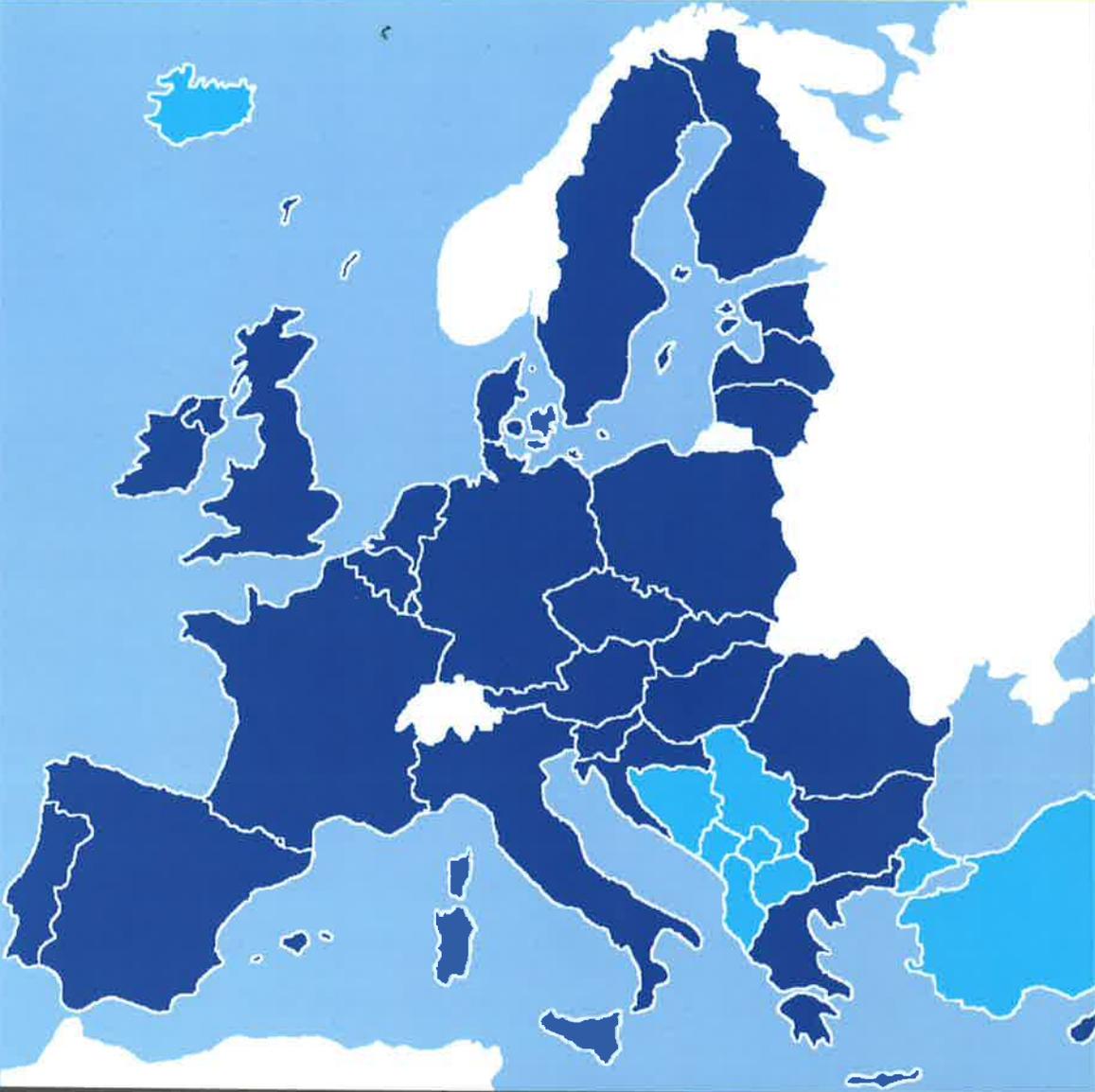


A EUROPEAN UNION WITH 36 MEMBERS?



PERSPECTIVES AND RISKS



Edited by Péter Balózs

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THE EUROZONE AND THE FUTURE OF THE EU

DUSAN SIDJANSKI

Chapter 1 – Introduction

The Monetary and Economic Union (MEU) created by the Maastricht Treaty – i.e. the euro and the Eurozone – were supposed to form the dynamic and most advanced element in the European Union. The Treaty defined the rules imposing the limits of 60 per cent of gross domestic product (GDP) regarding public debt, and 3 per cent in respect to budget deficit. The adoption of the monetary union, the euro and the European Central Bank (ECB) as a promising set was the logical consequence of the single market, of the four freedoms; it was meant to facilitate commerce and accelerate integration by controlling deficits and capping public debt, as well as by relying on an economic union. However, budgetary discipline was violated first by France and Germany, the two largest economies in the Eurozone, which are the driving forces of integration. As far as the economic union is concerned, it has remained at the planning stage in the absence of effective coordination of economic policies, which was supposed to follow and support the euro. In fact, the common currency, the symbol of sovereign power at national or supranational level, was created and put into circulation without being supervised and guided by a European political power. History does not seem to know of any monetary unions which survived without a political union. By way of example, the Latin Monetary Union formed in 1865 between Belgium, France, Italy, Switzerland and Greece collapsed in 1927.

By promoting the MEU, Jacques Delors followed the approach corresponding to the strategy of Jean Monnet, to the extent that it would result in greater integration of economic policies and related sectors and ultimately lead to the creation of a European Federation. Non-compliance with the rules of the economic and monetary union together with the outbreak of the financial crisis have cast doubt on the integration process which, despite its fluctuations, seemed to be continuing to progress. Nevertheless, the Eurozone, which represents the 'dynamic core' of the European Union, was and still is most affected by the crisis. Faced with the risk of widespread paralysis within the Eurozone, senior European officials headed by German chancellor Merkel and French president Hollande became aware of the urgent need for vigorous growth and greater integration into structures that prefigure a Political Federal Union.

Instead of generating the spillover envisaged by Jean Monnet and theorised by Ernst B. Haas¹, under the pressure of the crisis the Eurozone provoked the reverse effect, a sort of

1 Ernst B. Haas, *The Uniting of Europe: Political, Social and Economic Forces, 1950-1957*. London : Stevens and Sons, 1958.

spillover which led to economic recession, breaking social solidarity and destabilising political structures. The interdependence of European economies led to a contagious effect of the crisis on the countries of southern Europe, threatening other members of the Eurozone. Prior to his appointment as head of the ECB, Mario Draghi warned against the important systemic effects the sovereign debts of three countries – Greece, Ireland and Portugal, which represent 6 per cent of the Eurozone’s gross domestic product (GDP) – could have. For those who did not want to ignore the facts, it was obvious that the contagion would not spare the major economies of the Eurozone either, starting with Spain and Italy.²

Moreover, this negative domino effect not only has an impact on the financial and economic fields, but also leads to an increase in unemployment, which in Greece and Spain affects more than a quarter of the population (30 per cent) and around 50 per cent of young people. With such budgetary austerity and dismissal of employees and workers in the public and private sectors, the state is not going to spend less, but in fact more on the unemployed and health care. The dilemma facing the government requires a difficult choice: either it cuts back on pensions, wages, education and culture, at the risk of provoking violent reactions, destroying its social networks and paving the way for extremist movements; or it increases its deficit and public debt by taking out loans at about 6-7 per cent interest, as in Spain and Italy. At this rate, we wonder when or rather if the state will ever be able to repay its debts, especially since it is in a recession and is recording negative growth. The example of Greece is premonitory in that it proves that the financial and the sovereign-debt crisis spreads quickly and affects all levels of society, while causing deep political instability. The last elections are proof of this: the elections were preceded by serious political disturbances that have caused the loss of one year of reforms for the state and the Greek economy, and have only increased the disastrous effects of the crisis.

The member states of the Eurozone are confronted with a political choice with far-reaching consequences: either they commit without delay to some sort of European Federation, or they accept the disintegration of the Eurozone and the demise of the euro. Since currency was first created three thousand years ago, we know that minting money is a sovereign act, a symbol of political power. To our knowledge, no currency has survived without the backing of a sovereign power.

Hence the urgent need to consolidate the Eurozone, to equip it with efficient instruments and decision-making processes, and also place it under the supervision of a federal union. Only a political authority in the form of a European Federation will be able to guarantee a way out of the crisis, the future of the euro and the development of the European Union. It is also the only way for Europe to strengthen its position within the new global balance of power.

The implementation of an 18-member European Federation, which the other member states of the Union would be free to join, will allow a global approach to be adopted instead of the uncoordinated actions undertaken to date on a case-by-case basis. It represents a reversal of current perspective in support of a European undertaking, combined with a return to commensurate measures in a spirit of solidarity. Merkel’s stance comes to mind: although highly opposed to eurobonds being issued in the current situation, she has declared that she would contemplate the idea within the framework of a political union.

2 Dusan Sidjanski, “Le Traité de Lisbonne sur la voie fédéraliste? (The Lisbon Treaty in the financial and economic turmoil)”, *L'Europe en formation* 362 (2011).

Chapter 2 – Structure and Functioning of the Eurozone

Ironically the Eurozone, which is the federative and pioneer core, is still functioning according to the intergovernmental method, whereas the 28-member Union mainly uses the community method. Therefore this gap should be bridged immediately by exercising enhanced cooperation or by adopting new methods of functioning, as demonstrated by the establishment of the Summit of the 18 Eurozone members. These adjustments would serve to increase the efficiency of the decision-making process, the European Parliament's involvement and overall transparency. As a result the Eurozone, which represents a subgroup of the European Union, will benefit from the improvements written into the Lisbon Treaty, namely qualified majority, co-decision on proposal from the Commission and dual presidency. These advances could be adapted and applied in accordance with the Eurozone's dimension and in compliance with the Treaties and Union law.³ In this way, the Eurozone would use the community method in the future.

2.1 Eurozone Summit and its President

The Council of the European Union defined the structure and functioning of the Summit of the 18 Eurozone members with effect from January 2013 in accordance with the Treaty on Stability.⁴ Its president sees to the preparation of and follow-up on work in close collaboration with the president of the Commission and on the basis of the preliminary work carried out by the Eurogroup. The Summit of the Eurozone heads of state or government is also attended by the president of the Commission. The ECB president is invited regularly, whereas the presidents of the Eurogroup and the European Parliament are invited on an *ad hoc* basis. Those heads of state or government representing states which ratified the Treaty on Stability, Coordination and Governance participate in the discussions on competitiveness, changes to the structure of the Eurozone and fundamental rules, as well as on specific subjects.

As in the case of the president of the European Council, the president of the Eurozone is appointed by the members of the Summit by simple majority. This procedure, which is modelled on the method used by the European Council, is carried out at the same time and in all probability will lead to the appointment of a single person responsible for both presidencies, provided that the president of the European Council is also a member of the Eurozone. In these circumstances, the president who has been assigned a twofold function will be called upon to guarantee harmonious cooperation between the Eurozone and all the member states of the Union.

In order for the president of the Eurozone to be credited with greater democratic legitimacy, he should preferably be appointed by the Summit after the latter has consulted with the presidents of the Commission and the ECB and further to approval by the European Parliament. This approval could be decided by a majority vote of those Members of the European Parliament (MEPs) belonging to member states of the Eurozone.

³ Article 326 of the Treaty on the Functioning of the European Union.

⁴ The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

2.2 Decision-Making Processes of the Summit

The Summit primarily defines by consensus the main guidelines and instigates their implementation by the Eurogroup. While seeking a consensus, the Summit should be able to take decisions and adopt declarations by qualified or reinforced majority. This procedure would safeguard against vetoes and protracted wrangling within the pioneer group.

The groundwork would be entrusted to the president of the Summit in close collaboration with the presidents of the Commission and the Eurogroup, and, in certain cases, with the president of the ECB. The optimal procedure corresponding to the community method would imply that the proposal to the European Council or Council should be presented by the president of the Commission in the name of the Commission and the Eurogroup.

Chapter 3 – Organisation and Functioning of the Eurogroup

3.1 The President of the Eurogroup

He should be appointed by his peers acting on a joint proposal by the presidents of the Eurozone Summit and of the Commission and subject to prior recommendation by the European Parliament. This prior recommendation is required due to his function as head of the 'Executive' of the Eurogroup. As such, it would be wise for the subgroup of the European Parliament to be able to exercise democratic control over the Eurogroup president. Whenever the president of the Commission is a native of a member state of the Eurozone he could also be appointed as president of the Eurogroup. An alternative solution could be to appoint as Eurogroup president the vice-president of the Commission responsible for economic and financial affairs, following the example of the high representative. The consequences of this adjustment, and in particular the use of a motion of no confidence, have to be examined.

3.2 Structure and Decision-Making Processes

Preferably, the Eurogroup would operate under the presidency of the president of the Commission assisted by the vice-president of the Commission in charge of financial affairs. A second vice-president of the Commission should be responsible for social affairs. This troika would guarantee greater efficiency and harmony between actions taken at both Eurozone and Union level without increasing the number of presidents.

3.3 Decision-Making Processes of the Eurogroup

Decisions of the Eurogroup, just like those taken by the Union, can be divided into two distinct categories: legislative and governmental or executive decisions. In the first case, the legislative process should function in the form of simplified co-decision. Following the groundwork–intergovernmental at present – carried out by the Commission

which should be composed of 18 members and the Eurogroup in consultation with the ECB, the Eurogroup president presents proposals for regulations or directives to the ministers of finance and economy and the MEPs from Eurozone countries. Having convened as a subgroup of the European Parliament, the latter come to a decision by a majority vote. In turn, the Eurogroup's ministers decide by consensus which should be transformed into qualified majority.

In the second case, which concerns decisions of a governmental nature, they are characterised by their degree of urgency and efficiency. These decisions, on the basis of the groundwork of the 18-member Commission, the Eurogroup and the recommendation of the ECB, should be taken according to qualified majority and implemented under the supervision of the president and the competent vice-president of the Eurozone. Depending on the deadline, they could be submitted beforehand for assessment by MEPs from the Eurozone or, in certain urgent cases, submitted for their *ex-post* approval. In any case, they should be drawn up in consultation with the ECB.

3.4 Role of the ECB

The ECB should be closely involved in the preparation and implementation of decisions. In the near future, the ECB's role during the crisis and post-crisis period should be assessed. This appraisal could be used as a benchmark for an overhaul of the ECB's authority which, in all probability, would be modelled on the broader powers of the Central Banks of member states, in particular, such as the Bank of England, or the American Federal Reserve. These institutions have resources and instruments to counter the crisis which are more substantial and which enable them to intervene in connection with public debt or through the issue of bonds and other catalysts for economic recovery. The ECB's scope of action needs to be expanded.

3.5 Urgent Decisions

The crisis has brought to light the large discrepancy between the speed with which investors make decisions and markets react, as opposed to the slowness of the European institutions to act. Therefore it would be advisable to reflect upon the manner in which a certain number of decisions could be taken urgently by the Commission and the Eurogroup or the ECB, or rather jointly by both institutions. Instead of going through a long procedure, these decisions would subsequently be approved by the Eurogroup members within the Council and the Parliament.

3.6 Appeal to the Court of Justice

In case of dispute, the Court of Justice would be empowered to rule in the first instance through chambers which could be made up for the most part of judges from the Eurogroup and member states which have adopted the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. Final decrees could also be adjusted in the same

way on an *ad hoc* basis. However, these adjustments do not seem to be indispensable, since the Court essentially adopts a community view. As for the Commission, which has endeavoured to put forward its community interest and perspective adapted to the Eurozone right from the very beginning of the crisis, it would be more efficient if limited principally to members belonging to the Eurozone.

Chapter 4 – Preliminary Remarks with a View towards the Future

First of all, the community method, which with some exceptions is the rule according to the Lisbon Treaty, must urgently be applied within the Eurozone. The Eurogroup, spearhead of the European Union, has an obligation not to lag behind the Lisbon Treaty. By implementing the community method, the Eurozone will equip itself with a more efficient, rapid and balanced decision-making process. Indeed with the intergovernmental approach, right from the start decisions are subjected to the domination of the larger member states, in particular of Germany in agreement with France. This is the scenario which marked the reactions to the crisis. The new presidency and a more active participation of the Commission in policy-making will ensure a better balance and more honest choices, as will the use of qualified majority in the decision-making process.

Instruments such as the European Stability Mechanism (ESM) and other intergovernmental agreements are forming around this federative core. Under the influence of the community structure and functioning, and of the regained confidence and sense of solidarity, these mechanisms and agreements could be organised under the community aegis. Once this pole has been reinforced, it will be easier to adopt decisions to establish a Eurozone budget (3 per cent of GDP), an Economic Recovery Fund and a banking and fiscal union, not forgetting the social dimension.

As from now, the manner in which the structures and functioning of the Eurozone evolve should fit into one or several political proposals. These proposals drawn up by the Commission and by various European movements and task forces are intended to be the subject of the electoral campaign during the next European elections in June 2014. At least this is what has been promised by the president of the European Commission, who intends to present a proposal for a European Federation.

Chapter 5 – Steps towards a European Federation

Jean Monnet's strategy of integration sector by sector ultimately leading to political union has reached the end of the line. The crisis has reversed the process, triggering a downward spiral movement (domino and contagion effect). Spillover has swung dramatically towards spillover. One thing has become blatantly clear to the leaders, the member states and the people of Europe: the very survival of the euro, the Eurozone and indeed the whole of the European Union is at stake. We should not forget that since the first coins were minted, no currency has existed and survived without political sovereignty. If the euro is not to disappear it is in urgent need of a political framework, a political armature, in other words a European Federation. Steps towards reaching this goal must be taken as soon as possible by at least nine member states, in accordance with enhanced cooperation.

As we concluded before, reversion to the community method within the Eurozone should be initiated at the same time as the construction of the European Federation. It is paradoxical that the Eurozone functions according to the intergovernmental method while representing a pioneer federative core. In this respect, the vanguard is lagging behind the Lisbon Treaty. Consequently, the Eurozone must urgently revert to community mechanisms and processes of the European Union.

This can be achieved through the conclusions of the European Council or even better by establishing the new framework and procedures through enhanced cooperation. The Eurozone based on enhanced cooperation would be open to all members of the European Union at all times, subject to compliance with the acts already adopted within that framework. In addition, they would be subject to any conditions of participation laid down by the authorising decision.

5.1 Progression towards a European Federation

In the present circumstances, the path towards political union in Europe lies through the Eurozone. Today it is within this federative core that there is an urgent need for a federal framework. Therefore it is up to the Eurozone in association with the European Commission to prepare the groundwork as soon as possible and initiate negotiations between the 18 member states, while leaving the door open to other EU member states.

This opinion and recommendation are based for the time being on an analysis of the position and proposals of the principal actors in the Eurozone, namely Merkel, Hollande and the head of the Italian government, prime minister Letta. We can observe a certain convergence of opinions subject to slight differences in the degree of commitment towards a political federal union. These political leaders use a variety of different terms: political union, European Federation, Federation of European States, United States of Europe, and in certain cases, European Government or Economic Government. The latter cannot be suspended in space. It needs to function according to the community method and be an integral part of a European Federation.

In my view, the political union is ambiguous, as it implies the possibility of a centralised political union as well as a federal political union. A consequence of the first option is the diminishing role of the member states and regions, whereas the federal political union, a synonym for the European Federation, guarantees the national and regional identities of the different member states. This complies with the federal principle of subsidiarity. This is a principle whereby whatever can be carried out by a smaller body should never be made the responsibility of a larger one. According to this principle, "the Union will only assume tasks that may be accomplished together more effectively than by each state separately or tasks whose solutions require a contribution by the Union."⁵ The second principle is related to dual participation or multi-level participation by the people (European Parliament), the member states (European Council, Council) and the regions and cities (Committee of Regions). The third principle stipulates that the Union is based on democracy and consequently that only European democratic states may be admitted as members.

5 Dusan Sidjanski, *The Federal Future of Europe. From the European Community to the European Union* (Ann Arbor: University of Michigan Press, 2000), 104.

5.2 Brief Summary of President Hollande's Point of View

In his speech to the European Parliament on 5 February 2013 the French president addressed the Members of the European Parliament (MEPs) “as the representative of a nation which has linked its destiny to that of Europe and which still bears a special responsibility today. I address you as a political leader whose belief in Europe has guided his commitment. I address you as a head of state who has made the reorientation of Europe central to his action...”⁶

After referring to the Nobel Peace Prize awarded to the Union, president Hollande stressed Europe's slowness to respond faced with major decisions: “...it takes too long to make major decisions, decisions that are expected, hoped for; and it spends too little time reflecting on its direction and its overall architecture. Europe prides itself on being a major market, but it fails to defend it in the face of unfair competition. It allows its currency, the euro, to be vulnerable to irrational trends in one direction or another. Lastly, Europe is a continent where growth is too weak, where mass unemployment reflects the depth of the crisis, which is not, as has been said, a short-term transition but a major transformation.”

While recognizing the progress that has been made in budgetary discipline through the adoption of the six-pack and the two-pack, as well as the creation of the European Stability Mechanism and the enlarged role of the European Central Bank, he called for the next stage of the coordination of national economic policies: “The time has come to launch the major project of deepening Economic and Monetary Union; France is ready for this. It has two principles: integration and solidarity. Integration means defining shared objectives, harmonizing fiscal policies, bringing in structural reforms to make our economies stronger, as well as common policies on infrastructure and research. Integration means us having new financial instruments in order to launch innovative projects in the areas of new technologies, renewable energies, and energy and ecological transition. And since we're for integration, we are for solidarity, since you can't have one without the other. [...] From this viewpoint, the European Parliament has paved the way. You've gone beyond political sensitivities and floated the idea of common borrowing; I daren't say Eurobonds, but you've imagined what the very terms integration and solidarity could be.

“Our position, France's position, boils down to four principles. The first principle is a level of spending that maintains the common policies: firstly the Cohesion Policy, which finances the essential investments, not only for the beneficiary countries but for the whole of Europe, which benefits from it in terms of growth. [...] My second principle is that the budget, the Financial Framework that must be proposed, must build on the Growth Compact adopted last June. [...] My third principle is that the budget must support the most vulnerable Europeans and those most exposed to the crisis. [...] Finally, the last principle I'll uphold in the forthcoming negotiation is a system of resources that is fairer and more transparent. [...] Europe can't make do with being a market, a budget, a currency –invaluable though these instruments are. Nor can it be just a collection of treaties, a set of rules –necessary –for living together. [...] I believe it legitimate to work on a new EU architecture. I'm pressing the case for a differentiated Europe –to use Jacques Delors' expression; it wouldn't be a two-speed Europe, which incidentally would quickly become an unequal Europe or a

⁶ Speech by the President of the French Republic to the European Parliament, Strasbourg, 5 February 2013. www.europarl.eu accessed 6 February 2013.

divided Europe; it isn't an *à la carte* Europe either. No, a differentiated Europe is a Europe in which States – not always the same ones – decide to forge ahead, embark on new projects, release funding and harmonize their policies, beyond the substantial core – which must remain – of common powers. It's this approach which allowed us to make borders a thing of the past with Schengen, create a single currency with the euro and introduce the financial transaction tax. This approach is a path to enhanced forms of cooperation, one open to everyone, everyone who wants to take part in them, and one day able to bring us together around these principles. In this Europe, the European Parliament will have a major role to play, because through its control it will ensure overall coherence.

"I also want to make Europe more transparent, I've argued in favour of budget, fiscal and social integration – this has happened. It calls for a political union that's stronger – otherwise it is hemiplegic – which means a Euro Area government and new financial instruments for taking action, and a budget – under certain conditions – for the Euro Area coordinated with the European Union budget. All this being controlled by the European Parliament and the national parliaments."

The following paragraph is significant: it refers to a stronger political union and a Euro Area government which is not only economic.

"In this worldwide redistribution of power, we must leave no doubt of Europe's determination to support these values. But, here too, we must accept the consequences, with the clear-sightedness that is essential for developing a strategy to conduct a genuine common foreign policy, to have a European defence. France stands ready. Here too, it is time to end piecemeal initiatives and pool our forces and resources, to bring our industries closer together and also harmonize our positions in international bodies in which Europe must speak with one voice and act to resolve the conflicts that offend human consciences."⁷

5.3 Brief Summary of Chancellor Merkel's Standpoint⁸

While still insisting on greater budgetary discipline and deepening of economic integration, the German chancellor has softened her position, which had been considered too rigid at the beginning of the crisis, and emphasised the need for a political union: "My vision is one of political union because Europe needs to forge its own unique path. We need to become incrementally closer and closer, in all policy areas." She described the new architecture of a new Europe in which the European institutions take precedence over the member states. (What about the German Constitutional Court in Karlsruhe?)

She considers that "Over a long process, we will transfer more powers to the Commission, which will then handle what falls within the European remit like a government of Europe. That will require a strong Parliament. The Council of Heads of State or Government will be a kind of Second Chamber. And finally, the supreme court will be the European Court of Justice. That could be what Europe's political union looks like in the future, some time in the future and after a good number of interim stages." Although she has not

⁷ These are integral elements of the proposal that the Franco-German couple should promote.

⁸ Interview of the German chancellor by six major European newspapers. Ian Traynor, "Angela Merkel casts doubt on saving Greece from financial meltdown," *The Guardian*, 25 January 2012 www.guardian.co.uk/world/2012/jan/25/angela-merkel-greece-financial-meltdown.

yet adopted this architecture, I would like to stress the importance of her political will to promote a European Federation and to establish it starting at the Eurozone level. There is an urgent need for this.

These few quotes demonstrate that the chancellor is in favour of a European political union which must have the characteristics of a European Federation. It is only logical that this union and its institutions should have primacy over the member states. It is indeed significant that following the example of the programme put forward by Lammers and Schäuble in 1994, the chancellor is in favour of transferring powers to the Commission, which will have the role of a European government. On the other hand, it is hardly logical to turn the heads of state or government, in other words the European Council, into a Second Chamber. Instead, a reconstituted Council of Ministers should form a European Senate, thereby introducing a separation of powers between the legislative Council and the governmental Council. This idea improvised by the chancellor deserves careful consideration – particularly since, in my opinion, the European Senate which constitutes the other component of the legislature, could be made up of ministers or state representatives appointed by governments along with representatives chosen by the parliaments and upper chambers of the member states. Eventually, this institutional configuration could be supplemented by a regional, metropolitan or municipal senate.⁹

Moreover, in the same interview, Merkel admits that the crisis had forced the 17 countries which share the single currency to forge closer political and economic ties. This is an example of the principle of enhanced cooperation when put into practice. With regard to eurobonds, an idea which she has been categorically opposed to right from the start, she admitted that she was nevertheless open to this eventuality in the long term at the end of an extensive process of economic and political integration: “Eurobonds will not do as a means to resolve the current crisis. Shared liability is something we will only be able to contemplate once the EU has achieved much greater integration.” In other words, she defines greater integration as a prerequisite for considering recourse to eurobonds. Political union of Eurozone countries as well as other member states is a precondition for the possible introduction of eurobonds.

5.4 Brief Overview of the Point of View of the Italian Prime Minister Enrico Letta¹⁰

One of the main points which emerge from his speech is the determination of his government to continue to stabilise public finances, while at the same time pursuing measures to stimulate growth. Europe should return to being a motor of sustainable development. Just as Hollande had mentioned in his speech, he maintains that Italy's fate is closely intertwined with that of the European Union. Two destinies united as one. Immediately after taking office, Letta visited Brussels, Berlin and Paris to give a sign without delay that his government is “a European and Europeanist government.” The response to the crisis should therefore

9 Proposal made by the *Länder* during the negotiation of the Maastricht Treaty which gave birth to the Committee of Regions.

10 Speech to the lower house of Parliament, 29 April 2013 (translated by Dusan Sidjanski). www.palazzochigi.it accessed 30 April 2013.

be greater integration, moving towards a federal Europe. Otherwise, the cost of non-Europe, the weight of failed integration, just like the risk of monetary union without a political and banking union, would become unbearable.

In the last part of his speech about “new Europe,” he calls to mind the EU’s contribution to the creation of a peace area. In his opinion, the Nobel Peace Prize is not yesterday’s news. “Europe is not a thing of the past, but a journey on which we have all embarked heading towards the future. Europe is the political area which rekindles the hope which inspired our society during the period of post-war reconstruction. It also represents the political area which enables us to put an end to wars due to stereotypes, mistrust and timidity. Europe is our journey. Its history is not written against our will. It is written by us. The horizon is European. Imagining Italy without Europe is in effect to weaken our sovereignty.”

Today as we struggle to overcome unemployment and inequality and to defend and promote our rights, Italy’s demands cannot be separated from the solutions provided by Europe. He goes on to mention the need to knock down the wall dividing the north from the south of the continent, similar to the divide between northern and southern Italy.

Enrico Letta maintains that the port towards which we are travelling is the United States of Europe and our ship is called “Democracy.” We have the right to dream of a political union and it is our duty to make this dream clearer. We can have a more unified Europe provided that there is greater democracy: through the European parties, through direct election of the president of the Commission, as well as through a bold and tangible track record these dreams can be made to come true.

Like president Hollande, prime minister Letta stresses the external challenge. Italy lives in an ever larger world, characterised by the arrival of new emerging powers which are changing the global balance. Faced with giants such as China, India and Brazil, European states do not have any other choice than to develop a common policy to obtain the critical mass required to interact with these new actors and to influence global processes, which implies a new task for the Common Foreign and Security Policy (CFSP) and the Common Security and Defence Policy (CSDP). In conclusion, as in the past Italy commits itself to a European federation equipped with an essential set of sovereign powers.

5.5 Direct Election of the European President?

It is impressive to see that several European leaders recommend direct election of a European president or, in the specific case of prime minister Letta, of a president of the European Commission. Wolfgang Schäuble has also been known to publicly advocate direct election of an EU president, as for example in the speech he gave on receiving the Charlemagne Prize, as have certain Commissioners such as Viviane Reding and Michel Barnier. This idea put forward a long time ago and which was once defended by François Bayrou, should not remain an improvised concept but is worth in-depth analysis.¹¹ This also implies that those advocating this idea have previously considered the consequences of the election of a president of the European Union or a president of the European Commission which

11 This idea was first evoked by the UDF party President François Bayrou in the early 2000s. See Dusan Sidjanski, *The Federal approach to the European Union or the quest for an unprecedented European federalism. Research and Policy Paper No. 14* (Groupement d’Etudes et de Recherches Notre Europe, 2001), 61.

is not compatible with European political culture. In fact, with the exception of the French “quasi-presidential system” (Maurice Duverger)¹², the great majority of European states practise the system of parliamentary democracy, which implies that the executive power is answerable to Parliament. This would not be the case if the president of the EU or the Commission were directly elected by European citizens.

5.6 What Conclusions Can Be Deduced from this Overview?

The idea of a European Federation or a Federation of European States has been put forward by the president of the Commission. However, without advocating direct election of a president of Europe or of the Commission, European Commission president José Manuel Barroso readopts the proposal to choose presidential candidates according to the results achieved during the European Parliament elections.

With the exception of the French president, who does not go as far as to propose a United States of Europe or a European Federation, the public announcements made by the two other political leaders reveal a much clearer stand on the subject.

The first step is to develop more structured proposals for a European Federation. These proposals should be both brief and intelligible enough to be the subject of a public European debate during the European elections campaign in 2014. This has been promised by president Barroso.

Any future discussions drawing on the federative core represented by the Eurozone should be inspired by negotiation characterised by synergy and a win-win approach, in the same spirit as was experienced during the drawing up of the Single European Act.¹³ These negotiations led to a domino effect which was both dynamic and positive: the bold proposals put forward by the different states avoided ending up with the lowest common denominator; on the contrary, each input played a substantial part in enhancing the project. This was particularly true of the proposal by Denmark which led to the addition of a chapter on social policy. As for the prime minister of the United Kingdom (UK) Margaret Thatcher, she accepted the institutional advances believed to be indispensable for the functioning of the ‘single market’, which was her primary objective. Unlike the ‘package deals’ which correspond to a levelling downwards, the negotiations were driven by a synergy which triggered off a cumulative process, an escalation procedure which led to maximum results in almost all the sectors involved.

During these negotiations coordinated by Emile Noël, secretary general of the European Commission, another significant example was the acceptance by all member states – including Great Britain and Denmark, who at first had been reluctant – of the institutional reforms demanded by the Benelux countries, in exchange for the internal market which had been largely favoured by these two member states, and in particular by the UK prime minister Margaret Thatcher. This is an excellent example of a negotiation process in the form of positive contagion.

If we attempt at the same time to reproduce negotiation characterised by synergy within the Eurozone, we could draw on the viewpoints mentioned, in particular the attitude of

12 Maurice Duverger, *Le système politique français*, PUF, 1970.

13 Dusan Sidjanski, *The Federal Future of Europe*, 110.

France concerning eurobonds in relation to the prerequisite put forward by Germany of greater integration and political union. France might be able to succeed in introducing eurobonds by accepting a more integrated political union with increased powers. A strong sense of solidarity, that is to say politically speaking within a European Federation, would facilitate the implementation of measures and instruments which would be more efficient and socially responsible.¹⁴

Need I add that when Emile Noël was secretary general of the Commission he was its representative at the intergovernmental conference chaired by Jean Dondelinger, at that time secretary general at the Ministry of Foreign Affairs in Luxembourg, in order to emphasise the role of the Commission and small and medium-sized states in the process of the European construction. We can only hope that the European Commission and its president, as announced, will take an active part in promoting the future federal political union. Evidently, in this whole process the leading role of the Franco-German couple in association with Italy and the Benelux, as well as role of the European Commission will depend on their ability to put forward and negotiate well thought out and structured proposals for a European Federation.

Chapter 6 – Conclusion

It is well known that the latest member states to join the EU have principally been motivated by the following objectives. Firstly, for political purposes and support in their democratic transition; secondly, for encouragement in their transition towards a market economy; and thirdly, with the hope that enlargement will bring economic benefits and that, at the same time, the EU36 will be less cohesive and less inclined to engage in political integration (e.g. UK). The latter is not the case for many members recently admitted. At the same time, the reasons which inspire the eight future members to form the EU36 vary considerably: stabilisation of their new democracy, peace and cooperation in the region, and, in many cases, economic interests and financial support.

The future enlargement raises many questions on both sides. Are the criteria used by the Commission and the Council for the admission of new members too formal? They take into consideration the economic and social situation and official policies, as well as the degree of democracy based essentially on the analysis of the constitutional and legal system. In fact we do not consider, as should be the case, the behaviour of political parties, civil associations and citizens, or what is referred to as civil society, which is fundamental. At the same time, we observe that in different candidate countries the attractiveness of the EU is based essentially on economic interests and less on values and democratic principles. It is also evident, as in the case of Hungary, that it is difficult for the European institutions to effectively supervise the real functioning of democracy. It is possible that in the future new competences will be inspired by Kant and by the rules that govern federal states like Germany and Switzerland.

Another question is related to the composition and functioning of the European Commission. Experience has proven that the Commission composed of 28 members is not easy to manage. Consequently, the Treaty on the European Union (Article 17, paragraph 5) envis-

14 This comment does not take into account any possible changes in governments and coalitions.

ages a reduction in the number of its members. As is the case of many governments where an inner circle exists in the form of a cabinet or senior ministers, the member states which are not included as senior members of the Commission could participate as associate members, just as secretaries of state operate in some member states. It is clear that many adjustments will have to be adopted by the EU36.

The crisis has encouraged the leaders of the Eurozone to be enticed towards the inter-governmental method under the aegis of the Franco-German couple. Paradoxically, the most advanced group of 18 members is operating in the traditional intergovernmental mode within the European Union which, in the area of economic integration, generally functions according to the community method. The solution to this problem is simple yet clever. Jean Monnet's invention of the community decision-making process guarantees a more balanced, coherent and democratic functioning. When drawing up its proposals, the Commission consults with many social and economic actors and national experts who are primarily concerned. The formal proposal is addressed simultaneously to the Council and the European Parliament, which in principle represents the European common interest and a balance between small, medium-sized and large member states. The final decision in the form of regulations and directives are adopted by co-decision between the Council and the European Parliament. This is a more transparent, efficient and democratic decision-making process, the Commission being the only European institution accountable to the European Parliament.

In order to be capable of responding to challenges and the emergence of new big powers, the European Union will have to speak with one voice. This is the price to pay for maintaining its status and its influence in the changing world, where the United States and Europe are suffering a relative decline. With this aim in mind, the role of the Franco-German couple, the federal core represented by the Eurozone and the prospect of a European Federation have to be taken into consideration by all the member states of the European Union and a future EU36.

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A European Union (EU) with 36 members is a pure working hypothesis today. Extending future territorial contours is in full harmony with one of the main political objectives of the organisation as the European Communities (EC) offered the possibility of membership to “all European states” from the first day of their existence. Those well-known enlargement perspectives have accompanied the evolution of European integration since the very beginning, starting with the original Article 237 of the Treaty of Rome, across various renumberings of the basically unchanged provisions, up to the current version of Article 49 of the Lisbon Treaty.

A starting point for analysing the potential next size of the expanding EU was the Enlargement Report issued by the European Commission, which inspired our research and the series of international conferences held in 2012 and 2013 trying to analyse the various aspects of the hypothetical EU36 model. This book is the summary of the most important findings. The project was initiated by the Centre for EU Enlargement Studies (CEENS) of the Central European University and carried out together with an international network of the core partner institutions. A number of problem-oriented conferences held revealed further challenges and formulated cogent questions based on the project goals.

