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EU ENLARGEMENT FROM FIFTEEN TO TWENTY-FIVE: PROBLEMS AND PROSPECTS[1]

The accession of ten candidate countries to the EU in May 2004 marks an important turning point in its history. To ensure a smooth course of this process a clear insight into the problems involved and issues at stake is needed. These can be classified into two main groups. The first is the problem of "deepening" the process of integration in the Union, which in the first place means a viable process of decisionmaking and an expedient implementation of respective policies. The second is related with the challenges that the economic and monetary union is facing because of the new constellation of interests created by the accession of the newcomer countries. Conclusions follow.

Key words: Accession process, decisionmaking, economic integration, EU policies

Introduction

On April 16, 2003, representatives of ten countries signed treaties of accession to the European Union at a grand ceremony staged on the Akropolis in Athens. The new candidates – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithua-

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nia, Malta, Poland, Slovakia and Slovenia – will, on the force of this, become full Union members by May 1, 2004. Until then, they will have observer status in the EU, with the right to participate in the committees of the European Parliament as well as the right to send observers to the Parliament's plenary sessions.

This act marks a successful end of the tedious negotiations between the fifte-en EU co-untries and the ten candidates held in December 2002 in Kopenhagen. It was greeted with a genuine euphoria in the candidate countries. Referendums on accession, where they were held, were overwhelmingly in favour – notably in the ex-communist countries of Central and Eastern Europe. For these countries, EU membership was, together with an accession to NATO, their most important foreign policy goal . To the incumbent members, it was felt to be the fulfilment of a moral obligation towards these countries, as well as a big step towards a "Greater Europe". However, a number of factors related to the accession of these "new ten" may create a number of novel problems for the course of effective integration of the newcomers, which may decisively influence the prospects of the future achievement of "an ever closer union". Therefore a closer look at this new context is needed.

The New Context

Unlike many similar events before, this one certainly deserves to be considered as hi-storical. It may also be a major turning point in the whole process of European integration. True, every preceding enlargement was in a sense a shock and a need for retrenchment. With the accession of Britain, Denmark and Ireland in 1973 the population of the Community has increased by 32% and its GDP by 29%; with the accession of Austria, Finland and Sweden in 1995 its territory has expanded by 43% and its GDP by 9% Interestingly enough, each enlargement brought about a drop in the average wealth of the community: Taking the average GDP per head of the original Six (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands) as 100, then the average GDP of the whole Community amounted in 1973 to 97; in 1986 it fell to 91 and in 1995 at only 89 (Rachman 2001, 2). The result of every enlargement was, therefore, a continuous increase in income discrepancies, which as a consequence called for important responses in terms of policy – such as e.g..the establishment of "solidarity funds" for regional development as well as a number of specific policies aimed at the protection of the ever more varied interests of the member countries.

The first important aspect of the new context is related to the very number of the new entrants. The accession of ten new entrants as an addition to the already existing fifteen members creates a disproportional increase of the already existing strain on the Union' s institutions. The original institutions of the Union have hardly changed since their establishment un-der the Treaty of Rome, and were quite adequate for an association of six not very different countries. In the meantime not only the number of member countries has vastly increased, but also the number and scope of acivities of the communitarian institutions has also grown. The consequence of this is a serious operational problem – how to reshape the Union's institutions in order to ensure an efficient process of decisionmaking while in the same time assuring the democratic character of the whole process.

In this context an important structural aspect has to be observed. Most of the new entrants - in fact, all of them except Poland – are considered as small countries. Thus the previous balance among the five big and ten smaller countries and the corresponding distribution of political weight is fundamentally disrupted, since after the accession of the new entrants there will be six big countries pitted against nineteen small ones. This new situation, which The Economist poignantly described as "the tyranny of small nations" is resented by all bigger countries keen to preserve their influence.

The second important novelty is a further and steeply growing tendency towards economic inequality and shifts in relative economic positions. Taking again the GDP of the Union's original Six as 100, the average GDP of the Union will, after the accession of the new entrants, fall from the present 89 to only 75. For some of the poorer incumbent member states this also means that some of them may find themselves above the threshold which entitles them to various forms of communitarian aid, just because the new entrants are much poorer than Greece, Portugal and Spain were at the time of their accession. Consequently, there is no doubt that these countries will do whatever they can in order to minimise the loss of these benefits originating from this new situation.

Next, the fact that eight of the ten new entrants are ex-communist countries. All of them only recently (and with various degrees of effiiciency) emerged from a long and painful transition process. The consequence of this may be that the authorities in these countries lack experience in the implementation of the "capitalist" rules of conduct (the acquis communéautaire included) and that also the general standards of honesty and probity of their public administration as well as the observance of the rule of law by their judiciary may be questionable. This may be a dangerous source of suspicion and controversy in the relationship between the old and new members, especially as to what the implementation of the communitarian rules is concerned.

Finally, the fact that the eight ex-communist new entrants were for full four decades bossed around by Russia in the framework of the "community of socialist nations" may have an important political connotation. Since, as we all know, their experiences behind the Iron Curtain were not really enjoyable, their views on foreign policy will be more influenced by a fear of Russian threats (and therefore a longing for security under an American umbrella) than by sharing the Franch and German disdain for the new imperial arrogance demonstrated by America's President Bush in the case of the Anglo – American campaign on Iraq. At a time when the creation of a new common foreign and security policy is at stake, this may be an important source of conflict and discord.

All this can rightly be considered as a source of a number of serious problems, which may render the prospects for this new "Greater Europe" rather uncertain. Further on, we will analyse these problems under two headings: the first will be those related to the reshaping of the communitarian institutions in order to render them more effective; the second will deal with some key elements of the economic and monetary union.

The Quest for More Efficient Institutions: the Treaties of Amsterdam and Nice and the Constitutional Battle

Until the beginning of this century, the problem with new entrants was seen as mainly one of adaptation to the communitarian standards. Consequently, it was resolved by preparatory activities, which often stretched over lenghty periods: while the accession of Austria, Finland and Sweden in January 1995 was preceded by a preparatory period of only two years, Greece signed an association agreement in 1961 but was able to apply for full membership only in 1975; Spain signed an association agreement in 1970, but applied only ih 1977. (Jones 2001, 462). The problem of stream-lining the communitarian process of decisionmaking started to emerge after the collapse of communism, when a flood of application for membership came in from the newly democratised countries of Central and Eastern Europe: Hungary applied in 1994, and nine others – Poland, Romania, Slovakia, Estonia, Latvia, Lithuania, Bulgaria, Czechia and Slovenia – subsequently applied.

The Pressures and Responses

This avalanche of applications became a matter of serious concern, since under Article 49 of the Treaty on European Union any European state which respects the principles of liberty, democracy, respect for human rights and fundamental freedoms as well as the rule of law may apply for Union membership. Besides, the EU's assumption of special relationship with the Central and Eastern European countries was justified in terms of enlightened self-interest: since these countries are located in its immediate neighbourhood, the EU would find it diffi-cult to shield itself from the consequences of economic collapse and resulting political insta-bility in the region.

Nevertheless, the public opinion in the EU countries is less than enthusiastic about this round of enlargement. A Eurobarometer opinion survey undertaken in autumn 2000 showed that 44% of EU citizens supported, and 35% opposed future enlargement (ibid., 468). This attitude reflected the concerns about the accession of the ex-communist countries to the Union. These can be grouped into two broad categories: one, reflecting the fact that these countries are poor, to an extent disorganised and inefficient - they will be net beneficiaries from the EU budget; there will be greater difficulty to define and apply environmental and other standards concerning quality of life; there will be a surge of crime and illegal immigration); the other is based on the fears of impaired efficiency of the EU institutions - there will be more interests to reconcile in the sein of the EU; the EU institutions more difficult to manage. On the basis of these concerns the debate on "deepening versus widening" has come to the fore.

The arguments of this debate have been summarized by R.A. Jones as follows:

The Case for Deepening:

- The momentum of integration must be maintained, otherwise the whole process will stall;
- It is better to create strong foundations for the EU before other countries are allowed to it;
- Premature entry of Central and Eastern European countries would impose a burden on the EU budget;
- Precipitated widening could make the EU more inward-looking and preoccupied with problems arising from its heterogeneous membership;
- Extensive widening could exacerbate conflicts within the EU, by increasing the number and range of problems.

The Case for Widening:

- It is inevitable that many other European states will join the EU. It therefore seems reasonable to delay further deepening, so that new members can play a full role in EU's development;
- Not to widen would be to betray the principles on which the EU was founded, i.e. on openness to any democratic European state;
- The EU would no longer be confined to Western Europe and would become a truly European formation;
- Not to widen would be to miss the historic opportunity created by the end of the cold war to end the division of Europe once and for all. (ibid., 469)

Against the background of subsequent events it is evident that a policy of both “deepe- ning” and “widening” was pursued – but that a large discrepancy in favour of the latter has occurred. The stream-lining of the Union’s institutions is, therefore, becoming an overriding pri-ority for the future of the Union. In that context two events deserve special consideration – the Treaties of Amsterdam and Nice and the present constitutional battle.

The Treaties of Amsterdam and Nice

The Treaty of Amsterdam of 1997 extended and streamlined the so-called co-decision procedure in the European Parliament as the main legislative procedure and extended the regi-me of qualified majority voting in the Council of Ministers. The co-decision procedure was extended to fourteen existing treaty areas and to eight new responsibilities, so that this proce-dure covers about 80% of Council decisions. Next, the Treaty gives the European Parliament the right to impose sanctions on member states who are liable of a serious and persistent breach of fundamental rights. Moreover, it clearly defines subsidiarity and proportionality as the most important principles of European integration, defining subsidiarity as an empowerment for communitarian action only in the case when the objectives of the proposed action “cannot be sufficiently achieved by the member States and can therefore…be better achieved by the Community”. The Treaty links to this the principle of proportionality, which has “…to ensure that the impact of Union law on national law does not go beyond what is necessary to achieve the objectives of the treaty.” (Jones 2001, 61-2, 74-5). Although these provisions are no small achievement, it has, in fact, fudged the issue of institutional reform.

A major step in the preparation for the envisaged EU enlargements (known as the “Europe of 27”) had to be the Nice summit held under the French presidency in December 2000. Its centerpiece was the issue of national voting weights in the Council of Ministers and the representation of each member country at the Commission and the European Parliament. Its results were put down in the Treaty of Nice. Its main features were: the extension of qualified majority voting to industrial policy, economic relations with non-EU countries, judicial cooperation in judicial matters, measures to facilitate freedom of movement of EU citizens and on a number of statutory and organisational matters; the introduction of a double (and even-tually triple) system of majority voting. The regular voting system is based on a double majority – i.e. a majority of weighted votes, combined with a majority of the member states. The “third majority” which sometimes may be used is one that requires the votes of countries comprising at least 62% of the total population of the Union. This “population threshold” could be invoked by any member of the

Council as a verification of the vote. The most contentious issue was, however, the distribution of votes in the Commission because of strange arrangements without clear criteria. Thus Britain, France and Germany were all allocated 29 votes although Germany has a much larger population than the two other countries. Spain was awarded with 27 votes as well as Poland (after accession) . But Belgium has lost its voting parity with the Netherlands, while Romania will be awarded only one more vote than the Netherlands although it has 7 million inhabitants more.

An equally contentious issue became the composition of the Commission. Here the bigger states advocated the idea of a limited number of commissioners, while the smaller countries were determined to ensure that they did not lose their right to choose their own man. The solution offered then was a compromise in so far, that the big countries have given up their right to a second commissioner from the beginning of 2005; in return they demanded a "deferred ceiling" whereby there will be one commissioner per country up to 2010; but when the EU grows to 27 states the number of commissioners will have to be less than the number of member states (Jones 2001, 89-94).

For all this, the Treaty of Nice will be remembered for several things: first, for the fuzziness and arbitrariness of the rules adopted, which created widespread discontent across the Union; second, for the first confrontation of big versus small member countries – and third, for the struggle of member countries for their relative statutory positions, which will dominate the ensuing constitutional battle.

The Constitutional Battle: Interim Results

The Convention on the European constitution met for the first time on Feb. 28, 2002. It comprises 105 delegates and an equal number of assorted grandees as alternates. Its tasks were defined by the Laeken Declaration according to which the Convention was established - as strenghtening democracy, increased transparency and greater efficiency of the Union's institutions (Smerdel 2003, 511). In practice it became, what The Economist aptly called, "an intergovernmental tug-of-war". As soon as its president, Valéry Giscard d' Estaing and his praesidium issued the first sixteen articles of a draft constitution in February 2003, they received over 1,000 proposed amendments from all sides. (The Economist, March 8th, 2003, 37)[2] The most important points of contention were: the idea to increase the powers of the Ecofin council of finance ministers of the euro zone over economic policy; the

[2] For obvious reasons it would be impossible to review the whole debate on the subject. In this paper only the most important subjects are covered, as discussed in The Economist and The Financial Times.

appointment of a European finance minister and increased use of qualified majority voting for indirect taxation; the call for "approximation" of indirect and company taxation in the member countries, as well as "a renewed emphasis on 1970s-style corporate bargaining between employers' groups and organised labour…and undo years of painful (Thatcherite) reforms in one fell swoop". "A poor constitution for Europe" commented The Financial Times (Feb. 9/10th, 2003, 23) The idea of delegating the "exclusive competence" over the internal market's "four freedoms" was also strongly opposed by the British and Germans, while the French and Germans jointly opposed the idea that the EU should co-ordinate all EU' countries' economic policies (Charlemagne – a) 2003, 31).

On April 22, 2003 the Cenvention's ideas for the reform of the enlarged institutions were presented. These envisaged a powerful president for the Council of Ministers, where all member countries' national governments are represented, with a mandate of two-and-a-half years. He is supposed to preside over a mini-cabinet, charged with guiding the EU's work. As to the other main executive body, the Commission, the proposal suggested that the number of its members be reduced from the present twenty to fifteen and that its president may appoint another fifteen non-voting "advisory" commissioners. The number of members of the European Parliament from each country should be made more directly proportional to its population. A new institution, the European Congress, should be established where two-thirds of its members would come from national parliaments and which would decide any further constitutional changes and debate the policy proposals of the new president of the council.

The issues raised by these proposals have immediately been perceived as attempts to shift the present balance of power between these two most important bodies of the Union. So they have almost immediately come under fire from various sides. Thus the Commission, which operates in the same way as governments do and is traditionally the most powerful institution in the Union, issued a statement almost immediately after the publication of these proposals denouncing them as liable to create "confusion and duplication of bureaucracies" and an "unequal treatment of member states". Representatives of smaller member countries were also fearing to lose their present influence in the Commission through the loss of their commissioer, and found the proposal "insulting". They also strongly opposed the changes in the structure of the European Parliament. In sum, these proposals were characterised as an attempt to reduce the power of smaller EU countries, the Commission and the European Parliament. They were also seen to try to strenghthen the hand of the defenders of the nation state against the advocates of more powerful pan-European governance. "Institutional mayhem" – commented The Economist (April 26th, 21).

The proposal restates the already mentioned transfer of power to EU institutions in twenty new areas, where it also proposed to abolish national vetoes. On the other hand there was a retreat in relation to former ideas insofar, that the national veto over taxation was retained on which Britain and Ireland were insisting. It also strenghthened the hand of national parliaments insofar, that if a third of national parliaments expressed the opinion that a proposed EU law exceeds the Union's empowerments they can force the Commission to reconsider it – and ultimately ask the European Court of Justice to adjudicate.

One contentious issue was, however, reopened - the distribution of voting rights, although the decision on them has already been reached by the Treaty of Nice albeit in an unsatisfactory way. Because of this, the representatives of smaller nations became seriously worried about a possible loss of status. On the other hand, the proponents of change do seem to have a case: if the present distribution of voting power were maintained, then in an enlarged community of twenty-five the smallest countries, representing only 1,5% of the EU's GDP would have more voting power than the six largest countries with 82% of the Union's GDP. Proponents of change also point out that at present it takes ten times as many votes to elect a German member of the European Parliament than to elect one from Luxembourg. (The Economist, May 31st, 2003, 27-28)

If both smaller and bigger countries have reasons for discontent, so do the regions – formerly promoted as a welcome sub-national instance of political decisionmaking. It seems, however, that at present the EU is no longer encouraging regionalism. "Efforts by Catalonia, Scotland, Flanders and the German Länder to have a bigger role for regions written into the draft of the new EU constitution were rebuffed by the convention on the future of Europe, partly thanks to pressure from Spain and France."The Committee of Regions, based in Brussels and headed by the suitably named Sir Albert Bore from Birmingham, England, is a by-word for tedium and toothlessness" commented The Economist. Now some proponents of regionalism, such as the German Länder and Italy's Northern League, complain that EU competition rules are threatening their traditional practice of providing aid to local industries. Although eurocrats may on the theoretical level be attracted by the idea of a further layering of levels of political power, the Commission did not want to antagonise powerful member governments. Moreover, EU officials are aware of the fact that it will be dauntingly difficult to secure agreement between twenty-five member states, and they reckon that it "will be totally impossible … with more powerful regional governments as well" (Charlemagne – b, 2003, 32) The enlargement of the EU may undoubtedly contribute to the "rebelliousness" of the European regions. Many of the new member countries, such as Malta or the three Baltic states, are both smaller and poorer than such regions as Catalonia or Flanders. The battle for regionalism is, evidently, far from over.

These issues raise a question all too familiar to people in former Yugoslavia: which principle is more democratic – "one man – one vote", or "one nation – one vote”…The problem is that there is no consensus on what the Union really wants to be – not even in the same country. Robert Schumann, one of the “founding fathers” of the European Communities, was envisaging an “Europe des citoyens” – which would imply the creation of a supranational state. On the contrary, Charles de Gaulle spoke of an “Europe des patries” – which, in turn, might mean only a community of states. Finally, Jacques Delors, the formidable godfather of the Maastricht Treaty, was speaking of an “Europe des régions” - which evidently implies a curtailment of the authority of the component nation-states in favour of sub-national entities. At present it seems that the adherents to a Europe of nation-states have the upper hand; but nothing is granted for the future. So the direction towards the process of forging an “ever closer union”, is erratic and highly uncertain.

Another issue which seemed to be already resolved, has recently been raised again – the reduction of the threshold for a decision under qualified majority voting.. At present, a qualified majority decision requires 72,3% of votes, while under the new rules this should be reduced to 60%. At first sight, this evidently enhances the efficiency of decisionmaking. But Roland Vaubel, adviser to Germany’s federal economic ministry, warned that this could lead to a disadvantage for the less regulated states.”When regulations can be introduced by a majority of the member states, the more highly regulated states have an incentive to impose regulation on the less regulated states. This is the so-called ‘strategy of rising rival’s costs’.

The history of federal states provides many examples for this - explains Vaubel. In the US the federal minimum wage was introduced by a congressional majority from the northern states, where most wages were above the minimum anyway, against the fierce resistance from the southern states which feared for their competitiveness. The strategy of raising rivals’ costs has often been pursued in the EU. Thus the working time directions from 1993, which Britain unsuccessfully challenged at the European Court of Justice, were forcibly imposed by majority vote. Another case in point is the droit de suite directive from 2001, which forces art dealers to transfer a certain percentage of their proceeds to the artists or their heirs. This regulation has been in force in a majority of member states, among them France and Germany. A minority of countries, among them Britain, has been outvoted.

Unfortunately, the tightening of regulation in the more liberal member states is not all. As the competitive pressures from these countries mount, their regulation-prone majority of member states can afford to expand their domestic regulation even further. They will then impose these regulations on the minority – and a vicious circle develops which can only im-pair Europe’s competitiveness.(The Financial Times, November 14th, 2003)

Although the mandate of the Convention has expired on July 15th 2003, the constitutional battle is far from over. Further debate was scheduled for the next intergovernmental conference: among the pending issues are requests from Spain and Poland for an increase of voting rights – an issue on which, as already mentioned, decision has already been taken.

The intergovernmental conference held at the end of November 2003 in Naples, enacted further changes in the proposals of institutional change were made: now all twenty-five members of the Commission will have a vote, although the final decision has to be made at the December summit to be held at Brussels. Moreover, the former French idea of an operational directoire in the form of a closer cabinet empowered to decide on "urgent matters" in the sein of the Commission has been reinvented (Vjesnik, 30 studenog 2003).

The most tangible result of the present constitutional battle are new front-lines among the member countries relative to the issues described above – and more. The proposed shift of balance of power in the Council of Ministers through the new voting system is opposed by Spain and Poland because they would suffer a considerable loss of influence. On the other hand, Germany, which would gain from that system continues to insist that its adoption is crucial for the new constitution. The smaller countries insist that they will not agree to losing the voting rights of their commissioner. The Irish are opposed to the idea that their system of criminal law may move towards the European continental model. Britain, Portugal, Slovakia and Austria are against the harmonisation of criminal law procedures. Britain, Ireland, Poland and Sweden oppose even the idea to call the person in charge of EU foreign affairs "foreign minister" because this implies the creation of a superstate. Provisions to allow a core group of countries to create a closer defence union are opposed by Britain, Finland and the central European countries. Britain and Ireland are leading a battle against "any hint of tax harmonisation". A number of finance ministers also wants to limit the European Parliament's planned powers over the budget.(Charlemagne – c 2003, 35). However, not everything is controversial: a big extension of majority voting, a binding Charter of Fundamental Rights, a President of the Council of ministers, a legal personality for the Union and the first explicit statement of the supremancy of EU law over national statutes. These are no small matters, but how much have they contributed to the efficiency of the Union's decisionmaking?

At the European constitutional conference in Rome on October 4th, 2003 most of the heads of government assembled there were asked why was it necessary to adopt a European constitution at all. Most of them answered that a constitution was needed "in order to make enlargement work better (Charlemagne – d 2003, 35) . Looking more closely at the "big new ideas" in the draft, The Economist found that they "have very little to do with enlargement. There is no stringent requirement to create a European foreign minister or to adopt a Charter of Fundamental Rights or to expand the Union's authority in the field of criminal law just because of an increase in the number of the members of the Union. "…All the legal and institutional arrangements needed to cope with an enlargement were, in fact, settled by the Treaty of Nice, which was agreed less than three years ago EU heads of government then declared proudly that Nice ' opens the way to enlargement' and 'completes the institutional changes necessary for the accession of new member states'" (ibid., 35) Not necessarily. However, if adopted, the French idea of a directoire in the Council of Ministers entrusted with day-to-day matters could improve its expediency, on the condition that a) it maintains a well-balanced structure in terms of big vs. small nations, b) that it develops good working relations with the rest of the Council and c) that an effective mechanism of co-ordination with the Commission is established.

Recently the events took a worrying turn in this respect. On February 18, 2004 a summit between the German Chancellor G.Schröder, France's President J. Chirac and Britain's Prime Minister T.Blair was arranged in Berlin. Its announced purpose was to create a common political initiative on problems of the labour market, security and innovation – to be presented to the Council of Ministers in March.(Večernji list, Feb. 16, 2004, 24). This attempt to create a "triumvirate" in order to steer the Council has, however, not been greeted with sympathy – not only by small, but also by some big countries; Italy's Prime Minister S. Berlusconi protested loudly. Recalling the dismal fate of all triumvirates from Roman to Soviet times, one could only agree with the dissenters.

One could reasonably argue that this constitutional battle may be a good opportunity to redress the causes of discontent created by previous decisions. But we could also agree with The Economist that the whole story about this constitutional battle described above had little to do with making the enlargement work better. The Economist guesses that the whole exercise has been engineered by European federalists who feared that enlargement may "destroy their dream of an EU that evolves into a political union, with a genuine economic government and a unified foreign policy, particularly since many central Europeans are suspected of harbouring an outmoded attachment to national sovereignty" (ibid., 35). The ensuing battle proved, however, that many incumbent member states share these "outmoded" sentiments.

Had this whole exercise really been about making enlargement work better, then an important point, the control of implementation of EU law would not be omitted. True, acceptance to membership supposes a full adoption of the acquis communéautaire, as well as adequate standards of compliance to the rule of law as well as to standards of public administration and honesty in public life. To this end, ample aid in the implementation of reforms of administrative and judicial structures in the candidate countries is also provided (European 2002, passim). Nevertheless, it is well known that these standards are not uniformly applied even throughout the Union, creating tensions between the sterner "northern" and the laxer "southern" member countries, especially when suspicions about corruption are at stake. While in Sweden a young government official doomed her further career because of 70 euros of private expenses charged on her government credit card, protagonists of monumental misdeeds in France (J. Chirac), Italy (S. Berluscoini) and even Germany (Helmut Kohl) extricated themselves out of these affairs unscathed. "In years gone by, revelations of corruption could be treated by people in other countries as good, dirty fun" warned The Economist. "But in these days of deepening European political integration, different ideas about what constitutes corruption pose a real problem". Therefore, "a sense of mistrust between EU countries is not an abstract or occasional problem. It affects their day-to-day dealings... In the wake of September 11 the Union approved plans for a pan-European arrest warrant which will short-circuit traditional and lenghty extradition procedures But such a measure requires complete faith in the judiciaries of all 25 countries that will join the Union…including several ones that have only recently emerged from the former Soviet block" (Charlemagne – e 2003, 35; see also similar comments quoted in Smerdel 2003, 520). Since the existing mechanism for appraisals of the quality of the public administration and judiciary such as "twinning" still have to prove their worth, the quest for a more effective one should at least be proposed. If not, the existing "trust gap" between member countries on that matter may persist, even widen and create further conflicts.

Challenges to the economic and monetary union

Up to the present we have argued that the problems of institutional reform pitted adherents to nation-states against federalists and big against small countries, it seems that problems of economic policy concerning the functioning of the economic and monetary union may well pit new against old member countries. The underlying problem is, as already mentioned, obvious: since the new entrants are all much poorer than the EU average, the overriding problem for them is to accelerate their growth, in order to catch up the average level of the Union's prosperity. For this they need generous handouts of aid and transfers, making them, as already mentioned, dangerous competitors to the present beneficiaries of EU funds The problem is all the more important, since the income gap between incumbents and newcomers is considerable and the very act of accession will for all of them represent a more or less severe initial shock and setback[3]

[3] All reviews of the accession process of the "new ten" stress this fact. Cf. European (2oo2), for all evaluated countries.

The Crucial Point: How to Close the Income-Gap

The acceptance into membership of any new candidate country supposes, among other things, the fulfilment of the second Copenhagen criterion, which states that a candidate must have an efficient market economy and an ability to face competitive pressures in the Union. The problem consists, however, in the fact that the EU is a rich men's club, while - as already mentioned – the new entrants are considerably poorer. An Eurostat study published in 2000 found that the GDP per capita ranges between 87 %(for Malta) to 27% (for Latvia) of the EU average; within the ten Central and Eastern European countries (Bulgaria and Romania included) the average GDP per capita was 2,6 times lower than in the Union.

The reason why this difference matters is not only a matter of envy. To a poor country membership in a rich men's club, burdened with the rules and expenses which by its modest resources can ill afford, may in the end become a veritable nightmare. A possible consequence of such a bad outcome would, obviously, be mounting political tensions. Whether, when and how this income-gap can be closed has, therefore, become a matter of serious concern. An estimate made by the European Commission in 2001, based on the actual per capita GDP levels and current growth rates, found that relatively rich Slovenia would need only ten, but poor Romania a full 600 years to catch up to the EU average (Rachman 2001, 14). A more recent estimate, made by the Economist Intelligence Unit in 2003, yields a different picture: Here Cyprus would need 21, Malta 29, but Slovenia 31 - while Bulgaria may need 63 and Romania full 80 years to catch up (Cottrell 2003, 4)

The acceptance of Central and Eastern European countries into EU membership indicates that they have been recognised as full-fledged market economies. A proof of this may be the fact that five out of eight post-communist candidate countries have today a bigger GDP per capita than in 1989 – and therefore mastered the "transition crisis". GDP growth rates which exceed those of the old EU members may also give these countries some comfort; however, this difference is to a greater extent due to the slow growth in the Eurozone countries, notably France and Germany (The Financial Times, February 9/10th 2003, 13, Charlemagne – f 2003, 33) than to a miraculous buoyancy in the candidate countries. Besides, knowing the rules of the game and acting accordingly is by far not enough. Appraisals of post-communist countries in the early nineties described them as poorly organised, low-tech and low-wage economies(cf. Siebert 1991 and attached bibliography).That, it seems, has not considerably changed since then. In some countries, such as Estonia, Latvia, Lithuania and Poland agriculture is still a big headache: while in the EU the agricultural sector employs on average 5% of its population, in the mentioned countries this is at least twice as much, with holdings mostly split into small subsistence farms. Their infrastructure is still the one inherited from communist times: roads are in bad shape, railways are under-equipped, water and waste systems all have to be brought up to EU standards. Merely bringing Central European sewerage networks up to EU standards will cost about 40 billion euro. Most newcomers have therefore had to negotiate a delay of five to ten years before they become legally obliged to finish the job."For the next 20 or 30 years, central Europe will be a building site" (Cottrell 2003, 6). All this requires a lot of money, which these countries simply do not have.

Moreover, most of the former cost-advantages from communist times are disappearing. An Estonian worker's wage, which in the early was DM 100 worth, increased to more than DM 600 in 1997; by now it may already amount to two-thirds of the EU average. Foreign investors point out at increases of other costs: energy is to be had at world prices, while other services such as telecommunications are more expensive than in the West. The consequence: some industries, such as textiles and apparel, where labour cost are of crucial importance – have already in the late nineties started to move from Central Europe to cheaper countries such as Ukraine or Romania. Workers from these countries, for their part, are in turn migrating towards Central Europe (Lucas 1997,6-7).

Hence the closing of the productivity-gap and modernising their production becomes a priority for all Central European countries. True, in the period from 1993 to 1997 the main Central European countries experienced, according to the EBRD, an authentic surge in productivity, ranging from 30% in the Czech Republic to 50% in Poland. But after this initial hike, achieved often by shedding excess workers, the post-communist managers found it much trickier to move upmarket and to modernise than imagined. Some are of external nature: communist planners preferred rail to road transport, complicating door-to-door deliveries for many enterprises. However, most problems are of an internal nature. Examples abound: companies spent millions of dollars on complex computer systems, only to use them for printouts of invoices and keeping address lists. Other companies try to save money by doing everything by themselves, even writing their own computer software; outsourcing, which produced big cost-savings in Western companies, is only slowly gaining ground. Cost-cutting and focusing on the main priorities is also an art to be learned, while some management techniques as just-in-time deliveries cannot be applied. Management tends to be over-centralised, wasting the time of top managers for trivial tasks. Last but not least, most post-communist managers lack proper Western-style training, focused on continuous improvement of production of goods and services in both quantity and quality. (ibid., 15-16)

Many among these problems have to be resolved by the businessmen and administrators in the newcomer countries. "That means learning the wiles of Brussels, using EU money prodently, getting public spending under control, keeping business happy and keeping the public informed" advises The Economist (Cottrell 2003, 4). Many hopes are pinned upon foreign investment, which is expected not only to alleviate shortages of capital, but also to modernise production as well as to improve the organisation and management of entreprises. Nevertheless, some key problems need substantial help from "the wiles of Brussels" – notably the restructuring of agriculture and the improvement of infrastructure. On this the newcomer countries look forward to two well-established EU institutions: the common agricultural policy and the solidarity funds for regional development. On these exspectations, however, some serious doubts are arising.

The Uncertain Future of the Common Agricultural Policy

The Common Agricultural Policy has, from the beginning, occupied a central role in Union policy. The Union's founders saw its advantages in that it would enable them to deal with agricultural problems common to all countries by collective action; to foster market stability through collective intervention in agricultural markets and through a common policy of external protection; that it would provide farmers with new outlets for their produce and that it would encourage regional specialisation in food products and thus offer consumers a wider choice. It was formally established in the Treaty of Rome, with the following five formal objectives:

- To increase agricultural productivity by promoting technological progress and by ensuring the rational development of agricultural production and the optimal utilisation of other factors of production, in particular labour;
- To ensure a fair standard of living for the agricultural community, in particular to increasing the individual earnings of persons engaged in agriculture;
- To stabilise agricultural markets
- To ensure the availability of food supplies, and
- To ensure that supplies reach consumers at reasonable prices.

Although even before the introduction of the common agricultural policy all member countries of the original six members had some such policies of their own, in the 1950s they produced only 85% of their food requirements. Hence this policy was primarily intended to attain the Community's self-sufficiency reduce risks and incease the efficiency of agricultural producers. To this end the Union devoted a major part of its budget. In 2000 40,994 million euros were earmerked for purposes of the common agricultural policy, plus additional 82 million euros for "other agricultural operations" (Jones 2001,187). This item represents, with more than 46% of the total EU budget, its most important part

The most important instrument of this policy are price supports, in the framework of which target prices for a number of agricultural commodities are set. If the price attainable on the market for a certain good falls below its target price, the produce may be sold to intervention agencies which operate in all member countries. Producers of some products receive direct subsidies, as flat rate aids by the hectare or quantity produced. A counterpart of these are import barriers in the form of levies on agricultural imports as well as non-tariff barriers in the form of import quotas. On the other hand, export subsidies are paid on some agricultural products exported from the EU, in order to eliminate the difference between EU and world prices. These subsidies (or restitutions) try to reduce the existing surpluses of agricultural pro-ducts (ibid. 214-215).

The result of all these policy measures is that they have more than fulfilled some of their original objectives, in particular the attainment of high agricultural productivity and regularity of food supplies. The growth of productivity in EU agriculture has been dramatic – between 1973 and its 1989 agricultural output has risen by 29%. Because of this, the Union is now self-sufficient in a number of basic agricultural products, such as cereals, wheat, butter, beef, veal, pork and sugar. It has become the world's second largest exporter of agricultural produce. In the same time, the number of people employed in agriculture declined from 13,4 million in 1973 to 6,9 million in 1999 – making only about 5% of the total working population. (Jones 2001, 217-218). All this has, however, been achieved at great cost. The Union found itself with huge and mounting surpluses of certain products such as cereals, meat, wine and milk products, which it could only sell on export markets thanks to generous export subsidies - or distribute them as aid to the "needy" (Jones 2001, 214-215, 217-218).

In order to reduce the surpluses, a reform of 1992 was intended to shift policy from production incentives to other forms of assistance. The idea was to reduce price supports and increase income supports, including measures such as "set aside" policies – i.e. to disburse payments to farmers which renounced to cultivate a part of their land.. An early retirement scheme for farmers over 55 was proposed, with greater subsidies in less-favoured regions and mountain areas. An environmental action programme was also envisaged in order to "develop the potential of the countryside". This reform was intended to reduce, or at least contain the expenses of agricultural policy and shift the burden (in the form of high prices) from consumers to taxpayers (in the form of income supports).Although this reform significantly reduced subsidies for a number of major products, the outlay for purposes of the common agricultural policy has risen from 26,5 billion euro in 1990 to almost 50 billion in 2002 (ibid 218, The Economist, June 28th, 2003, 16, 31). Amounts of such magnitude started to weigh heavily on the Unions' finances, taking, as already mentioned, almost a half of the total bud-get. Besides, complaints were put forward that it disproportionally benefits some countries, such as France, the Netherlands, Denmark and Ireland. Now with the accession of a number of new countries of which Poland and some smaller counteirs have a big agricultural sector, the problem what to do has become all the more pressing.

Probably in order to prepare for enlargement, a new attempt to reform Europe's farm policy was made in June, 2003, along the lines of the 1992 reform. The proposals were not aiming at cutting the expenses for farm support, but to "decouple" subsidies from production. As expected, the proposals were resisted by the biggest recipients – France, Spain, Ireland and Portugal – which managed to water down the whole arrangement. So decoupling may begin in 2005 but countries can choose to delay its introduction until 2007. No reduction in subsidies for cereals – the largest beneficiary of support – were agreed, only support for dairy products was reduced. "More fudge than breakthrough" – commented The Economist (June 28th, 2003, 31).

An assessment of the economic impact of enlargement on the agricultural sector prepared by the European Commission puts forward the following points:

- The effects of enlargement in agriculture will have little impact on overall EU-15 growth, since agriculture accounts for a small share in their GDP and employment.
- Productivity in the new entrants' agri-food sector is exspected to improve over the next decade and in combination with the removal of trade barriers to increase competition for EU farms.
- So far the removal of trade barriers has led to a dramatic increase in net agri-food exports to the Central and East European countries. Given the importance of hygiene and quality requirements for this kind of products this development may continue, although accession should reduce differences.
- A large number of workers is exspected to leave agriculture in the next decade in the countries joining the EU. Those who are likely to become unemployed as a consequence of agricultural restructuring or those who remain inefficiently employed, are older and low-skilled workers, which typically face constraints as well as lower incentives for migration. (Enlargement – b 2001,53-61, Enlargement – c 2001,42-51)

In order to alleviate the pains of accession, the Union has only in 2000 disbursed 520 million euros in assistance to agriculture in the candidate countries (Enlargement – a, 2001, 45). But putting the above assessments into reverse, it becomes evident why the newcomer countries are badly in need of long-term generous assistance for agricultural restructuring.

- For all newcomer countries with an agricultural sector of about 10% and more of GDP the impact of accession may be unfavourable. Price supports of their own making as a response from domestic pressures wage increases as well as the recent appreciation of their currencies have reduced their already low competitiveness. Exports of agri-food products from the EU to the new entrants is already twice as big as their exports of these goods to the EU.

- Agricultural productivity in the new members is "considerably lower than in the EU – 15" and cannot be compensated by low wages anymore. Although it is exspected to rise because of the necessary economic reforms and the improved access to capital and technology, two large countries – Poland and Romania – have very unfavourable production structures. "About 80% of Polish land and most Romanian is used by very small-scale family farms." These are hardly conducive to rapid productivity gains hence the process of restructuring may last for quite some time, causing quite serious social problems.
- In order to achieve adequate quality standards required by the EU, the new countries will have to invest considerable sums in modernisation which they can ill afford. For adequate funding EU aid may be indispensable.
- The already mentioned "large number of workers is exspected to leave agriculture in the next decade in the countries joining the EU" , as well as those which will remain unemployed or inefficiently employed – mostly older and low-skilled workers are the main victims of the process of agricultural restructuring. Resulting social problems will cause further strains in the newcomer countries[4]

No wonder that these countries avidly exspect assistance in this process. It seems, however, that the EU, unable to curtail disbursements to the present beneficiaries of the common agricultural policy, is trying to squeeze some savings out from the newcomers. A proposal foresaw no extension of full subsidies to newcomer countries until 2006, until when they may receive only 25% of their due. The Polish government reacted strongly with a request for substantial increases of agricultural aid. Recent promises of lowering direct subsidies to 5% of the total value of the EU agricultural production advanced during the preparatory negotiations for the Doha round were also met with suspicions by new entrants. (Poslovni svijet, August 20th, 2003, 26) They argue that they do not want to become second-class members. Consequently a heated debate over agricultural policy in the EU will continue with a rather uncertain outcome.

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[4] Data mentioned in the foregoing text are derived from Enlargement b and c, 2001, 53-61 and 42-51.

The problems with the Regional and Cohesion Funds

The next instrument of communitarian policy that the new member countries pin their hopes upon are the regional and cohesion funds, earmarked to stimulate development in less developed regions as well as in backward member countries. The common regional policy started with the establishment of the European Regional Development Fund in 1975 after the entry of Britain and Ireland – two countries with large regional disparities. This policy was warmly welcomed by Italy because of its poor Mezzogiorno region. The number of countries aiming to benefit from this policy increased sharply after the accession of Greece, Portugal and Spain when the number of people living in poor regions with per capita incomes of less than 75% of the Union average doubled.

This policy made further progress with the course of times. According to an Eurostat report published in 2001 and based on 1998 data there were 46 needy regions accounting for 20% of the Union's population. These comprised eleven out of thirteen regions in Greece, five out of seven in Portugal, eight in Spain, four in France, five in Italy, four (overseas regions) in France, one in Austria and one in Ireland (Jones 2001, 324-235). In addition to the European Regional Development Fund and the European Social Fund which is also part of regional policy, a special Cohesion Fund was established at the Maastricht summit in 1991 after strong pressures from the four poorest states keen to fulfil the convergence criteria for the entry into the economic and monetary union. The fund applies to countries with a GNP per capita of less than 90% of the Union average. These comprise the four poorest countries – Greece, Ireland, Portugal and Spain – with a total population of 63 million. The difference between the Regional and Cohesion fund is that the Fund outlays are program based, while the Cohesion Fund can be used only to finance transport and environment infrastructure projects. The outlay for structural operations, i.e. the Regional and Cohesion Fund with some minor purposes amounted in 2000 to 31,802 million euro and was with 36% the second biggest item of the Union's budget For the period from 2000 to 2006, 213 billion euros are earmarked for the Union's structural funds (ibid. 187, 238-239, Charlemagne – g 2003,34)

After a number of reforms, the main objectives of the EU regional policies are:

- Aid to lagging regions: it is directed to regions with a per capita GDP of less than 75% of the EU average and to regions with very low population density. There is additional support for regions with exceptionally high unemployment. To this end about two-thirds of structural funds is available.
- Aid to regions undergoing economic and social conversion: it provides assistance to regions with major economic and social restructuring needs.

This includes areas undergoing economic and social change in the industrial and service sectors, declining rural areas, urban areas in difficulties and depressed areas dependent on fisheries. To this end about a tenth of the total structural outlays is reserved.

- Aid for the development of human resources: it supports the adaptation and modernisation of education, training and employment outside the lagging regions. Projects under this objective must promote equal opportunities between men and women. They are not regionally based and comprise all human resource operations in the EU. Outlays for this purpose amount to about an eighth of the total structural outlays. (Jones 2003, 246).

Everything mentioned above shows that these policies correspond exactly to the most urgent needs of the new member states from Central and Eastern Europe. Hence an eagerness to become beneficiaries of these policies. They feel entitled to them all the more, since fifty-one out of fifty-three regions of the new member states qualify for regional aid. Moreover, the new entrants are obliged to bring their infrastructure and environmental protection to EU standards in a period from five to ten years. This implies an extremely heavy financial burden measured in tens and hundreds of billions of euros. This, of course, raises a real panic among the present beneficiaries of regional policies. The greatest worries are expressed by the four most privileged among them – Greece, Ireland, Portugal and Spain – who may become ineligible for aid from the Cohesion Fund since they are not any more the poorest members in the club. For obvious reasons they will nevertheless try to secure their share of benefits for the future. On the other hand, some other beneficiaries may also be affected by the new situation: since the EU average will be significantly reduced by the entry of the poorer countries, many regions which have hitherto been eligible for regional aid may be not so any more – as some of the German, French and British regions.

The conventional opinion has always hailed these policies as a proof of European solidarity through which the richer parts of the Union are helping the less well-off. The EU authorities are also quick to point out that the effectiveness of these policies has been shown by the economic growth they have initiated in Greece, Ireland Portugal and Spain. According to the European Commission, the average GDP per person of Europe's poorest regions rose frome 54,2% of the EU average in 1987 to 61,1% ten years later. The catch-up for poorer countries like Spain and Ireland was even faster; indeed, the average Irish income per head is now quite a lot higher than the EU average. No wonder that "the promise of gleaming new EU-financed motorways and fine civic buildings has been among the biggest inducements dangled before the ten countries due to join the club next year" (Charlemagne – g 2003, 34). In recent times, however, some academics have started to question their usefulness. Thus a Portuguese economist at the Universidade Nova de Lisboa, Pedro Pita-Barros, put forward at a conference the following arguments:

- Regional aid may distort priorities, because businesses are established to exploit the availability of subsidies – most obviously for construction and training – rather than responding to the real demands of the market.
- In order to qualify for regional aid the recipient countries usually have to contribute about a half of an EU-financed project. That tempts them to spend taxpayers' money on projects that otherwise they would not start at all.
- The result is a number of infrastructural projects of marginal value, undertaken only in order "not to lose European money" even – as in Portugal – budgetary austerity makes such outlays quite unwelcome.

Similar complaints were recently voiced by a Greek official, who stated that such projects distorted the whole business climate: "Anybody who works hard at a regular business is considered as an idiot, since it's much easier to set up a project to draw on European subsidies." Finally, a recent article in Economic Policy[5] by Karen Midlefart-Knaevik of the Norvegian School of Economics and Henry Overman of the London School of Economics suggests that "EU aid programmes attrace R&D-intensive industries to regions receiving relatively high amounts of aid but which are not abundantly endowed with skilled labour." The result is a distortion of economic development, as poor regions are encouraged to go high-tech, when they might be better off concentrating on more basic industries.So far so good. Maybe the critics are right; but all these arguments will not only by the present beneficiaries, but especially by the new member countries be seen as an excuse to curtail or even end these policies on which they depend so much. The argument is familiar and rather obvious: the donor countries are loth to increase their contributions, the beneficiaries fret for their benefits while the prospective candidates vie for their share in the cake. This will be the background of increased future conflicts and tensions on this issue.

The perils of joining the monetary union

The replacement of the currencies of all member states with a single currency is the ultimate goal of the Economic and Monetary Union. "It is undoubtedly the most ambitious, far-reaching and controversial integration project ever undertaken by the Union. It is also perhaps the riskiest" (Jones 2001, 287) At first sight, it seems that everything has turned out well. At the beginning of 1999, eleven member states

[5] K.Midelfart-Knarvik and H.Overman (2002): "Delocation and European Integration – is Structural Spending Justified?" Economic Policy, October. 34. Quoted, as well as the foregoing arguments. according to Charlemagne – g 2003,

effectively replaced their national currencies as units of account with the euro as a single European currency. In January 2001 Greece joined as the twelfth member. On January 1st, 2002 euro notes and coins have substituted national currencies, and at the end of February 2002 the national notes and coins have ceased to be legal tender. The transition to the euro has been unexpectedly smooth. The European Central Bank is effectively functioning as a monetary authority, acting vigorously in order to maintain price stability. In the first four years, from January 1999 to January 2003, the exchange rate of the euro to the dollar has fallen by about a third, but has since, to the delight of American exporters, risen to a level about a fifth higher than the dollar. So where are the problems?

Since the euro is the first currency whose value is not guaranteed by a single sovereign state, special rules of conduct for the member countries had to be devised. At its session in Amsterdam in June 1997, the Council of Ministers established the set of rules in the form of the so-called Stability and Growth Pact, whose basis are the following "convergence criteria":

- Low inflation – an average of not more than 1,5% higher than that of the three best performing states in the year prior to examination; later on, as a matter of current policy an inflation target of up to 2% annually has been established.
- Low long-term interest rates – no more higher than 2% than the three best-performing states in the year prior to examination.
- An annual budget deficit of no more than 3% of GDP
- A public debt ratio no more than 60% of GDP – and, for candidate countries
- Two years' currency stability within the Exchange Rate Mechanism meaning that a member's currency would have to be in the normal fluctuation margin of the ERM, with no constraints on international capital flows and no devaluation on its own initiative against the currency of any member state (Jones 2001, 298).

For the new members, joining the European Monetary Union is another daunting challenge. Many are eager to join, so as to enjoy the following exspected benefits of a single currency:

- The elimination of the currency risk, especially for smaller countries because of their "funny money" (R.Dornbusch)
- Lower interest rates, since there is no currency risk and the country risk becomes transparent, as well as
- Faster economic growth thanks to an easier access to hitherto scarse capiral.

On some entry criteria, the newcomers are in good shape. Inflation is lower in most of them than in Greece, Italy or Spain a few years before they adopted the euro. Against that, many have bigger budget deficits – over 5% in Poland, even more in Hungary. Pressing too fast towards a lower one might reduce the growth of their GDP's which is still below EU levels. Moreover, the obligation to stay for two years in the ERM 2 regime, which implies the dismantling of all remaining capital controls may expose the candidates to greater risks of instability because of possible erratic capital movements. True, the applicants may call on interventions from the European Central Bank to fend off speculative attacks and stabilise their exchange rates. But how effective this intervention may be remains to be seen. Therefore some economists advocate an independent adoption of the euro ("euroisation") – which, in turn, both the Commission and the Europesn Central Bank disapprove of.(The Economist, April 5th, 2003, 71). Anyway, the new member states aren't pressed to join the monetary union quickly or after a determined period.

On the other hand, it seems that recently the goal of accession to the monetary union has suffered a loss in glamour and popularity. In 2003 two countries , Denmark and Sweden, held referendums on adopting the euro, and both rejected it; Britain even didn't call upon an already announced one. Although some seemingly irrational reasons, such as an infringement of national sovereignty, may have been decisive – there are also some practical reasons.In fact, this arrangement has generated two rather inconvenient problems. The first is that the European Central Bank, in its function of monetary authority, has to determine uniform interest rates, although the business conditions in various member countries vary widely. Thus these interest rates are too low for countries with a buoyant economy (e.g. Ireland) but too high for countries with lagging growth rates (as recently France, Germany and Portugal). Consequently, a country hit by an economic slowdown has some kind of fiscal stimulus as the only instrument as its disposal. Hence the second problem: the Stability and Growth Pact gi-ves to such a country a very limited room for manouuvre, forcing it into a situation to breach its rules. This has recently happened first to Portugal, and then to two biggest eurozone countries – France and Germany - which plunged into a recession in 2001 and by the end of 2003 will have exceeded the permitted budget deficit for the third consecutive year. What in this context is really worying is that the subsequent course of events has taken a rather dangerous turn.

On November 25th, 2003 the EU finance ministers had to decide on sanctions against France and Germany for the breach of rules of the Stability Pact (which, nota bene, are included into the draft of the Constitution). The Commission of Ministers had recommended that the rules be applied to the miscreants – all the more so as both of them refused to make the further cuts in expenditures that the Commission demanded. Instead, the majority of finance ministers refused to do so. "Dead, sleeping or in the refrigerator?" commented The Economist the fate of the Pact after this decision; now whatever happens, it seems that the sanctions mechanism "has now become unenforceable." (The Economist, November 28th, 2003, 29). This may have far-reaching consequences. First of all, the Union is a "community of laws": now if law is replaced by political bargaining, with bigger countries being able to squeeze out bigger benefits, then the very basis of the Union is undermined. Besides, the credibility of the euro as a currency depends on the enforcement of the Pact. On the other hand, Portugal's compliance to the rules have pushed the country into deep recession, and for this reason its budget deficit is again out of control.

Many economists, as well as the Commission's president, Romano Prodi, have criticised the provisions of the Pact as "stupid". So it may be hoped that the provisions of the Pact may evolve into a more flexible arrangement, or that it may become some sort of "gentlemen' s agreement". But the difficulty with this latter idea is that the Pact would then become an arrangement in which some gentlemen are more equal than others. (ibid, 30)

Another reason for this kind of "euro-scepticism" may be the disappointing results of economic growth in the euro zone countries. On the occasion of the adoption of the "Lisbon agenda" in 2000, the assembled leaders promised to turn the EU "into the world's most competitive economy by 2010." Every year since then EU leaders meet in March to review progress on that matter – and their findings are less than encouraging. "Despite of the burst of the dotcom bubble, September 11th and a rash of American corporate scandals, the EU is still growing markedly more slowly than America – and most forecastsers predict that this will remain so at least for a couple of years" commented The Economist (Charlemagne – h 2003, 33) Among the reasons for this, the way the monetary union has been conceived and operated may have its fair share in it. Contrary to the countries of continental Europe, which have become "euro-enthusiastic" on political grounds, the British have based their considerations about the euro on purely economic ones. Thus in the middle of a heated debate on the topic, the British finance minister, Gordon Brown, published the results of an extensive study on the potential benefits of adopting the euro based on the following five "trests":

- Convergence: are business cycles and economic structures sufficiently in step so that the country may live comfortably with euro-wide interest rates?
- Is the economy sufficiently flexible to deal with "assymmetric shocks" – changes in the economic environment that affect some countries more than others?
- Will the euro encourage companies, especially foreigh ones, to invest since the exchange-rate risk has been eliminated?

- What is the impact of the euro on the financial service industry, and
- Will the euro boost growth and jobs?(The Economist, May 3rd,2003, 33)

The results were decisively negative, so that the idea of calling a referendum was abandoned. Half-jokingly The Economist published an article which argued, rather convincingly, that Germany, the most important member of the euro zone, would be better off if it left it. In sum, with a risky accession, its basic rules infringed and with the initial high hopes dashed, the euro and the European Monetary Union look at the moment as facing a rather awkward situation.

Conclusions

Now, after all that what has been said, what can we conclude - if anything? Will the Union be able to "digest" this newest and trickiest enlargement? Maybe it may. "Guided by treaties that scarcely anybody can understand, towards a destination on which nobody can agree, the European Union has survived, and often thrived, for almost half a century" First, it has secured a lasting peace in Western Europe after World War II, offering to its devastated countries the vision of a supranational order intrinsically more peaceful than the nationalism which had caused the war. Second, it has taken a leading role in the restoration and rebuilding of eastern Europe, offering a vision of freedom and prosperity, for which these countries hungered after decades of communist rule; this enlargement is "the happy outcome of this offer" (Cottrell 2003, 19). So far so good. But the result is a vastly heterogeneous community of nation states, which – as the constitutional debate has demonstrated – are all too conscious of their national interests.

Analysing the problem of "constitutional choice" in the European union, Professor Branko Smerdel warned that this choice is "…a process, not a moment: The constitutional document has, through the decision about the choice of principles and basic institutional complexes opened the possibilities to develop this process through operational decisions" (Smerdel 2003, 516). But while the founding fathers of the American constitution might be justified in their ambition to show that political institutions can be, as Thomas Jefferson famously put it, established by "reflection and choice" instead of "accident and force" (ibid., 512); the present battle for the European constitution is an evident example of the latter. This is all the more worrying, since the direction towards which the Union is heading is far from clear.

Whether the present draft of the Constitution will approach "Europe" to its citizens or promote democracy, remains to be seen. It certainly has not contributed to a more efficient decisionmaking, since it only reopened all the questions which have already been more or less solved in Amsterdam and Nice. Minimalist Britons may be satisfied with this outcome; but will it be enough for the proper functioning of the Union? The preceding review was restricted only to the sore points of economic policy. Even these offer lots of motives for discord, acrimony and conflict. The question arises, whether this last enlargement has not overburdened the Union as a community of common interest; even powerful empires have been ruined when overstretched.

This question is all the more justified, since the process of the Union's "deepening" also comprises a common foreign and security policy, as essential attributes of statehood. To this end, the establishment of the Union as a legal person and the election of a more permanent president and a foreign minister are by far not enough. There is no doubt that the eurocrats in Brussels have in the last four-and-a-half decades steered the Union through many rough waters and developed enviable skills to tame recalcitrant (smaller) member states. In the future these skills will be in urgent demand.ut beware: it is much easier to forge compromises on fishing quotas and Europe-wide quality standards for condoms than to decide on issues of such scope and importance such as foreign and security policy matters. So, for example, what has to be the position of Europe in a world increasingly divided into big economic blocks? How to define Europe's relations with America - has it to be contained in its imperial excesses (as the French and Germans want) or to try to offer it guidance (a British ambition)? Is Russia still a potential threat (as feared by many people in Central and Eastern Europe), a potential partner (as considered by the French) or a desirable Union member (as perceived by Italy's Silvio Berlusconi)? What should the relations to the Muslim world be, having in mind the Middle East conundrum as well as Bosnia and Herzegovina and Turkey as aspiring candidates? What to do in the United Nations? The Iraqui crisis has shown the extent of discord on the very basics of this issue are controversial and how small is the probability that e.g. France and Britain, as permanent members of the UN Security Council may "unequi-vocally follow the established guidelines of the common foreign policy" as the draft of the Unions' constitution requires.

Finally, if Europe wants to become not only big but also great, it must find a common sense of "Europeanness", i.e. a sense of common purpose and a common historical mission. With this, the future of Europe's union of nations stands and falls – but this is not all. The American conglomerate of nationalities is held together by the faith into the "American dream", i.e. the belief that in America everybody can make it to the top through his own efforts and ingenuity. The quest for a similar "European dream", to act as a glue for the European conglomerate of nations, may be the next great task the EU may concentrate upon.

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POVEĆANJE EUROPSKE UNIJE OD PETNAEST NA DVADESET PET: PROBLEMI I MOGUĆNOSTI

Sažetak

Pristupanje deset zemalja kandidata Europskoj uniji u svibnju 2004. godine obilježava važnu prekretnicu u povijesti. Kako bi se osigurao nesmetani tijek ovog procesa potreban je jasan uvid u probleme koje on uključuje. Oni se mogu svrstati u dvije glavne grupe. Prvi je problem «produbljivanja» procesa integracije u Uniji, koji u prvom redu znači vitalan proces odlučivanja i svrsishodnu primjenu pojedinih politika. Drugi se odnosi na izazove s kojima se ekonomska i monetarna politika suočavaju zbog nove konstelacije interesa izazvane pristupanjem novopridošlih zemalja. Zaključci slijede.

Ključne riječi: proces pristupanja, odlučivanje, ekonomska integracija, politike Europske unije