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Introduction

The European Community is in the midst of a profound political and economic crisis. After several years of uninterrupted progress towards European Union, Europe's political class has received a sharp, negative jolt. Left to themselves, there seems little doubt that the Parliaments of all the member states would have ratified the treaty of Maastricht without undue difficulty. The requirements of the Danish constitution, compounded by the discretionary decision of the French president to organise a referendum on the treaty in France, have, however, exposed a wide gap between leaders and led in most if not all EC countries. This political crisis of confidence, which also helped to precipitate a major European-wide currency crisis, has weakened decision making capacities and in certain cases political resolve at precisely the moment when, in normal circumstances, the Community should have been preparing to implement the Maastricht treaty and initiate negotiations with the EFTA countries who wish to join.

The EC cannot simply return to 'business as usual'. The weaknesses in its political system that have been exposed in the course of 1992 need to be taken seriously and a coherent strategy devised which not only reflects the near-universal consensus of Europe's political class that something like a European Union is a necessity in the 21st century, but which also acknowledges and overcomes the real shortcomings in the system as it has developed so far. The first section of this paper analyses the point of departure: the strengths and

weaknesses of the EC in 1992. The second section develops a strategy for the future.

1. The Point of Departure: Elite Consensus, Popular Confusion and Structural Faults

1.1 Elite Consensus

Any discussion of the political crisis in the EC in 1992 must begin with the fact that at the beginning of the year the political class throughout EC 12 was, with a few maverick exceptions, united in the belief that the integration process was irreversible and that by one means or another its growing significance in all areas of government would necessitate an increasing amount of joint decision making at Community level. There were of course profound differences over strategy, as there always had been. The Maastricht process itself, for example, was notable for yet another bout in the ongoing conflict between federalists and intergovernmentalists which had characterised and confused the political debate about Europe's future from the late 1940's onwards. As the contributions of both the Danish and British governments to the making of the treaty demonstrated, however, even the professedly 'Euro-sceptical' member states were actively engaged in a negotiation which carried the Community still further away from an intergovernmental association than either the treaties of Paris and Rome or the Single European Act had done.

In the light of subsequent events, the Danish case is particularly striking. From April 1990 onwards, the Danish government and opposition forged common positions on all the most important questions raised by the two intergovernmental conferences and, as a result, had a positive impact on their development incommensurate with the size of the country and quite out of line

with its normal reputation as a lukewarm adherent of a predominantly economic club. This consensus was subsequently confirmed in 1992 itself when the Danish parliament voted by an overwhelming majority in favour of the ratification of the treaty.

The story in the UK was if anything even more revealing. In a period of eighteen months, first as Chancellor of the Exchequer and then as Prime Minister, John Major pinned his credibility to a more overtly European policy than that of any of his predecessors since Edward Heath. The fact that he could do this was, however, made all the easier by the inexorable drift of elite opinion in the UK during the latter years of the Thatcher administration. Europe terminated the Thatcher regime just as much as if not more than popular discontent with the poll tax. John Major's efforts to ensure that through a combination of adherence to the ERM, strategic compromises in the intergovernmental negotiations and a change of political style in the European Council, the UK began to assume a place at 'the heart of Europe' therefore were more a rationalisation of reality than a bold departure of policy. Brave talk about 'winning' at the European Council in Maastricht itself concealed a remarkable, tactical withdrawal across a broad front of indefensible positions on which his predecessor and in certain cases his own government had previously taken a stand. His supporters may not have always understood what he was doing because, presumably on grounds of political judgement, he did not always make it clear. There seems no doubt whatsoever, however, that without the Danish referendum of June 1992, the UK Parliament, in which both the major opposition parties were even more overtly pro-European than the government, would have ratified Maastricht without difficulty and in good time.

A similar picture of elite consensus emerges elsewhere. The French referendum may have exposed deep divisions in the RPR and in doing so catapulted to leadership relatively insignificant political figures, in the shape of

Seguin and Pasqua, but their prominence was a consequence of polarisation and not a cause of it, a comment on the original consensus rather than a denial of it. All the mainstream political leaders from the socialists to the RPR backed the treaty, a position which was shared furthermore by the great majority of the more prosperous and better educated classes in France. In the referendum of September 20th, the rich and the university graduates voted yes by substantial majorities.

A full explanation of this elite consensus in Europe lies beyond the scope of this essay. Some of the more important elements that helped to shape it are, however, worth recalling, if only to put the present crisis in a certain perspective and more particularly to demonstrate the irrelevance of some of the more apocalyptic visions of the Community's future. The Maastricht treaty was not a flight of fantasy, but a realistic attempt to come to terms with the practical requirements of European economic and political management created by the Community's own momentum and a number of important external developments over the past four decades. The importance of the internal dynamics of the Community is worth underlining. Although the Community has developed in ways that would have surprised its original founders, the experience of forty years of growing mutual confidence born of, and reflected in, 'practical achievements' and 'real solidarity' over an increasingly wide range of policy areas constitutes a striking vindication of the original Monnet-Schuman method. The Community has through its laws and policies become an integral part of the environment in and through which policy makers, businessmen and others have to operate on a daily basis. Just how far the process had gone even without Maastricht was strikingly illustrated in two episodes in 1990. The first involved the negotiation of the European Economic Area with the EFTA countries, in which the latter were obliged as a matter of course to accept into their domestic legal systems almost 1500 pieces of detailed legislation which had been passed

in the EC during the previous decades. The other was that of German unification where the German government, in invoking the principle of state succession in its negotiation of the State Treaty was obliged to acknowledge that there were two successor states, the Federal Republic itself and the European Community. The comfort levels of Europe's political class had furthermore been enhanced by the development of the original institutions into a unique political system in which ministers and officials from the member states shared in the making and implementation of policy at supranational level instead of, as in more familiar federal systems, transferring powers to a distinct, supranational level of government, in which their own role was limited or non-existent.

The overall importance, not to say necessity of the enterprise had, however, chiefly been underlined by a series of changes in the international environment in which European policy makers had to operate. The collapse of the Bretton Woods System and the subsequent turmoil in the international monetary money markets did more than incremental progress within the Community itself to convince Europe's leaders of the need for deeper and closer monetary cooperation and integration. The EMS, the single most important development in the Community since the treaty of Rome, was first and foremost an act of European self defence in a dangerous world. The Single Market programme too reflected a consensus amongst businessmen and government leaders that in the face of the globalisation of the international economy and, more specifically, of Japanese and American competition, only action at European level could safeguard the competitiveness of European business. Finally, and by no means least, the collapse of communism, the unification of Germany and the emergence of new threats in the Gulf, Yugoslavia and elsewhere pushed national policy makers, confronted with the weakness of their own independent foreign policies, towards closer and closer cooperation in foreign policy, security and even defence.

By 1990, the Community dimension had become indispensable to all those engaged in what traditionally had been described as high policy. Domestic economic management without the discipline of the EMS seemed inconceivable, while independent foreign policies, though still in certain countries upheld in name, were manifestly incapable of achieving the objectives of those responsible for formulating them. On the eve of the Maastricht ratification process, the European Community was therefore widely perceived as not simply desirable, but essential. Its record was in many areas far from exemplary: national alternatives did not, however, seem to exist. If the European Community had not existed, it would have had to have been invented. Such, in brief, was the depth and rationale of the elite consensus in May 1992.

1.2 Popular Confusion and Resentment

This comfortable consensus amongst Europe's elites was shattered in the summer of 1992 first by the Danish referendum and then by growing evidence, in France but also elsewhere, of popular confusion and resentment about the direction which Europe appeared to be taking in the Maastricht treaty. The next section of this paper will look at some of the underlying causes of this political turbulence. The following paragraphs look at what the European public themselves said through the referendum votes in Denmark and France and other public opinion poll evidence.

The difficulties in arriving at general conclusions about public opinion in a Community as diverse as the EC are obvious. They are compounded, particularly in the case of the countries which held referenda, by the intrusion of extraneous considerations amongst those who said no which had nothing to do with the Maastricht treaty itself or European integration. It is quite obvious, for example, that a large number of those who voted no in France did so

primarily because they were dissatisfied with President Mitterand and the socialist government, and that another sizeable group of opponents were venting their anger against a reform of the CAP which would have gone forward even if the Maastricht treaty had been rejected. Even in countries not engaged in referendum campaigns, a strict focus on Maastricht has not always been the most notable feature of those who have declared their opposition to the treaty in speeches or public opinion interviews. Thus in the UK a high proportion of examples of allegedly 'excessive centralisation' cited by opponents of the Maastricht treaty are in fact directives developed under the authority of the Single Europe Act which Mrs Thatcher herself had no hesitation about recommending to Parliament in 1986. The no vote proves on inspection, therefore, to be a motley affair which does not in any way add up to a coherent alternative view of Europe's future.

That said, there are a number of characteristics which emerge in most if not all the tests of public opinion that have taken place in the last few months. The following are among the most important:

- ◆ *Confusion and incomprehension.* The clearest indication of the confusion surrounding the Maastricht treaty came, arguably, in the French referendum campaign itself where, although they won, defenders of the treaty were clearly hard pressed to explain, let alone justify, its contents. This evidence from the electoral battlefield, however, is confirmed elsewhere, even in countries that have always been considered to be and indeed are overwhelmingly committed to European integration. A headline in Belgium's *Le Soir* introducing the results of opinion polls carried out between the 12th and 15th of September illustrates the point well. "Le Belge perplexe devant Maastricht". The subsequent article showed that between the 4th of June, when pollsters had sounded public

opinion just after the Danish referendum, and the middle of September, just before the French referendum, those in favour of Maastricht had declined from 47.5% of the voting population to 42.8%. Their vote had not, however, been transferred to the negative camp which had itself declined from 15.5% to 13.4%. On the contrary, it was the 'don't know's' who had increased significantly from 37% to almost 44%. Opinion polls elsewhere confirmed this pattern. Even people who thought they knew what Europe was about began to wonder whether they did.

- ◆ *Fear, closely linked to economic adjustment and social deprivation.* French opinion, which for obvious reasons was even more closely monitored than most, mirrors this phenomenon most clearly. As Olivier Duhamel and Gerard Grunberg noted in one of the most authoritative analyses of French opinion, the French referendum revealed clear divisions between the well off and the educated, on one side, and the less well educated and economically threatened on the other, between the cities and the countryside, and the centre and the periphery. The following tables speak for themselves. (Source: Le Monde)

Table 1a. Les Privilégés face aux défavorisés

Oui		Non	
Cadres supérieurs	80%	Agriculture	63%
Cadres moyennes	61%	Ouvriers	61%
Inactifs, retraités	53%	Employés	58%
Diplômés du supérieur	70%	BEPC CAP	61%
Bacheliers	53%	Sans diplôme	54%

Table 1b. Les modérés face aux protestaires

Oui		Non	
Socialistes	74%	Lepénistes	95%
Génération Ecologie	69%	Communistes	92%
UDF	58%	RPR	67%
Plutôt à gauche	72%	Très à gauche	82%
A gauche	57%	A droite	68%
Ni à gauche ni à droite	53%	Très à droite	83%

Tableau 1c. Les permissifs face aux autoritaires

	Intention de vote	
	Oui	Non
Jugent les hommes politiques corrompus	39%	62%
Partisans de la peine de mort	49%	75%
Les mœurs en France sont trop libre	39%	57%
Exclure de la salle de classe les jeunes filles portant le foulard islamique	41%	57%

Tableau 1d. Les chefs-lieux face aux campagnes

	Oui	Non
Chefs-lieux	56.7%	43.3%
Autres communes	49.8%	50.2%

- ◆ **Generational differences.** In France, for example, the young (18 to 24) and the middle aged and elderly (50 and upwards) favoured the treaty, the latter presumably because they could remember the war, the former because they were themselves the children of a uniting Europe, for whom

a combination of factors as diverse as new school curricula, greater linguistic ability and inter-rail tickets had made national barriers less important.

- ◆ A more obvious and predictable cleavage involved the *conservatives* and *nationalists* on the one hand and the *christian*, *socialist* or other ideologically '*internationalist*' groups. National symbols played an important part throughout both the Danish and French campaigns, and received the blessing of the tabloids in Germany, where the Bild-Zeitung sang the praises of the DM against the ECU. To judge by a recent opinion poll published in the Frankfurter Allgemeine Zeitung, these nationalist themes have fallen on fertile ground. When asked in October 1990 whether Germany was likely in an integrating Europe to lose its identity, only 21% in the old Federal Republic and 16% in the new Länder answered affirmatively. By September 1992, the numbers had increased to 47% and 54% respectively.
- ◆ *Resentment against 'Brussels technocracy'* also figured largely in the evidence given by no voters in the exit polls in France and in opinion polls elsewhere.

These cross-European trends need to be qualified, however, by continuing evidence of important differences between countries. Recent polls confirm that the existing European Community can be divided into three clear groups: the south, consisting of Portugal, Spain, Italy and Greece, where public opinion is most strongly in favour of further European Union, the northern members of the founding six, where the commitment to the EC is still very strong, and the 'class of 1973', and in particular Denmark and the United Kingdom, where enthusiasm

has consistently been less marked.

The British and the Danish cases are, for obvious reasons, particularly interesting. In both cases, the key seems to lie in a higher than average proportion of the rich and the better educated who are sceptical about European Union and a distinctive type of political rhetoric by the political establishment. This last point is worth developing. As Sir Michael Butler observed in a book about the EC published in 1986, the Danish government of 1972 'sold the Community to the Danish people as a purely economic organisation and successive Danish ministers have been suffering the consequences of this false bill of sale ever since'. In the campaign in favour of the Single European Act in that year, the Danish prime minister of the day, who is still prime minister, claimed that the European Union was dead. Support for the European idea was, in other words, solicited with the argument that more, and by definition, worse integration had been avoided. A study of the speeches made by the Danish prime minister and other prominent participants in the 1992 referendum campaign would suggest that this advocacy by faint praise was still a dominant feature of the Danish political establishment's merchandising of a Community whose political importance for Denmark they had themselves long since come to accept. Their defeat in the referendum was in certain respects therefore an appropriate comment on their lack of credibility and conviction.

The vital role of political leadership has been confirmed by many studies of UK public opinion. If the establishment is in favour, as it was in 1975, the electorate will give the European Community considerable support. For most of the time since Britain's entry into the Community in 1973, however, governments of the day have for internal party political reasons felt constrained to qualify their sense of the inevitable by strong expressions of Euro-scepticism, not to say outright nationalism. A comparison between President Mitterand's famous television interview during the French referendum campaign and Mr

Majors speech to the Conservative party conference on October 9th is illuminating. For the French president, attack was the best means of defence. Idealism and hope recurred frequently in a performance designed to suggest that the opponents of Maastricht were propagators of fear and gloom. For the British prime minister, the necessity of Maastricht was defined in negatives. Failure to ratify would leave Europe to the French and the Germans and marginalise the United Kingdom. The treaty was defended most vigorously because of the clauses which allow Britain to opt out rather than because of what it said Britain would be signing up to. For the British prime minister Maastricht was an exercise in holding the line: for the French president it was an opportunity to build for the future. Both made very professional performances, based presumably on a perception of what was necessary in domestic political terms. The pointers to the future are nevertheless quite divergent and in terms of Community politics over the next few years disquietingly so. With his uncompromising assertion that he would 'never' accept a federal Europe, the British prime minister was buying peace in 1992 at the expense of continuing friction with his new Christian Democratic partners in the European Council and Parliament and, quite probably, eventual humiliation and/or casuistical arguments of the kind used by the Danish prime minister in the Danish referendum, when in 1996 or shortly afterwards, the results of the next intergovernmental conference have to be ratified.

1.3 Structural Weaknesses in the European Community's Economy and Political System

This evidence of trends in public opinion is interesting and important in itself. If, however, constructive answers about the way forward from here are to be found, it is necessary to look at some profounder causes of the present discontents. Three issues seem to be of particular importance:

- ◆ Economic recession.
- ◆ The limitations of the EC's incremental approach towards European Union.
- ◆ The failure of the EC to respond adequately to the European crisis.

ECONOMIC RECESSION

Fears about the outcome of the French referendum may have precipitated the crisis in the international monetary markets in the late summer of 1992, they did not, however, cause it. On the contrary, much of the current malaise in the European Community must surely be attributed to the impact of recession and the strains which the weaker economies in particular experienced as they faced up to it within the constraints of an EMS which had by 1992 become much more fixed than it had been in the previous recession of the early 1980's.

Against a background of slow or non-existent growth and high real interest rates, fundamental imbalances within the system were bound sooner or later to require attention. It would be difficult to imagine more inept management of a monetary crisis, but the release of the Lira, the Peşeta and the Pound from their previous moorings within the system paved the way for an

adjustment which was as desirable as it was inevitable. Simple competitiveness indicators suggested that the Italian Lira and the Spanish Peseta were overvalued by 15 to 20% and the Pound by about 10%. In the case of the latter, however, the impact of these 'objective' indicators was compounded by the fact that the Bundesbank and others were widely known to believe that the United Kingdom should never have entered the ERM in 1990 at the exchange rate that it adopted and that a larger rather than a smaller adjustment was deemed necessary and desirable.

Speculators in September did therefore little more than correct a situation which many in authority believed to be untenable. If the British presidency had reacted as the authorities within the EMS had done in the early 1980's when similar pressures built up on several occasions, the episode would not have been seen as a crisis of the system so much as further proof that, short of EMU, managed and agreed adjustments within an orderly framework were both possible and necessary. The British, however, managed to turn an episode that could and should have been quickly put behind into a melodramatic crisis of the system and a threat to the progress towards EMU which the Maastricht treaty had laid down. In doing so, they also made a reasonable discussion about economic strategy in the light of recession and, more particularly, of the growing difficulties caused by German unification that much harder to achieve. This is highly regrettable, since adjustments of exchange rates within the ERM could and should have been accompanied not by the redesigning of the EMS itself, but by an energetic effort within the well established mechanisms for policy coordination in the European Community to agree a strategy for growth.

Any debate of this kind would have focused sooner rather than later on fiscal policies rather than interest rates. For weaker members of the EC the necessary commitments on the fiscal side have already been made in principle in the context of the Maastricht EMU convergence programme. There is not

much more that they can be expected to do than Maastricht demands: there is little chance of them fulfilling what they have undertaken to do furthermore if Maastricht is not ratified. Germany has, however, largely escaped or ignored the kind of Community surveillance of fiscal policies which the weaker economies have found both useful and painful. This is a major failure of the EC system, since it is the weakness of the Bonn authorities' response to the costs of German unification rather than German monetary policy which are largely responsible for the Federal Republic's own economic slow down and the high interest rates which, through the Bundesbank it has obliged others in the EMS to live with. The present economic crisis in the Community necessitates therefore not, as the UK government has appeared to conclude, less collective decision making but more, not a retreat from the ERM, but a concerted effort within the framework of the Maastricht convergence and surveillance programme to alter policies in Bonn. In the economic sphere, therefore, as in other areas, critics of the Maastricht treaty have in fact turned problems on their head. It is only through a concerted effort to accept the full implications of Maastricht and, in this case, the plan for Economic and Monetary Union that the economic problems which prompted many of them to turn against the Community can be resolved and the benefits of continuing internal liberalisation and deregulation through the 1992 programme fully exploited.

AN OUTDATED STRATEGY

The *limitations of the incremental approach to European Union* are, it should be stressed, the price of success and not the consequence of failure. When Monnet and Schuman launched the project for a European Coal and Steel Community in 1950, they deliberately steered a path between the ambitions of the federalists and the caution of the intergovernmentalists. The long term goal

was always a European federation. The method chosen was, however, gradualist. The European Community that they created has as a result always been a process rather than a finished entity.

The Maastricht treaty followed in the great tradition. It is a revision of existing documents and not a constitution. It is a political statement of intent as much as a binding set of rights and obligations, enabling those in power to implement its objectives at a time and in a manner which they judge most appropriate. In scope it is more massive than anything that has preceded it: in complexity, it is correspondingly more difficult to understand. It allows for the development of a Union with functions which correspond to any list of the most important responsibilities of a modern sovereign state. It does not, however, guarantee that the Union will emerge, nor except in parts does it give any very detailed clues as to how the Union will actually work. Experience, mutual confidence and historical necessity will in the future as in the past shape the development of a Union which in many respects is much more British in its underlying philosophy than continental.

At the core of the Union lies a group of institutions whose collective and separate ambitions hold the key, as they were always by Monnet intended to, to the pace and character of the endeavour as a whole. They are not like any other institutions either at national level or elsewhere in the international system. More specifically, despite the rhetoric that surrounded the negotiation of the Maastricht treaty, they are neither federal nor intergovernmental.

To begin with federalism first. As Judge Pescatore emphasised in a notable article published fifteen years ago, the Community's quadripartite system differs fundamentally from the federal system of the United States in at least two respects. In the first place, instead of a clear separation of the executive, the legislature and the judiciary, the Community system links the institutions, and in particular the Commission and the Council, in a partnership that is crucial

to the effectiveness of both of them. Secondly, whereas in the US constitution, the federal authorities and the states are clearly differentiated, in Europe they are inextricably intertwined.

The two points are of course closely related. In the light of the current debate about subsidiarity, they are worth spelling out. The European Commission has never been and is unlikely to become an autonomous branch of government responsible to a bicameral legislature composed of the Council and the Parliament. Whether we look at policy formulation, or decision or implementation, the European Community system has always been characterised by a partnership between the Commission and the governments of the member states. When, for example, the Commission prepares policy proposals it pays for representatives of the member states to come to Brussels to work with it. All legislative and major political decisions are matters for the Council, but the Commission is present and engaged in all the vital discussions that precede the moment of adoption or action. As for implementation, there is no one model. The Commission undoubtedly has some of the attributes of an executive. In many areas, however, the Commission's executive function consists of supervising the administration of Community policies and laws by the member states in what is and always has been a radically decentralised system.

The system of government in the EC is thus very complex. It is also, however, rational since it acknowledges and uses the considerable resources of member states for the benefit of the Community as a whole. France is not Pennsylvania, nor the United Kingdom Massachusetts. Federalists who hanker after a purer and more transparent alternative would be well advised to bear in mind the fundamental realities that underlie the present system.

The champions of intergovernmentalism are, however, equally, remote from the system that we have. In a strictly formal sense, of course, the Council is an intergovernmental institution, in that it is made up of ministers of the

member states. Juridically, however, and on more and more occasions politically, the Council is as much an autonomous, supranational institution vis-à-vis the member states as the Commission, the Parliament and the Court. The laws of the Community which are acts of the Council have primacy over the laws of every individual member state. Similarly in a surprising number of cases in recent years, the **political** decisions of the Council have been much more than the lowest common denominator of agreement amongst those present, and have bound all those who were party to them. It is enough to recall only two illustrations: the handling of German unification, in which the Council acting collectively was decidedly more magnanimous and effective than its parts, and the travails of Mrs Thatcher who from 1985 onwards found herself dragged along from one European Council to another in a process in which she participated but which she decidedly did not control.

In the light of their experience of this system over forty years and the magnitude of the agenda that they had to get through, the preference of negotiators in the intergovernmental conference on Political Union for further organic growth within a legal framework that was amended rather than transformed was understandable. An attempt in 1990 to convene a constitutional conference to design a tidy and intelligible institutional structure with responsibilities stretching from monetary and economic policy to foreign policy and defence, and taking in police and judicial affairs as well, seemed unwise even to those who wanted to go farthest fastest. President Delors himself illustrated the dilemma facing the advanced guard of the EC most clearly. In the parliamentary debate on Political Union in March 1990, he defined the decision with which the Community was faced as a choice between taking one step forward, 'as we did with the Single Act', and defining 'the ultimate goal of the European Community in political terms, as we tried to do for Economic and Monetary Union'. His personal view at that time was that 'we have to focus on

the final state in order to be able to see our way forward'. By April, however, he had revised his opinion because, as he put it in a press conference on the eve of the Dublin summit, he did not feel that in the political sphere as distinct from Economic and Monetary Union, the EC was mature enough to make a major advance. Better, therefore, in these circumstances, to move towards what quickly became known as a Single European Act bis.

The wisdom of this approach which was, it should be stressed, endorsed by all the other principal actors in the intergovernmental conference on Political Union, now appears more questionable in the light of what, despite their self-imposed limitations the negotiators actually achieved. The Maastricht treaty is in fact much more than a Single European Act bis. In terms of the functions of the Union, the treaty confers on it important responsibilities in relation to all the major functions of a modern sovereign state. Consider the following list:

- ◆ The creation and management of a single currency.
- ◆ The coordination, supervision and where appropriate enforcement of sound economic policies, particularly in budgetary matters.
- ◆ The establishment and safe guarding of a single market based on principles of free and fair competition.
- ◆ The maintenance of equity and where necessary the redistribution of wealth between richer and poorer regions.
- ◆ The preservation of law and order.
- ◆ The acknowledgement and development of the fundamental rights of individual citizens.
- ◆ The management of a common external policy covering all areas of foreign and security policy including the framing of a common defence policy which might in time lead to a common defence.

To those who understand how the system works, the element of political discretion built in to the whole method and emphasised in Maastricht itself by the reassertion of the European Council's role at the centre of the system and by a more general strengthening of the Council of Ministers is sufficient to guarantee that EC 12 will not engage in some uncontrollable stampede towards a highly centralised Union. The sheer range of issues with which the institutions can now be concerned and the complexity of the functioning of the institutions themselves are bound, however, to arouse fears and suspicions amongst those who do not have direct, first hand knowledge. For the insider, the system's unique complexity constitutes a safeguard against centralising ambition: for the outsider, it is part of the problem. The methods which ensured the forward advance of the Community are in other words now an important source of unease and therefore a long term threat to its stability and efficiency. As the second section of this paper argues, there is no simple solution to the problem, but the conclusion that sooner rather than later the Community must be moved beyond Maastricht to something like a constitution which is intelligible and reassuring seems incontrovertible. No amount of fiddling around with the concept of subsidiarity which, as the history of the negotiations shows, has already gone through numerous redrafts aimed at strengthening it, can be a substitute for a more systematic effort to tackle the problem at its roots.

THE GENERAL EUROPEAN CRISIS

The failure of the EC to respond adequately to the European crisis as it has unfolded since the collapse of communism is also vital to understanding the malaise in which the Community currently finds itself. Swedish public opinion polls show that the popularity of the EC reached its highest level in 1990/91. There are important domestic considerations which help to explain this finding.

The pollsters themselves, however, argue that a great deal of the appeal of the EC at this time stemmed from a perception that as the frontiers of Europe came down the moment of European integration in general and the EC in particular had arrived. This judgement was echoed all over Europe in the eighteen months that followed the collapse of the Berlin wall. The European Council itself, meeting at Strasbourg in December 1989, spoke of the Community as 'the cornerstone of the new European architecture and, in its will to openness, a mooring for a future European equilibrium'.

Although it is always difficult to weigh the relative importance of specific factors in influencing the internal morale and external prestige of a political entity as complex as the EC, there seems little doubt that the European Community's failure to provide an adequate response to the challenge of the new Europe has been a major factor in undermining the appeal of the Union and the authority of its leaders. The failure has at least two aspects:

- ◆ Failure to provide adequate crisis management when disaster threatened or struck.
- ◆ Failure to mobilise public opinion both inside and outside the Community around a coherent and imaginative long term vision or strategy.

The failures under the first heading are too obvious to require detailed recital here. Even though there are many good explanations of why the EC failed in the first instance to prevent the outbreak of conflict in Yugoslavia and subsequently to restore the peace, the inability to seize an opportunity for European leadership which both those affected and those, like the United States, who watched from the outside urged the EC to take has been profoundly damaging not only to the image of the European Community, but also to clear and realistic thinking about the future European security system. The record in

relation to the former Soviet Union is hardly less encouraging. In both cases, defenders of the Community can justifiably point out that it was precisely because the EC was ill equipped to meet external challenges that so much attention was paid to the common foreign and security policy in the Maastricht treaty. As the months pass, however, this argument carries less and less conviction. The Maastricht treaty, it is true, could help to change both structures and attitudes. Like all EC treaties, however, the answer to the question as to whether it will depends upon political leadership and organisational skills. The dispiriting discussions that have taken place at official level in 1992 about how to implement the common foreign and security policy do not suggest that either the member states or the Commission have any clear idea of how the Maastricht concept of 'joint actions' could really transform the Community's aspiration for leadership in Europe into a reality.

The damage done by the EC's failure to develop a coherent long term strategy which can mobilise political leaders and opinion both inside the Community and beyond is still more insidious, if less dramatic. Once again, there is no shortage of good explanations. The deepening of the Community had to come first if the EC was indeed to become the 'mooring for a future European equilibrium' and, as the intergovernmental negotiations of 1991 showed, defining this in treaty terms was an all consuming task which left EC leaders with little time to think of other issues. It could also be said in defence of the Community that the problems with which they were confronted in Central and Eastern Europe were of an entirely new character for which neither they nor their partners in the East had had any adequate preparation. The Community, to quote the title of a CEPS Working Document, was 'catapulted into leadership', and had to learn what that meant in the midst of a crisis rather than in tranquillity. In any discussion of this matter, therefore, it is much more important to highlight inadequacy than apportion blame for it.

Be that as it may, EC leaders have consistently conveyed to the new democracies of Central and Eastern Europe an ambivalent, not to say grudging political vision and a decidedly mixed bag of economic concessions and assistance. In a situation in which political status for both nations and political leaders is crucially important, the EC has managed to convey to the political classes of Central and Eastern Europe the strong impression that political equality which, understandably, they believe can only be conferred by full membership, is a prize to be secured, if at all, in a future so distant that the notion can have little practical relevance to the painful and unavoidable problems of transition. The British prime ministers speech at the presidency conference in London on September 7th was in some respects the cruellest expression of EC orthodoxy precisely because it came from somebody who had been believed until then to be an advocate of a relatively speedy strategy for Enlargement.

"In ten years time, I want to see a series of solid democracies to our East on the road to prosperity with the real prospect of membership of the European Community".

These political signals have been given further currency by the economic policies adopted by the EC. Viewed strictly in terms of the EC's history before 1989, the concessions on market access contained in the Association Agreements with the countries of Central and Eastern Europe constitute a remarkable advance. They were also, as anybody familiar with the negotiations can confirm, obtained at the expense of a great deal of persuasion and argument within the EC. Credit should therefore be given where credit is due. The fact remains, however, that in the vital areas of textiles, steel and agriculture which constitute over forty percent of the actual, not to mention potential exports of

the Central and Eastern European states, the EC offered very little in terms of market access. The implications were clear. Existing members had preference.

This impression has been reinforced by the proposals that emerged from the Commission on the future financing of the Community. The Delors II package has been widely criticised as excessively ambitious, envisaging as it did an increase of the Community budget to 1.35% of GDP by 1997. On the external side, however, its proposals are extraordinarily cautious. A budget which by 1997 should provide 29 billion ecu of financial transfers to the four poorer countries of the Community but which envisages no more than 6 billion ecu for the whole of the rest of the world conveys a blindingly clear message to those outside. Once again, it is not a question of apportioning blame. The Commission, in particular, cannot be accused of timidity when even these proposals, crafted in all due modesty, are so readily dismissed as reckless by member states. The total impression is, however, lamentable and the consequences could well be very serious.

2. Towards a Grand Strategy

Several conclusions emerge from this analysis of the present crisis in the European Community. In the first place, nothing that has happened in the current year invalidates the elite consensus that an increasing number of policy questions, and more particularly those involving 'high policy' are most effectively dealt with at Community level. The Maastricht treaty may not be the most elegant of documents, but it represents a rational response to real problems which will not simply go away. It would be irresponsible therefore of Europe's political class to disown the consensus on the agenda or undermine the authority of the institutions that have, with all their faults, served them so well over forty years.

The argument that the show must go on does not, however, mean that all is for the best in the best of all possible worlds. It is clearly not. European leaders have temporarily lost their way. They can only recover their momentum if collectively they develop a grand strategy. As the following pages will show, many elements of the strategy are already to hand. Their effectiveness is, however, reduced because they are not perceived as part of a coherent, overall vision of the future of the European Union and therefore of the future of Europe. Despite the considerable advance constituted by the Maastricht treaty, we are still in many respects trying to walk backwards into the future. The political class must in other words admit and explain, not in negative terms but in concepts that are understood and appealing, why a European Union is of such fundamental importance as we move into the twenty first century.

Looking forwards does not, it should be stressed, necessarily mean walking faster. On the contrary, delays in order to make sure that the central motor of the European Union works effectively and is therefore in a position to pull the rest of Europe along are essential with regard to the major issues of the

day. The potential negative impact of this idea is best averted, however, if it is firmly placed within the context of a clear, coherent long term strategy which leaves those who might otherwise be adversely affected by delays in no doubt about the ultimate destination and the determination of the European Community to arrive.

A clear restatement of the goal, linked with the definition of a few priority lines of action will organise insiders, whose morale has been dented by the crises of the past few months, mobilise public opinion, which is clearly confused even if it is not hostile, and reassure outsiders, who can be forgiven for wondering how reliable a world partner Europe is or is likely to be.

2.1 The Goal

The strategic goal has not changed since it was first enunciated by Robert Schuman on May 9th 1950. It is to create 'an organised and vital Europe' which can make an 'indispensable contribution to civilisation and maintain peaceful relations'. With the passage of time, however, this fundamental objective has become much more clearly defined.

After forty years of practical experience in 'establishing an economic Community', the original six and those who have subsequently joined them have indeed, as the preamble to the treaty of Paris stated, created 'the bases for a broader and deeper Community' and 'laid the foundations for institutions which give direction to a destiny hence forward shared'. A process so far advanced can only go forward: unscrambling it would be as inconceivable as it is undesirable. The commitment to deepening is therefore essential to the concept of membership as such.

So too, however, are the peacemaking functions of the Community in the deepest sense of the word. The European Community is quite simply the best

security system that Europe has ever known. After forty years it has, as the treaty of Paris envisaged, 'substituted for age old rivalries the merging of essential interests and created the basis for a broader and deeper Community among peoples long divided by bloody conflicts'. In the aftermath of the collapse of communism, and the emergence of 'age old rivalries' which threaten European security once again, the vocation of the Community as not simply a guarantor of peace in an external sense, but through the extension of membership as the creator of 'a destiny henceforward shared', has taken on a new lease of life. Failure to acknowledge the peculiar responsibility and opportunity of the Community at this unique moment in European history would be a betrayal of the Union's own nature. Enlargement is not simply an option, it is an imperative.

The dichotomy between deepening and widening is therefore a false one. Both are essential. An 'organised and vital Europe' must in the last decade of the twentieth century mean not only a Union founded on a constitution which goes beyond even Maastricht, but a Community composed of all European states who want to join and who share the Union's fundamental objectives. 'Mini European federalists' are in the final analysis as inimical to the recovery of Europeans' vision of their 'destiny hence forward shared' as pragmatic intergovernmentalists who cling to outmoded ideas of national sovereignty.

2.2 *The Means*

The practical implications of a redefinition of the Community's goal in these terms are manifold. In keeping with the emphasis on grand strategy, however, we would emphasise five major priorities.

- ◆ The consolidation of the European Council's leadership role.

- ◆ Ratification and speedy implementation of the Maastricht treaty as in itself the best antidote to many of the discontents and difficulties that have emerged.
- ◆ The definition of a coherent and convincing programme for the enlargement of the Community, incorporating a convergence programme containing mutual rights and obligations for countries not immediately involved in membership negotiations as such.
- ◆ The establishment of a Constitutional Committee with a mandate to produce a detailed proposal for a constitution of the Union which would serve as the basis for negotiations in the intergovernmental conference already envisaged in 1996 or earlier.
- ◆ The articulation of a number of clear foreign policy initiatives based on the Maastricht treaty, particularly with regard to the CIS, Turkey, the Mediterranean and the United States.

2.2. 1. The Consolidation of the European Council's leadership role

This proposal is not intended to change the system, but to strengthen it. The European Council has in fact over the last fifteen years emerged as the principal source of leadership in the European Community. All the major advances of the last few years have either emanated from this body – the EMS is a good example – or been sanctioned by it and therefore made feasible – the Milan Council's acceptance of the 1992 White Paper and the linkage of that with a new intergovernmental conference in 1985 turned the aspirations of some into reality for all. The tendency of presidents in office to call special meetings whenever unforeseen events occur, such as the destruction of the Berlin wall in November 1989, or in times of 'crisis', such as the present, provide further proof of the

peculiar authority of this body.

What is needed now, therefore, is not a revolutionary step, so much as a series of practical measures designed to transform the 'special' into the routine and, in public relations terms, to stamp the image of the European Council as the final source of authority in a Community firmly in the public eye. With an eye to the image makers, Jean Monnet's suggestion that the European Council should constitute itself as 'the provisional government of Europe' might be worth looking at again. In more practical terms, however, the most urgent need is for the European Council to meet more frequently so that it becomes and is seen to be in charge of the management of the Community in much the same way as a Council of Ministers or Cabinet is in the member states. Meetings once a month would be optimal, but even three during each presidency period of six months would be better than the present regime of one 'routine' meeting every six months and adhoc gatherings arranged at short notice in response to specific events. The dangers connected with these latter are well illustrated by the run up to the Birmingham meeting in October. Called at a moment of high drama, immediately after the French referendum, it is quite likely to prove a non-event because no 'special' decisions are likely to flow from it. Regular consultation between the heads of government and state, however, of the kind that each of them has with their ministers at home would be all to the good, even if the results of any specific meeting were rather low key. Three further considerations can be cited in support of this proposal.

- ◆ Only the European Council, composed of the most senior elected representatives of all the member states and the president of the European Commission has sufficient authority both collectively and in relation to their domestic constituencies to ensure that a strategy of the kind advocated here is carried through: foreign ministers should undoubtedly

continue to play an important role in the EC's management structure. They do not, however, possess the authority at home to lay down the line on policy questions which are less and less 'foreign' and more and more 'domestic'.

- ◆ The European Council can also play a crucial role in off-setting the risks to the Community as a whole of the domestic political weaknesses of some of its members and/or the discontinuity that is bound to arise as regimes change in several key member states. John Major's decision to convene a special meeting of the European Council at Birmingham suggests that he is aware of the utility of the solidarity that will presumably be demonstrated there in overcoming his serious difficulties with the Maastricht ratification process in the United Kingdom. The European Council has also been identified as the body which will have to help the Danes to arrive at some *modus vivendi* with their partners. Whatever is decided at Edinburgh, a Danish presidency in the first half of 1993 seems certain to be a pallid affair unless it is buttressed by the collective weight of Europe's heads of government and state. There are also, however, other even more important domestic political crises on the horizon. The European Council of today is still dominated by the figures who had led it for the last decade or more: Chancellor Kohl, President Mitterand, Felipe Gonzales, Ruud Lubbers, and Jacques Delors. This extraordinary period of continuity in Europe's most important organ of collective government is visibly approaching its end. It would be rash to predict the outcome of the parliamentary elections in France in March 1993, but it seems unlikely that President Mitterand's authority will be as strong afterwards as it has been hitherto. A consolidation of the European Council as the leadership institution through more frequent meetings will not obviate all the dangers of transition, but it should make the changing

of the guard in the most important capitals less destabilising than it might otherwise be.

- ◆ The political importance of a still higher profile role for the European Council which brings together the leaders of the Twelve on an equal basis is all the more desirable if, as we propose below, the stronger members take certain initiatives which will highlight their strength and, correspondingly, the weakness of those who cannot go with them.

Two further comments on this proposal are needed. In the first place, it is entirely consistent with the treaty of Maastricht which, in Article D of the Common Provisions, specifically acknowledges for the first time in treaty form the European Council's leadership role. The article states:

'The European Council should provide the Union with the necessary impetus for its development and shall define the general political guidelines thereon'.

The second point is also important. A proposal of this kind is not in any way intended to inhibit the powers of the European Commission or reduce the role of the European Parliament. As far as the European Commission is concerned, the position is quite clear. The fact that the president of the Commission sits as of right in the European Council has been arguably the most important single source of strength to President Delors during the past eight years. More regular meetings would enhance his authority and familiarise the public with the idea of partnership between member states and the Commission, as in effect a thirteenth member of the Community. The European Council constitutes in fact the clearest paradigm of the Community system when it is working best.

As to Parliament, the obligation imposed upon the European Council by

Maastricht to submit to the Parliament 'a report after each of its meetings' would mean that, if our proposal is accepted, Parliament would have monthly opportunities to stage a major political debate about the direction of Europe with the participation of a representative of the highest body in the Community. Properly used, these occasions could immensely enhance the authority of Parliament and enable it to keep a check on the Council machinery as a whole in a way that it cannot or certainly has not done hitherto.

2.2. 2. Ratification and Implementation of the Maastricht Treaty

The need to clear up the ratification process as rapidly as possible is obvious. Even if it is satisfactorily completed within the next few months, however, there will still be a long way to go before the fruits of the Maastricht treaty are assured, since like all EC treaties hitherto, Maastricht enables rather than ensures. A great deal will therefore depend on the energy of those responsible for implementing the treaty and the quality of the discretionary political and administrative decisions that they take in doing so.

RATIFICATION

As far as the *ratification* process is concerned, there are two major difficulties to be overcome or avoided. The first involves the British in particular while the second relates to the Danes. In the light of the Conservative party conference in Brighton, there seems little doubt now that the UK government will be able to secure ratification of the treaty. There remains a danger, however, that in its efforts to soften domestic criticism it will demand concessions, particularly with regard to subsidiarity, which could undermine the efficiency of the Community. This danger is compounded by the obvious interest of the Danish government

in creating an alliance with the British on this issue as on many others and still more important, by the German government's continuing difficulties with the Länder which push it in the same direction.

The formulation of Article 3b in the Maastricht treaty was already a considerable victory for the Germans and the British. Chancellor Kohls insistence that he attached overriding significance to this point during the final negotiation was reflected in a rewording of the article which made the strong political signal against unnecessary centralisation already contained in the presidency draft still more unmistakable. The reopening of the subsidiarity dossier is therefore a matter for concern.

Three observations are germane. In the first place, as even 'Eurosceptical' journals like the Economist have admitted recently, most of the alleged examples of excessive centralisation turn out on closer inspection to have been the fault of the Council collectively and not the Commission. Under the Community system, which, after Maastricht more than even before has its centre of gravity in the member states acting collectively through the Council, it is a sorry comment on efficient and powerful governments if they really feel themselves in danger of being overwhelmed by Commission proposals.

The second observation is still more serious. One of the persistent fears of those who advocated a less tough definition of subsidiarity in the intergovernmental conferences was that a political signal would be turned into a legally binding principle which would inhibit all initiative by the Commission or by member states. Ideas floating around in London which are alleged to have support inside the government and which imply, in the last resort, a serious if not fatal suppression of the Commission's right of initiative and the reduction of the latter to no more than a civil service confirm that point. This systemic change which has been publicly advocated by Lady Thatcher and others close to her would, if accepted, destroy the unique and highly creative institutional

balance which the EC has achieved in the last forty years. The Commission is not and should not be *the* government of Europe. It must, however, maintain a political role as the thirteenth member of the government if the European Community is not to relapse into something much more like a classic, intergovernmental system.

The third point will be taken up later in more detail. Some, perhaps even many, of those who advocate a strengthening of the principle of subsidiarity are trying to accomplish a legitimate purpose with an inappropriate instrument. Given the dynamic, evolutionary character of the Community process, an explicit statement of the subsidiarity principle was both appropriate and necessary: necessary, because the power of the Community's collective institutions had undoubtedly grown over the previous decade and appropriate because, as defined in Article 3b, it still allowed for continuing development of the Community system. What some of those advocating further undertakings with regard to subsidiarity seem to want, however, is something very different, namely a Community constitution. We welcome this objective but we do not believe that it can be fulfilled through a protocol, however solemn, spelling out the implications of Article 3b in more detail.

To sum up, a deal which provides Mr Major with more ammunition to quieten his dissident troops is one thing. A statement which threatens the efficiency or changes the character of the Community system is, however, too high a price to pay and, furthermore, in the light of the Conservative party conference, a price that the British prime minister does not in reality have to demand.

The Danish problem is still more complex. Just how complex can be seen in the Copenhagen governments White Book published on October 9th. The most important conclusion to emerge from this analysis is that 'it is' difficult to imagine how it could be practical or legally feasible to apply the Maastricht

treaty to some member states and the treaty of Rome to others'. In the final analysis, therefore, either the Danes will have to accept the treaty of Maastricht or the Eleven will have to renegotiate it. As the latter prospect is as impracticable as it is undesirable, the object of discussions with the Danes in the run up to the Edinburgh Council must be to define a provisional arrangement, sweetened perhaps by declarations on subsidiarity and other issues which do not affect the substance of the treaty. Of the eight options mentioned by the Danish government itself, the most promising is undoubtedly the last.

'Denmark ratifies the Maastricht treaty, but subject to a time limit, so that Denmark may withdraw should Denmark feel that developments are not compatible with Danish interests'.

IMPLEMENTATION

Whatever solution is adopted to the Danish problem, the most important consideration of all is that the Twelve should agree that the Maastricht treaty is not only valid but should be implemented as energetically and rapidly as possible. The treaty will in fact stand or fall in the final analysis by the energy with which it is implemented and the quality of the discretionary political and administrative decisions that are taken in carrying out this task.

There is a great deal to do. Four tasks should, however, have absolute priority:

- ◆ The consolidation of the European Monetary System and, through that, the restoration of credibility to the goal of Economic and Monetary Union.
- ◆ The revision of the European Community's financing.

- ◆ The strengthening of the Council machinery, making it more efficient and more transparent.
- ◆ The overhaul of the Commission's internal structure to bring it into line with the institutional balance which Maastricht both legitimises and presages.

THE CONSOLIDATION OF THE EMS

The absolute priority of this item on the post-Maastricht agenda requires little justification. The making of the European Monetary System in 1978 was beyond question the single most important development in the history of the Community after the treaty of Rome. Without it, the Single Market would have been inconceivable. It is in other words fundamental to all that we have. It is also, however, at the core of the Maastricht treaty itself. If Economic and Monetary Union loses its credibility, the treaty as a whole will be fatally maimed.

As we suggested in section I of this paper, the recent turbulence in the monetary markets, properly handled, need not have threatened either the EMS of the eventual goal of EMU. The crass ineptitude of some of the principal actors has, however, transformed what might otherwise have been 'a little local difficulty' into a major crisis. As a result, a simple restoration of the *status quo ante* would not suffice, even if it were feasible. We believe that the credibility of the EMS and therefore of the EMU target will be best restored through a coordinated action involving the following:

- ◆ The hardening of relations between an inner group of currencies so that to all intents and purposes they constitute a proto-Monetary Union in advance of the formal timetable envisaged in the Maastricht treaty. If

accompanied by other measures of the kind envisaged below, this need not in any way constitute a step in the direction of a 'two speed Europe' except in the sense sanctioned in the Maastricht treaty itself and, it should be added, in the history of the EMS, where there have always been three groups of EC members: those who belong to the narrow band, those who adhere to the six percent margins and those who do not accept the discipline of the ERM at all. The inner group of currencies would be composed of the DM, the French Franc, the Belgian and Luxembourg Francs, the Dutch Guilder and, if possible, the Danish Kroner. Serious consideration should also be given to the de facto inclusion, if the central banks concerned are willing, of the Austrian Schilling, the Swiss Franc, and the Norwegian and Swedish Krona. The currencies concerned would be locked together, preferably as an absolutely fixed exchanged rate system, but possibly with no more than narrow bands of 1%. The reality of their new relationship would be underlined firstly by the commitment of the central banks concerned to the principle that a speculative attack on one would be considered as an attack on all, and secondly by the reform of decision making both at member state level and within the group as a whole. Where necessary, as in France, steps should be taken to accelerate the commitment already required by the Maastricht treaty to make the national bank independent. A corollary of this would, however, be the establishment of more collective decision making on monetary policy amongst the inner group.

We believe that steps of this kind are essential for the maintenance of the EMS itself, let alone the achievement of the EMU goal. Despite the successful resistance mounted against speculative attacks against the Franc in September, it seems very doubtful indeed whether the authorities can resist doubts about their commitment indefinitely without dramatic

signals of the kind envisaged above. Secondly, the EMS as a whole, involving as it should all members of the European Community, requires a stronger and more reliable anchor than the DM has been in recent months because of the strains imposed by German unification. This last point is particularly important in relation to the alleged demoralising consequences of an inner group moving ahead. In any balanced perspective, their efforts to consolidate their relations will benefit rather than undermine the credibility of a reconstituted EMS as a whole and therefore help rather than weaken the efforts of the other economies to meet the Maastricht targets.

- ◆ The readmission of the Lira and, if the British government is willing, the Pound to the ERM at exchange rates agreed by all as reflecting fundamentals. Recent movements in the money markets have largely eliminated the overvaluation of the currencies concerned and may in certain cases have overstated it. There is therefore technically no reason why the currencies concerned should not rejoin the ERM. On the contrary, if they do not, the Community really would be in danger of creating a two speed Europe of a kind which is quite incompatible with its normal practice or its future intentions in the Maastricht treaty. Furthermore, without the discipline of ERM membership, the convergence programmes already agreed, which are indispensable to the credibility of domestic economic management in most if not all the countries concerned, would be fatally undermined. It will doubtless be protested in certain quarters that a hardening of the inner core in the manner suggested above would be humiliating for the 'weaker countries'. No amount of rhetoric can, however, disguise the fact that there are some stronger economies in the EC and some that are weaker, and it is least of all in the interests of the weak that the framework of the EMS should be

endangered. A decision by the inner group to strengthen their relations should therefore be seen as both a measure of protection and a further political incentive.

- ◆ The development of a coordinated growth strategy. The machinery to deliver on a coordinated economic strategy already exists. Implementation of the Maastricht treaty provisions will, however, make it still more effective. For most of the countries concerned, as already noted in section I, priorities must remain very much as they were before the crisis in the monetary markets. By getting their own houses in order, particularly on the fiscal side, they will be making their best services to the cause of general growth. It is vitally important, however, that both the sense and the reality of mutual obligation in fiscal policy should extend to the Federal Republic. The costs of German unification have proved much greater than might have been foreseen. They are regrettable, but they are also inevitable. What is not inevitable, however, is that the Community as a whole should be slowed down by the intra-German process. On the contrary, decisive action by the Bonn government in consultation with its fellow member states in the context of ECOFIN should make it possible for the Bundesbank to reduce interest rates and therefore for most if not all Bonn's partners to follow suit, thereby enhancing the potential markets for German exports. A realignment in the EMS was inevitable. This is no excuse, however, for the Bonn governments apparent failure to accept that its own lax fiscal policies are a legitimate source of concern to its Community partners.

REVISION OF THE COMMUNITY'S FINANCES

As it is to be hoped that an agreement regarding the so called Delors II package can be brokered before the end of this year, there is no need to do more at this point than underline the importance of a deal and the close connection between this issue and reform of the Commission's administrative structures. The debate that has surrounded the Delors II package provides a graphic illustration of the distance that the Community has travelled collectively since the mid 1970's when a Working Party chaired by a British economist from the Confederation of British Industries, Sir Robert McDougall, argued that even a lightweight federal system would require a federal level budget of 7½ to 10% of GDP while the minimum amount needed for the Community to do effectively what it was already committed to (pre the EMS) would imply a budget of 2½% of GDP. By comparison with these figures, the original Delors II proposal of 1.35% of GDP by 1997 looks decidedly modest.

These changes, which reflect a very different understanding of how economies actually work, still more than the impact of budget ministers from the member states determined the rein back Community spending in a period of general restraint, are in most respects highly welcome. The Community budget has become leaner and meaner, and despite the continuing drain on it from the CAP, priorities have shifted significantly. The strong emphasis that has come through in the discussions of Delors II on restraint and efficiency is therefore all to the good. The Commission in particular would also be well advised to heed a significant amount of well documented research on deficiencies in the present administration of the structural funds and its own responsibility for some of them.

That said, there are disquieting tones in the present discussion which, if

they are allowed to prevail, could make the political acceptability of the Maastricht treaty and what follows much harder to maintain in the South of the Community and, still more important, impose a strait-jacket on Community finances which will inhibit our ability to respond to major and predictable challenges, particularly outside the EC's present borders. To take the first point first. The battle for the South was led very largely by the Spanish government in the intergovernmental conference. Their tactics were not always appreciated by their northern partners and the prize that the prime minister eventually obtained, with the help of the German chancellor, was rather less than what he and his negotiators had originally hoped for. It was enough, however, to convince the Spanish political class at any rate that Maastricht should be ratified. Any significant backtracking from these commitments on the part of the EC could have serious political consequences in Spain and elsewhere, where the Maastricht convergence programmes already pose immense challenges to political leadership. We do not need to return to the discredited economic doctrines of the 1970's, but it will be a very serious blow indeed to the Community if the language of solidarity disappears from political rhetoric and its reality is pared back by budget ministers who are usually much less successful in restraining their budgets at home than they are at ensuring that the Community works within its fixed limits. There are many reasons, not least the enormous costs of German unification, which can be cited to explain the atmosphere around the debate about Delors II and the details of the package that seem to be emerging, but excuses are not enough.

The second point is if anything even more serious. It relates particularly to the provisions regarding spending outside the present Community. By comparison with what the Community has done previously, a budget of 6 billion Ecu by 1997 is of course a major increase. Comparisons with the past are, however, misleading. The collapse of communism in Central and Eastern

Europe has created an entirely unprecedented situation to which, as we argued in the first part of this paper, the Community's response has been seriously deficient. Once again, money will not solve everything. If, however, we really imagine that by 1997 the countries of the Visegrad group, which together have a more or less comparable population to Spain, Portugal, Greece and Ireland, will receive less than 10% of the funds that we disperse on the these latter, we are guilty either of a woeful lack of foresight or, still worse, of a failure to grasp both the dangers and the opportunities in the present situation in Central and Eastern Europe. It may be that there is a time for everything in budget making as in life, but the danger is that, as in the discussion of subsidiarity, so in the context of the Delors II package, Community negotiators may manoeuvre themselves into a position which inhibits them fatally as they seek to grapple with the challenges of Central and Eastern Europe, not to mention the CIS or the Mediterranean. Most comparisons with the Marshall plan are far fetched and irrelevant. In one respect, however, they are useful. Western European recovery after the Second World War would never have been possible had the basic mindset that currently prevails in ECOFIN been dominant in Washington in the late 1940's.

THE COUNCILS LEADERSHIP ROLE: GREATER EFFICIENCY AND TRANSPARENCY

Critics of the Maastricht treaty, and more particularly those whose fixation is with the alleged ambitions of the European Commission, have failed to appreciate that the treaty itself frequently asserts the primacy of politics over technocracy. This point has often been obscured by protagonists on both sides of the debate about the treaty's three pillar structure. The key to the political system which the treaty envisages lies in Article C, Article D, Article 151 and

Articles J8, K4 and 100D where the Article 151 regime is applied to foreign affairs, judicial and home affairs and, to a certain extent, economic and monetary policy.

There is neither need nor space to develop this point in great detail here. It is, however, important to emphasise that through Article C, which lays down that the Union shall be served by 'a single institutional framework', and Article D which, as we have already noted, asserts the leadership role of the European Council, the potentially divisive structure of the 'three pillars' is largely if not entirely checked. The Community has always had different ways of doing things, just as it has more often or not been a Community of two or more speeds. What the treaty of Maastricht does, however, is to assert that the political leadership of the Community is one and undivided and that, through the explicit extension of the writ of the Committee of Permanent Representatives and the Council Secretariat in Article 151 and its application elsewhere, this same political leadership has a bureaucratic base which can, if it functions effectively, ensure the necessary consistency of policy, regardless of the particular procedural arrangements governing this or that issue. The primary 'beneficiaries' of this system are undoubtedly the European Council, the Permanent Representatives and the Council Secretariat. It is crucially important to emphasise, however, that the Commission too has its political role not only acknowledged but actually strengthened with regard to precisely those areas of policy, foreign policy and home affairs, which noisy champions of the so-called 'intergovernmentalist camp' pretend to have claimed for their own. If there is, in institutional terms, 'a loser' as a result of the assertion of the three pillar structure, it is the Court of Justice. Unlike the Commission, which can, if it plays its cards well, assume a prominent role in both foreign affairs and judicial affairs, the Court of Justice has an entirely different standing with regard to mainstream Community business and these two areas of responsibility. Nothing,

it could be said, could highlight the victory of politics over rule by directive and regulation more clearly than that.

The provisions of the Maastricht treaty provide a good basis for action. They do not, however, guarantee that the reformed machinery will be either efficient or transparent. If these conditions are to be met, at least four supplementary sets of action are essential:

- ◆ *A significant build up and reorganisation of the Council Secretariat.* Proposals in this direction have already been approved by the Council of Ministers, pending ratification of the Maastricht treaty. There is therefore no need to dwell on this point, except to say that if the new measures are effectively implemented, and in particular, if the choice of the new director general responsible for external affairs is imaginative, these innovations will alone enhance the efficiency and authority of the Council considerably.
- ◆ *Clarification of the relations between the various actors in foreign policy, particularly in relation to the new 'joint actions' provided for by the treaty.* The Community's failure to act coherently on the international stage has, as we have suggested above, been a major element in the process of demoralisation that has occurred over the past twelve to eighteen months. With the introduction of the Article 151 regime and more particularly of the concept of joint actions, the way should have been paved for a much more effective machinery, capable of drawing at both the policy formulation and implementation stages of policy making on the best talents of the member states. As the Commission does not have and is never likely to acquire the range of expertise, let alone the numbers of qualified staff, capable of manning a European ministry of

foreign affairs, the link with the best elements in the member states is of crucial importance. Unfortunately, however, in the general confusion of the current year, both the Commission and some of the more 'intergovernmentalist' inclined member states have been fighting rearguard actions to rescue positions which in principle were lost in the intergovernmental conference last year. It is crucial that this complex set of issues is resolved. The challenges facing the Community mean that it must be able to launch coherent 'joint actions' involving measures which come under both normal Community business and the third pillar with the involvement of men (or women) who are the best, regardless of whether they happen to be in the Commission or in one of the member states.

- ◆ ***The improvement of relations between Council and Parliament.*** When eventually the Union acquires, as it must, (see below) a coherent constitution, the issue of the responsibility of the Council towards Parliament and parliaments will presumably be laid down in systematic form. Even without the turbulence in public opinion of 1992, however, the implementation of Maastricht should have prompted those concerned to examine how in practice, within the present treaty, the Council and more particularly the presidency could be made more accountable. The treaty as it stands requires the presidency to report to Parliament on aspects of Community business. The quality of the relationship between the presidency and Parliament has, however, historically been very uneven, depending greatly on personalities and national traditions. It is of the nature of the rotating presidency system that there will always be differences. For this reason, it is vitally important that the Council Secretariat and COREPER should collectively assign higher priority to relations with Parliament, increasing staff allocations where necessary, and

that Parliament should make a much more serious effort than it often has done to keep itself informed about and challenge the presidency on Council business. Part of the trouble, one suspects, stems from ideological unreadiness on the part of many parliamentarians to admit that the centre of gravity in the Community system is and is bound to remain the Council of Ministers. The formal provisions of the Maastricht treaty undoubtedly leave much to be desired from the point of view of political accountability, but a great deal more could be achieved within the present system if those who operated it stopped pretending that it was or is likely to become other than it actually is.

- ◆ *Greater transparency in Council business.* The importance of this point in the light of developments in 1992 scarcely needs labouring. Improvements could be made in at least three directions: the opening of some Council business to the public, a complete overhaul of press services in the Council and the establishment of the Council machinery as a major source of high quality information for the general public. The first point is an old one, but it is certainly worth looking at again. To the extent that the Council functions as the government of Europe, sessions under the glare of cameras or with the press present are clearly not very desirable. No government in the world functions like this, and the Community is ill-suited to take the lead in such a major experiment in open government. Where the Council functions as a legislative body, however, there is scope for innovation. It is to be hoped therefore that agendas at Council meetings can be appropriately modified to allow legislative business to be open.

The second point is arguably much more important. In terms of press management, it would be difficult to imagine a government machine

anywhere in the western world which is more indifferent to press relations than the Community's Council of Ministers in its various forms. Almost everything in the last resort depends on the energy and initiative of presidencies and individual members of the Council, with the inevitable result that both the content and the quality of the information that is communicated are highly varied, not to say outright contradictory. In Brussels itself, the Commission is much better organised, a fact which can, as the Luxembourg presidency found during the intergovernmental conference in 1991, lead to a serious distortion of public debate on substantive issues. The Council needs a bigger, more professional press office, which can act as the permanent point of contact with the presidency.

Better communications with the press are, however, only one way of enhancing the transparency of the Council and Community business in general. With the Commission's information services thoroughly discredited and ripe for reorganisation, it might be worth considering whether the best location for a new information service about the Community as such might not, after all, be the Council Secretariat rather than the Commission. The Commission, as the thirteenth member of the Community, is a protagonist. The Council Secretariat is by definition the focus of consensus building. Its officials are the servants of all or they are the servants of none. Still more pertinently, if they are doing their job well, they see all and hear all. This innovation need not thwart plans within the Commission to reorganise and in particular to decentralise their information services. As with every other institution of this importance, there must be an information function. The build up of a new, high quality information service in the Council Secretariat unencumbered by the inherited reputation of DG X and playing on the advantages that the

Secretariat has could, however, be an important step toward the demystification of Community business.

THE REORGANISATION OF THE COMMISSION

The reorganisation of the European Commission has been a perennial subject of debate, an occasional issue for wise mens reports, and a virtual non-starter as far as action is concerned. A combination of the Maastricht treaty, the debate about subsidiarity, and imminent enlargement suggests, however, that it cannot much longer be postponed. In fairness to the Commission, it should be stressed that one of the principal impediments to any rational progress has been the persistent unwillingness of the Council in general and budget ministers in particular to engage in rational discussion about what it is or should be and therefore what resources it needs, and their strong tendency to use it as a scapegoat for their own inadequacies. Ministers who talk back home about the 'great moloch' in Brussels cannot be expected to make constructive contributions to the restructuring of an institution which at both political and administrative levels was designed in another age for other purposes.

The subject deserves extended treatment. The paragraphs that follow are, however, limited to a few observations on the pressing needs which arise from the Maastricht treaty itself and the deficiencies in the Community's political system exposed in the ratification process. More specifically, they cover four topics: the Commission's role in the emerging Economic and Monetary Union, its functions in external affairs, its management of the structural funds, and its internal coordination.

◆ The Commission's role in the emergent *Economic and Monetary Union*

is, according to the treaty of Maastricht, a central one. The Commission figures again and again in Title VI, both in relation to the formulation of economic policy and in the surveillance of member states performance before and after the achievement of EMU. Despite significant improvements in recent years, however, it must be seriously doubted whether, without major changes, the Commissioner responsible for economic and monetary policies and the services in DG II can acquire the authority which they must have if they are to perform their role adequately. Here as in so many other areas, the fault lies not so much inside the Commission as in the Council where there is a singular unreadiness to admit that EMU will require the commitment of resources to the Commission which both quantitatively and qualitatively match and indeed surpass the IMF and the OECD, to mention only the two most conspicuous 'competitors'. At political level, this ought to be one of the two or three major portfolios in any Commission, and as such reserved for a real political heavyweight. In the services, DG II should have sufficient resources of the highest quality to exercise genuine supervision of all departments concerned with economic policy and to issue judgements on member state performances which the Council cannot ignore. This is far from being the present state of affairs.

- ◆ The situation on the *external* side is not dissimilar. The Commission has simply not kept up in terms of its organisation or recruitment with the new international role of the Community as it already is, let alone with what, if Maastricht is properly implemented, it could become. Once again, some of the blame must be attached to the Council of Ministers. Head counting is important in any good management system⁷. It should not, however, imply a system which moves unwanted heads in agriculture

or transport over to foreign affairs. No national government does that, and it is not at all clear why the Commission should be obliged to. DG I or whatever replaces it not, and will not be, a ministry of foreign affairs, but as a crucial partner in the Community's foreign policy making whether it be in commercial affairs or security policy, it ought to be allowed the resources to fulfil its task.

Some of the Commission's weaknesses are, however, self inflicted. Four commissioners have direct responsibility for foreign affairs, and several others have competences which have an increasingly important external dimension (e.g. environment). The inevitable result is incoherence and inconsistency. This not only weakens the impact of the Commission on the Council, it also perpetuates the segmentation between 'Community external policy' and ordinary foreign policy, formerly pursued under European Political Cooperation. The Commission which, under Maastricht, has a role in both areas could make a much greater impact across the board if it acknowledged the dangers of segmentation in its own internal organisation. The increasingly important Political Directorate can only function efficiently in the final analysis if it is fully integrated in a department of external affairs which has a heavyweight Commissioner at its head, capable of ensuring that those of his colleagues who, like the Commissioner responsible for environmental policy, have an increasingly high external profile, coordinate their initiatives with him and his administration.

- ◆ The third area which requires particular attention in the light of the Maastricht treaty is the administration of *financial transfers* to the less developed regions. A great deal of progress has been made in the

administration of these funds in the last few years. The success of the operation, furthermore, depends above all on the quality of the local partner, a point which is well illustrated by comparative studies of the impact of Community assistance in Spain, Portugal and Greece. The first two countries had well thought out strategies and efficient administrative structures. Successive Greek governments have not had either. That said, the Commission must itself bear some of the responsibility for mismanagement. The trouble stems, as usual, from the involvement of too many departments and the lack of any strong, central coordinating body capable of imposing a strategy on the various players. DG II's lack of authority is also a source of weakness in this area as more generally in economic and monetary policy.

- ◆ All three deficiencies mentioned so far point towards the need for a more *streamlined and centralised system*. Fewer senior commissioners and fewer departments would seem the order of the day. Above all, greater coordination. A great deal of progress has been made in the past few years, under the leadership of the Secretary General. He and his services have also benefited by the establishment of what I have described elsewhere as a 'presidential regime'. The system is still, however, far from being efficient, with, as a result, adverse consequences both for internal morale and external reputation. As the Commission is and will remain vital to the functioning of the Community system as a whole, these defects in its internal management are a matter of major concern.

2.2. 3. Enlargement

The previous sections have highlighted the formidable challenges that face the existing Community if it is to achieve a firm and politically acceptable Union within the measurable future. These challenges must be taken seriously. We nevertheless believe that the commitment to deepening that they represent can and should be accompanied by a bold and transparent strategy to enlarge the Community.

As far as the EFTA countries are concerned, this principle has already been conceded by the EC authorities themselves. Assuming that Maastricht is ratified, and the Danish problem solved in a manner that satisfies all parties, negotiations with EFTA applicants and possibly Malta will begin shortly. This is a welcome development. It is not, however, a sufficient one. There are many other countries in Central and Eastern Europe to whom a positive signal should also be given. We do not, it should be stressed, believe that the EC itself can muster sufficient strength to propose membership negotiations with the more advanced representatives of the post-communist East at the same time as they initiate the process with EFTA. Precisely, however, because the difficulties are primarily on our side rather than theirs, it is vitally important that the Community should go beyond mere platitudes. The retreat from any definite commitments that has occurred in the past few months since the Lisbon meeting of the European Council and which is most clearly expressed in the British prime ministers speech of September 7th already quoted above, is regrettable and unnecessary.

The arguments developed in these paragraphs are more fully justified in a separate paper which includes much more supporting economic and political evidence. In the context of a review of the European Community's general strategy, however, it is important to advance the principal arguments for a bold

enlargement policy, review the difficulties and, against the background of both opportunities and problems, explain a plan which though sub-optimal should reassure existing member states where reassurance is necessary, while offering tangible hope to candidates or would be candidates in Central and Eastern Europe.

EFTA AND MALTA

As far as the arguments for Enlargement are concerned, it is essential to differentiate between the EFTA countries and Malta and the countries of Central and Eastern Europe who have either indicated their intention of applying or are quite likely to do so in the short to medium term. In *economic* terms, the admission of most if not all the EFTA countries including Liechtenstein raises no major problems. On the contrary, it is a logical step in the light of the far reaching arrangements already negotiated in the EEA and one, which in budgetary terms, is bound to benefit the EC, since all the countries concerned will be net contributors. The figures can be found in table II below.

There are, it is true, in every country some problem sectors, with agriculture a common theme linking them all. Even if allowance is made for stubborn defence of sectional interests on both sides, however, it seems hard to believe that the negotiations with any of them will founder on economic considerations.

More interesting questions arise in the *political* sphere. The Commission's avis on both Austria and Sweden singles out the neutrality of both countries as posing a potential problem. We do not, however, believe that this matter is as relevant as a more general question about the willingness of their public opinion to accept, and their political cultures to adjust to the demands of full membership.

To take the *neutrality* issue first. Whatever the formal constitutional positions of the countries concerned, the question should not be discussed in isolation from the changing nature of the threat to European security since the collapse of the Communist regimes in Central and Eastern Europe. The impact on the various EFTA states has, it should be stressed, been very different. For Austria and Switzerland, the radical reduction of any credible threat from the East, reinforced by the emergence of a substantial buffer zone separating them from what little threat Russia still manages to pose, has made their security position almost indistinguishable in real terms from that of their prospective partners in the European Union. The apparent willingness of the Austrian government, reiterated in its important statement of June this year, to accept whatever obligations may arise in terms of the common foreign and security policy, coupled in the case of Switzerland, with its proved seriousness about defence, should remove any lingering doubts that there may still be.

Further north, the situation is very different, but not, paradoxically enough, because the neutrals concerned are more 'neutral', but because as a result of the strange twists that have occurred in the European security balance, they are both more exposed than any if not all their prospective partners and more serious than ever about their determination to defend themselves if the need arises. Although none of the governments concerned regards the threat from Russia as imminent, their need to safeguard against residual danger is more real and more clearly perceived than that of any other prospective members of the Union, apart from Poland and the Baltic states. During the Cold War, the Nordic region was, relatively speaking, rather comfortable in security terms. In Central Europe the divide between East and West was well defined and the forces massed on either side was very large. In the north, by contrast, the NATO powers in the region, Norway and Denmark, were not particularly heavily armed and the neutrality of Sweden and Finland reduced tension levels

further. The balance has now, however, shifted. Once the Russian troops have completed their withdrawal from the Baltic states, the immediate threat will diminish slightly, but the existence of such weak and fragile states also introduces a new element of insecurity into the region. Furthermore, the loss of the Central Asian republics, of Georgia and of much of its access to the Black sea, means that the Russian centre of gravity has shifted northwards. An ambitious or domestically unstable regime in Moscow might therefore establish a forward defence in the Nordic region. Even today, many of the Russian troops previously stationed in Eastern Europe are now temporarily at least in Karelia and the St Petersburg area and Kallingrad are obvious, potential flash points.

As a result, the Swedes and the Finns, who were always 'serious' neutrals, in that they made no secret of their determination to resist aggression, have actually increased their defence budgets and perceptibly edged themselves closer to the western powers. There is still a strong tendency, rooted in the case of Finland in unhappy historical experience, to be sceptical about the reliability of security guarantees given by western countries, and for this reason, if no other, it may be difficult in the short term or even longer for the Finns or the Swedes to persuade public opinion that the time has come to enter into NATO or even the WEU, but if those negotiating with Sweden and Finland bear in mind the realities of Nordic security, it would seem absurd to exclude these two countries from the Community because of their security policies. The neutrality test should not be applied mechanistically like a breathalyser without due reference to real world problems. This is particularly the case as all the EFTA neutrals have shown that they can and will do their duty in relation to the new generation threats to European security represented inter alia by ethnic unrest.

Threats to supplies of vital raw materials and commodities, of dangers to the environment. Austria, Finland, Sweden and Switzerland are, to put it mildly,

every bit as much responsible European and world partners as Belgium and Denmark.

An altogether more interesting and relevant set of questions arises in relation to *political culture* and *public opinion* in the countries concerned. These are issues in the first instance for the governments themselves. In the light, however, of the EC's continuing problems with Denmark and the UK since 1973 existing members have every interest in ensuring that the obligations of membership are not fudged as they were in Denmark in 1972 and as they have tended to be subsequently in the United Kingdom. The importance of this issue can be gauged from the fact that opinion polls in all the countries concerned, except Finland, where those in favour of EC membership far out number those against (56% against 28% in a recent poll) suggest that public opinion is by no means easy with the idea of membership. The principal explanations in every case are political rather than economic. The EC is perceived by its opponents as a threat to national identity. To their credit, all the governments concerned have started to combat this public indifference or hostility with programmes of public education which put most if not all existing member states to shame. These efforts, linked with a successful negotiation may well carry the day. They should also ensure where there are votes in favour of the ratification of the accession treaties, that the Community will acquire not only wealthy, well educated and well governed new members, but also illusion-free citizens. It could hardly ask for more.

The case for speedy admission of the EFTA countries who want to join is thus rather simply stated. There are also strong reasons for believing that Malta could be admitted without any difficulty, except for the problems which it, like one of the EFTA countries, namely Liechtenstein poses as a result of its size. It is surely not, however, beyond the wit of EC legal experts to come up with solutions to this one.

CENTRAL AND EASTERN EUROPE

The challenges posed by the former communist states of Central and Eastern Europe are of an altogether different order. All the evidence suggests, however, that sooner or later the Visegrad countries, Bulgaria, Rumania, Albania the successor states to Yugoslavia and the Baltic states, will apply for full membership. As subsequent paragraphs will confirm, these applications will, if accepted, create real difficulties for the existing Twelve or, if the EFTA countries and Malta are added, the eventual Nineteen. We believe nevertheless that the Community should react positively and, indeed, that it should within the immediate future take practical steps to indicate its intention to admit them. There are many involved in the European Community policy debate at the moment who seek to dismiss consideration of membership of the ex-communist states of Central and Eastern Europe on the grounds that 'they are not ready'. In a few cases this thesis may be acceptable. We believe, however, that it is vitally important for the sake of a lucid discussion of the European Community's interests in this matter for us to acknowledge that the principal obstacles lie not in the would be members, but in the Community itself. Precisely because we take these internal difficulties very seriously, we advocate a gradualist strategy. Before proceeding, however, to the necessary compromises which our own weaknesses necessitate, it is essential to demonstrate why, sooner rather than later, it is in our own fundamental interests that we should admit all the states referred to above to full membership.

The argument in favour of a positive policy towards Central and Eastern Europe involves economics. It is, however, in the final analysis political, as incidentally all arguments about Enlargement of the Community historically have been. De Gaulle and Adenauer kept the British out in the early 1960's because they believed that the United Kingdom would inhibit the development

of a Political Union. Pompidou decided that the veto should be lifted partly because the internal balance of power within the Community had shifted so decisively in favour of Germany and partly too because of the collapse of the United States system under the twin pressures of the Vietnam war and the progressive weakening of the dollar. In the case of the Greeks, the Portuguese and the Spaniards the political argument was still more evident. They were admitted in spite of potential economic problems because of the overriding need to stabilise democracy in post-authoritarian regimes. By admitting the Visegrad states, the Balkan countries and the Baltic states to full membership, the Community would in due course benefit economically. There is no question, however, as we shall note shortly that there will be heavy prices to pay in the short to medium term. These costs are worth bearing, however, because in the final analysis, the political values and security of western Europe are at stake.

An appeal to political values is unfortunately unlikely to carry much weight. It is worth spelling out, however, because one dimension of the present crisis in the European Community is undoubtedly the loss of the European idealism that fired not only the member states who founded the European Community but the electorates of the 1950's and 1960's. Article 237 of the treaty of Rome and Article O of the treaty of Maastricht are quite clear. Any European state may apply to become a member of the Union, and on the assumption, it is implied in the rest of the treaty, that the country concerned is democratic, respects human rights and is capable of maintaining a functioning market economy the state in question qualifies. There may be pragmatic reasons for delay, but indefinite procrastination is contradictory to the principles on which this Community was founded.

The appeal to interest is, however, for obvious reasons still more relevant than a restatement of the basic values on which the Community was founded. The argument is simply stated. In a Europe free of communism and the all

pervasive reality of the Cold-War, the best interests of the states of Western Europe lie in the establishment of stable, prosperous and cooperative countries on their Eastern frontiers. If this objective is to be achieved, it can only be through substantial economic concessions from Western Europe in the form, particularly, of market access and financial transfers, and through active assistance from the mature democracies of the West in laying the foundations for civil society without which economic reforms will perish. Both economic concessions and political education would be best served through integration rather than through more detached, hands-off arrangements. The prize which the West could hope to obtain through encouraging these processes is immense: European security based upon political emancipation and economic integration. The risks of failure are by contrast horrendous. The crisis in the former Yugoslavia provides a salutary example of what might happen if the transition to democracy and market economy is not successfully effected. The dangers in parts of Central and Eastern Europe may not be so extreme, but if the transition process is mishandled, Western Europe might well find itself confronted with a series of Latin American type states, notable for their unstable political regimes and deeply divided societies. In this context, Jacques Delors vision of a European village in which the European Community house stood out for its strength and durability would be transformed into a grim caricature where even the stable residence would be under increasing threat from neighbouring homes ablaze from economic, social and political disaster.

This general statement of the political-security argument for an enlargement of the Community sooner rather than later can be substantiated if we look in more detail at the economic and political preconditions of a successful transition and, by no means least, the risks of failure.

In *economic terms*, all the countries concerned are currently committed to far reaching programmes of macroeconomic stabilisation and microeconomic

liberalisation. Only they can carry out these tasks. Their prospects for doing so successfully will, however, be immensely influenced by external factors, and in particular by market access to their most important actual or potential markets, by significant financial transfers from wealthier western countries and by increased private foreign direct investment (FDI). All economic analysis of their actual and potential external trade prospects emphasise the overwhelming significance of the EC markets. To its credit, the EC has responded, negotiating trade and cooperation agreements with all of them and a new generation of European/Association Agreements with five of them. In terms of the Community's previous record, and the seriousness of the problems involved in certain, sensitive sectors, the concessions contained in these various agreements are by no means negligible. They are, however, seriously limited particularly in relation to agriculture, steel and textiles which together constitute for most of the countries concerned about 40% of their total exports. In the case of steel and textiles, transitional regimes twice as long as those laid down for other sectors are envisaged, while in the case of agriculture, there are no firm commitments at all. There is a further risk that as a result of safeguard clauses or anti-dumping procedures, even the apparently firm provisions contained in these agreements could be compromised. Our reading of the negotiations, which is shared by several of those who participated in them, is that the Community went as far as it could within its terms of reference, and that there is no prospect for further liberalisation in the sensitive sectors unless this process is put within the context of prospective accession.

We are even more convinced of this fact in relation to public finance. The Association Agreements do contain important financial provisions. The radical distinction made in the Delors II package between members and non-members suggests to us, however, that a political consensus capable of going further in this respect can only be built if, once again, the latter is related to

prospective membership.

As far as FDI is concerned, the considerations that influence major investment decisions are numerous and varied. Four considerations seem, however, to figure prominently in many such decisions: political stability, the macroeconomic performance of the recipient country, its access to external markets and the quality of its human resources. As far as the latter is concerned, most of the Central and Eastern European countries would come out with a very creditable rating. There are a large number of well educated and able men and women who could be mobilised if the investment was available. Question marks arise, however, in connection with the other three criteria. In every case we believe that prospects could be materially changed if the countries could count on the Community connection and eventual membership. The most convincing evidence in this respect comes from Spain and Portugal, where the prospect of membership and then actual membership of the EC provoked a major influx of FDI. The same has not occurred, it is true, in the case of Greece, which underlines the fact that the local partners themselves must be able to respond effectively to the challenges of membership. This is, however, the exception that proves the rule rather than the reverse. Moreover, the convergence programme outlined below should provide potential investors with sufficient reassurances that the prospective members will carry out a profound adjustment programme that puts them in a similar position as Portugal and Spain.

If we turn to the *political and social preconditions* of a successful transition, the arguments in favour of a more radical, and positive policy on the part of the EC, involving eventual accession seem to us even stronger.

The task facing political and social leaders in all the ex-communist countries is formidably simple as well as simply formidable. It is to create the basis of civil society amongst peoples who have at the very least gone through

three generations of socialisation based on entirely different principles. In many cases, the acquaintance with western values and the basic norms of liberal society have never been deeply planted. The magic wand of market reform will only partially help in a situation in which matters as basic as respect for human rights and the rule of law, the establishment of norms of orderly political behaviour, the creation of a political society, the development of cadres capable of leading in other walks of life formerly ostracised or dominated by the party, and the maintenance of a minimum of social solidarity in a period of economic upheaval are at stake. In conversations with political leaders throughout Central and Eastern Europe, it was these issues rather than the technical problems of economic reform that dominated the agenda. As Dorel Sandor of Bucharest has argued, so much discussion about the transformation of the East has focused on specific policy choices and ignored the deeper questions surrounding the quality of the transformation process and the changing structures of society.

There has of course been remarkable progress in many areas. The systematic review of legal codes in the light of the European Convention of Human Rights which is being carried out in most of the countries concerned is one conspicuous example. Copying laws is one thing, however. Developing a generation of law makers and judges who understand what they mean is quite another. Even at the basic level of law making, there have been significant and potentially dangerous relapses. The new legislation on citizenship in the Baltic states, for example, discriminates against Russians in much the same way as the former Soviet legislation discriminated against Baltic minorities. The road ahead is in other words not only long but strewn with difficulties. In this situation, it is hardly surprising that two words constantly recur: hope and equality. The prospect of being condemned to a permanent second class status is undoubtedly one that preys on and demotivates many. The European Community was and remains the principal focus of this hope. The success of

NATO in establishing the NACC should be understood principally not as a comment on widespread fear of a reemergence of a threat from the East, as on the failure of the European Community to hold out a convincing prospect for the future. The studied refusal of the Community, even after a great deal of pressure, to do more than note in the new style European Agreements that the countries concerned saw membership as their ultimate goal, was only one of the more conspicuous instances in a catalogue confirming the belief that the relationship between the Community and the ex-communist states of Central and Eastern Europe will be for many years to come one of 'them' and 'us'.

Unless, however, the process of internal reform is accompanied by growing integration at every level and in every area with Western Europe, the *risks* are considerable. Even if we exclude a Yugoslav type crisis on the grounds that the evidence of what can go wrong has already, it would seem, begun to affect the calculations of political leaders in some of the more obviously explosive regions, such as Western Rumania, the risk list is still dauntingly long. It includes inter-ethnic tensions short of war, aggressive counter strikes by groups such as the Rumanian miners marginalised both politically and economically, political fragmentation, which is already very far advanced, popular confusion about the political process and the attendant risks of political manipulation, social fragmentation, as a new, super rich, corrupt political-business class, linked in many cases by ties established in the communist era, develop Latin American style systems based on authoritarianism and inequality. Above all, fatigue, leading to a vicious circle of despair, political instability, economic failure and emigration of all classes including most significantly the best qualified.

The positive arguments for the European Community adopting a much bolder policy leading within the foreseeable future to full integration and membership are therefore reinforced by much more basic considerations of self

interest and security. It is in fact the same combination of idealism and hard nosed self interest which provoked the Monnet-Schuman plan over forty years ago.

We do not, however, believe that it is realistic to think of membership within the kind of time horizons that should be and indeed are being assumed for the EFTA countries. This plea for caution is based not so much on a perception of the 'unreadiness' of the countries concerned as on a strong sense of the EC's own difficulties. With those countries, now five, that the EC has already negotiated or almost negotiated new style Association Agreements, the Community has imposed upon the new market economies many of the obligations which in the 1980's it inserted into the transitional regimes agreed with Spain and Portugal as part of the membership deal. The analogy with EFTA should not be pressed too far, but just as through the EEA the Community has already covered much of the traditional ground of accession negotiations with rich countries, so through these Europe agreements, which envisage the complete liberalisation of movement of goods within ten years, the Community has covered a substantial part of an agenda for accession. The most important question marks left are very significant, concerning as they do in general terms the success of the macroeconomic stabilisation programmes and, related to that, the capacity of the countries concerned to enter into a regime of free capital movements. In both cases, however, the prospects of the new associate states would be immensely enhanced if the Community had been more forthcoming on market access, less frugal on financial transfers, and, by no means least, had offered the kind of confidence building framework for domestic economic policy making which the Maastricht convergence programmes had begun, before the recent crisis, to create in the weaker EC economies.

The primary obstacles to a bold and imaginative policy on Enlargement are in other words to be found in the Community itself. Rather than dismissing

them, however, in the style of Angle-Saxon trade economists who cling to 19th century notions of the original sin of politics, we believe that any strategy for Enlargement must be based on a realistic assessment of the Community's problems. There are essentially four. All of them are compounded, however, by the fact that we are as previously noted, in a phase of political transition in the EC which means that the leaders who might cut their way through some of these obstacles have yet to emerge. The agenda is undoubtedly complex. It should, however, seem considerably less daunting to a new leadership generation than it does to those who have already conquered significant heights in the European landscape. Any discussion of timetables with regard to Enlargement must take into account this political dimension.

That said, the four major sets of problems that will have be resolved are the unfinished task of Western European integration, the resolution of the social, economic and political problems which some member states will have to confront if a more liberal regime on market access for Central and Eastern Europe is agreed, the overhaul of EC finances which any enlargement to the East will necessitate, and the modifications to the Community's institutional structure that will be required in a Community of thirty or more members.

- ◆ Enough has been said in earlier parts of this paper to underline both the necessity and difficulty of the EC moving forward on its own integration process for the first of these points to require little development. 1991 itself, when much of the time of an already overpressed EC leadership at both political and bureaucratic levels was taken up with the negotiation of the Maastricht treaty, provides a salutary reminder of how all-consuming the task of deepening can become. In 1992, the battle on the part of the political class to make itself understood has if anything been even more disruptive to the development of any coherent external

strategy. In any scenario for the next two years, the domestic agenda of the EC seems likely to continue to dominate. This is incidentally one of the principal reasons why, in the next section, we argue that the European Council should not wait for 1995 or 1996 before tackling the issues that might or should, come up in the 1996 intergovernmental conference, but should start on them now in the hope that, in conjunction with the negotiations with the EFTA countries the process of establishing a more transparent and politically acceptable European Union can be accelerated. Until it is, and until in particular, the weaker economies of the existing Community have begun to benefit from the restoration of external confidence and domestic credibility which should result, prospects for any far reaching revisions of market access rules or financial transfer are virtually nonexistent. A restoration of political self confidence in the European Community which can only come when the Maastricht crisis is firmly behind us is therefore the precondition of a new Ostpolitik.

- ◆ This point is underlined if one looks at the political economic and social implications of greater trade liberalisation in more detail. The special treatment of agriculture, steel and textiles in the European agreements with Poland, Czechoslovakia and Hungary, and, more recently, in the draft agreements with Bulgaria and Rumania were no accident. More detailed economic analysis suggests production from Eastern Europe will not in fact displace EC production, even that from the South. Steel, and still more agriculture, are, however a totally different story. The negotiations over steel in the run up to the Association Agreements were conspicuously difficult, and it is not easy to see the EC's embattled steel producers agreeing to any further concessions. As far as agriculture is concerned, the problems are even more basic. Several of the prospective

members, notably Poland and Rumania, are potentially at any rate major agricultural producers and exports. As table IIb below shows, this fact can only have one of two consequences: either the Community budget rises dramatically in order to 'exporters' the problem over seas or, more probably in the light of the new international environment, in this case the CAP has to be reformed to reduce production within the Community. Polish and Rumanian will compete with existing EC producers. These problems are not going to be overcome in a period of two to three years. A decade is probably the shortest time horizon that can be contemplated. This again suggests that adjustment should begin sooner rather than later.

- ◆ The costs of membership in budgetary terms are if anything even more dramatic. We assume that any new members, particularly those like the Central and Eastern European countries who are well below the Community average in terms of wealth, will expect to be treated on the same basis as existing members. The following table spells out just what that might mean.

Table II.a: The Budgetary Effects of Accession in 1992
With agricultural production at current levels

Country Groups	Structural Funds b.ecu	Agricultural Receipts b.ecu	Budgetary Contrib's b.ecu	Total Net Receipts		EC Budget as % of EC GDP
				b.ecu	as % of GDP	
EC12	16.8	28.4				
E.Germ	3.0	0.9	2.3	1.6	1.4	1.3
EFTA	2.0	1.6	9.0	4.4	- 0.7	1.2
Visegrad	11.7	3.4	4.7	10.6	8.1	1.4
Balkan2	6.4	1.5	2.7	5.2	11.6	1.5
Baltics3	1.4	4.7	0.8	5.4	36.2	1.7

Table II.b: The Budgetary effects of Accession in 1997
With partial adjustment of agricultural production in Visegrad, the Balkans and the Baltics

Country Groups	Structural and Cohesion Funds b.ecu	Agricultural Receipts b.ecu	Budgetary Contrib's b.ecu	Total Net Receipts		EC Budget as % of EC GDP
				b.ecu	as % of GDP	
EC12	26.3	28.4				
E.Germ	4.8	6.8	2.6	9.1	6.5	1.4
EFTA	2.8	1.6	9.4	- 5.0	- 0.6	1.4
Visegrad	18.8	17.6	4.9	31.5	20.3	1.9
Balkan2	10.2	5.8	2.8	13.7	24.6	2.2
Baltics3	2.0	9.0	0.9	10.1	56.8	2.3

Table II.c:**The Budgetary effects of Accession in 1997**

With full adjustment of agricultural production in Visegrad, the Balkans and the Baltics

Country Groups	Structural and Cohesion Funds b.ecu	Agricultural Receipts b.ecu	Budgetary Contrib's b.ecu	Total Net Receipts		EC Budget as % of EC GDP
				b.ecu	as % of GDP	
EC12	26.3	28.4				
E.Germ	4.8	8.5	2.6	10.8	7.8	1.5
EFTA	2.8	1.6	9.4	- 5.0	- 0.6	1.4
Visegrad	18.8	30.9	4.9	44.8	28.8	2.1
Balkan2	10.2	10.9	2.8	18.3	34.2	2.5
Baltics3	2.0	13.4	0.9	14.5	81.4	2.7

A note explaining these figures is attached to this paper as appendix I. Various comments are germane, however, even in the main text. Firstly, these figures are subject to the normal reserves concerning extrapolations of present trends. Secondly, the net receipts as a proportion of GDP in IIb and even IIc are so high that clearly something would have to give, if only on grounds of doubt about absorption capabilities. Thirdly it is also worth pointing out that, as the principal justification for a bold enlargement policy is of a political-security character, the additional costs to the budget of the Community are in fact a relatively small proportion of the defence spending of EC Twelve and EFTA which amount to 150 billion Ecu per annum. Visegrad and the two Baltic countries would receive a net contribution of about 15 billion Ecu from the structural funds which is about one tenth of the defence budget of the enlarged

Community. The potential for huge transfers under the CAP is, of course, a different matter. The reason for the level of support given to agriculture under the CAP does not have any security character and should thus not be taken into this calculation.

These are important qualifications on the general picture. It is, however, perhaps rather unsurprising that confronted with estimates of budgetary costs of the order cited above, the UK government, until recently the strongest champion of speedy enlargement, has begun to use the language of 'this year, next year, sometime, never'.

- ◆ The final set of difficulties concerns the future institutional structure of a Community with a membership of thirty or more countries. The problems are familiar, and have already been aired in the Commission's paper for the European Council at Lisbon in June. They include *inter alia*, voting arrangements in the Council, if it is not to be entirely paralysed, the composition of the Commission, the allocation of parliamentary seats, the balance between the institutions, language rights and many other detailed matters. We do not ourselves believe that any of these problems are insuperable. On the contrary where there is a will there is a way. There is no point in ignoring the fact, however, that the complexity of the issues gives opponents of enlargement a great deal of ammunition and that there will have to be some real trade offs between efficiency and accountability, particularly to the smaller states, which may not satisfy everybody and which will certainly disturb many.

There is, therefore, no point in underestimating the task of political leadership and persuasion that lies ahead if the EC is to embark upon enlargement. The

spiralling costs both economically and politically of German unification are a sharp reminder that impulsive and in many respects admirable generosity carries within it the seeds of its own nemesis. A strategy has got to be devised, in other words, on the basis of mutual agreement between the EC and the countries concerned, which is based on a realistic analysis of costs as well as benefits and mutual appreciation of both parties' difficulties.

Against this background, we envisage a *convergence plan* along the following lines. Assuming that the Maastricht treaty ratification process is completed and the Danish problem resolved, we assume that the negotiations with all the EFTA states who have applied and Malta could begin early in 1993 and be completed in time for ratification in 1994 and entry into full membership at the beginning of 1995. Simultaneously with the launching of the formal enlargement negotiations, however, we propose that the European Council should sanction a parallel process involving the EC and the Visegrad states, the Baltic states and all countries in the Balkans except, pending further developments, the successor states of Yugoslavia who want to join the Community. We assume that all will. The premise on which these negotiations would be based would be twofold. In the first place, the Community would go beyond its grudging acknowledgement of the desire for membership on the part of the countries concerned to a positive affirmation of the fact that this is now the EC's own objective. Secondly, however, all the parties concerned would accept that if this objective is to be achieved it will necessitate a convergence programme lasting at least six years and in certain cases considerably longer before the accession of any of the countries in question. However, if the convergence programmes are fully implemented the need for further transitional periods after accession should be much reduced. The convergence programme, to be negotiated in detail multilaterally as well as bilaterally, would set out rights and obligations binding

both the EC and perspective members. Many of the details will of course be taken from existing agreements, and in particular from the five association accords. The convergence programme(s) would, however, go well beyond anything agreed so far. Its provisions would cover:

- ◆ Economic issues.
- ◆ Human rights.
- ◆ Political cooperation.
- ◆ Institutional matters

The economic chapters would comprise five sets of undertakings by the Central and Eastern European states, including if at all possible timetables, and covering:

- ◆ Macroeconomic stabilisation.
- ◆ Microeconomic liberalisation.
- ◆ The liberalisation of external relations including the introduction of full currency convertibility.
- ◆ Privatisation and structural change.
- ◆ The harmonisation of laws with those of the Community, and their successful implementation.

These targets for the Central and Eastern European states would be complemented by undertakings on the EC side to negotiate, again according to a timetable:

- ◆ A progressive liberalisation of trade in the sensitive sectors, notably agriculture.
- ◆ A progressive increase of financial transfers, so that in the final stages of

the convergence process, the criteria on which assistance was granted were broadly speaking comparable to those applying within the Community.

The chapters concerning *human rights* would entail:

- ◆ Confirmation of the commitments already made in most cases to accept and internalise the full implications of the Convention of Human Rights.
- ◆ The establishment of mutually acceptable surveillance procedures, hopefully in conjunction with the Council of Europe, to ensure that due progress is maintained.
- ◆ The provision through the Community budget of wide ranging assistance in the consolidation of civil society, in the terms alluded to earlier in this paper. The emphasis would as always be on self help, but autonomous processes can and should be encouraged by much greater human contact at all levels and educational programmes aimed not only at administrative cadres but at society in general.

Political cooperation already envisaged under the Association Agreements would be progressively deepened. To a large extent, this would occur through the 'socialisation process' that would inevitably follow from the institutional provisions described below. We would also hope, however, that all the countries concerned could, at the appropriate time, be accorded associate status in relation to the Common Foreign and Security Policy and the WEU. We would also hope that as mutual confidence grew, and as the Community's own experience of 'joint actions' in the terms defined by the Maastricht treaty expanded, the countries concerned could be linked with Community initiatives operationally and not just as observers.

The *institutional provisions* would have to be wide ranging indeed, if the substantive proposals listed above are implemented. The closest analogy is provided by the EEA, where the EFTA countries have an acknowledged role in decision shaping if not decision making and share in surveillance. The convergence programme with Central and Eastern Europe should draw heavily on this experience, paying due regard, it need hardly be said, to the implications of the Court of Justice ruling which delayed the conclusion of the EEA Agreement. Broadly speaking, we would see the introduction of the prospective members into associate/partnership status at all levels of the Community machinery, including the European Council. For the countries concerned, this would entail the gradual building up in Brussels of proto-Permanent Representations. It should also, however, prompt the European Community to reexamine its own representation both through the Commission offices, which do not yet exist in several of the states concerned, and through the member states embassies. With due respect to the principle of subsidiarity, which incidentally should also encourage the Länder and other regional authorities to open offices throughout Central and eastern Europe where they have not already done so, we hope that the convergence programme could be used as an occasion for the EC to experiment in entirely new types of cooperation and integration amongst the representatives of both the EC institutions and the member states in these countries. The experience garnered there could then be fruitfully applied elsewhere. The central objective of the whole exercise would, however, be to make partnership an ever deeper reality, so that the transition to full membership becomes correspondingly easier.

There is one other detail of the institutional provisions which merits attention. It concerns relations between the Community and the Council of Europe. In the negotiation of the treaty of Maastricht, the intergovernmental conference decided to reject proposals for the incorporation of a bill of rights

in the treaty itself. Instead, Article F affirms that 'the Union shall respect fundamental rights, as guaranteed by the European Convention for the protection of human rights and fundamental freedoms signed in Rome on 4th November 1950 and as they result from the constitutional traditions common to the member states, as general principles of Community law.

Relations between the EC and the Council of Europe have not always been easy in institutional terms. If, however, a convergence programme is accepted which encompasses almost all the actual or potential members of the Council of Europe, a far reaching discussion of how the two sets of institutions could work together would be highly desirable. In particular, as far as the human rights provisions of the convergence programme are concerned, it would seem absurd for the Community as such to duplicate the expertise of the Strasbourg Commission and Court. Ideally, therefore, this part of the convergence programme should be administered through a partnership between the Brussels, Luxembourg and Strasbourg institutions. An agreement of this kind will not be easy to conclude for any number of rather obvious reasons. It should, however, be attempted. We leave aside any longer term, architectural implications this may have, though they leave ground for fascinating speculation.

This general convergence programme could be reinforced by special arrangements with regional groups in Central and eastern Europe. Rumanians and others have emphasised how potentially dangerous for their own transition programmes apparent preference for 'more advanced' regional groups such as the Visegrad states could be. Any initiative designed therefore to foster regional cooperation should be developed in such a way that it does not introduce new divisions into Europe. That said, there are at least two regional groups in existence and a third which might be reestablished that could play a creative, supplementary role in facilitating convergence. The *Visegrad* states themselves

have achieved a degree of regional cooperation which has already borne fruits and could bear still more in the decade ahead. In the North, the *Nordic Union*, no longer seen by its principal defenders as an alternative to EC membership, but as a useful complement to it, could play a very constructive role in the integration of the Baltic states. Finally, and by no means least, the revival of something like the prewar *Confederation of the Balkans* acting in conjunction with the EC would seem an attractive proposition, not least because it would afford Greece an opportunity to emerge from its relative isolation within the existing Community and assume a leading role in a Community-sponsored task of reconstruction.

The emergence of active regional groups between the Community institutions and actual and prospective member states could also have some fruitful implications for the future development of the European Union's political system where some kind of specialisation along regional lines would strengthen the principle of subsidiarity and mitigate centralising tendencies.

One final point must be mentioned. In the definition of the countries who might be invited to participate in this convergence programme, the successor states of Yugoslavia have been specifically excluded. In the case of a state such as Slovenia, this may appear a very harsh judgement. In many ways it is. It is difficult, however, at this stage to see how the Community could begin to 'pick off' the successor states without exacerbating the problems which, by common consent, it created through its policy of one by one recognition in 1991 and 1992. It must be hoped that the peace process will by the time this convergence programme is established have created a situation in which representatives of the successor states can take part. The launching of the programme should in any way in itself act as a strong incentive to those in the region to seek some kind of *modus vivendi* on which the Community and they can build. For the time being, however, ex-Yugoslavia is sadly in a category all of its own.

The convergence programme sketched out above will of course have to be negotiated and as always in negotiations which involve trade matters, the devil will often lie in the detail. We believe, however, that the idea is in general terms the most promising one available, and that if it is implemented seriously, it will provide political leaders on both sides of the great divide with the kind of external pressure which they will require to bring about the very painful adjustment processes that the eventual achievement of European Union on this scale must entail.

2.2. 4. The Establishment of a Constitutional Committee

This proposal requires much less discussion than the plan for Enlargement. It is equally important, however. As the analysis in part I of this paper suggested, much of the present malaise in the European Community must be traced back to the fact that the indirect, incremental strategy for European Union first developed by Monnet and Schuman in 1950 has now, as a result of its own success, become itself a source of difficulty. No amount of playing around with the principle of subsidiarity either through amendments to Article 3B or through the addition of special declarations or protocols will overcome this problem. If the totally legitimate resentments of many Europeans against a system which they do not understand and which, by definition, they cannot therefore control are to be met, the European Union needs a constitution. In the light of its immediate and prospective enlargement first to nineteen member states and then, potentially at least, to over thirty, this systematic reappraisal and restatement of the system becomes altogether more urgent.

The treaty of Maastricht envisages a new intergovernmental conference in 1996. It defines the purpose of this latter, furthermore, in somewhat limiting terms.

'A conference of representatives of the governments of the member states shall be convened in 1996 to examine those provisions of this treaty for which revision is provided, in accordance with the objectives set out in Articles A and B'.

We believe that the scope of this IGC must be widened and its date brought forward. Before any firm decision is taken about the date, however, it is essential that the European Council sets in motion a process which ensures that negotiators – and, equally important, the public – have a thorough grasp of concepts and options. Several of those who participated in the second intergovernmental conference on Political Union observed that the latter suffered greatly from the lack of the formidable preparatory work that had been done over decades and most recently in the Delors Committee on what was entailed by an Economic and Monetary Union. The looseness with which terms such as federalism and intergovernmentalism were hurled about and the unnecessary amount of heat generated in the dispute about three pillars and one pillar only confirm the appropriateness of this diagnosis.

With a view, therefore, to ensuring that next time the task is carried through both more intelligently and more easily, we would urge that the European Council should nominate as soon as possible a committee to draft a constitution of the Union which can then be taken as the basis for negotiation by the governments themselves. We assume that the committee in question would base their work on the principle of dual legitimacy of a Union founded, as the present Community is, on the member states and, directly, on the people of Europe themselves. In order, however, to ensure that the proposals that emerge go with the grain of the Community's development over the last forty years rather than against it, it is essential that the committee should, like the

Delors Committee on Economic and Monetary Union, give due weight, not to say preponderant influence to those who for institutional reasons are liable to have the most conservative views. Much of the success of the Delors Committee on Economic and Monetary Union stemmed from the fact that it was dominated by central bank governors who, by dint of their nomination, were reassured from the beginning that they were not being asked to commit collective suicide. Given the much wider terms of reference of this committee, it may have to allow for a fair number of subcommittees. It is nevertheless essential that at the level of the main committee itself, the interests of national parliamentarians and representatives of the regions are heard, as well as outstanding figures from the Community's own institutions.

There should also be provision for membership of the new wave of members, since there must clearly be some constitutional revision simply as a consequence of enlargement. Finally, and by no means least, countries participating in the convergence programme should be as fully consulted as possible, since this constitution must eventually be the one that they are asked to accept when they become full members.

The seriousness of the exercise would be compromised if the committee were asked to report in less than a year to eighteen months. It would, however, be desirable if the recommendations were available before the ratification processes of the next enlargement are completed, presumably in the second half of 1994. If this timetable were adhered to, an intergovernmental conference could be opened in 1995 rather than 1996.

One final point should be stressed. Given popular misunderstandings, it is essential that the process as well as the conclusions should be transparent. This does not necessarily mean that the committee should always sit in open hearings, though there should certainly be some. The chairman and his colleagues should however be enjoined to keep the public informed and to carry

through a programme of public consultations.

2.2. 5. The External Implications

The external implications of a strategy of the kind outlined in this essay will become progressively clearer as it unfolds. It must already be obvious, however, that a programme of deepening and widening on the scale and within the time horizons envisaged here would have major implications for the international system as a whole. Rather than anticipate specific details or devise detailed agendas for political dialogue, we will in this section simply highlight the kind of external problems that seem bound to arise and the procedures which might be set in train from the beginning to diminish the damage involved.

The countries most likely to be affected are:

- ◆ The CIS.
- ◆ Turkey (and Cyprus).
- ◆ The Maghreb Union.
- ◆ The United States and the institutions most closely linked with its post-war hegemony, namely the IMF and NATO.

The object in every case must be to ensure that there is a sufficiently strong institutional framework and established practice of consultation and, where appropriate, positive measures are reinforced to assure those concerned of the importance that the Community attaches to the relationship. It is not at all clear that present arrangements are strong enough in any of the cases mentioned.

The defects are most marked in relations between the *EC and the CIS*. As successive volumes of the CEPS Annual Review of EC Affairs have documented, the Community has repeatedly shied away from assuming major

responsibilities with regard to Russia and the other successor states of the former Soviet Union. There are good reasons for this diffidence. If, however, the kind of adjustment programme that we have sketched out above is embarked upon, this attitude will become even more irrelevant and dangerous than it currently is. For this reason, we believe that the CIS should be the object of the first Joint Action under the terms of the Maastricht treaty. A comprehensive programme involving market access, financial transfers and political dialogue is essential. Some ideas are contained in another CEPS paper and there is therefore no need to repeat them here.

The relationship with *Turkey* is already problematical. It can only become more so if the Community adopts a convergence programme leading eventually to the inclusion of Turkey's western neighbours in the Community. There are, however, bases on which to build, not only in the much spoken of Association Agreement which the two parties are pledged to breathe new life into, but also in a potential partnership vis-à-vis the CIS. The negative consequences of the Community's postponement of Turkey's membership *sine die* have already to some extent been mitigated by Turkey's discovery of a potentially very important role to the East. The EC, in the development of its own Joint Action, should not only encourage Turkish initiative but actively assist it. Once again, details need to be worked out, but the imperatives are clear.

As far as the *Maghreb Union* is concerned, there are some in positions of authority in France and elsewhere who would maintain that Enlargement to the East should actually be blocked because of its adverse consequences on the relationship with North Africa. These reactions are an indication of the potential for damage if, in conjunction with its new policies towards Central and Eastern Europe, the Community does not take active steps to consolidate its relations with the Maghreb Union and other Arab states. Some bases exist in the new

Mediterranean initiative, but they are insufficient and a great deal of serious work has to be done if their inadequacies are to be complemented. The CEPS Annual Conference at the end of November on the EC and the Mediterranean will provide one opportunity to air ideas on this subject.

Ostensibly at least, relations with the United States would seem to be the best established and least problematical of all. It must be questioned, however, whether either partner can be so relaxed. The traditional agenda focused on trade continues to cause friction. The new agenda, arising from domestic adjustment in both countries and the challenges of a new world order can only compound opportunities for misunderstanding. The EC-US declaration of 1990 defined a framework for mutual consultation which has proved its utility in practical ways. Sooner rather than later, however, work must begin on a North Atlantic Treaty which defines the basis of cooperation in terms of an agenda which is constantly widening and new political realities on both sides. The CEPS EC-US Task Force composed of twelve experts from both sides of the Atlantic will hopefully make its contribution to this debate. There is need, however, for much more thinking about the issues involved if the 1990's are not going to be very uncomfortable in terms of the transatlantic relationship.

CONCLUSION

The five point strategy sketched out in these pages is ambitious. It is, however, no more than a minimalist statement of what is necessary. To imagine that it is in the interests of anybody that the European Community should grind to a halt or even begin to unravel is a fantasy best left to columnists of the Herald Tribune and their cousins in the United Kingdom. The elite consensus which prevailed at the beginning of this year was rationally based. The Community has no alternative but to go forwards. The events of 1992 have, however, been

salutary. The task is so enormous that it cannot any longer be met within a system which is as lacking in transparency as the European Community's is. Ironically enough, the Maastricht treaty represented a major victory for politics over technocracy. That is why it is so important that Maastricht is not only ratified but implemented. Maastricht is not, however, enough. We need a constitution. We also need to enlarge our membership so that, sooner rather than later, the 'organised and vital Europe', dreamt of by Monnet and Schuman forty years ago, comprises states and peoples who in their day were obliged to suffer the consequences of regimes to which the whole notion of a Union based on democracy, the respect of human rights and liberal economic principles was inimical.

APPENDIX

The appendix presents and comments the estimates of the budgetary cost of enlargement presented in the main text.

The principal conclusions which emerge from all studies predicting the net budget contributions enlargement are that the EFTA countries will make positive net contributions to the EC budget equal to approximately 0.7–0.8 per cent of their GNP. This share of national income devoted to the community as net contributions is broadly in line with that of Germany. The accession of the EFTA countries will cause little disruption to the current 12 members although regional structure suitable for implementing the structural funds are generally absent. At present the level of support for agriculture is much higher in EFTA. However, the shift in policy in the EC and apparently in EFTA countries towards direct income support payments rather than production subsidies should make compromise on the agricultural issue easier to achieve.

Central and Eastern European countries, however, because of their low GNP per head and large agricultural sectors are certain to be net recipients from the EC budget. The issue is the magnitude of the transfers which would follow accession. The accession of the Eastern European countries would have important implications for regional policy in the current members since a much smaller proportion of the population of the 12 would be eligible for Objective 1 status of the structural funds if current criteria were maintained.

The reason for this is that accession would reduce the average level of community GNP per head and so if existing criteria remain in force some areas currently receiving funds would be excluded. In addition it is likely that all of the population of the East European countries would qualify for receipts under Objective 1 of the structural funds. This in turn implies that certain regions of the 12 currently qualifying for Objective 1 status would no longer do so. Most but not all, however, would be included under the other structural fund objectives 2 and 5b.

However, all members of the Community have to agree to let new members in. It is therefore natural to assume that the current recipients of the structural funds would veto enlargement if it meant that they would lose most of the support they receive at present. It was therefore assumed here that the new members would be treated on exactly the same basis as existing members. This implies that the cost estimates presented below are all in addition to the present budget. (We also provide figures for the Baltic countries and East Germany just for comparison.)

A general problem with the structural funds relates to the notion of 'partnership' whereby decisions and responsibilities are shared between regional and national authorities and the Commission. The adoption of the principle of subsidiarity ensures that, where it is within their competence, it is the regional authorities that are involved in implementing structural fund policies. In EFTA a level of administration similar to that at the regional level in the EC is generally absent, although in Austria a federal structure similar to that in Germany exists. In Eastern Europe little power was devolved below the national level so again an

Appendix 3

the present international environment even a partial recovery of Central European agriculture thus makes a reform of the CAP even more urgent.

Central Europe would of course welcome the scenario underlying this table since it would receive support that would be equivalent to over 20 %. The EC budget would, however, go to close to 2 % of the GDP of the Community to finance this.

Finally Table II.c shows what would happen if the CAP were not changed and Visegrad countries achieved German productivity levels and the Balkans reached the level of Italy. Under this hypothesis Central Europe would obtain almost 42 billion ecu each year from FEOGA and their net receipts from the EC would be equivalent to about 30 % of their GDP. This level is not far from the level of support given to East Germany by the German federal government. However, it is not likely that the rest of the world will allow the EC to subsidise its exports the extent that would be necessary to maintain CAP support at its current level.

Appendix 2

appropriate regional structure is absent. Developing the appropriate structures in Central and Eastern Europe would thus be an important part of the convergence programmes.

The two elements that determine the budgetary effects of accession are the structural funds (plus the cohesion fund under Delors II) and agriculture. The overall result that emerges from the different scenarios presented below is that the key to the budgetary cost is agriculture. The cost of 'solidarity' can be gauged quite easily. All of Visegrad and the two Balkan countries considered here (Rumania and Bulgaria) would qualify for structural funds. Assuming they obtain, on a per capita basis, as much as Portugal and Greece, they can count on about 18 billion ecu (per annum). Under the Delors II this would increase to about 28 billion. EFTA countries would obtain very little, about 2 billion ecu.

In the area of agriculture the range is extreme: Support for Visegrad and the Balkan agricultural production under the current CAP regime could cost anything between 5 and 40 billion ecu.

Table II.a below spells out a minimalist scenario in that agricultural production is kept at its present level. Under this hypothesis Visegrad and the Balkans would obtain only about 5 billion ecu from FEOGA. If account is taken of the contributions of these countries the net cost of accession of Visegrad and the two Balkan countries is 'only' 15 billion ecu. Even under this hypothesis the aid from the EC would completely transform the balance of payments constraint of the prospective members as the net receipts would still amount to 8 % of GDP in Visegrad and about 12 % of GDP in the Balkans. This is several times as large as in the case of Greece and Portugal where the structural funds amount to between close to 3 % of GDP.

However, even under this hypothesis the budget of the EC would go beyond the limit of 1.19 % of GDP.

Table II.b represents perhaps a more realistic scenario in that it no longer maintains the (optimistic or pessimistic?) assumption that agricultural production in Visegrad and the two Balkans stays at the level achieved under socialism. Moreover, this table takes into account Delors II which increases the receipts these countries can expect from the structural and cohesion funds. The first column shows the impact of Delors II. The receipts under this heading go to about 19 and 10 billion respectively. Delors II thus increases the 'cost' of these two country groups by about 10 billion ecu annually.

The partial adjustment of Central European agriculture has, however, an even larger impact on the budget. We assume here that by 1997 Visegrad countries will be able to reduce the difference between their yields and those of West Germany by half (and that their consumption will be equal to West German levels). For the two Balkan countries the same is assumed to happen with respect to Italy. Under this hypothesis FEOGA receipts of these countries would go up to 23 billion ecu compared to about 5 billion with their current production levels.

The cost to the EC comes mainly through increased export subsidies. Given the scale of the additional surplus in some key products (generated by mainly by Poland and Hungary) it might not be possible for the EC to simply export its problems to the rest of the world. In

Appendix 4

Table II.a: The Budgetary effects of accession in 1992
With agricultural production at current levels

Country Groups	Structural Funds b.ecu	Agricultural Receipts b.ecu	Budgetary Contrib's b.ecu	Total Net Receipts		EC Budget as % of EC GDP
				b.ecu	as % of GDP	
EC12	16.8	28.4				
Germ	3.0	0.9	2.3	1.6	1.4	1.3
EFTA	2.0	1.6	9.0	4.4	- 0.7	1.2
Visegrad	11.7	3.4	4.7	10.6	8.1	1.4
Balkan2	6.4	1.5	2.7	5.2	11.6	1.5
Baltics3	1.4	4.7	0.8	5.4	36.2	1.7

Table II.b: The Budgetary effects of accession in 1997
With partial adjustment of agricultural production in Visegrad, the Balkans and the Baltics

Country Groups	Structural and Cohesion Funds b.ecu	Agricultural Receipts b.ecu	Budgetary Contrib's b.ecu	Total Net Receipts		EC Budget as % of EC GDP
				b.ecu	as % of GDP	
EC12	26.3	28.4				
E.Germ	4.8	6.8	2.6	9.1	6.5	1.4
EFTA	2.8	1.6	9.4	- 5.0	- 0.6	1.4
Visegrad	18.8	17.6	4.9	31.5	20.3	1.9
Balkan2	10.2	5.8	2.8	13.7	24.6	2.2
Baltics3	2.0	9.0	0.9	10.1	56.8	2.3

Appendix 5

Table II.c: The Budgetary effects of accession in 1997
With full adjustment of agricultural production in Visegrad, the Balkans and the Baltics

Country Groups	Structural and Cohesion Funds b.ecu	Agricultural Receipts b.ecu	Budgetary Contrib's b.ecu	Total Net Receipts		EC Budget as % of EC GDP
				b.ecu	as % of GDP	
EC12	26.3	28.4				
E.Germ	4.8	8.5	2.6	10.8	7.8	1.5
EFTA	2.8	1.6	9.4	- 5.0	- 0.6	1.4
Visegrad	18.8	30.9	4.9	44.8	28.8	2.1
Balkan2	10.2	10.9	2.8	18.3	34.2	2.5
Baltics3	2.0	13.4	0.9	14.5	81.4	2.7