative and prophylactic strategy (not so much more money, as assistance injected to areas where uncorrupted and fair government is not yet secured, can only be wasted). The ability to provide a realistic European perspective could induce local governments to *commit themselves to European values*, and then the process of association and finally accession could, in the long run, provide answers to the unfinished business of Balkan peace building.

It goes without saying that such a far-sighted policy is infeasible as long the threat – or implicit tendency – to relegate the EU in a free trade area, which is at the root of intergovernmentalist approaches, can be overcome. As long as the EU is unable to overcome its identity crisis, it is unlikely to be able to advance new strategies. Identity in this plan implies a straightforward an-

swer to what the EU stands for, the reassertion of the basic principles of the founding fathers, and their operationalization on a new area at a time when the original goals have been accomplished, while globalization triggers new challenges.

In concrete terms *internally*, there are at least three areas where major breakthroughs are required, both per se, and in order to be able to meet the new global challenges. *First*, there is a need for leaner and more functional decision-making structure, freed from national egoism and from the currently dominant prestige considerations. A Commission composed by about 6 members could perhaps better serve the purpose than the current arrangement, where Commissioners are employed for areas where the Union has no immediate competences (as research and development and taxation), or duplications are obvious, as in the case of four foreign affairs Commissioners. Making the minutes of Council session public would rob politicians from their toy of instrumentalizing intra-EU deals for domestic audiences. The extension of qualified majority voting and the limitation of working languages would also be of assistance. *Second*, it could be declared that intra-EU redistribution is unlikely to grow, as net contributors will not foot the bill. In so doing the requirement of spending for such activities that add value to national activities should be observed. For instance, development aid to advanced countries could be discontinued. Similarly the budget for common foreign security policy and for justice and home affairs should grow, with farm spending declining. *Third*, not least the need to regulate less, that is the continuation of the de-regulation drive started by the Barroso Commission in September 2005 should be extended. Thereby a large number of unnecessary regulations, that provide food for criticism only, but do not contribute to common good, can be avoided. In each and every case of new legislation those proposing it should elaborate a) how it would contribute to the common good and b) who would foot the bill, how much the proposed legislation would cost.

On the *external* front improvements might be urgently needed, if the EU is to come close to a role the second largest economic power of the globe must play, if for no other reason, by default. It is inconceivable that for instance the EU position on global trade should fall victim to special interest politics of some member states, especially if the macroeconomic significance of the issue is not demonstrable. More recent cases of the inadequate reform of the banana and sugar regime, triggering immediate threat from developing countries of bringing it to WTO dispute settlement⁶ is just a case in point. The EU is a major player in the international trade arena and there is no way how the EU could be eschewed if any major progress in terms of the Doha round were to be attained (Whalley, 2003, Charlton and Stiglitz, 2005).

The second major area where the EU has responsibilities is in common foreign and security policy. With the obvious de-emphasis of Europe during the two Bush administrations *the anchor both for Southeast Europe and the Caucasian countries*, but to a degree also for Russia (in economic terms) has become the EU. There is no way to shrug off the responsibilities that emanate

from the geographical, cultural and historic position of the EU-27, as the currently promulgated neighborhood policy seems to do. The «anything but institutions» offer of June, 2004 is actually next to nothing, since the EU is basically about institutions. Similarly the Mediterranean dimension requires far more innovative and cooperative solutions than the ones focusing on policing unwanted migrants. Finally mending the transatlantic relationship, both in the economy and in politics, will require efforts, imagination, and not least internal coordination, much more than was the case in 2000-2005.

Finally the question arises if new EU members are to become *likely advocates of further enlargements*? For the time being, as long the «materialist» and «realist» perspective dominates, the answer is a clear no. However, should the above sketched reassessment be forthcoming, with or without crises, this might trigger a more *forward looking approach* on the side of new members. Once they will be able to see the issue of further enlargement through different lenses than the one prompted by their fear of immediate loss of regional and farming transfers, this will allow them to adopt a broader perspective. In the latter security of European order and democracy is not ensured as long as large countries and unsettled areas are not taken care of. This holds even allowing for the dominance of domestic balance of forces in settling the bills and setting the final outcomes. In the latter perspective new members will appreciate their historic responsibility, that comes from their geographical and historic position. In so doing they can, indeed contribute something palpably new to the rethinking of the common foreign and security policy of the EU. If one takes for granted the old insight, that times of internal stagnation are the times for external activity, there is no way how the following decade could eschew the implementation of at least some of the insights that may follow from the above sketched normative analysis. Instead of regressing into a free trade area, Europe, with the contribution of new members, may be on its way to be reborn as a community worth of emulating, not only in the economy.

- ¹ As reported in *Népszava*, December, 2005.
- ² «Nobody has yet questioned the survival of Cohesion fund'-declaration by the Hungarian Minister for European Affairs, Mr. Etele Baráth», *Figyelő online*, 22 November, 2005.
- ³ It is one of the more telling stories that surfaced in recent days that her majesty, the Queen of Britain is among the major recipients of farm supports from the EU budget.
- ⁴ As in a more recent forecast by Morgan J. P., as reported in *Világgazdaság*, 23 November, 2005.
- ⁵ For the time being, this has not proven to be successful. The more recent meeting founded, as European partners tended to adopt a lecturing approach rather than listening to the grievances of the other. Cf more in *Die Welt*, 23 November, 2005.
- ⁶ *Wall Street Journal Europe*, 1 December, 2005.

REFERENCES

- Braga de Macedo, J. (2001): «The euro in international financial architecture», *Acta Oeconomica*, 3, pp. 287-314.
- Charlton, A. and Stiglitz, J. (2005): «A development-friendly prioritization of the Doha round proposals», *World Economy*, 3, pp. 293-312.
- Csaba, L. (2005): «A non-stability and anti-growth Pact for Europe?», in Csaba, L., *The New political Economy of Emerging Europe*. Budapest, Akadémiai Kiadó, pp. 182-212.
- Daubjerg, C. (2003): «Policy feedback and paradigm shift in EU agricultural policy: the effects of MacSharry reforms on future reforms», *Journal of European Public Policy*, 3, pp. 421-438.
- Dinan, D. (2004): *Europe Recast: a History of the European Union*, Boulder (Col.) USA, Lynne Reiner.
- Drazen, A. and Grilli, V. (1993): «The benefit of crises for economic reform», *American Economic Review*, 4, pp. 598-607.
- Haensch, K. (2003): «Beschreiben was sein kann: das Verfassungsentwurf des Europäerischen Konvents», *Zeitschrift für Staats-und Europawissenschaften*, 3, pp. 299-312.
- Kolodko, G.W. ed (2005): *Globalization and Social Stress*, New York, Nova Science Publishers.
- Midelfart-Kravnik, H. and Overman, H. (2002): «Delocation and European integration: is structural spending justified?», *Economic Policy*, 35, pp. 323-358.
- Rodokanis, S. (2003): «Fifteen years of structural fund intervention (1988-2002): a critical evaluation», *European Union Review*, 1-2, pp. 65-106.
- Swinbank, A. and Daubjerg, C. (2004): «The CAP and EU enlargement», *Journal of Common Market Studies*, 1, pp. 99-120.
- Wallace, H. and Wallace, W. eds (2004): *Policy-making in the European Union*, 4th edition, Oxford, Oxford University Press.
- Whalley, J. (2003): «The Wto and the new development-oriented trade round», in Krizsán, A. and Zentai, V. eds, *Reshaping Globalization*, Budapest-New York, The CEU Press, pp. 181-196.

Europa rinata o Europa regredita?

Sommario

L'allargamento a Est dell'UE può essere considerato un grande successo dell'integrazione europea. A costi trascurabili, pari allo 0,15 % del Pil degli UE-15, dieci paesi ex comunisti (e saranno 12 nel 2008 con Bulgaria e Romania) sono entrati a far parte della famiglia delle nazioni europee. Il processo di europeizzazione dura da 15 anni e ha permesso la nascita di nuove democrazie, lo sviluppo di istituzioni di mercato, consentendo la formazione di un consenso politico almeno minimo. I nuovi membri hanno evidenziato regolari crescite economiche più robuste dei paesi UE; inoltre, hanno portato nuova vitalità in termini di interscambio e di opportunità di investimenti, mentre i timori d'inizio anni '90 di migrazioni di massa si sono rivelati infondati. Il progetto originale del 1957 dei padri fondatori può quindi essere considerato in larga parte realizzato.

La percezione dell'integrazione europea tuttavia differisce drasticamente. A Est permane una frustrazione legata alla contrattazione delle condizioni macroeconomiche e alle forme di supporto che minacciano le finanze pubbliche; in Occidente, l'allargamento è coinciso con tre crisi sovrapposte: di identità, politica e istituzionale.

L'Unione si trova di fronte alle difficoltà determinate dal rigetto di due documenti che avrebbero dovuto delinearne il futuro: il Trattato costituzionale e le Prospettive finanziarie elaborate da Lussemburgo e Inghilterra. Sarebbe tuttavia errato presentare un'immagine fosca dell'Unione solo a causa dei recenti blocchi. In realtà, l'intera storia dell'UE è fatta di crisi e nonostante/con esse il processo di integrazione è proseguito, assumendo dimensioni irreversibili. La moneta unica si è rivelata un indubbio successo, assicurando una stabilità dei prezzi e un rafforzamento dell'euro rispetto a dollaro e yen. Il risultato appare ancor più rimarchevole, tenuto conto che il framework fiscale ha invece fatto fronte a forti shock; nonostante i vincoli del Patto di stabilità e crescita, si sono avute continue pressioni politiche con lo scopo di individuare esenzioni e scuse per posporre l'aggiustamento fiscale. La sconsideratezza fiscale ha avuto differenti ripercussioni: mentre per i paesi membri non vi sono state immediate sanzioni, per quelli della Nuova Europa il problema appare più serio, tenuto conto del loro obiettivo di entrare nell'eurozona. La Strategia di Lisbona ha rappresentato un tentativo di modernizzare l'Europa, anche se quanto adottato nel 2000 conteneva una serie di elementi utopistici. Successivamente ci si è resi conto della necessità di giungere all'elaborazione di un giudizio più realistico. Inoltre, è in atto un complessivo ripensamento delle politiche di spesa UE; l'incapacità di trovare compromessi può rappresentare il migliore incentivo a rivedere il tutto dalla base.

Per «coalizione dei cattivi» l'autore intende quei paesi che propugnano il cosiddetto «intergovernamentalismo» e che mantengono posizioni di difesa unilaterale di quanto percepito come interessi nazionali, che non vedono di buon occhio una modifica dello status quo. A essi potrebbero avvicinarsi alcuni Nuovi membri.

E' ovvio che le tensioni e l'evoluzione delle crisi impediscono ogni previsione di come e quando i cambiamenti avvengono. Del resto, non si possono avere risposte a nuove questioni, come nel caso dell'allargamento a Ucraina e Turchia, se l'analisi continua a essere basata sul concetto *ceteris paribus*. Gli analisti europei dovrebbero adottare una visione postmaterialista (più che postmodernista) in cui il valore di giudizio e le considerazioni a lungo termine sull'ordine e la sicurezza europea riguadagnino il loro significato originale. Ogni politica lungimirante non è praticabile sino al superamento dei tentativi di relegare l'UE a una semplice area di libero scambio; e finché non supererà la sua attuale crisi, non sarà in grado di definire nuove strategie.