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The European Union's dilemma: towards a union or not?

> From its humble beginnings, [the Roman Empire] has grown so much that it is now suffering under its own size. (Titus Livius)[1]

Summary

In March 1999 the European Commission, the European Union's executive branch, resigned under accusations of fraud, nepotism and mismanagement, leading to intensive soul-searching as to what could be the right form of management for the EU. How could the democratic aspects of the emerging entity be enhanced? How could democracy be improved? How should power be shared among the governments of the member states as represented in the Council of Ministers, the peoples of the Union as represented in the European Parliament, and an appointed but political bureaucracy, the Commission? How open and transparent *could* the EU be, given the many sensitive issues it was now handling, such as foreign policy, security and defence?

Rendering answers to these questions more urgent was the arrival, in January 1999, of the Economic and Monetary Union and the single currency, the euro, among eleven (and soon twelve) EU states. After a strong start, the new currency weakened successively against the US dollar and other currencies in 2000 and 2001 – helping exports but also adding to inflation – before firming again in 2002 and early 2003, though in a more difficult economic climate of slower growth in the euro-zone. It was clear that the EU had now taken a major step towards economic and political integration, begging the question to what extent formal political unification would follow that in the monetary field.

What is meant by a 'union'?

Since the European Union is, at present, the main vehicle for European integration, it seems justified at this point to concentrate on this particular organisation. The European Union's fundamental dilemma – thrown

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into relief in virtually everything it does, from institutional reform to single currency to common transport policy, to name but a few – is whether it wants to become a true union or not.

The *Oxford English Dictionary* gives a number of meanings for the word 'union'. The most relevant for our purposes are (author's italics):

- 'of persons or countries with reference to *joint action or policy*';
- 'the uniting together of the different sections, parties, or individuals of a nation, people, or other body so as to produce *general agreement or concord*; the condition resulting from this; absence of dissension, discord, or difference in opinion or doctrine; unity';
- 'the action of uniting, or the state or fact of being united, into one *political body*; especially formation or incorporation into a *single state, kingdom, or political entity, usually with one central legislature*';
- 'a number, group, or body of persons or *states joined or associated together for some common purpose or action*; an association, league, or society';
- 'a number of states or provinces united together or incorporated into *one legislative confederacy, a confederation or federation*; especially the United States of America'.

It will not be altogether easy to determine which of these definitions most closely fit the European Union. But the reader will agree that they are all rather far-reaching.

The 1993 Maastricht Treaty on European Union was the first to state that the institution, at least in part of its endeavours, was to be called a Union. However, it did not go so far as to say, for example, that it should be regarded as a new subject of international law, taking the place of the member states (it should not), as happened when the Soviet Union was proclaimed in 1922. Nor did it say that the European Council (of heads of state or government) was to be regarded as the new EU government (it is not); nor that a confederation or even a federation had been formed (it had not), with a commensurate reduction in the sovereignty of member states.

Maastricht left us with a situation where an ambitious word, 'union', had been chosen to denote something rather less, like 'close association'. Was the aim to give Europe and the world the *impression* that something had been obtained which in reality had not? Was it the hope that, once members knew they were in a union, there could be no disunion? A clue from the drafters' intentions could be gleaned from the disclaimers in the preamble, which state that 'The Treaty marks *a new stage in the*

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process of creating an *ever closer union* among the *peoples* of Europe, in which the *decisions are taken as closely as possible to the citizens*' (author's italics). In other words, the European Union created by the Maastricht Treaty was to be regarded as an ongoing process rather than a finished state.

It can be dangerous to choose words that go beyond the reality they aim to describe; thus frequent quarrels in the European Union may cause the word 'union' to lose its original meaning in the minds of EU citizens – in somewhat the same fashion as the world long ago ceased to regard the United Nations as consisting of 'united nations' (which the world presumably did shortly after its creation). Yet 'united' is something, perhaps the only stronger word remaining, to which the EC–EEC–EU process has not yet had recourse. Perhaps this is because of the discredit the word has suffered in the UN context. Perhaps it is also because its use in, for example, the United Kingdom, the United States and the United Arab Emirates indicates that something much further down the road of political union is required than the EU can hope to achieve at the present time.

The uphill battle for a union

The European Movement at its Congress in The Hague in May 1948 had called for a 'united Europe' in 'economic and political union' – but all it got was a Council of Europe. The European Coal and Steel Community had its High Authority, but the latter was never allowed to come into play, as its prime architect and first President, Jean Monnet, had intended. The European Economic Community was just that – a community of sovereign states, although equipped with a supranational, indeed an 'anational', Commission. The Benelux countries had already pooled parts of their sovereignty within the Benelux union (with Belgium and Luxembourg having also pooled their monetary sovereignty). They and Germany can be said to have joined the ECSC and the EEC in a quest for a United Europe. However, it is doubtful whether France at any stage genuinely contemplated fully giving up its sovereignty, instead seeing the institution as a way to rein in Germany and to play the leading role in Europe.

When the United Kingdom joined it was for pragmatic, essentially economic reasons. The same can be said for the Danes and the Irish. By the time Greece, Portugal and Spain joined in the 1980s – also in a large part for economic reasons – resistance by the British and others to further integration had essentially transformed the European Community into

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an intergovernmental organisation (with the Commission as a last, and often frustrated, driving force for integration).

The last three members – Austria, Finland and Sweden – faced a partly new situation. Not that the Internal Market posed any major threat to sovereignty, for they had all become accustomed to it through the EEA. However, there was Maastricht. The Treaty on European Union, which the candidate countries had ratified, was part of the body of normative texts of the EU established over the decades, the so-called *acquis communautaire*, and it contained the provisions for economic and monetary union (as indeed did, although in less committal form, the Single European Act).

Economic and Monetary Union (EMU) changed the name of the game. What had been intergovernmentalism flirting with federalism was becoming integration espousing it. At stake was much more than the relatively timid political co-operation foreseen in the Treaties; for once the EMU had been introduced, the EMU would require an increasingly common economic policy. In due, but not so distant, course some sort of body akin to a 'ministry of economics' could be foreseen, needed to settle priorities among EMU participating countries and render possible in the economic field what the European Central Bank was already doing in the monetary field.

As a 'deepening' of the EMU kind is sought going far beyond the Internal Market, the quest for 'widening' the EU in many respects undermines this ambition. This is so not only because a larger number of EU members makes integration more complicated, but because they become increasingly divergent. Yet, in the aftermath of the fall of the Soviet Union and of its regional domination, the need for stability in Central and Eastern Europe is increasingly being felt. Rightly or wrongly the countries concerned, as well as many EU member states, feel that the EU is the answer, since it is the only genuinely integrationist force in today's Europe (NATO being an organisation purely for collective defence and security, although with integrative implications). The EU is perceived as the only organisation able to deliver the results that count most – peace and prosperity. As a form of exclusive club, it has now reached gravitational mass.

At the same time, however, because the threat from the Soviet Union – or from its main successor Russia – is no longer there, the outside circumstances favouring integration are less pronounced in Western Europe, and in the Centre and East there is a paradoxical wish to explore newly found national independence before investing it in the EU, where it could again be reduced or lost.

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Meanwhile, World War II has become something young people have to ask their grandparents about for first-hand testimony. This makes further integration out of fear of a European conflict less of a motive. France still seems haunted at the prospect of too strong a Germany, but it is uncertain whether it is out of fear of a long-term threat to France's own security unless harnessed, or whether the apprehension is one of a rival for future leadership in Europe. Other neighbours of Germany may feel similarly, although with every decade of a peaceful and democratic Germany that passes, the fear subsides a little more. This also reduces the motive for integration. Furthermore, the benefits of integration are soon taken for granted and become the norm, leading people to forget the hassles of the past and to feel less appreciative of what has been achieved. Finally, over time additional material gains from further economic integration are becoming harder to reach than in the early decades, as countries begin to realise that structural reform will have to be pursued even more strongly within their own borders. This could also reduce the will to integrate further.

Today, for as long as it may last, no more general war in Europe seems likely. Democracies tend not go to war unless they are attacked or feel under intense threat. With democracies being the rule rather than the exception in today's Europe, there is good reason to hope that overall peace inside the continent will prevail for some time, even though that may not hold for military action by different European countries in regions outside Europe, as the 2003 invasion of Iraq or peacemaking operations in various African countries have shown. No major European power seems bent on imperialist dreams. The large majority of Europe's citizens do not seem to have any higher ambitions than the pursuit of their own prosperity and happiness and that of their families and friends. For once, history appears to be on their side.

A union with less democracy?

How, given all this, do we explain the continuing quest for EU integration? Who wants it? The people? The governments? The parliaments? The EU? But what, then, is the EU? Is integration sought to prepare for an external threat in some future?

Terrorism, especially since the terrorist attacks on 11 September 2001 against the United States, no doubt provides a push for increased integration in the police and security fields, but of a limited nature since – unlike a threatening foreign power – terrorism can scarcely threaten a country's independence or existence.

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The question of who is pushing for integration and why becomes all the more intriguing when we consider who is giving up power to whom. It is clear, for instance, that the European Parliament wants to have more power, both within the EU and vis-à-vis the member states. Within the EU it would have to come at the cost of the European Commission and the Council of Ministers. In regard to member states – if we assume a 'zero-sum game' – the European Parliament would have to wrestle it from the national parliaments in particular (and hence from the national governments, which execute the will of parliaments). If, on the other hand, we assume a perfectly functioning subsidiarity, where the European Parliament only deals with truly 'preter-national' European issues, then increased powers for the European Parliament may not have to infringe overly on those of national parliaments. Past experience shows, however, that such a clearly defined subsidiarity will be difficult to find, especially as countries are approaching a 'pre-federal' state through, for instance, the Economic and Monetary Union and the EU's work on a constitution via the Convention on the Future of Europe.

The European Commission, which considers itself, rightly or wrongly, as the 'guardian of the spirit' of the EU, also watches over its sphere of influence between the member states, the Council of Ministers and the European Parliament. However, it is especially squeezed between the latter two – with the Council of Ministers (the governments of the member states) insisting on continued and often increased intergovernmentalism (that is, agreements born and concluded within it, with little or no role for the Commission), and the European Parliament insisting on a greater say as the only EU body with a direct mandate from the people.

The Commission only has such a popular mandate diluted by a factor of three, in the sense that (1) the Commissioners are suggested jointly by the member states' governments (although, under the Amsterdam Treaty, appointed by the European Parliament); (2) each of these governments results from the majority in a national parliament; and (3) the national parliament is elected by the people. Using the same reasoning, the Council of Ministers has a popular mandate diluted by a factor of two. However, the decisions they take are again three steps away from the people, for when fifteen governments agree on a compromise, there is no guarantee whatsoever that this represents the will of the component peoples of the Union. Yet the decision – whether in the form of a directive or a regulation of some other EU instrument – more often than not becomes 'law' for these countries as it joins the by now massive quantity of EU legislation known as the *acquis communautaire*.[2]

The Council of Ministers is, therefore, not willing to give up any power

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to the Commission, especially as various governments will on any given occasion feel that the Commission is in error or biased against it. (The coalitions of discontented and contented member states vary from issue to issue.) Yet the Council works so closely with the Commission especially at the COREPER (Committee of Permanent Representatives) level, that there often evolves a communality of interests paving the way for agreement (that is, a new directive or regulation).[3]

The result is highly unsatisfactory from the democratic viewpoint. An only indirectly democratic body – the Council of Ministers – reaches a compromise decision on the basis of a proposal from an essentially undemocratic body – the Commission – which is then often asked to implement the decision in question throughout the territory of the EU. Furthermore, the Council of Ministers goes against the Montesquieuian principle of separation of powers between the legislative and the executive (and judiciary), for it is both the executive (the representation of the individual EU governments) and the co-legislature together with the European Parliament in deciding on and giving legal power to directives, regulations, etc. and, more generally, the whole *acquis communautaire*.

The Council of Ministers is equally reluctant to cede power to the European Parliament, for this would reduce ministers' own say over EU policies. In this they are, for the same reason, supported by the national parliaments, for any more power to the Strasbourg–Luxembourg–Brussels body means a commensurate loss for the French *Assemblée Nationale*, the British House of Commons or the Swedish *Riksdag*.

The problem of the lack of democracy in the EU is particularly acute for federal or highly decentralised member states such as Germany, Belgium, the United Kingdom and Spain. The German *Länder*, as represented in the German parliament's *Bundesrat*, have even threatened to veto any reform of EU institutions and EU enlargement, unless there is a clear definition of the meaning of 'subsidiarity' and respect for the rights of the *Länder* to manage their social policy priorities, including subsidies especially in the social sector.[4]

True, the powers of the European Parliament have been continuously expanded ever since the Common Assembly of the European Coal and Steel Community, the EEC and Euratom of the 1950s and 1960s. The Single European Act (1987) improved on the earlier 'consultation procedure' by introducing the 'co-operation procedure' of a more equal, 'triangular' relationship between the European Parliament, the Commission and the Council of Ministers. The Maastricht Treaty (1993) saw the introduction of the 'co-decision' procedure, giving the European Parliament legislative veto power in several policy areas, and referred to

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a European Parliament–Council of Ministers 'conciliation committee' to reach compromises on difficult issues. The veto areas – fifteen in the Maastricht Treaty of 1992 – were increased to thirty-eight in the Amsterdam Treaty of 1997, including transport, environment, energy, development co-operation and certain aspects of social affairs. The Amsterdam Treaty also refined and simplified the co-decision procedure, granting the European Parliament co-legislative status. Today, therefore, the European Parliament and the Council of Ministers can be considered as equals in the EU's legislative process in those areas where the co-decision procedure applies – with the Commission, however, also retaining considerable power as initiator of the proposals and as executor of the subsequent legislative decisions.[5] This situation is, however, far from the full and exclusive legislative power of parliament that traditionally characterises European democratic systems.[6]

The above situation is unsatisfactory from the democratic viewpoint, and it becomes even more problematic as the EU under the Maastricht Treaty has been given increasing competencies in culture, education, science, research, civil protection and regional policy, to mention but a few. Many regional governments (and local authorities) have tried to respond to this by having offices of their own in Brussels through which they try to influence the national representatives in the Council of Ministers, members of the European Parliament, members of the Committee of the Regions, Commissioners, Commission employees or members of the European Parliament. However, this is not accountable democracy. Perhaps even the European Parliament is not truly accountable. It often seems too vast and too remote to mean much to the citizens of the member states.[7]

As a concession to regions – across the whole confusing range from unitary to federal member states – the Maastricht Treaty on European Union established a Committee of the Regions (COR) for the purpose of providing the Council of Ministers and the Commission with advice on matters of major importance to the regions. However, the 189 members of the COR are appointed by the Council of Ministers on proposals from the member states, not elected to the post by the people of the regions. This is clearly not direct democracy either. Instead, just as the directly elected members of the European Parliament are being trained to try to bend the will of a largely unaccountable, non-democratic Commission and an only indirectly democratic Council of Ministers, so the Committee of the Regions is being conditioned to play along in the same process.[8]

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The dilemma of the Commission

In the early hours of 16 March 1999 the twenty-strong European Commission resigned en bloc, in what was perhaps the most sensational event in the history of the European Union. The resignation was in response to a highly critical report by an investigating committee of independent experts created at the behest of the European Parliament a few weeks earlier. The report cited allegations of fraud, nepotism and mismanagement, but its basic charge was that lines of responsibility and, therefore, accountability were unclear. In the wake of the Commission's resignation, EU member states were left with the question of how – indeed whether – a more democratic, accountable and transparent Commission could be built on what had happened.

The core of the debate about democracy within the European Union lies with the European Commission. Many people find it inconceivable that the grown-up, sophisticated democracies that form the European Union should have given so many rights to a statutorily independent and largely unaccountable technocratic body. The answer to this riddle goes back to the 1950s.

The Six of the ECSC set up the High Authority and equipped it with such powers precisely because they wanted it to adjudicate among them in times of crisis (which, as it happened, never occurred, since there were always governments which considered that there was none). Marked by their aversion to such vast supranational powers as they had granted the High Authority, the Six in 1957, at the creation of the EEC, opted for the tamer version of a Commission. It would be an initiator, a maker of proposals, an implementer – but not a ruler in crises.

The Commission formula suited the member states of the EEC in the early years, when the priority was to clear up the whole anachronistic and suffocating underbrush of trade obstacles and other barriers in the economic field.[9] The problem with the Commission has arisen as first the EEC, then the EC and now the European Union have increasingly approached the very core of national sovereignty of the member states. Nowhere is this clearer than in the case of the single currency project, but it also surfaces elsewhere.[10]

For instance, the Commission has wide-ranging powers to allow and forbid mergers among European companies, acting as investigator, prosecutor, judge and jury (with appeals possible only to the EU Court of Justice, which has a history of not going against the Commission on these issues). There are, on the one hand, the interests of EU citizens in favour of competition and of keeping monopolies or oligopolies at bay.

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However, there are also general EU interests vis-à-vis say, a US or Japanese mega-corporation that might otherwise threaten European jobs. How can the Commission legitimately decide when it has no popular mandate to fall back on? Indeed, whatever it decides it will be criticised. Which leads us on to the question as to whether it should have the power to decide. But if it should not, then who should? (Bringing us back to the question of democracy versus efficiency.)[11]

An even trickier example is provided by the Commission's powers in relation to subsidies. Article 92 in the 1957 EEC Rome Treaty states that state aid 'which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between member States, be incompatible with the common market'.

However, when the Commission in the mid 1990s came out, on the broader grounds of European competition policy, against one of the German (new) *Länder*, Saxony, which, democratically, had decided to subsidise the building of a local Volkswagen plant, critics posed the question as to what right it should have to go against the will of the people of that *Land*, with the German government as an embarrassed intermediary, torn between its double loyalties to the EU and to one of its *Länder*.[12]

When the Commission decides, 'one last time', in favour of allowing yet another French government subsidy to Air France, to whom should it have bowed? To a French democratic interest in protecting its national flight carrier, or to other EU airlines, which have long since been weaned off state support, such as British Airways, or which with the support of their governments are indignant that their plans for expansion to new EU markets are thwarted in this way and the playing field rendered 'unlevel'? Again, the Commission cannot take the 'right' stand, for it has no democratic legitimacy and is being reproached by all kinds of actors who believe that *they* do.

In the case of the 1996 'mad cow' disease crisis (which a few years later had become even more serious), the question seemed reminiscent of Watergate. When did the Commission know about the origin of the disease and how much did it know? To whom should it bow? To the lone German scientists who in 1993 claimed that transmission from cattle to humans was indeed possible and even probable, and that exports of British beef from animals born before a certain date should therefore be banned? Or to the voices of the majority of its scientific veterinary committee, who claimed the link was fictitious, and that even the official mention of a possible link would cause panic and consumer

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resistance among the general public (as indeed happened as a result of a subsequent UK report, with enormous economic suffering to EU farmers in its wake?

The Commission settled for the latter course (and even asked the German government to take the scientist in question to task and ask him to keep silent – an action which would cause it considerable embarrassment when the matter was eventually unearthed). Again, whatever the Commission had decided it would have been wrong, because it had no democratic mandate (other than arguably a very limited one from the European Parliament). Indeed, it had nothing to guide it in reaching its decision, except pressure from others and pressure from within the bureaucracy itself.

However, the extent to which the Commission may be held to account by the European Parliament bears further mention. Since the Maastricht and Amsterdam Treaties, the Commission's President and overall composition are subject to a vote of approval by the European Parliament. Moreover, from the very inception of the European Coal and Steel Community, the European Parliament has had the power to dismiss the Commission. Furthermore, the European Parliament, together with other EU bodies, can take the Commission to the EU Court of Justice if it believes it has acted wrongly.

Nonetheless, collective approval/dismissal (known as the 'censure motion') is a blunt instrument, with the likelihood of very serious consequences to which the European Parliament has never taken recourse (although several votes of no confidence have been held, the last time in March 1999 over alleged corruption and mismanagement). Furthermore, the Commission's accountability for its actions before the Council of Ministers is almost negligible. Generally speaking, the Commission is only accountable to anybody else for respecting procedure (and, after March 1999, integrity) in areas within its remit, and even then only to a limited extent. For the substance, contents and direction on what it is doing, there is no such accountability.

The Commission has traditionally been a vehicle that chooses its own direction and speed. In the days of the EEC–EC, direction and velocity were largely determined by the rather obvious obstacles to trade. 'Create a common market!' was the call of governments then, and the machine did so, taking away first the visible, then the invisible, trade barriers (even though that latter job to some extent remains to be finished). Today, however, the EU touches on issues at the heart of national sovereignty. The Commission is willing and eager to show the way. However, as it does – such as taking a country to task over the handling of its budget

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within the EMU's Stability and Growth Pact – the member states often get cold feet and start asking who gave the order and criticising both the destination and the road taken.

The Commission was created to move European integration forward. Suppose, however, that – for instance due to a changed world economy or a new political situation – the optimal degree of EU integration has already been reached, or indeed surpassed. (The former British Prime Minister, Margaret Thatcher, maintained as much when she claimed that the Treaty on European Union was 'one treaty too far'.) Or suppose that member states, in their heart of hearts, did not want more integration. The Commission would not know, for, driven by its very *raison d'être*, it continues to move forward. It is empowered to propose and develop policies and legislation, execute programmes, guard the legal framework, represent externally and negotiate on behalf of member states (such as in external trade), mediate and conciliate. If this was acceptable in the early days of the EEC–EC, there is no guarantee that it must in all circumstances be necessary, desirable or even acceptable today. There is a growing risk that the EU blindly – without realising it – pursues policies which are no longer wanted by the peoples of the Union and their national parliaments, and eventually even by a growing number of member state governments.

With the Commission at the heart of political Europe, decisions may be 'objectively' right (if that can ever be established), but never subjectively perceived as such by the component populations. Individual EU decisions may be brilliant, but seen in succession over time they are likely eventually to go wrong, for they cannot be corrected one by one in a democratic process, as shown by the increasingly Byzantine Common Agricultural Policy.

It may also be asked to what extent the Maastricht Treaty (the Treaty on European Union) was in fact shaped by the European Commission. Ironically, we could have a situation where a body suffering from a major 'democratic deficit' has helped to shape treaties of democratic countries. Official history will of course say it was the European Council, bringing together the heads of state or government, which did it all, and to a certain extent it probably did. (Most of the wide array of issues covered in the Maastricht Treaty were originally suggested by one or the other national capital). As for the European Council, it meets for the purpose stated in the various treaties, namely to move the Union towards greater integration. It feels obliged to make new proposals whenever it convenes – proposals that have been largely conceived and given shape by the Commission.

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Furthermore, it is uncertain how many EU governments in the 1989–92 period, when Maastricht was elaborated at two intergovernmental conferences, really wanted a Common Foreign and Security Policy and a single currency as under the EMU. It is certain, however, that the role of the Commission was not insignificant. Maastricht very nearly wrecked the EU integration project, precisely because many of the peoples in the EU felt alienated by it, in so far as they managed to grasp its meaning. One is therefore justified in asking whether the Treaty on European Union, or the Amsterdam Treaty, would have been what they became if it had not been for the Commission's input, or indeed if they would have come into existence at all. This 'distance' from the peoples of the EU could also help to explain the alienation from the institution felt by many EU citizens and manifested in, for instance, the negative vote on the Nice Treaty in the Irish referendum in 2001.[13]

There is a major difference between having the EU Commission propose to an EU Council of Ministers, and a national ministry preparing government policy. A government wants to be re-elected and must therefore over time follow the will of the people. Even though a ministerial bureaucracy may have wishes of its own (think of the British television series *Yes, Minister*), these are limited by and bend to the needs of the relevant ministers, and the Prime Minister, to survive politically. Direction comes from above, and ultimately from the people.

In the EU, however, the majority of initiatives come from the Commission or are prepared by it on the basis of proposals from the member states. Here there is no pressure to do as any electorate may wish, for the Commission is deliberately isolated from democratic pressure in its role as the independent engine of the EU. Proposals which the Commission presents may be rejected by the Council of Ministers, when the majority of governments feel that they are not in the national interest.

However, Commission proposals have a way of coming back in revised form, in a 'war of attrition' of sorts, until a, sometimes only slight, majority of EU member governments are won over. For instance, in the case of an EU-wide ban on tobacco advertising, the Commission, over a twelve-year period starting in 1989, presented its proposals in favour of such a ban all of ten times to a hesitant Council of Ministers. Nine times the Council of Ministers – perhaps mindful of the considerable tax income from tobacco products at national level – rejected the draft, before the measure was finally passed in 1997.[14] The Commission felt empowered to make proposals to protect the health of EU citizens. However, whether the ban was actually wanted by national governments, parliaments or national populations in the member states is more

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than uncertain. The driving force was, rather, determined Commissioners and Commission staff (and to some extent the European Parliament).

A directive has direct application in the member states and supersedes national law. It reflects not necessarily what a majority of EU citizens want, but what the Commission wants, although possibly in a diluted or slightly altered shape, since it has to be adopted by a qualified majority of member state governments in the Council of Ministers.[15] The EU citizenry may blame their respective national governments for this, or they may blame Brussels. If they choose the former, the government in question normally throws up its arms and points to Brussels. However, it is difficult to pinpoint responsibility in Brussels. The Council of Ministers is still a secretive body, with virtually none of its meetings public, although it is a fundamental tenet of democracy that any law-making meeting of any legislative body must be public. The same holds for meetings of the Commission.

In 1996 the United Kingdom was forced through a verdict by the EU's European Court of Justice to abide by a 1993 directive on maximum working time and related matters. The UK had argued that this was a social issue and should therefore have required unanimity, when in fact it was approved by a majority in the Council of Ministers. The Court argued, however, that it was a measure intended to protect the health of workers. Hence, it only required a majority in the Council of Ministers. Whatever the merits of regulated working time, the issue at stake here is whether a national parliament, in this case that of the UK, should have the right to decide in an area of central concern to its citizens, or whether that right should be given to a supranational court not acting within a federal system.[16]

If you try to contact a Commissioner or an ordinary staff member, you may have to compete with some of the around 700 Euro-lobbies (and many others at industry, national or subnational level).[17] They, unlike yourself, know whom to contact, whether they advocate higher tariffs to protect the EU sugar beet industry or seek special favours for European cars, shipbuilding or explosives. (The lobby phenomenon has much less of a tradition in Europe than in the United States. There is a difference, however, between lobbying an administration official or a member of Congress (or their staff) and lobbying with the Commission; for the administration official, member of Congress or Senator have a popular mandate and go against the popular will only at their peril.)

The conclusion of the preceding reasoning is that everybody in the Union must start to reflect on whether the Commission – whose role as we have seen derives from the ECSC High Authority, though in diluted

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form – should have essentially the same functions today as forty years ago. The question is all the more important as the President of the Commission, Romano Prodi, declared that he wanted the Commission to become a European 'government'.[18] The founders of constitutions, whether in the United States of America in 1787 or in the Federal Republic of Germany in 1949, know that everything hinges on the principles of democracy and accountability pervading all branches of government. It is doubtful whether in Philadelphia in 1787 anyone would have even have dreamt of, let alone accepted, a Commission.

As we have seen, neither intensified intergovernmentalism nor supranationalism is good for democracy, if political unification does not proceed apace and is accompanied by an exclusive legislative authority by a directly elected parliament. The EU has the latter in the form of the European Parliament, but that body does not possess exclusive legislative authority. The obvious solution to this problem would seem to be to equip the European Parliament with such powers. However, and here we are back to our original question, are the peoples, national parliaments and national governments prepared to relinquish such authority to the European Parliament? This is far from certain.

New EU transparency rules

In the summer of 2000 the Council of Ministers pushed through a new secrecy directive banning public access to most EU correspondence and documents. This was deemed necessary to protect confidentiality on matters touching on the European Security and Defence Policy. However, the directive also inevitably came to include much of the rest of the EU. At the end of 2000 the European Parliament therefore launched a complaint with the European Court of Justice against the new secrecy directive, calling for case-by-case secrecy authorisations rather than the blanket one foreseen. Complicating the matter were other complaints against the European Parliament itself over secrecy rulings by its internal leading bodies vis-à-vis ordinary European Parliament members. The EU's fight for openness thus promises to be long and hard-fought.

The issue of access to EU documents was finally resolved in May 2001, when the European Parliament, the European Commission and the EU's Council of Ministers reached an agreement guaranteeing access to most such documents. The transparency code will give citizens access to most preparatory and final documents produced by EU institutions or sent to it by others. Each EU body will have to establish a register of all the documents it holds, including confidential ones.

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However, critics are concerned over the limits imposed, such as excepting documents considered to 'prejudice the public interest', those containing 'individual opinions for internal use' or those which submitting countries do not want to see published. (The latter would not even be referred to in EU registers.) Areas of exception include defence, foreign policy, inner security, financial and economic policy and commercial interests. Requests are to be judged by specially trusted persons and not judges. Finally, the EU agreement supersedes national law in member states, signifying that, for instance, countries with extensive access rights are not at liberty to exercise them as regards EU documents.

The agreement did not fully meet the wishes of certain 'open' countries, such as Denmark, Finland and Sweden, while others called it a victory for transparency. It was perhaps the most forthcoming possible, given that the EU is now not only a political and economic, but also a security and defence institution.

Intergovernmentalism or supranationalism?

We shall return to the question as to where the EU is heading when we discuss the Convention on the Future of Europe set up in 2002. But it is worth examining the different institutional forces at play in deciding whether the trend is toward more intergovernmentalism, more supranationalism or more parliamentarianism. Some observers believe that the European Parliament – whose role has been continuously strengthened over the years – will come to enjoy appropriate powers. This is far from certain, however. National governments and parliaments are not keen on further expanded European Parliament powers, and will no doubt fight them at every stage, openly and by other means. National parliaments may not be able to do much, since they are not part of the EU machinery. National governments, however, form part of the EU's most powerful institution, the Council of Ministers. They are likely to try to make sure that the Council of Ministers remains the strongest.

Characteristically, Agenda 2000 – the Commission's vast reform project for agriculture and regional support – was agreed by the Council of Ministers, not by the European Parliament, even though it had to approve and amend the project subsequently. The European Parliament feels it has history on its side, fighting for democracy within the European Union on behalf of the people. However, given the sensitive issues ahead, the peoples of the EU member states are likely to place their trust more in the national governments when it comes to defending the national interest than in an only vaguely understood political process in

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the European Parliament. This tendency can be expected to grow stronger with a wider, more heterogeneous, membership. The low voter turn-out for the European Parliament elections is a sign of indifference and perhaps even distrust vis-à-vis the European Parliament and the EU as a whole.

Whatever the effects of inevitable EU enlargement on the institution's finances or on the uniformity of its policies, enlargement will mean a push towards intergovernmentalism. It will be country against country, bloc-of-countries against bloc-of-countries along a number of dimensions: 'new' versus 'old' countries, North versus South, small versus big, net contributors versus net beneficiaries, or even between one set of net beneficiaries and another if EU largesse does not suffice for them all.

The battleground is likely to be the Council of Ministers, in spite of claims by the European Parliament that it should be given that role. In the essentially intergovernmental EU it is the member states alone that decide on changes in EU treaties, and they are unlikely to give complete and exclusive legislative authority to the European Parliament, on the grounds that it is not a sufficiently fine instrument with which to adjudicate between interests and also in order to preserve their own powers as exercised via the Council of Ministers. The Commission will be squeezed between an European Parliament wishing to extend its powers and a Council of Ministers eager to preserve or even expand its own.

Supranationalism through EMU

If anything can be expected to come after the present EU intergovernmentalism, it is EU supranationalism through Economic and Monetary Union (EMU). On 1 January 1999 eleven of the fifteen EU countries introduced the single currency – the 'euro' – marking the final stage of a long process towards the EMU. They were Austria, Belgium, Ireland, Italy, Germany, France, Spain, Portugal, Luxembourg, the Netherlands and Finland. The United Kingdom, Denmark and Sweden chose not to join from the outset but possibly to do so later. Greece wanted to join but was not accepted. In early 2000 it announced its desire to join in 2001. The request was granted in June, 2000 and Greece became the twelfth EMU member on 1 January 2001.[19]

The run-up to the EMU in the months preceding its launch on 1 January 1999 was smooth, with interest rates converging down or up – depending on the national currency concerned – toward the target single rate of 3 per cent set by the European Central Bank. For countries struggling to come out of recession at the time, such as Germany and France,

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the absence of an interest rate cut (or a raise of the rate) meant renewed risk of a stifling of economic growth. For countries in a more expansionary phase, like Italy, Portugal or Ireland, the necessary lowering of the rate (in some cases by half) carried the danger of overheating their economies and stronger inflationary pressure. However, the 'locking' of the various exchange rates was achieved without great difficulties and the euro at its start stood at 1.18 to the dollar.[20]

The reasons for entering the EMU on the part of the twelve participating countries differed for each one of them. France saw joining as a way to regain the monetary sovereignty it had effectively lost to the Deutschmark, but also as a means to tie Germany closer to it and to enable France thereby to play a larger role in Europe and the world. Germany saw it as a way to assure its EU partners that it was genuinely seeking a federated Europe, in which it would be a loyal and constructive partner, not intent on seeking hegemony or striking out alone in Central and Eastern Europe. The Benelux countries had sought greater EU integration ever since 1957 and were always enthusiastic EMU proponents. Finland chose EMU membership essentially for political reasons, and in spite of the risk of 'asymmetric shocks' due to its peripheral location and its dependence on price-sensitive products such as forestry and pulp. For Spain, Italy and Portugal EMU membership was vital to joining mainstream economic Europe and shedding any notion of a less serious 'Club Med' mentality. They made major sacrifices to qualify, with Italy even introducing a special 'eurotax', which was stoically endured by a population anxious not to be left outside 'Euroland'.

The Economic and Monetary Union is likely to increase the pressure in the direction of a federal European Union, with a strong supranational character, not only among the participating countries (the 'ins'), but also vis-à-vis the non-participating EU members.[21] This in turn could mean a vastly expanded role for the Commission in the economic sphere, as it would work to supplement the European Central Bank. With one currency, national economic policies in Euroland have to be much more co-ordinated. Deviations larger than the minimal are inhibited by such things as EU fines or withdrawal of EU funds under the Stability and Growth Pact, by which the members wanted to ensure adherence to the 'convergence criteria' of budgetary discipline.[22] A much higher degree of Euroland economic and monetary co-ordination will have to be established in due course if the EMU is to work, as national politics will become increasingly irrelevant and incapable of achieving the co-ordination necessary to compensate for the varying impact of a single currency on different countries and regions.[23]

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A major argument for the EMU is that it permits the single market to function better. Previously, a depreciation by one country meant a commensurate competitive advantage for its exporters vis-à-vis a EU country whose currency had not changed in value. With inflation (though not necessarily inflationary pressure) the same in different EMU countries under one currency, depreciation by some can no longer develop over time. Trade and investment are likely to grow more quickly in an atmosphere of currency certainty, leading to more efficient economies, more employment and greater prosperity. EU enlargement, it is argued, will enhance this effect further, just as the EU saw its economy revive in the wake of earlier increases in its membership.

Finally, competition is believed to increase as people are supposed to be better informed about price differences in different countries, say of cars, causing prices to fall and consumption to rise. Tourism is undoubtedly becoming easier as the euro is the valid currency in many countries of destination. Cross-border mergers and take-overs are already more frequent, although not to the degree that many would have wished to see as a sign of true European integration.

Capital has become easier and cheaper to come by, due to consolidation in the financial sector. There are even attempts at mergers among stock exchanges, even though differences in legislation and culture have so far made their realisation difficult. In sum, the euro forces Euroland firms to think in European terms when conducting business, something that North American companies had to start doing already in the nineteenth century.[24]

EMU supporters go further. Euroland citizens, they say, are coming closer, drawn together by the psychological impact of 'one currency – one destiny'. This facilitates the political unification sought through the EMU. Political unification will in turn permit Europe to play the role it might on the world stage – a rival to the US at times, an equal partner and ally at others. Finally, proponents say, the euro is more stable and better protected against world currency turmoil, now that it has a central bank able to draw on all the national central banks under its authority.[25]

Monetary union without political union?

If the above describes the thinking of euro-enthusiasts in a nutshell, how do those who are less convinced reason? For one thing, they doubt that the peoples of Euroland are sufficiently close to each other, temperamentally and politically, for economic federalism to be followed by friction-free political federalism. They do not believe that Eurolanders

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are united enough to be able to stick to one and the same economic and monetary policy and they fear international and domestic frictions such an inability may engender – tensions that were previously avoided by having each among them adapt the strength of their national currency to their particular economic situation.

Before EMU, depreciations often paved the way for economic recovery and 're-appreciation' of the currency. Through appreciation, foreign capital came in to supplement domestic capital, as did imports, thereby taking some of the heat off the economy and dampening inflationary pressure. Depreciation and appreciation of currencies, according to this way of seeing things, permit relatively smooth adaptations to an altered domestic or foreign economic environment. As neighbouring economies grow in this stop-and-go fashion, they are also able to stimulate their neighbours. Within an EMU such a corrective mechanism no longer exists.

Even though trade is stimulated due to the absence of currency fluctuations (since there is now only one currency), overall growth is hampered by interest rates being too high for some countries (leading to economic stagnation), too low for others (leading first to an overheated economy and then to excessive contraction) and at the right level for just a few. If it is too high for a major country, such as Germany or France, then that country will be unable to pull out its smaller neighbours from a recession, leading to prolonged weak growth for all.[26] Some critics therefore contend that the member countries of the EMU do not form an 'optimal currency area'.[27]

The main argument of the critics is that integration among sovereign peoples must be first political, then monetary. They would presumably have been less apprehensive if EU governments had stated their intention first to aim for a true EU government, creating, for example, a bicameral parliament with exclusive legislative powers over EU matters, before going for a single currency.

The order of political union before economic union was the one chosen in Philadelphia in May 1787, as representatives of thirteen American states came together to amend the articles of the Confederation loosely holding them together. By September, they found that they had drawn up a constitution uniting them politically. Only three years thereafter, in 1790, did the newly appointed Secretary of the Treasury, Alexander Hamilton, present a First Report on the Public Credit.

All obligations of the old Confederation, and the war debts of individual states, could be exchanged for bonds of the new national government. A national bank, quasi-public and patterned after the Bank of

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England, was to issue notes – eventually dollars – based on the public debt. The Act creating the Bank of the United States was passed in 1791, but it would take some thirty years until all the currencies of the several states had ceased to be in circulation. Only in 1862 was a single currency formally adopted. Full monetary integration was not achieved until 1913 with the creation of the Federal Reserve.

American monetary integration was possible because of the threat of British invasion. The early prevalence of one language, English, was certainly helpful as well. Decades of 'national' identity, not centuries as in Europe, inspired the thirteen states. The expected expansion westwards, requiring resources larger than could be mustered by individual states alone, provided further impetus.

Differences between the EU and the United States

Monetary union survived in the United States due to the victory of the Union in the Civil War and the gradual economic integration between the states, facilitated by the elimination of the obstacles to interstate trade and investment, and a highly mobile workforce.

Close to a fifth of all Americans move in a typical year from depressed to more prosperous areas – whether from the east coast to California or from the 'rust-belt states' in the north to the 'sun-belt states' in the south. In total, 3 per cent of the national population, close to eight million people, move officially every year from one state to another. Between 1990 and 1994 Utah saw a 24 per cent increase in the number of jobs, or 200,000. Colorado added 300,000, a 20-per-cent increase over the same period. Between 1960 and 1990 the proportion of the US population living in California rose by 37 per cent, and between 1980 and 1992 the number of Californians grew by over 2 per cent per year. Conversely, during the 1993–94 recession, 850,000 people left the state. The proportion of the US population living in Florida almost doubled between 1960 and 1990, whereas the number of people living in New York fell by more than one quarter. This kind of labour force mobility helps explain why a single currency can function in the United States. People move without hesitation to where the jobs are.

By contrast, only 0.1 per cent of the total EU population moved from one country to another in 2000 and only 1.2 per cent changed region within a country.[28] It is difficult to imagine a mobility within Europe similar to that in the United States without considerable political and social upheaval, as most people out of work are not prepared to move abroad or would not be able to find work abroad due to a lack of

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knowledge of the language of the country or countries where jobs might be available. Although the European Union has taken important steps towards ending the formal barriers which existed for citizens of any of the member states to move to and live and work in another member state, significant informal barriers remain. Linguistic and cultural differences are major impediments to wide-scale cross-country migration, and the possibility of accumulated pension rights accruing from employment in different countries is extremely limited, especially for ordinary workers. With unemployment figures close to 10 per cent in many EU countries, these countries ability to receive large numbers of foreign job-seekers is restricted.

European mobility may of course increase over time. (It may also become less important for economic growth as the latter is driven increasingly by information and communications technologies, which reduce the importance of geographical distance.) More retired people from Northern Europe may seek out sunnier climes along the Mediterranean, much as their American counterparts move to Florida. As the multilingual workforce expands, more workers may find the attractions of higher pay and the excitement of living in a different culture alluring. However, this does not describe the Europe of today, where unemployment first and foremost hits those with less education. Europe cannot yet rely on a pan-European labour force mobility anywhere near that of the United States.[29]

Closely related to labour mobility is the degree of 'flexibility' of labour markets, a theme raised in nearly every speech by ECB officials as they exhort EMU governments to undertake 'structural reform' in order to assist the euro. Most euro-zone countries have a panoply of labour market regulations that tend to restrict economic growth. Costly social programmes are financed by taxes that curtail business incentive. Generous payments to the jobless diminish their incentive to take up work. The costs of lay-offs to employers discourage them from hiring in the first place. Labour market flexibility in the UK and the US compare favourably with that in Euroland on all these counts. Flexibility extends beyond the labour market. The basic culture in the United States, and to some extent the United Kingdom, observes the principle of government non-interference in business life and encourages the seizing of business opportunities and risk-taking more than is the case in most countries in the euro-zone. (This may not always lead to higher lasting growth, however, as the various corporate scandals in the US in 2002 illustrated.)

Another difference between the EU and the United States is the compensating effects of latter's considerable fiscal transfers via its uniform

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income tax. As California grew in the 1987–91 boom-years, it contributed nearly 17 per cent of additional federal tax revenue, raising its percentage contribution to federal tax receipts from 12 to 13.4 per cent. Conversely, during its economic crisis from 1991 to 1994, the state's share of increased federal tax revenue fell to just 8.1 per cent and its share of the national burden declined to 12.5 per cent. If California's tax share had stayed unchanged during the period in question, its 1994 federal tax payments would have been $11 billion higher than they actually became. This $11-billion decline is equivalent to roughly $350 per capita in tax relief. Thus, many of the stabilising properties of the progressive tax system in the United States manifest themselves in an automatic regional redistribution of the income tax burden through the high mobility of the workforce. In other words, states within the United States are assisted in overcoming recessions by contributing less to the federal budget, while states with a growing economy pay more. In addition, the federal government makes large transfers to individual states in the form of grants and aid programmes, further equalising conditions among them.

Europe, by contrast, has no such automatic fiscal transfer mechanism. Labour mobility is much lower. Furthermore, the budget of the European Community is much smaller (when compared with the combined GDP of EU member states) – about 1.2 per cent – than the US federal budget, which amounts to about 20 per cent of the country's GDP. It is true that EU expenditure does involve some transfer-oriented programmes, such as the Common Agricultural Policy and the various regional funds. But this is little by comparison, apart from the fact that the destination of this type of EU funding does not change readily along with recessions in individual regions. Overall, Europe lacks the kind of automatic stabilising properties which a unified fiscal mechanism affords the United States as an alternative to exchange rate variations. (This invites the argument that the EU should as soon as possible try to unify itself fiscally. However, as we have seen, formidable political obstacles stand in the way of any rapid development in this direction.)

The stabilising properties of a currency zone-wide fiscal process are thus not in place in Europe. Nor are they likely to be so in the near future, given the reluctance of EU member states to increase the institution's budget. Indeed, the EU 2003 budget of around €100 billion is practically the same in real terms as that in 1996, and the EU is agreed that this should remain the case for the years to come.[30]

Significant fiscal flexibility is difficult under EMU, unless a country has built up a solid budgetary position in the past, such as by having

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shown budget surpluses in years of strong growth. The Stability and Growth Pact foresees fines of up to half a percentage point of GDP on any EMU country that goes beyond a maximum 3-per-cent budget deficit in other than exceptional circumstances or for a brief period. (This is necessary for the value of the euro to be maintained. An example of what could happen was given in the spring of 1999 – a few months after the introduction of the euro – when Italy was given permission by the other EMU members to go slightly beyond its original budget deficit forecast. Even though the deficit was less than the maximum 3 per cent, the move caused the euro to fall sharply vis-à-vis the dollar.)

The concerns about inflation and solidarity among the Euroland countries as regards fiscal orthodoxy are understandale. Yet it is difficult to see the sinning country, already in economic difficulties, readily agree to pay a fine of the order foreseen, since it would a priori take away even more purchasing power from its citizens and risk channelling popular fury against 'Brussels' or Frankfurt (where the ECB is based).

Europe's low birth rates and rapidly ageing population also pose a danger to the stability of the euro. As fewer people in active ages have to support more, and longer-living, old-age pensioners (including a growing number of early retirees), public finances in Euroland countries will come under great strain, starting around 2010. The situation is aggravated by the fact that almost all the EMU countries rely almost exclusively on taxpayer-financed, 'pay-as-you-go' types of pension systems. Either taxes will have to rise to much higher levels, impeding growth, or government spending will have to be drastically cut, threatening social peace.

Furthermore, since the single currency has locked the economies of the EMU countries together, increased pensions payments in a country in a demographic crisis, such as for example Italy, will raise inflation also in a country with a younger population, such as Ireland. If, say, France spends its way into a deep deficit to assist an ageing population, Dutch homebuyers may end up paying higher mortgage interest, since big government budget deficits tend to raise interest rates by increasing competition for capital. Ireland and the Netherlands may protest, but there will be little they can do, since Italy and France are sovereign in their budgetary decisions – the EMU's Stability and Growth Pact notwithstanding. Governments in Europe, especially those resulting from coalitions or with weak majorities, are more likely than not to delay or dilute the necessary reforms. The cart of Euroland-wide single currency management may well find itself put before, not the horse but the horses, of national politics.

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An 'exit risk' would likely be exacted by the financial markets, were ever any doubt to arise as regards the future of the EMU as such. As long as monetary union is not accompanied by political union, the risk of such doubt occurring cannot be ruled out. Two scenarios are possible. In the first, economic difficulties, especially high unemployment, lead to a political sea change in a major euro-country and therefore to popular pressure within it to leave the EMU.[31] In the second, though less likely scenario, a given country develops such high budget deficits in spite of the Stability and Growth Pact that others insist that it leave. In either event, there would be a massive flight of capital from the country in question. This would lead to downward pressure on the euro in all the participating countries and to general confusion in all areas of economic life, not least as assets or debts in the currency will have no clearly defined national domicile.[32]

It remains to be seen whether, as a result of EMU, the peoples of Euroland will start moving internationally to a greater extent. Perhaps the unstoppable rise of English as the world's, and Europe's, lingua franca even for the less educated will help reduce linguistic, and perhaps even cultural, barriers to migration.[33] Perhaps the single currency will eventually bring about a more federal Europe, with a more centralised fiscal policy. Perhaps such a larger fiscal role for the EU could then become more of a regional stabiliser to assist countries or regions in recession, even though it is unclear whether and how this could apply in those EU countries which do not participate in the EMU. It also remains to be seen how the peoples of the EU would react to such a development.

The EMU gamble

The EMU countries of the European Union showed considerable courage in going for the single currency in 1999. Monetary unification was sought before political unification – a feat which had never succeeded in the past (the most notable attempt being the ineffectual and eventually collapsed Latin Monetary Union among a few European countries from 1865 to 1925).[34] Furthermore, EMU countries were not very integrated economically, since the EMU 'convergence criteria' dealt exclusively with 'expressions' of economic performance (so-called 'nominal convergence'), and not with 'indications of true convergence', such as similar unemployment rates. Finally, EMU was started in the absence of two major instruments to manage it: high labour mobility, and a central fiscal authority with efficient means at its disposal.

Should the above-mentioned arguments have been sufficient cause for

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the EU not to attempt or to abandon the EMU project, at least at this stage in European history? The alternative would have been to go on living with a single market – malfunctioning in the absence of a single currency. Complaints would have continued over excessive exchange fees charged by banks and over exchange rate instability.

However, critics of EMU maintain that the status quo of using different currencies should have been kept, considering the present early state of European political integration and economic convergence. The Internal Market would still have functioned, they say, even with the handicap of occasional currency swings between EU members, and it would not have been divided between the twelve in Euroland and the three outside it. Countries could have depreciated their currency, but they would have had much less leeway to do so in an effort to gain competitive advantage. Depreciation would not have been undertaken principally for the purpose of gaining competitive advantage, but simply to help the national economy adapt to new circumstances. Furthermore, countries could first have concentrated on internal structural reform in their economies to create real convergence among them, and only then entered into a single currency with all the further economic and political convergence it would require.

One reason why countries today behave much more responsibly with their currencies – and hence why the EU might have been able to live also without an EMU – is that the confidence of international markets in an excessively and continuously depreciating country evaporates quickly, causing capital flight and reducing foreign investment. This factor is far more important today than in, say, the 1960s, when capital was much less internationally mobile. Another is that a country which is tempted to depreciate for reasons of competitive advantage is also likely to have a considerable government debt, much of it incurred in foreign currency and owed foreign lenders. Depreciations thus add to the public debt, providing a further disincentive to follow this path. In short, countries are much less prone to engage in currency depreciation for 'frivolous' or 'disloyal' reasons today than in the past.

Critics of the EMU are not necessarily defenders of large numbers of small currencies, especially within an intensely trading community such as the EU. They do, however, point to a number of advantages. First, the currency is managed – at least formally (and that is important) – by the people of the country, for even an independent central bank is accountable before it. Second, on a more practical level, a depreciating currency of a country with a weak economy can gain certain export advantages and will import less, permitting the economy to recover, the currency to

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appreciate, exports to be reduced and imports to rise. Conversely, a country with a strong economy, and an appreciating currency will, allowing for time lag, normally see its exports decrease and its imports rise, reducing the risk of overheating. The resulting downturn in the economy will restore the 'natural' value of the currency vis-à-vis others. Trade predictability will suffer – perhaps therefore trade itself. However, in a community of nations with low labour mobility and many different languages, this may be the lesser of two evils.

The debate between those in favour of a single currency for the EU and those against it is, of course, now water under the bridge as far as the twelve Euroland countries are concerned. However, the pros and cons still matter for those three EU countries – the United Kingdom, Denmark and Sweden – which are still outside it and for all the candidate countries preparing to join the EU and, hence eventually, the EMU.

The European Central Bank: independence versus accountability

The European Central Bank (or, more precisely, the European Central Bank and the European System of Central Banks) is meant to operate in complete independence. This had been at German insistence, reflecting that country's traumatic experience with inflation in the 1920s and the success of its post-World War II economic recovery, which to a large degree had been built on *Bundesbank* independence and a strong Deutschmark. Other countries, such as the United Kingdom and France, had had a somewhat different tradition implying a certain, but not total, independence of their central banks vis-à-vis the government and parliament. (Now, however, both countries, along with others, have given their central banks much greater independence, in part to satisfy EMU requirements.) The justification for central bank independence is that politicians may otherwise be tempted to have central banks ease money-supply conditions as a painless (but often ultimately self-defeating) way to overcome a recession, or to win an impending election.

A careful balance has, in fact, to be observed between central bank independence to prevent manipulation of the economy for political ends and the people's need to keep any institution set up to govern it accountable before the electorate (this latter being the touchstone of democracy). The challenge facing the countries participating in the EU single currency is therefore one of developing post-Maastricht rules for the European Central Bank which successfully balance accountability and independence. This, of course, is rendered more difficult at the present time, since the political structure of the EU is itself in rapid evolution.

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Ultimately, responsibility and accountability to the public at large are the things that matter. Accountability to intermediary institutions that do not themselves possess the legitimacy given by public accountability will not be enough.

Accountability and independence should not be seen as polar opposites. In a democracy, any central bank or monetary policy institution which stresses only its independence and ignores its ultimate accountability to the body politic may soon find its independence at risk. The basis of central bank independence is the role it can play in correcting some imperfections in the normal democratic process. However, such independence is granted democratically, temporarily and continually by virtue of that process. There is currently a great deal of argument among policymakers in favour of central bank independence as thus defined, but such independence must ultimately be subordinated to the higher principle of accountability before the people.

How democratic, or accountable, is the European Central Bank (ECB)? Its President and the members of the Executive Board are appointed by the heads of state or government of the member states, after consultation of the European Parliament. The President of the ECB reports regularly on the system's operations, and the ECB issues an annual report. The ECB President also appears before the European Parliament to explain the policy followed. Transparency of ECB policy is further enhanced by the provision that the President of the EU's so-called ECOFIN Council (of European Union Ministers of Economy and Finance) and a member of the European Commission may attend meetings of the ECB's Governing Council, albeit without voting rights, just as the ECB President can attend ECOFIN meetings.

However, it is doubtful whether this amounts to sufficient democratic control. Governments, who are two steps away from the people (the parliament being one step away), scarcely possess sufficient democratic credibility in this arena, especially when they have to share their influence over the ECB with the governments of other EMU participants. The European Parliament – which is democratically elected but which does not have the same legislative function in the European Union as a national parliament – is not in a position to fill the gap.[35]

This can lead to problems. To the extent that the ECB will eventually be forced to follow strict monetary policies, these will easily form the object of national and populist anger at being governed not by one's national capital where there is direct democratic representation – say, Paris or Madrid – but by a distant Frankfurt where the ECB is based. No longer would the blame be laid at the national door, but at those of

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Frankfurt, 'Brussels' or fellow EMU countries. To this should be added the risk of fines of the order of billions of euros imposed on countries found in violation of the Stability and Growth Pact. Even if it is not the European Central Bank that decides on such fines, it would risk being associated with them in the minds of ordinary people. 'Enough Brussels and Frankfurt!' could easily become a rallying cry for populist movements.

The euro from 1999 to 2003

As already indicated, the euro started out as a strong currency, standing at €1.18 to the dollar at its launch in January 1999. Already by April 1999 – four months into the EMU – difficulties started to emerge. Ireland, whose economy looked as if it might be overheating, would presumably have wished a rise in the ECB's 3-per-cent policy-setting interest rate then in force. Others, and especially Germany, wanted to avoid the risk of sinking into renewed recession and would have been in greater need of a rate cut. In the end, the ECB lowered the interest rate to 2.5 per cent in April 1999, hoping that it would help to revive in particular the German economy. The ECB warned, however, that no further lowering would be forthcoming within the foreseeable future, and that Euroland governments would now have to start in earnest with structural reform to stimulate growth.

The value of the euro sank from about €1.18 at the currency's launch to around parity with the greenback by mid-1999. Among other things, there were doubts about ECB independence in the wake of calls by several Euroland governments for lower rates, but also in view of (in comparison to the US) lower economic growth in the region and the approval by the EU–Eleven of a larger budget deficit for Italy than financial markets would have preferred. The conflict over Kosovo in the spring and summer of 1999 also hurt the euro, as the whole stability of Europe was called into question. Later in 1999 it recovered somewhat following the return to peace in Kosovo and more optimistic economic forecasts in such key countries as Germany and France.

However, by May the following year, 2000, the euro had sunk well below parity with the dollar, to around 90 cents. The decline reflected lacklustre performance of the Euroland economies and pessimistic forecasts; perceived interference by politicians in attempting to influence ECB policies; and the continued vigour of the US economy, leading to the continued popularity of dollars in the currency markets. The euro's depreciation helped exports but also raised inflation due to higher import prices. Markets seemed to demand far-reaching structural reform

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in Euroland and insist that policymakers speak with a single voice on monetary matters rather than in a cacophony of often conflicting statements. Markets also appeared to react to various political or social crises in EMU countries. It seemed exceedingly difficult to 'talk up' the euro and all too easy to 'talk it down'. The weakness of the euro stood in stark contrast to the ECB policy-setting interest rate, which by April 2000, had been raised successively to 3.75 per cent, with further increases held out.

The ECB now faced a dilemma. If it raised the interest rate to attract investors, it would risk stifling for example the growth of the German economy, the largest in Euroland. If it lowered it, the German engine might go into higher gear, but already over-extended economies might overheat and an already weakened euro slide even further. Exports might increase, but with the US as the world's only remaining 'importer of last resort' this would add to that country's already large trade deficit, with negative consequences for the world economy.

The EMU suffered a further setback when, in a September 2000 referendum in Denmark, 52 per cent of the population announced itself against the country's entry into the euro-zone. The Danish fears of losing monetary, or even national, independence were somewhat illusory, since the krone (unlike the Swedish krona or the British pound) closely followed (± 2 per cent) the value fluctuations of the euro (also reflecting Denmark's predominant trade links with Euroland). In mid-August 2000, the euro stood at around $0.90, signifying a reduction of close to 25 per cent from its initial $1.18. Exports from the EMU area were rising, especially to the US with its strong dollar, but also to EMU 'outs' (or 'pre-ins') such as the United Kingdom, whose manufacturing industry was complaining about lost exports to Euroland countries due to the relatively stronger pound.

The euro had also weakened against an array of currencies around the world not known for their strength. This was making Euroland imports more expensive, especially products denominated in dollars such as oil. Furthermore, in the absence of a country-specific interest rate weapon, various EMU members such as Ireland, Spain and Portugal were experiencing inflation rates of over 5 per cent due to economic overheating, while inflation in core countries like Germany and France was close to or above the 2 per cent inflation limit established by the European Central Bank as a trigger for interest rate hikes. The ECB interest rate had been raised repeatedly in the spring and summer of 2000 to reach 4.25 per cent. Further increases looked necessary to stem inflation and defend the currency's value, not least in the face of capital leaving

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especially for the US with its higher (6.5 per cent) federal funds rate and higher economic growth.

However, the export boom was contributing, at least temporarily, to rapid economic growth in the EMU area (of between 3 per cent and 4 per cent in 2000) and a tangible reduction in unemployment (to less than 10 per cent). Many people were attributing the good times to the EMU or had not started thinking about it, as they were still paying and being paid in the national currencies, now truly only existing on paper.

Additionally, internal Euroland trade had grown more intense in the two years of EMU existence, and a more integrated European financial market, including that of London, had begun to emerge, making the region less sensitive to external shocks. The EU's work to harmonise economic life in line with EMU requirements had also manifested itself in an agreement to combat the evasion of taxes on interest income (requiring member countries either to impose a withholding tax on foreigners or to share information with these foreigners' national tax authorities) and a common company code meant to facilitate mergers.

In the early spring of 2001 – with the euro sinking toward the $0.85 level – the European Central Bank withstood pressure from EU governments, international institutions and financial markets that it lower its policy-setting rate, in the meantime raised to 4.75 per cent, to prevent Euroland from sliding into recession. The ECB's argument was that inflation was too high and risked rising further if the rate was lowered. In May 2001, however, the ECB changed course and lowered the rate to 4.5 per cent, arguing that it had overrated actual inflation. Markets did not take to this kindly and the euro weakened further to $0.83 in July, but then firmed at around $0.90 during the autumn.[36]

The ECB's dilemma perfectly illustrated the previously mentioned difficulty of having one currency among politically independent countries with, in addition, such widely divergent, perhaps even diverging, economies. For some, such as Ireland, Spain, Portugal and Finland, the interest rate was too low and gave rise to inflation. For others, like Germany and Italy, it was too high, jeopardising growth. Inflation in the former group was so high as to pull Euroland-wide inflation up towards 3 per cent, past the ECB's self-imposed inflation limit of up 2 per cent (beyond which it had decided it could not lower the ECB central rate). The ECB's helplessness now risked producing 'stagflation', in that the Euroland economy might well stagnate even as it suffered inflation. Thus, in the spring of 2001, Germany had both a slackening economy and an inflation close to 3 per cent.[37]

Neither the 'bursting' of the 'new economy' bubble as from the spring of 2001, nor the terrorist attacks on the United States on 11 September

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the same year, could seriously dent the value of the dollar vis-à-vis the euro. The US economy continued to attract foreign funds (in spite of several US interest rate cuts to historically low levels that should in theory have made the dollar less attractive). Investors were attracted by the prospect of resumed high US growth after 11 September and were further encouraged when this happened.

However, throughout the period of a strong dollar against the euro, the Japanese yen and other currencies, lasting from early 2000 to the middle of 2002, the US had accumulated a huge current account deficit that made some kind of correction inevitable. It came in mid–2002, when the euro rose to above parity with the dollar, in reaction to a series of corporate scandals involving serious accounting irregularities, which the markets felt had betrayed them.

The euro's rise was in spite of indications that the requirement in the EMU's Stability and Growth Pact for a maximum 3 per cent budget deficit might be difficult for some countries to meet. These included Germany, France, Italy, Portugal and Greece, which all reported worsening prospective deficits for 2002 close to the 3-per-cent level. Much discussion in the EU's Council of Ministers in early 2002 was devoted to whether Germany and Portugal should be formally warned (in the end they were not, despite urgings by the European Commission, which started an 'excessive deficit procedure' against Portugal in the summer of 2002, after the country officially reported a 4.1-per-cent deficit for 2001). There was also concern that France's budget deficit might increase even further as a result of promises by the new right-of-centre government both to lower taxes and to increase expenditure.

The Stability and Growth Pact suffered a further setback when the President of its prime guardian the European Commission, Romani Prodi, called the Pact 'stupid'.[38] However, Prodi's remark had the effect of bringing on a debate about the value of the Pact in an economic environment much less propitious than that which had prevailed at the time of its conception in the 1990s. Even though the Pact was meant to be 'pro-cyclical' – that is, have governments reach budget surpluses in fat years to be used up in lean years – this did not happen, since governments have a tendency to want to be re-elected. The result was that in bad times, when deficit spending would be needed, the Pact would largely forbid it. Still, a number of adaptations to the Pact were possible. One would be to have the deficit limit apply only over an entire economic cycle (from the boom stage to the recession stage) of, say, four or five years, rather than each year. Another would be to define an acceptable size of a country's deficit when compared to its national debt

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(which would land, for instance, Italy in a much stickier situation than say, Ireland) and that borrowing should be allowed outside the deficit calculation for infrastructure investment.

In late 2002 the ECB lowered its policy-setting interest rate from 3.25 per cent to 2.75 per cent, the lowest in three years. The reduction took place even as inflation in the euro-zone stood at above the 2-per-cent limit, beyond which the ECB had said it would not lower interest rates. The action was largely in deference to Germany, whose economic situation had continued to deteriorate. The economy had barely grown in 2002, while the budget deficit had soared to 3.7 per cent, well above the Pact's 3-per-cent limit. A number of smaller European countries with stronger or indeed overheating economies had to bite the bullet, even though a lower rate would result in even higher inflationary pressure there. Their acceptance was also a consequence of their lesser influence in the ECB Executive Board when compared to the bigger countries, and because a further weakening of the German economy, the biggest in Euroland, would soon spell trouble also for them.

Shortly thereafter the European Commission started an 'excessive deficit procedure' also against Germany, which was now in a bind. Unemployment was bound to rise, leading to less tax income and greater unemployment expenditure. Government cutbacks to reduce the deficit would further dampen economic activity. Devaluation was not a possibility in a currency union. Deficit spending *à la* Keynes to kick-start the economy was impossible under the Stability and Growth Pact. No relief via exports could be expected, given the euro's firming against the dollar. Exports to other countries in the euro-zone might eventually accelerate due to the lower inflationary pressure in Germany (1.3 per cent in 2002) when compared to, say, Spain (4 per cent in 2002), but then Spanish inflationary pressure would in the end also seep into Germany, as happens in any currency union over time, thus reducing that advantage.[39]

Finally, the German reforms needed – deregulating the labour market, cutting the cost of health care, overseeing the pensions system, reducing payroll taxes and decentralising wage bargains – would take considerable time in a country which had made social solidarity a central part of its post-war reconstruction.

France's economy was still holding up reasonably well, with growth at around 1 per cent in 2002 and a budget deficit approaching but not yet exceeding 3 per cent. This, however, caused the European Commission to issue an 'early warning', especially after France made a cavalier announcement that its ability to reduce its deficit would depend on how fast its economy grew.

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Italy showed similar figures, but its government debt of 110 per cent of GDP made its situation uncomfortable. The European Commission complained about a 'lack of information' about many economic aspects. With growth slowing ominously and deficits rising in the three dominant euro-zone economies – Germany, France and Italy – overall prospects were bleak, even as virtually all the other members of Euroland showed budgets in balance or in surplus.

The euro by early 2003 had risen further, reflecting, however, more the dollar's weakness than any inherent strength in the Euroland economy. The dollar suffered from fears for the US economy against the prospect of a looming invasion of Iraq, for which the US was the leading proponent; the large US current account deficit; and US economic growth which, though higher than that of Euroland, was slowing down considerably.

A pattern was developing in 2003, in which the European Commission and the European Central Bank – joined by 'behaving' countries such as Ireland and Finland with balanced or surplus budgets – would call on 'sinning' EMU governments to cut deficits and pursue 'structural reform', with the latter reporting difficulties and asking for postponement of the 2004 deadline when the budgets of all would have to be in, or close to balance (a deficit of not more than 0.5 per cent). The postponement was duly granted by the Commission in September 2002, when it extended the deadline to 2006, while calling on countries to reduce 'structural deficits' (that is, those not depending on countries' position in the business cycle). The Commission's retreat was all the more understandable as Euroland as a whole showed a 2-per-cent combined deficit in 2002, a situation which would have made a return to balanced national budgets by 2004 an impossible task.

As a result of these difficulties, the Commission suggested a bigger role for itself in determining EMU policies. Thus its 'recommendations' to Euroland governments should become 'proposals', which could be adopted through a simple, instead of a qualified, majority in the EU's Council of Ministers. Furthermore, the informal euro-group of EMU Finance Ministers should receive a more official status and its chairmanship should be prolonged from six months to two years. EMU member states, anxious to preserve their freedom of action, reacted coolly to these ideas. In sum, the Commission's proposals illustrated the difficulties, referred to earlier, of reconciling the requirements for highly co-ordinated management of a currency area with the present nation-based running of the central aspects of the EMU. Presumably, the greater the difficulties the euro may face in future, the greater the need (as apart, perhaps, from the wish) will be to entrust its management to the EU.[40]

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However, another development is possible, under which the Commission, under pressure from countries with embarrassing budget deficits, will increasingly 'look the other way' in awareness of its powerlessness to 'force' sovereign countries back on to the straight and narrow. This would of course meet with protests from euro-zone countries showing fiscal rectitude, but they would be powerless to do much more than shout. Whether this would necessarily hurt the euro is not clear, since financial markets are more pragmatic than doctrinaire and may welcome an occasional vivifying shot of good old Keynesian deficit-spending in order to get an economy back on track.

EMU, the 'outs' and the others

Alongside the twelve EMU 'ins', three EU members have opted to stay outside the single currency for the time being. The United Kingdom under the Labour government under Tony Blair indicated its intention to hold a referendum on the issue during the 2001–6 legislature, provided a number of criteria were considered to have been met as to whether it was in the British interest to join.[41] Denmark opted not to join following a referendum in September 2001, in which a majority of voters rejected membership. The Swedish government, after sticking to a 'wait-and-see' attitude for several years, in 2002 announced that it would hold a referendum in September 2003 to settle the matter. In the event of a 'yes', Sweden could be expected to join the EMU in 2006.

The single currency debate necessarily concerned also the rest of Europe. European countries outside the EU were major trading partners of the European Union. About half the exports and imports of the Czech Republic, Hungary and Poland were to and from Austria, France, Germany and the Benelux countries. The economies of an increasing number of Central and Eastern European countries were by now highly integrated into those of the EU. Trade with the EU and the four EFTA countries (Iceland, Liechtenstein, Norway and Switzerland) was practically liberalised, and the few remaining restrictions on capital flows no longer constituted a serious constraint. The monetary and exchange rate policies within the EMU area would therefore have a direct impact on Central and Eastern European economies.

After EU candidates joined – ten being foreseen for membership in 2004 – they would be expected, in accordance with the Maastricht Treaty on European Union, also to join the Economic and Monetary Union – that is, have the euro replace their national currency. This would take place after a two-year participation in the so-called ERM II

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(Exchange Rate Mechanism) of a maximum +/– 15-per-cent variation of their national currency vis-à-vis the euro.

This would not be an easy operation, however. Firstly, the euro might suffer if international money markets feared for the economic stability of an EMU candidate country, a situation that existing Euroland members would want to avoid. Secondly, since growth rates were often higher in candidate than EU countries (also because they grew from a lower basis level), they had the choice of either accepting the resulting appreciation of their currency vis-à-vis the euro and thereby enjoy lower inflation, or keeping a firm exchange rate to the euro but instead suffer higher inflation. The former course of action might make eventual entry into the EMU more difficult by 'locking' the national currency to the euro at too high a level at the moment of entry (thereby hurting exports). Thirdly, the ECB's decision-making bodies would have to be reformed to avoid paralysis under a widened EMU membership.[42] Finally, joining the EU would necessitate considerable public investment and pension reform, thereby making the Maastricht EMU criteria of a limited budget deficit more difficult to reach. [43]

With ten of the twelve EU candidate countries expected to join in 2004, it seemed realistic to foresee them joining the EMU at around 2008. Inflationary divergence – and resulting inner monetary tension – in the thus enlarged Euroland could be expected to be even greater than today.

Notes

1 From *Praefatio* 4 by Titus Livius, the Roman historian (59 BC–AD 17). The Latin text reads: '*Ab exiguis profecta initiis eo creverit, ut iam magnitudine laboret sua*'.
2 See Weiler, 1997.
3 The real power resides in the COREPER – subdivided into the COREPER II for ambassadors dealing with the more important matters and the COREPER I of their deputies, who take care of more technical subjects. They are assisted by some 250 working parties in different subject areas.
4 Meeting between representatives of the German *Länder* and Romano Prodi, President of the European Commission, as reported in the *Neue Zürcher Zeitung* on 26 May 2000.
5 For a more detailed discussion of the growing power of the European Parliament, see Neuhold (2000).
6 Some, such as Westlake (1998, p. 127) are more optimistic as regards the development towards democracy in the EU. He sees the European Parliament as asserting increasing control powers over the Commission and as sharing

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more and more influence with the Council of Ministers through the gradual extension of its budgetary powers and the 'co-decision procedure' obtained in the Amsterdam Treaty in particular. All three institutions have had to become increasingly transparent in the process, helped by technological advances such as the internet. New members such as Sweden and Finland with their traditions of openness in public affairs are also, in his view, contributing to this trend. Indeed, he says, with more and more EU members, the Council of Ministers is increasingly becoming a kind of assembly, or senate, with meetings involving over 75 people more akin to a 'station concourse' (and correspondingly open). He sees a constant dialectic in the EU between 'effective government' and 'democratic government', with trade-offs having been traditionally in favour of the former but with the tide now turning. Indeed, he argues, the Commission always 'knew that its unaccountability was an aberration … No bureaucracy, however enlightened, could act in the absence of political authority. The Commission sought out the democratic legitimacy of the Parliament, much as plants seek out the light; in the longer term, it knew that the Commission could not survive without it.'

7 Members of the European Parliament have no real home constituencies, as do national parliamentarians. The Council of Ministers, for its part, has, with its fifteen members, long ceased to be a forum for real debate, as opening statements alone during the customary one-day ministerial meetings may take up to three hours to read out. Most Council decisions are pre-prepared by powerful and unaccountable civil servants. Extensive veto or blocking powers by no more than a few countries (even after the December 2000 Nice Summit) cause many issues to be postponed, even as, at national level, decisions in the areas concerned are postponed on the grounds of 'waiting for the EU'. That the Council of Ministers has evolved in this way is not only due to Parkinson's Law (Parkinson, 1957), but also to the fact that it is not directly accountable to any electorate, with national governments being able to 'blame Brussels'.

8 This raises the question as to whether the EU should have a constitution or not, and whether it is indeed sufficiently united to be able to forge one – a subject to which we shall return in a later chapter. A constitution would have to address not only democracy in the Union government itself, but also the rights of member states vis-à-vis the Union. What rights should member states have as against perceived encroachments on their powers by the 'centre'? Should they have the same rights of 'nullification' as US states enjoy in regard to Washington? Should an EU majority – in the European Parliament or the Council of Ministers – be enough on matters vital to member states, or should an additional 'second majority' be required among the individual member states through parliamentary approval – or through referenda such as in Switzerland?

9 The philosophy behind the creation of the Commission is not, in fact, so dissimilar to that of the Gosplan in the Soviet Union at the time. A predominant

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belief in the 1950s was in uniformisation. This notion is, however, ill-fitting in an era when the world economy is fuelled by decentralisation and diversification.

10 Featherstone (1994, p. 165) concludes that: '[Jean] Monnet's original conception of an elitist, technocratic High Authority to lead integration has been found wanting. The very form of today's EC Commission weakens its capacity to exert political leadership. It is too vulnerable to attack, as a result of its lack of accountability and democratic legitimacy … In different senses, the Commission has been overtaken by the progress of integration: more intensified forms of integration highlight the Commission's lack of democratic legitimacy; all too often it is not up to the job of exerting political leadership.'

11 It could be argued that, for instance, the *Bundeskartellamt* is equally powerful within Germany. However, the *Bundeskartellamt* is under the control of a directly elected German Parliament with exclusive legislative powers over its statutes and operations.

12 In 1996 the Commission allowed Saxony to give a limited subsidy to Volkswagen. The conflict erupted when Saxony was felt to have given too big a subsidy. In its verdict of December 1999, the European Court of Justice's Court of First Instance supported the Commission's refusal to allow any additional subsidy to Volkswagen in Saxony. Since then, Germany and other EU countries have repeatedly insisted on their right to subsidise companies in difficulties, especially in suffering regions, and the Commission's statutory obligation to try to prevent them has been used by politicians for electoral 'Brussels-bashing' purposes. Often, the Commission has in the end permitted reduced subsidies rather than take the recalcitrant country to the European Court of Justice.

13 This is in no way meant to call into question the dedication or competence of those who work for the European Commission. Many of the achievements which Europe takes for granted today would not have come about, at least not so early, without the Commission. The work continues. The Commission is the driving force in many areas, among which can be mentioned the liberalisation of the energy sector leading to lower prices, foreseen by 2004 for businesses and by 2007 for consumers; the introduction of a single air traffic management for civil aviation, reducing delays; the creation of a single capital market, reducing borrowing costs; and anti-trust legislation to increase competition.

14 In October 2000 the European Court of Justice overturned the EU ban on advertisements for tobacco. The Commission had argued that the ban would facilitate trade. Not so, said the Court, maintaining that it rather hindered than helped the trade objective. Undeterred, the European Commission, which had proposed the ban, said it would think of new ways to reduce tobacco consumption (even as the EU gives €1 billion in yearly subsidies to its tobacco growers). In May 2001 it returned with another proposal for an

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EU-wide ban on virtually all forms of tobacco advertising and sponsoring of events by tobacco companies. In December 2002 the EU adopted a directive meeting most of the Commission's demands, against the opposition of the United Kingdom and Germany. The ban would take effect in 2005.

15 The need for impartiality becomes acute in such an instance of Commission unaccountability. In March 2000, for instance, the Volvo truck division wanted to merge with the Scania truck division, but the request was turned down by the Commission, which argued that the merger would give the new company too dominant a position in Scandinavia. The Swedes complained, however, that earlier Renault–Iveco and Mercedes–Kässbohrer mergers had been approved, even though they meant a similar or even greater domination over parts of the EU market. In other words, what drives the Commission in the absence of any democratic accountability? *Quis custodiet ipsos custodes?* The answer came in 2002, when the European Court of First Instance (established in 1994 to relieve the European Court of Justice of some of its workload) issued two verdicts overturning merger vetoes pronounced by the Commission. The Court's complaints – that the Commission had based its decisions on insufficient analysis – caused a crisis within the Commission and calls for an overhaul of its working methods in this area.

16 The same can, of course, be said about the Council of Europe's European Court of Human Rights, with the exception that this body is meant to deal with alleged violations of fundamental rights and freedoms as enshrined in the European Convention on Human Rights and Fundamental Freedoms. Yet when it comes to its judgements on corporal punishment in schools or parental spanking of children, it, too, has aroused much controversy in, for example, the UK.

17 Greenwood (1998, p 587) refers to 700 'Euro groups', mostly based in Brussels, together with a variety of less formal collectives, 200 firms with their own Brussels-based public affairs capacities, and a cluster of around 25 public affairs consultancies operating from the Belgian capital. Such 'overcrowded lobbying' raises the issue not only of possible 'lobbying abuses' but also 'broader concerns in European public governance, including key concerns regarding the democratic deficit, the management structures and capacities of European institutions themselves, and standards of decision-making'.

18 Interview in *Le Figaro* of 17 June 1999. Prodi, asked whether his Commission would be 'a government or rather an administration at European level', answered: 'A government, of course'. He also said: 'The Commission will be a team inspired by the same philosophy, like a government cabinet. Not a Commission of left or right, but a European Commission'. Some observers will support such a stance. Toulemon (1998, p. 121), for one, argues: 'Nominated by the governments of the member states for a limited period, most frequently drawn from the political milieu, collectively responsible before the European Parliament which, since Maastricht, approves their nomination; members of the European Commission enjoy the same democratic

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legitimacy as government ministers nominated by a head of state and responsible before a parliament … The truth is that the Commission is constantly done down by those who do not wish to see Europe equipped with a true government, effective and legitimate.'

19 Greece was admitted to the EMU in spite of its not meeting some of the so-called 'convergence criteria'. Thus, its debt-to-GDP ratio in 2000 stood at 104 per cent, far above the required 60 per cent (although exceptions had been made also for other EMU members before it). Furthermore, inflation had been brought down to 2 per cent, but there were questions as to whether this could be sustained. Finally, the Greek economy was considered as still in need of structural reform, especially in the highly regulated markets for certain goods and services. However, joining the euro was seen in Greece as an important political commitment that would speed up the modernisation of the country's economy.

20 One of the reasons for success in reaching the start of the EMU was that there was never any fall-back position if preparations had run into serious trouble, such as if pressures on candidate currencies became unbearable. The same holds now that the euro exists. There was no clause in the Maastricht Treaty foreseeing any way out for countries, individually or collectively, from the euro. The reason for the absence of any 'retreat position' on the part of EU governments (such as postponement) was, of course, that this would have whetted the appetite of speculators from the start.

21 EU parlance speaks about the countries participating in the EMU as the 'ins', whereas those outside are referred to as the 'pre-ins' or the 'outs'.

22 The Stability and Growth Pact foresees fines of up to half a percentage point of GDP on any EMU country that goes beyond a maximum 3-per-cent budget deficit in other than exceptional circumstances (a systemic shock or a severe recession) or for a brief period. This is necessary for the value of the euro to be maintained. It also obliges participating countries to reach close to balanced budgets by 2004, a deadline which the Commission in 2002 said could be postponed until 2006, provided a standby reduction was reached in the meantime in that part of the budget which did not depend on conjunctural factors ('structural deficit'). The Commission speaks about a 'breathing budget', which would make the Stability and Growth Pact less of a straitjacket. The possibility cannot be excluded that EMU members will introduce a new and looser definition of 'government spending' if deficits continue to be embarrassing for some among them. One option would be to exclude public investment, on the understanding that it would both stimulate the economy *à la* Keynes and permit stronger economic growth in future via improved infrastructure.

23 In a sign of growing influence by Brussels, EU Finance Ministers in February 2000 agreed to let the Commission frame the circumstances in which a member state can change its mix of tax and spending policies. In particular, 'pro-cyclical' tax cuts that fuel inflation in an already overheating economy were ruled out.

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24 However, in July 2001 the European Parliament rejected a legislative proposal that would have considerably facilitated cross-border company takeovers, including hostile offers, by making such bids conditional on agreement by the management of the targeted company. While this was seen by some as preserving a bulwark against American-style capitalism, to others it was considered contrary to the implications of the EU Internal Market and the single currency. At the same time the European Commission blocked a takeover bid by General Electric vis-à-vis Honeywell on the grounds that it would overly restrict competition, not by control over a given market but by the presumed dominance, through subsidiaries, of several markets. This did not go down well with the Americans, whose antitrust legislation (court-based rather than Commission-led) tends to be more strictly oriented towards consumer (as opposed to competitors') interests.

25 This indeed turned out to be the case even before monetary union in the latter half of 1998. The prospective 'Euroland' was scarcely affected by the Russian or the Brazil currency crises, and this held also for weaker currencies such as the Italian lira. It continued to be the case in the 1999–2002 period, in the face of major fluctuations in the value of the US dollar and Japanese yen.

26 To use an allegory, a 'one-size-fits-all' interest rate is like having twelve people wear same-size suits. For some their suit is too big and for others too small. All in these two groups will be hindered in their walking. Only for a few of the remaining twelve will the size be comfortable and the walking unhindered, but they risk being slowed down by the others, since all now have to walk in tandem.

27 Growth rates in the EMU area in the 1999–2002 period seem to bear this out. Average GDP growth was only slightly over 2 per cent, compared to about 3.5 per cent for the United States and around 2.5 per cent for the biggest non-EMU member state of the EU, the United Kingdom. (Source: *OECD Economic Outlook*.)

28 Source: European Commission.

29 The European Commission in 2002 recommended that EU member states increase labour mobility by, for instance, making it easier to collect pensions and unemployment benefits in countries other than one's own, by introducing an EU-wide health card that would speed up reimbursement for medical expenses and by creating a central information office for jobs across the EU.

30 The European Council in 2000 fixed the annual EU budget for the 2002–6 period at around €100 billion, or about 1.2 per cent of the EU GDP.

31 An example was the unexpected advance to the second round in the French presidential election in the spring of 2002 by Jean-Marie Le Pen, the leader of the extreme right *Front National* party. Le Pen said he wanted, if elected, to take France out of the EMU. In this case, however, the euro did not weaken noticeably, since the left-of-centre voters immediately shifted their allegiance from the defeated candidates in the first round (especially Lionel Jospin) to the Gaullist candidate Jacques Chirac, who was thereby assured a

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large victory. There is no guarantee, however, that such a propitious outcome will always occur.

32 The European Central Bank (and the European System of Central Banks which it heads) is much more decentralised than the US Federal Reserve. In fact, it very much resembles the more decentralised Federal Reserve structure which was in place from 1913 to 1933 and which had to be abandoned after the Depression in favour of a more centralised system. The ECB, unlike the Fed, lacks four main competencies of a central bank – the latter being still with the national central banks of EMU members. The four lacking competencies are: a monopoly over the issuance of money; the right to set refinancing interest rates on behalf of national central banks; the rejection of insufficient securities for loans; and the ability instantly to supply the totality of liquidity needed in a crisis situation. The ECB must therefore be considered much more vulnerable than the Fed.

33 The EU of the fifteen member states has eleven official languages. There are at present over a hundred different language combinations for translators and interpreters. In the EU of twenty-five member states as from 2004 the number will be over 300. Although German is the language most widely spoken in the EU Fifteen (90 million people), its role in the EU is limited when compared to English and French, with the former rapidly gaining ground against the latter.

34 The Latin Monetary Union (LMU) entered into effect in 1866 and would in due course include Belgium, France (the dominant member), Greece, Italy and Switzerland. A 'bimetallic' treaty, it soon ran into severe difficulties such as how to deal with the Austrian–Italian war in 1866 and the Franco–German war of 1870–71 – let alone World War I, by which time it was practically defunct. Vanthoor (1996, p. 37) sees the core problem of the LMU as lying in the 'insufficient convergence of the policies conducted by the Member states. As a result, the country abiding by the rules most stringently was inevitably flooded by the speculative capital flowing from Member states whose currencies felt the pressure of their expansionary spending policies.' There were, apart from the LMU, also the lesser known – gold-based and similarly inoperative – German–Austrian Monetary Union from 1857 to 1867 and the Scandinavian Monetary Union from 1872 to 1931.

35 The European Central Bank is not part of any government since no European government exists, nor is it truly answerable before the European Parliament. Amtenbrink (1999), for one, deplores this lack of democratic control and warns that: 'Where power is delegated by the legislative or the executive branch to independent bodies which are not considered as part of a government, the traditional mechanisms of democratic accountability run the danger of failing to a large extent, as the latter may be out of reach of such mechanisms as democratic elections, answerability to Parliament, or even control by the executive government.'

36 The European Central Bank's mandate was, and is, exclusively to maintain

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price stability, soon defined as not tolerating inflation exceeding 2 per cent. To measure current inflation and inflationary pressure in the short and medium term, two pillars were to be used: monetary growth in the eurozone, termed 'M3'(monetary targeting); and a more broadly based assessment of inflationary pressure (inflation targeting). The ECB had early on announced that it would primarily be guided by M3 in determining its policy-setting interest rates (as had been the policy of the German *Bundesbank* in the pre-euro days). However, when the ECB lowered its central interest rate in April 1999, M3 growth stood at 4.5 per cent, well above the 2-per-cent inflation limit. If anything, the ECB should have raised the interest rate, not reduced it, even though a lowering stood to reason given the recessionary tendency in Germany, the biggest euro-zone economy. The same contradiction between announced criteria and actual policy was manifested on several occasions in 2000 and 2001, leaving financial markets unimpressed and contributing to the euro's slide against the dollar. However, it also signified a shift in ECB policy toward 'inflation targeting', which may be considered a more flexible and pragmatic approach under the circumstances. See, for instance, *Economic Survey of Europe*, of the United Nations Economic Commission for Europe (2000 No.1, pp. 35–7).

37 Unlike the ECB, the US Federal Reserve has a three-pillar mandate: checking inflation, fighting unemployment and stimulating growth. Its freedom of action is correspondingly wider.

38 Prodi said: 'I know very well that the Stability Pact is stupid, like all decisions that are rigid'.

39 In 2002 real interest rates, i.e. allowing for inflation, were negative in countries like Spain and Portugal, signifying that keeping money in the bank there meant a loss for the depositor.

40 The European Commission in 2002 called on the EMU countries in particular to lower labour costs and integrate their markets for energy, communications and financial services. Tax reforms would have to be such as not to worsen budget deficits. Public health reforms should reduce expenditure. The Commission's recommendations were adopted at the 2002 EU summit in Seville, Spain, though in dilated form. Thus France made its compliance with the 2004 goal for a balanced budget conditional on sufficient economic growth (3 per cent), which, apart from being somewhat unrealistic, also opened up loopholes for others.

41 The five 'tests' to be made before the British government would decide to hold a referendum and recommend British entry into the EMU were (1) that the British economy was converging with that of the EMU area; (2) that it would remain capable of responding flexibly to outside shocks; (3) that the euro was proven to benefit investment; (4) that it was shown to assist financial services and especially the city of London; and (5) that it would promote employment.

42 Up until enlargement, the ECB's Governing Council would have eighteen

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members: one from each national central bank in the European System of Central Banks plus the six members of the ECB Executive Board. After enlargement to twenty-five EU states and assuming EMU membership for all new members, the Governing Council would have twenty-eight members. If Denmark, Sweden and the United Kingdom were to join, the number would be thirty-one. Given the major difficulty of making such a numerous body function, the ECB in 2002 floated a proposal foreseeing a system of 'weighted voting', according to factors such as the size of a member country's economy, its contribution to ECB resources, and a sub-division into two – and with further enlargement eventually three – 'groups' of countries with a differing say in decisions and with a rotating membership.

43 Birth rates in the EU candidate countries in Central and Eastern Europe were already low in communist times, as women were strongly encouraged to join the workforce. They continued to be low after the transition process to a market economy began, since women now had to keep working in a more competitive economic climate. Meanwhile, the currencies of most of these countries, contrary to what was expected, appreciated considerably vis-à-vis the euro they were scheduled to join after EU accession, making EMU membership all the more difficult to achieve. The appreciation was being caused by substantial foreign investment and productivity gains, permitting exports to be maintained at strong levels in spite of the currency exchange disadvantage.

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