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Has Europe Lost its Heart?

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Abstract

The fifth enlargement of the EU has now brought together twenty five countries, a massive success. But success has its price: twenty-five countries do not cooperate as six used to. The result is a general impression that the undertaking is being diluted and that national interests prevail over the common good, which means less willingness to take the next integrative step. This paper argues that this perception is largely misguided. The EU-25 group is considerably more integrated than the EU-6 ever was. Dilution is not a necessary consequence of enlargement, rather enlargement is bringing to the fore a number of institutional failures that were present all along.

This paper takes a politico-economic view of the link between enlargement and deepening. After a broad review of the task allocation principles, it concludes that enlargement and deepening are not substitutes but complements. It produces evidence that enlargement is not increasing preference heterogeneities within the union, but that it leads national governments to preserve more forcefully their own powers, often against the wishes of their own citizens. The result is an inability to reform the decision-making process that has become unwieldy as the result of enlargement.

The issue, then, is how to restore the EU's ability to run its affairs. The European Constitutional Convention has made little headway. Other solutions that go beyond current debates are examined. "Pioneer clubs" raise many unresolved issues. More promising, maybe, is the idea that the *acquis communautaires* should be once and for all decisions. By lowering the stakes of both sovereignty transfers and qualified majority voting, allowing changes in both directions between shared and national competencies could encourage governments to accept more daring reforms. Strengthening the legitimacy of union-specific institutions (the European Parliament or the Commission Presidency) would create a counter-power to deal with national governments' natural tendency to defend their own prerogatives.

I. Introduction

Once upon a time Europe was a small group of like-minded countries determined to integrate themselves politically and economically tightly enough to eliminate forever the specter of war. After centuries of recurrent devastation, this was a hugely ambitious project built on Jean Monnet's prudent step by step strategy, now called functionalism. Integration always progressed in fits and starts, but recurrent crises did not prevent achieving amazing results. Not only is war all but ruled out, but economic and political integration has deepened to a degree that the most Euro-enthusiasts never dreamt of. More amazing even is how the project has spread. Nearly the entire continent is now part of the Union, and Turkey might even join by the end of the decade. Two hundred million people share the same currency and enjoy borderless travel.

But success has had its price. Twenty-five countries do not cooperate as six used to. Each enlargement inevitably gives the impression that the undertaking is being diluted, and perceived dilution means more weight to national interests and less willingness to take the next integrative step. Or so it seems. This paper argues that this perception is misguided. The EU-25 group is considerably more integrated than the EU-6 ever was. Dilution is not a necessary consequence of enlargement, rather enlargement is bringing to the fore a number of institutional failures that were present all along.

What is needed now is a clean-up of European institutions and practices. Fifty years of negotiations have lead to good and less good agreements, which warrants re-examination. Anyway, times have changed and old agreements, including old *acquis communautaires* are outdated. The European Constitutional Convention, a consequence of the failure of the Nice summit in December 2000, offered a unique opportunity of sorting out this legacy. This opportunity has not been well-exploited. By refusing to open the Pandora box that a clean-up requires, and by adopting wholesale all the *acquis communautaires*, good and bad alike, today's leaders have failed their duty. The Constitution is not bad per se, it is just too small a step to justify its grand name.

This paper reviews a number of politico-economic issues. The next section sets the scene by offering a broad review of the task allocation principles. Section 3 examines the links between widening and deepening, to conclude that the two are not substitutes, but possibly complements. Some solutions that go beyond current debates are presented in Section 4. The last section concludes.

2. Task Allocation in the EU

2.1. Principles from Fiscal Federalism

As summarized in Berglöf et al. (2003), the starting point for discussing which tasks – or provision of public goods – should be allocated to the EU level – or “centralized” – is the theory of fiscal federalism. Simplifying quite a bit, the theory develops two criteria in favor of centralization and two criteria against.

The two criteria in favor of centralization rest essentially on economic effectiveness. The first one is the existence of increasing returns to scale or scope in the provision of public goods. The second one is the presence of externalities. The two criteria against centralization concern cases when the hoped-for



effectiveness results are unlikely to be achieved. The first reason can be broadly defined as “heterogeneity”. Obviously, if national preferences differ, any “one size for all” policy will be disliked by some countries and it will not, in general, please everyone. The second reason is that the center typically knows less well about local needs than national or sub-national levels of government; in the presence of information asymmetries, centralized decisions, which may include implementation procedures, may therefore rest on faulty appraisal of end-user needs.

2.2. Real-Life Governments

The previous reasoning assumes that national governments are benevolent, that they only strive to maximize their citizens’ welfare. Serious difficulties start when we allow for citizens to hold different opinion on the relevant issues. The simple answer is that democracy provides an elegant solution to this problem: elections determine how collective preferences emerge from individual disagreements. Unfortunately, the recent literature shows that this answer is too short.¹ This is not the place to review this literature, but a few points can be recalled.

To start with, elections are not one-dimensional. As has become very clear, European issues loom very low in domestic political debates, the more so the larger is the country. As a result, governments are not really accountable of every decision made and, in particular, of the positions that they take in “Brussels”.² Then comes special-interest politics. In this view, governments are not benevolent but captured by special interest groups, at least on some issues.

What is the implication of such political failures? Does centralization mitigate or enhance these political distortions? There does not seem to exist any general answer. Under decentralized policymaking, national policy is distorted only (or mainly) by the influence of the domestic lobby. With centralization, policy is also influenced by foreign lobbies. As argued by Bordignon et al. (2003), centralization may reduce the cost of, and therefore encourage political lobbying by organized interests because of scale economies. This can be either counter-productive or welfare improving, depending on whether domestic and foreign lobbies have the same or opposite interests. If the foreign and domestic lobbies have the same interests, then they pull in the same direction, and the policy is doubly distorted. If instead the two lobbies have opposite interests, then they offset each other and the distortion is mitigated.

As soon as political failures are recognized, a new consideration steps in. The public choice literature has emphasized that one of the best responses to political capture is political competition.³ Competition may concern the political sphere, in which case the solution involves checks and balances between different levels of government and different branches governments. Competition may also concern the economic sphere, with a view to raising the economic costs of political capture. Each government acting in isolation faces a cost in pursuing politically expedient but inefficient policies, and this cost is lower if everyone agrees to remain inefficient. A well known example is tax policy. When acting in isolation, national governments have an incentive to set low tax rates, so as to attract mobile tax bases from abroad.

¹ For a general survey, see Persson and Tabellini (2000).

² Direct democracy, in particular single purpose referenda, deal with this problem. Unsurprisingly perhaps, Switzerland, the country that has the most extensive direct democracy system, has not joined the EU. Similarly, Sweden, which has an open-government practice, is not too pleased with collective decision making in Europe.

³ The classic reference is Buchanan and Tullock (1962). The other response from the Public Choice school is to keep government small. Openness is yet another recommendation.

2.3. Europe's Way

A clear implication of the preceding arguments is that the decision to allocate a particular task is rarely black and white. Not only all four benevolent-government criteria may send different signals, but political distortions must be factored in as well. In the end, any decision will necessarily involve complex and hard to evaluate trade-offs; different people are likely to reach different conclusions not because they fundamentally disagree, but because they may weigh differently the various relevant considerations.

Whether by design or by luck, European integration has proceeded in steps. It has first centralized those tasks for which the fiscal federalism criteria were the least ambiguous and where capture by interest group was more limited or likely to be reduced through economic competition. The Common Market is the relevant example. Economies of scale and scope characterize modern industry, so developing a large internal market was a natural step. In this area, preference heterogeneities are minimal and there are few information asymmetries, if any, at least in the long run.⁴ Political capture is a serious issue, but the presumption is that economic competition is the right antidote. As the recent debates on state aids and industrial policies show, these aspects linger but it is fair to say that the burden of the proof has now been reversed. Nowadays, special interests have to make a case for exemptions from the Single Market principles; since they are rarely aligned across EU member countries, their power has massively declined.

The creation of a monetary union also illustrates these principles and further shows that integration has a dynamics of its own. Increasing trade integration has made EU member countries more similar, including in the timing of business cycles. It has also reduced the ability of firms to affect their relative prices and, therefore to use the exchange rate as an industrial policy tool. By reducing national heterogeneities and alleviating information asymmetries, trade integration has made it desirable to exploit the economies of scale and scope that a single monetary policy provide and to eliminate the tradition beggar-thy-neighbor externalities created by exchange rate policies. At the same time, the emergence of independent central banks – partly related to the superior performance of the Bundesbank – has made it desirable to undercut special interest influences on monetary policy. The adoption of a single currency had become natural.

Europe's pragmatic way has left out of centralization the other tasks for which the balance of arguments in favor of centralization is less clear cut. These are the issues that are now being debated and it should not come as a surprise that the debates are becoming more contentious. It is not that Europe has lost its heart, but that it has done the obvious things first. Further integration will be more difficult, because it is less obviously justified. In addition, with a few important exceptions, economic integration is nearly complete. The next steps must either tackle the hard economic core (agriculture, services, labor mobility, environment, taxation) or concern other areas (education, diplomacy, internal security, defense, culture) where heterogeneities loom large.

3. Widening vs. Deepening

A frequently heard view is that the difficulties that Europe now faces are associated with the enlargement process. Decision making has become more difficult, it is argued, because of the sheer

⁴ Transitions are different, though, since they involve deep restructuring. While transition costs are likely to be small in relation to long term gains, the existence of losers and winners implies redistributive politics that play out very differently at the local level.

number of voices that have to be heard and because the EU has become more heterogeneous. In this view, the response is the creation of “clubs of pioneers” that may decide to deepen integration among themselves, leaving the door open to currently reluctant countries. This response would mimic the previous evolution, when a core of “pioneer countries” created the European Community and were gradually joined by nearly the entire continent.

Another view is based on the observation that economic integration is now nearly complete. Accordingly, it is asserted, the EU should focus on eliminating the last barriers to the four freedoms (mobility of goods, services, capital and people) and consider that its aims have been achieved. This view, which clashes with the “common house” views of the founding fathers, aims at the establishment of a perfect common market unencumbered with wider political objectives seen as orthogonal.

Both views seem to fit the principles developed in the previous section. Yet, both can be criticized by appealing to the very same principles. While their implications may have some merit, they should not be evaluated as stated.

3.1. Costs of Enlargement

Decision making does not have to become more difficult as the number of countries expand. The EU voting rules have always been arcane for the usual reason that federal systems magnify the weights of the smaller entity, reflecting the concern that small units lose decision power. The advantage of arcane rules – in contrast with the one country-one vote rule, for instance – is that they can be adapted to meet recognized criteria. The general principle, though, is that a decision-making rule is effective when there exist few blocking minorities. Baldwin and Widgrén (2003) show how EU voting rules can be adapted to enlargement. The current stalemate is not, therefore, a mere consequence of enlargement. It reflects a number of concerns, most of which are not explicitly recognized. One concern is prestige, which led to the disastrous decision in the Nice Treaty, and which has also played a role in undoing Nice in the framework of the Draft Constitution.⁵ Another concern is that many countries fear losing a veto right, even indirectly as member of a sufficient large number of blocking coalitions. Their natural inclination instead is to increase the number of blocking coalitions, which makes decision making unwieldy indeed. A better solution is to carefully manage the issues that become shared competences and to retain veto rights on the other issues, a topic to which I return below.

Another red herring is the view that heterogeneity increases with the number of member countries. As stated, the view is that peoples differ in their views of issues that could otherwise be the subject of centralization. As far as the more contentious non-economic issues are concerned, there is no evidence as Figures 1 to 3 show. Figure 1 shows that the new EU members have not increased the dispersion of views about the willingness to have a common defense policy. Figure 2 shows that the same applies to a common foreign policy. The most crucial test, nationalism, is examined in Figure 3 which shows the percent of respondents who feel “national” as opposed to feeling European. Here again, dispersion has not increased with enlargement.

So where does this perception of increased heterogeneity come from? One hypothesis is that governments are keen to retain their powers in domains that have traditionally been considered as constitutive of sovereignty, even though their own citizens realize the importance of increasing returns and are not as heterogeneous as their own governments claim. This hypothesis would also reflect capture by local

⁵ The Nice culprit was France, which insisted on the same number of votes as the more populous and economically larger Germany. The next culprit was Poland, that long resisted any reduction in the number of its own votes.

interests (diplomacy and defense establishments). As special interest incentives are unlikely to be aligned, centralization would seem to be, *ceteris paribus*, the proper response to the hypothesized political failure.⁶

On economic grounds, enlargement should heighten all the usual benefits from trade integration, the more so the more diverse are the countries initially. This is a statement about the long run, though, which ignores the adjustment costs and the fact that trade integration creates losers and winners. However, if trade integration is Pareto improving, as seems to be overwhelmingly the case, the way to deal with transition costs is to organize Pareto transfers, not to oppose enlargement. Much of the grassroots opposition to enlargement come from groups that correctly perceive that they will be among the losers and that do not trust their own governments to deliver the Pareto transfers to which they should be entitled. Here again, we face a political failure. One solution would be to centralize the Pareto transfers. Information asymmetries, however, caution us that centralization might be inefficient. This fear is confirmed by the experience with regional and structural funds, which also seem to be partly at least captured by special interests. Then, if Pareto transfers are unlikely to be offered, should we still advocate enlargement (past and future)? On economic terms, yes, since permanent gains always outweigh transitory costs. On political terms, one would have to weigh the risks of increasing opposition to and disenfranchising from European integration.

3.2. Europe as a Common Market

The view that economic integration is nearly complete and that we should stop there is superficially convincing. To start with, it ignores the primary goal, that of establishing peace on the continent; the undertaking has always been wider than trade. The strategy of making each citizen a stakeholder in peace through economic interests has worked beautifully. Whether economic interests suffice is an open question.

More importantly, perhaps, is the fact that integration generates its own dynamics. We cannot operate a common market without common institutions. The well-publicized democratic deficit of European institutions reminds us that common decisions cannot be just left to bureaucracies. The inter-governmental method is the current response, but the existence of political failures at this level – discussed above – indicates that it is not sufficient.

More generally, economic integration is not limited to the movements of goods and services. For instance, labor mobility is a crucial element, as made clear by the Optimum Currency Area literature.⁷ This then means that Europe *de facto* has a common border, which is a source of an important externality as terrorism and large-scale immigration amply illustrate. A common internal security policy becomes the natural byproduct of labor mobility.

In addition, economic integration spills over into different policy domains. This is certainly the case of education and research. There is increasing recognition that Europe's failure to catch up with the US is related to its inferior education and research institutions. This is a complicated issue that goes beyond the present paper, but two observations illustrate the issues at stake. First, research is subject to returns to scale. Second, higher education cannot reach top-level quality without robust competition. In both cases, the question is what the proper scale for the relevant policies is, and there is little doubt that Europe is the answer. There cannot be 25 world-level universities in Europe.⁸

⁶ Initially, most central bankers were lukewarm, at best, towards the monetary union.

⁷ Trade theory, in its basic version, establishes that trade and labor mobility are substitutes. This assumes away market failures, for example the existence of involuntary unemployment.

⁸ These remarks concern higher education. Primary and secondary education involves considerable preference heterogeneities and is better organized at the national – or sub-national – level.

Finally, many policy domains that lie outside the realm of economic integration have important economic aspects. For instance, defense absorbs a sizeable share of public spending. Defense is subject to rising returns, and spillovers are very large in a geographically compact area. A European army is certain to be more efficient than the medley that we now have. Efficiency-conscious governments need to balance this consideration with other non-economic issues and the rational answer might well be a common defense policy. Indeed, this has been a perennial issue, going as far back as 1952, with a still-born European Defense Community. Much the same can be said about foreign policy. To be sure, true preference heterogeneities exist, but one may suspect that the critical opposition originates with powerful vested interests. As shown in Figures 1 and 2, 67 per cent of citizens favor a common foreign policy while 78 per cent favor a common defense and security policy. It is true that the results significantly differ across countries, but the lack of a lively debate on these issues is inconsistent with citizens' perceptions.

3.3. Dilution?

Is enlargement diluting the Union? The most visible difficulty relates to decision-making. As noted above, it is entirely possible to adapt voting procedures in a way that avoids an inefficiently large number of blocking coalitions. The evidence in Figure 4, which shows passage probabilities under existing voting rules, confirms that the reforms have not prevented a sharp decline in decision-making effectiveness.⁹ The cost, of course, is that individual member countries, especially but not only the smaller ones, may end up unlikely to be able to form or join blocking coalitions. Less formally, when there are few countries, *quid pro quo* deals, concessions in some domains that are compensated in other domains, can be more easily arranged than when more countries make the number of such deals so large that any one of them is unlikely to be agreed upon.

The second source of concern is growing heterogeneity. This is not a necessary consequence of enlargement, simply a possibility that can be explored empirically but does not seem to have been systematically done. The evidence presented here is therefore sketchy. It exploits the bi-yearly survey carried out by the Commission and published in *Eurobarometer* since 1973. Unfortunately, the coverage has changed over the years, even the way questions are formulated, which prevents long time series. Figure 5 shows the evolution of perceived benefits from EU membership, a series that can be traced back to polls conducted between April-May 1983, i.e. after the first and second enlargements, and October 2004, shortly after the fifth enlargement. The answers can be interpreted as a measure of satisfaction of EU membership. Available data cover three enlargements, listed under the figure and indicated by vertical lines. The thicker curve shows the unweighted EU average, the thinner curve displays the standard deviation across countries and can be interpreted as a measure of heterogeneity of preferences.¹⁰ There is no evidence that the three latest enlargements have significantly changed the average response, nor that the standard deviation has changed much. Much the same conclusion applies to Figure 6, which displays the percentage of respondents who feel that foreign policy should remain in national hand, as opposed to being centralized at the EU level; it is the complement – leaving aside the “don't know” answers – to the snapshot shown in Figure 2. This question deals with the willingness to centralize a key attribute of sovereignty. The period for which this series is available is shorter and only covers the last two enlargements, indicated by the vertical lines. Here again, heterogeneity does not increase, in fact it has

⁹ Passage probabilities are computed using the normalized Banzhaf index: it measures the probability that a proposal will be accepted in the basis of random voting by member countries. For details, see Baldwin and Widgrén (2003).

¹⁰ Using unweighted average is desirable as we examine national preferences. Obviously, the number of countries included in the polls increases following each enlargement.

decreased after the latest enlargement. Both figures indicate a slight increase in standard deviations, possibly reflecting more heterogeneity, a trend maybe briefly reversed after the latest enlargement.

Finally, dilution would occur if enlargement is accompanied by less cohesion in existing common policy domains. By construction, this is not the case. New member countries must take on board all the “acquis communautaires”, which have been become considerably more extensive over the years. In this respect, the EU-25 is considerably more homogeneous than the original EU-6 as far as actual policies are concerned.

On the basis of this limited information, dilution does not appear to be an automatic implication of enlargement, but the result of a political failure. Governments seem less willing to reduce their individual influence in order to preserve the effectiveness of collective decision-making. This is not a surprising conclusion, of course; governments are known to pursue their own agenda and to be keen to preserve their powers. On the other hand, governments respond to incentives. The next section examines what could encourage them to be more willing to trade off some autonomy in the pursuit of collectively more efficient decision-making.

4. Making a Large Union Work

A recurrent theme so far is that enlargement need not occur at the expense of deepening. It has also been argued that limiting the integration process to economic issues – i.e. to completing the Single Market – is both unrealistic and unlikely to match citizens’ preferences. A frequently heard view is that citizens are exhibiting integration fatigue and would be content with a pause. This view is not consistent with the information presented in Figure 7. This figure, which compares perceptions of the actual speed of integration with desirable speed, strongly suggests that European citizens would rather move faster, which most likely means deeper. This section examines a few ways of correcting what seems to be a significant political failure.

4.1. Pioneers and Followers

One controversial idea is to allow countries more willing to deepen integration than others to proceed at their own speed. Indeed, the draft constitution allows for a sub-group of EU member countries to undertake “enhanced cooperation” in particular policy domains, with special provisions concerning defense and foreign affairs. Subject to the condition that they are open to all EU members, such clubs are meant to allow some countries to share competencies in an area in which other countries wish to retain full sovereignty. Clubs are not new; both the Schengen agreements and the monetary unions are instances where a subgroup of countries has proceeded on their own.

This possibility can be seen as an antidote to rising heterogeneities as a consequence of enlargement. As previously observed, there is little evidence that heterogeneity has increased as the result of enlargement (Figures 5 and 6) but Figure 7 shows that, on average, citizens want faster integration. Heterogeneity predicts that averages conceal important national differences, which is confirmed in Figure 8. This figure plots national averages of perceived and desired speed of integration.¹¹ The line represents the diagonal, along which actual and desired speeds are equal. In the few countries below the diagonal – chiefly the Nordic countries and

¹¹ Note that those who want to see acceleration also tend to perceive actual speed as low, i.e. there is a negative correlation between perceived and desired speed.

Austria – citizens would rather see integration slow down. Most of the new EU members are far above the diagonal and are therefore likely to join those countries that want to speed up integration.

The logic of establishing pioneers' clubs is related to the previous discussion. In the presence of significant heterogeneity regarding the desirability of deeper integration, we need to have an effective decision-making process. The deterioration of effectiveness, documented in Figure 4, makes clubs appear as an alternative to decision-making reform. This is the limited sense in which clubs can be seen as an appropriate response to enlargement.

The creation of pioneer clubs meets serious opposition, especially in countries that are not willing to proceed faster. The argument of opponents is often couched as a rejection of an EU with two classes of member countries, but what does this really mean? A possible interpretation is that those who join the club enjoy welfare gains at the expense of those that stay out. This issue has been debated in the context of the creation of the monetary union. Neither trade theory, when applied to intra-industry trade, nor empirical evidence support the view that monetary unions necessarily create trade diversion (Alesina and Barro, 2002; Frankel and Rose, 2002). There is no reason that the same results would apply to clubs, but there is no presumption either that clubs would hurt those that choose to remain outside. The case has simply not been made. Another argument may be related to political economy considerations: it could be that "cohesion" among a sub-group of countries is achieved at the expense of cohesion among the whole set.¹² Here again, we don't know the answer. Even assuming the existence of a trade-off between partial and total cohesion, it remains unclear what is the proper policy response. Clubs may have merits, but they are likely to be the second-best response to the policy failures that prevent better decision-making procedures.

4.2. Safer Centralization: Towards a Two-Way Street for the Acquis

EU decision-making is characterized by polarization: qualified majority voting (QMV) applies to domains of shared competency, unanimity to all other domains. QMV was meant to combine effectiveness and national representation in areas where national sovereignty had been transferred to the EU, while unanimity fully preserved each country's sovereignty. The gradual loss of effectiveness of QMV when enlargements have not been accompanied by adequate reforms (Figure 4) has somewhat blurred the distinction between the two decision processes.

Indeed, if the probability of making decisions under QMV declines too far, QMV increasingly involves the kind of veto power that characterizes unanimity rules. In that sense, the lack of reform of QMV decision-making constitutes a growing risk of paralysis where the EU is competent; this is bound to undermine the whole construction. If, as argued above, this lack of reform is the manifestation of government resistance to their loss of power in spite of citizens' aspirations, it becomes very important to deal with the political failure and to better align governments' incentives with the wishes of their own citizens.

One possible way forward is to reduce the barrier between shared and national competencies in order to lower the stakes and make it easier to reform the QMV process. The current principle is that the *acquis communautaires* are permanent, even though conditions may have changed significantly. That any decision to centralize a policy domain is irreversible carries two implications. First, the decision itself is inevitably considered with considerable prudence. This then slows down integration. The justification for sheltering the *acquis* is that it prevents disintegration, a potential unravelling of previous integration steps. There is some merit to that view but there must exist a trade-off between the danger of back-sliding and the

¹² For a discussion of clubs-within-clubs, see Aggarwal and Dupont (2004).

absolute preservation of passed decisions. This is indeed the kind of consideration that explains why national constitutions are sheltered from easy reform but not frozen forever.

Another implication of the absolute sheltering of the *acquis* is the certainty that their domain is bound to expand. Faced with such a prospect, governments inevitably wish to preserve a significant degree of control. As decision-making reform grapples with the relative weights to be put on national control and on collective effectiveness, it becomes natural national control be emphasized. The sheltering of the *acquis* may be a key contributing factor to Europe's major political failure.

This suggests that it should be possible to move policy domains in both directions, from national sovereignty to shared competence and the other way around. Such a change would lower the stakes of both centralization at the EU level and of QMV voting. By making centralization safer because reversible, it could not only encourage experimentation – and thus speed up integration – but also make governments more willing to lower the hurdles in decision-making.

There are many ways to proceed. One solution would be making the street from shared and not-shared competencies fully both-ways. Unanimity rule would still prevail for any change of status. Another, more radical, solution would be to apply sunset clauses to some or all centralization decisions.

4.3. More Power to the People

A different way of dealing with governments' conflict of interest between preserving their own power and yielding to citizens' desire to speed up integration is to reduce their power. The traditional approach is to build checks and balances, in particular to vest power with the Commission whose interest is to deepen integration. This is why the Commission has been given the right to set the agenda and the task of "guarding the Treaty". The limits of this approach have been obvious for many years. Since the end of the Delors Commission, governments have been able to rely increasingly more on intergovernmentalism. The result is a pause in the integration process and difficulties in adapting EU governance to enlargement. The feeling that Europe has lost its heart is partly related to this evolution.

The draft constitution's response has been to widen the influence of the European Parliament, which is presented as closer to citizens' preferences. Irrespective of whether this is true or not, the rising influence of the European Parliament comes more at the expense of the Commission than at the expense of national governments. Overall, this evolution is likely to slow down, rather than speed up integration since the Commission is its main advocate. What are the other possibilities?

Following on the reasoning behind the draft constitution, one possibility is to enhance the European Parliament's influence relative to that of national governments. In contrast with – or in addition to – the draft constitution, which focuses on formal rights, the idea would be to emphasize legitimacy. Governments enjoy a strong degree of national legitimacy because they are democratically elected. In theory, the Parliament should also enjoy a high degree of European legitimacy and should therefore be the main source of democratic accountability in the EU. In practice, however, the fact that elections to the Parliament are conducted at the national level, and are mostly determined by domestic political issues, undermines the Parliament's legitimacy. The Parliament is also divided along both party and national lines, with the result that its own decisions are not always easily understood by the citizens, when they care. Changing the way the Parliament is elected could make a more decisive contribution than enhancing the co-decision process. The key principle here would be to make elections European-wide. This can be done in a variety of ways – see Berglöf et al. (2003) for a discussion; what matters is that the European Parliament achieve sufficient legitimacy and cohesion to act as an effective counter-power to the Council.

An alternative would be to enhance the legitimacy of the Commission. Currently, the Commission is a hybrid, combining legislative and executive powers and subject to the kind of limited democratic accountability that typically applies to bureaucracies. As Guardian of the Treaty, it is meant to be non-political and indeed it brings together Commissioners that are not jointly supported by any majority, either in the Council or in the European Parliament. Its legitimacy vis a vis the Council is therefore highly limited, which explains why governments can easily promote the role of inter-governmentalism and thus largely bypass the Commission in domains that are not shared competencies, in particular the integration process. There exist two broad ways of giving the Commission more influence through legitimacy. The first one is the parliamentary model: the Commission could be elected by the Parliament. The second one is the presidential model: the President of the Commission could be directly elected by all European citizens.¹³ In both cases, the Commission would become more explicitly politicized, which could require that it disposes of some of its technical missions, especially those that concern the enforcement of the Single Market, including competition and trade.

5. Conclusions

This paper has argued that there is no inherent trade-off between enlargement and deepening. Enlargement does not obviously dilute the union, but it requires some adjustments, mainly in the decision-making process. The Nice Treaty's failure to do so has led to the Convention of 2002-3 but the resulting draft Treaty falls way short of even modest expectations. The EU seems stuck because of its inability to deal with its very success, the integration of most of the continent.

Contrary to many assertions, the EU is not being diluted nor is it becoming looser. Today's union is considerably more structured than the old Community of Six and there is no evidence that it has become more heterogeneous. It faces three distinctive challenges.

First, the most obvious integration steps have been taken. The next potential ones are all controversial; this is precisely why they were not adopted earlier. The easy answer, to stop here and limit the EU to a Common Market, is unlikely to be sustainable. Integration breeds the need for more integration.

Second, the difficulties in adjusting the decision-making procedure reflect the traditional tension between national sovereignty and the collective interests. National governments are not well suited to deal with this problem. They face a conflict of interest between their reluctance to give up power and the need to rationalize the EU governance and the aspirations of their citizens.

Third, the increase in the range of domains subject to shared competences calls for more democratic control at the EU level. This inevitably means the emergence of a European-level legitimacy, which means autonomous sources of power that clash with the continuing predominance of the nation-state as locus of all legitimacy.

The sense that Europe has lost its heart is not borne by backsliding but by the contrast because of the dramatic progress already achieved and the difficulties of dealing with their consequences. The European way has always been to deal pragmatically and in small increments with the requirements of deeper integration. It is very unlikely that this approach can be changed. Still, bolder steps are required, pretty

¹³ For a discussion of the relative merits of the two systems, see Persson and Tabellini (2003); for an application to the EU, see Berglöf et al. (2003).



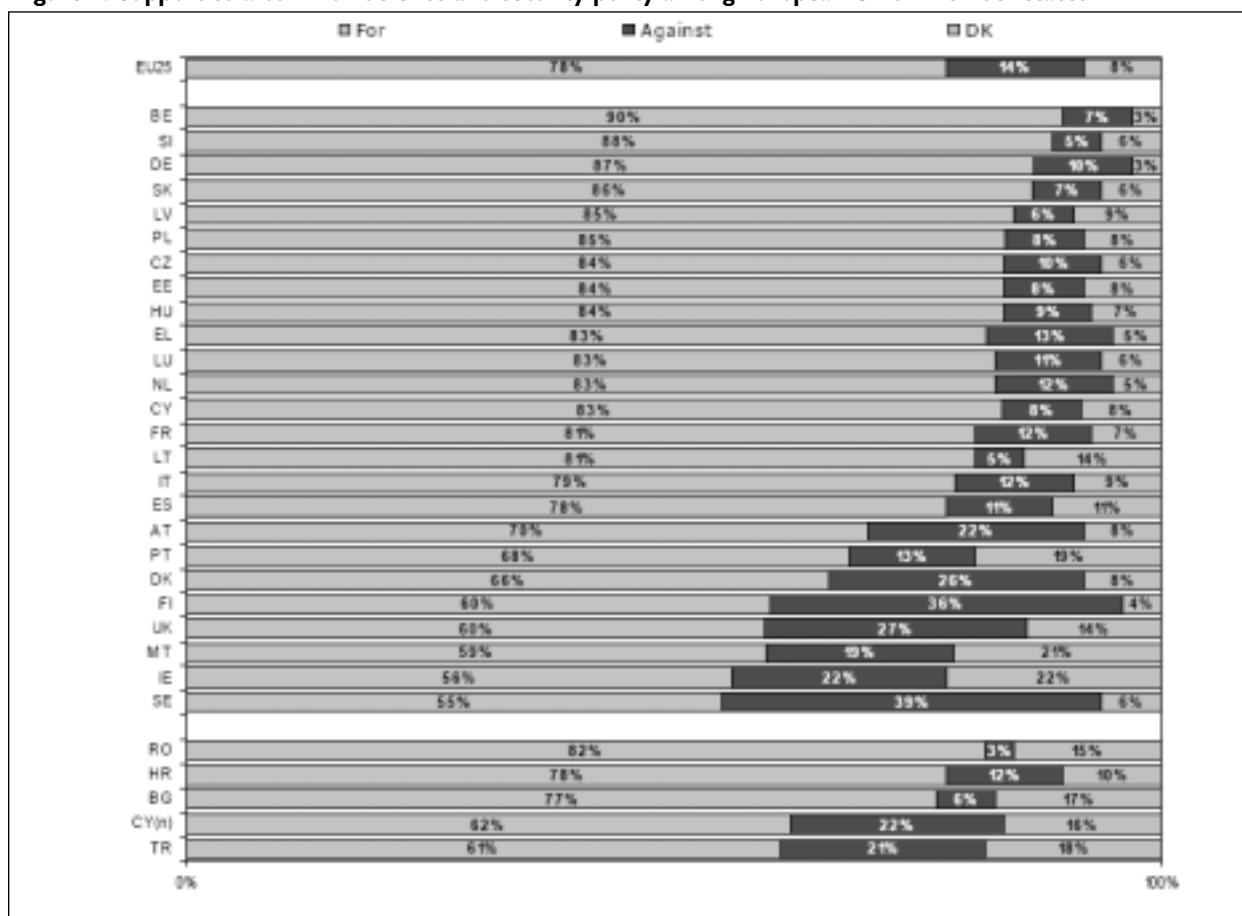
much in line with previous periods of slowdown followed by periods of acceleration. The last acceleration, the “re-launch of Europe” that characterized the 1980s, led to the adoption of the Single Act and the monetary union. The fifth enlargement of 2004 has given a false impression of acceleration, but it was widening, not deepening. A new acceleration is now required. Like the previous one, it needs to be carefully prepared.

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














Appendix. Figures

Figure I. Support to a common defence and security policy among European Union member states



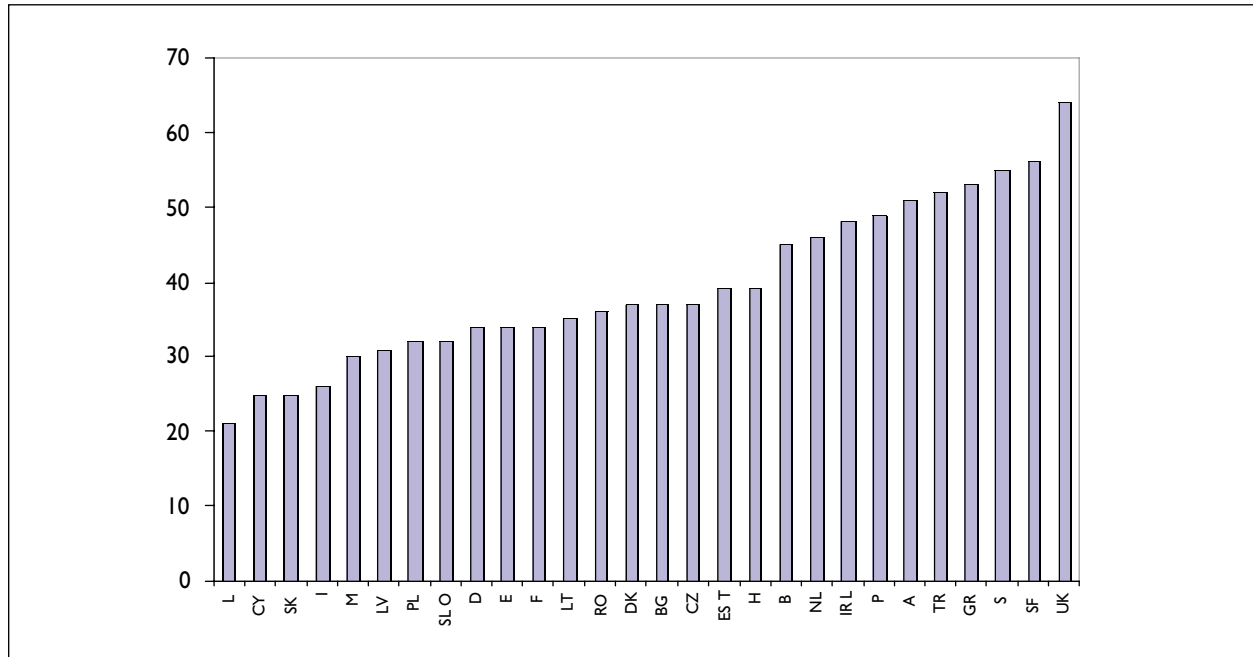
Source: Eurobarometer, December 2004

Figure 2. One common foreign policy among the member states of the European Union, towards other countries
Answers: For

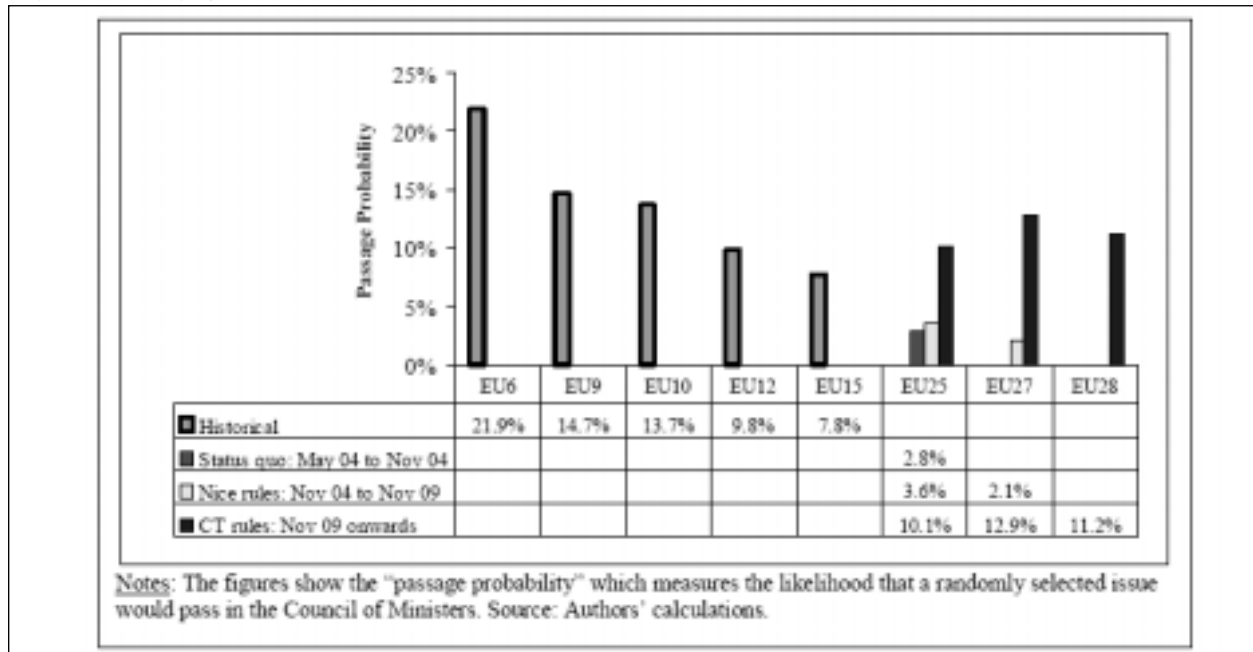
Country Results		
	Belgium	82%
	Slovenia	81%
	Germany	80%
	Greece	80%
* 	Cyprus	78%
	Poland	78%
	Slovakia	75%
	Luxembourg	74%
	Spain	73%
	Italy	72%
	The Netherlands	72%
	Austria	72%
	Latvia	71%
	Lithuania	71%
	Estonia	70%
	EU25	69%
	France	69%
	Hungary	69%
	Ireland	62%
	Finland	61%
	Denmark	60%
	Czech Republic	59%
	Portugal	58%
	Sweden	52%
	Malta	50%
	United Kingdom	47%

* Cyprus North (55%)

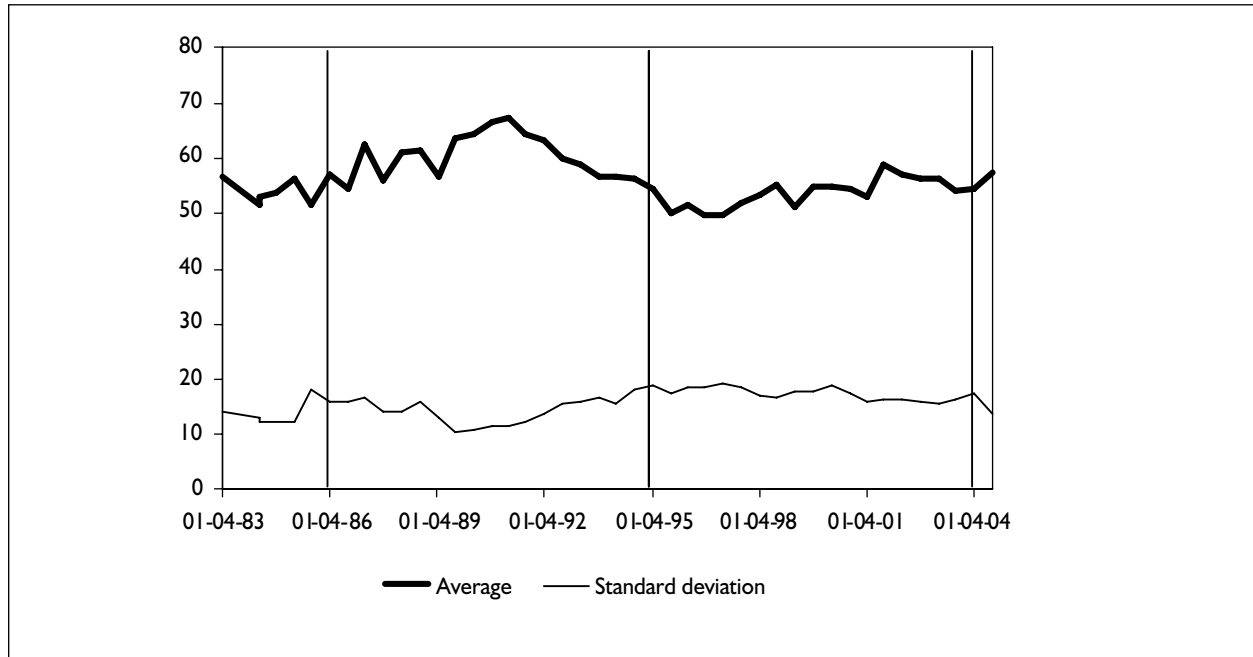
Source: Eurobarometer, December 2004

Figure 3. Percent citizens "feeling national"

Source: Eurobarometer EB59, July 2003.

Figure 4. Passage probabilities in the EU

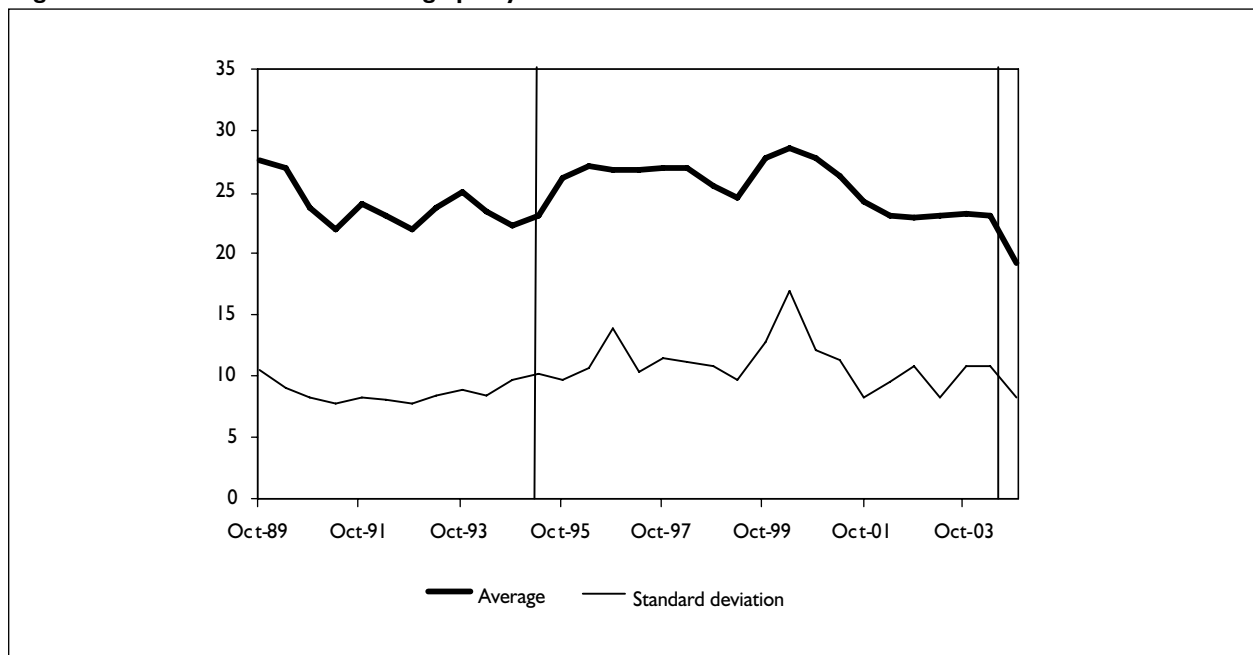
Source: Baldwin and Widgrén (2003).

Figure 5. National perceptions of benefits from EU membership

Source: Eurobarometer

Question: Taking everything into consideration, would you say that (your country) has on balance benefited or not from being a member of the European Community (Common Market)? Answer: benefited.

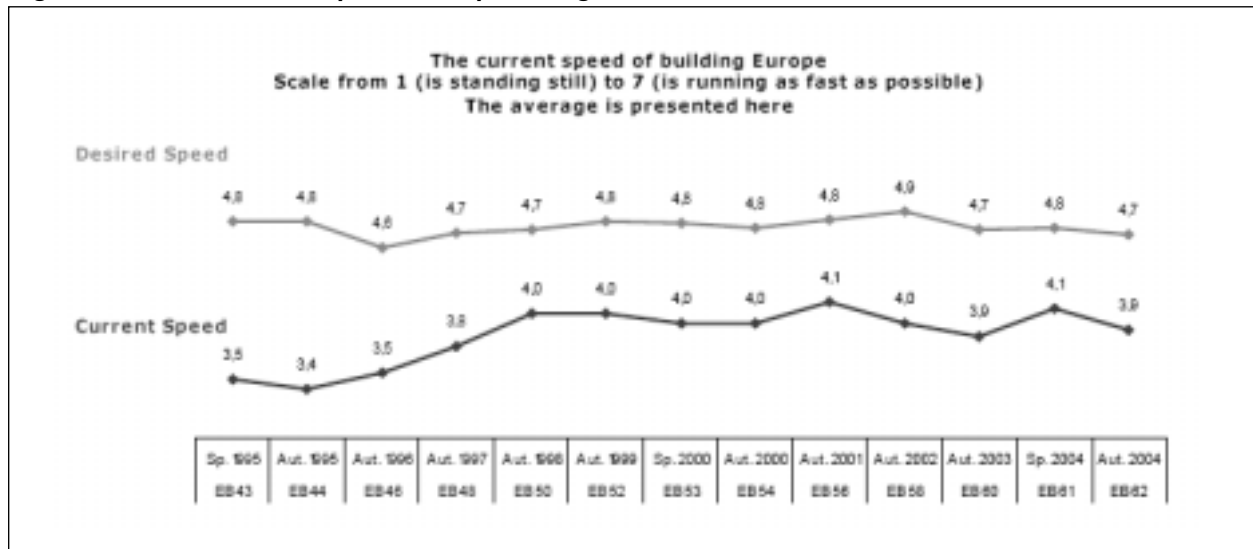
Enlargements: 1986: Portugal and Spain; 1995: Austria, Finland and Sweden; 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Figure 6. Preference for national foreign policy

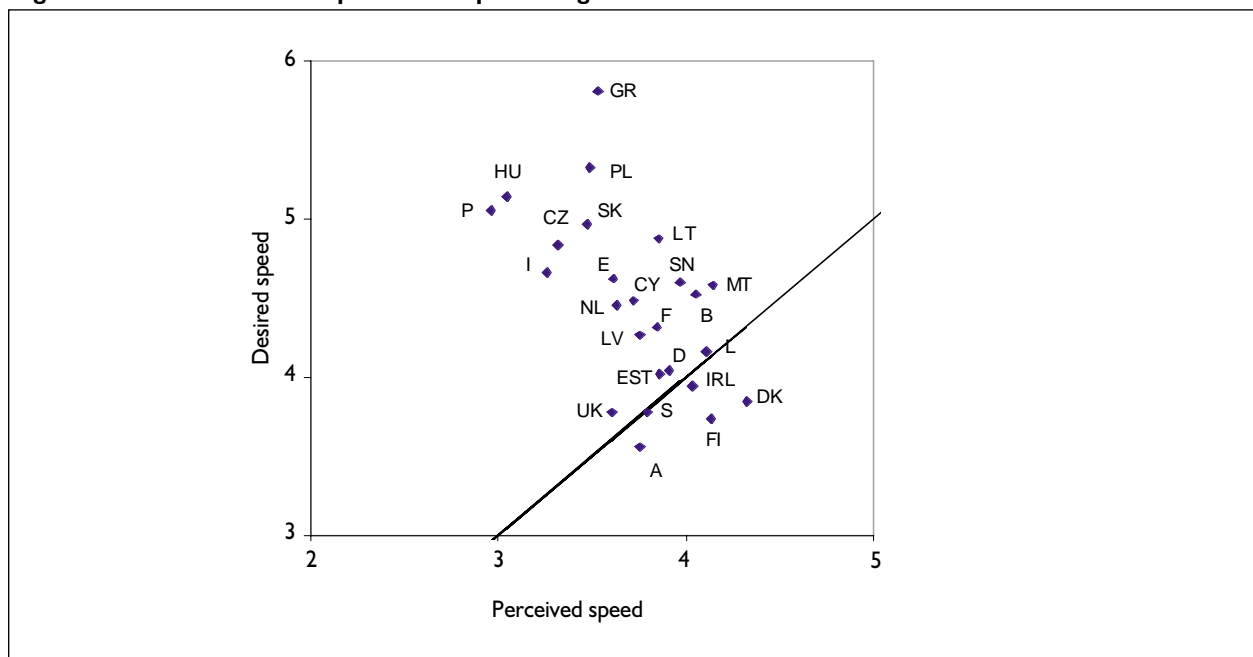
Source: Eurobarometer.

Question: Foreign policy towards countries outside the European Union should be decided by the (NATIONAL) government/mainly at national level. Answer: yes.

Enlargements: see Figure 4.

Figure 7. Actual and desired speed of European integration

Source: Eurobarometer 62, January 2005

Figure 8. Actual and desired speed of European integration

Source: Eurobarometer 62, January 2005

Note: for definition of scales, see Figure 8.