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European Integration Under Pressure

Economic troughs are not a good time for economic integration. Any initiative for more integration in goods and capital markets by reducing tariffs and, more importantly, non-tariff barriers to trade, not to speak of allowing more migration, is futile at a time when countries feel economic pressure. Consequently, Germany's enthusiasm for European integration has been more than muted recently. Given the dire straits in which the German economy finds itself, Chancellor Schröder has distinguished himself as a very outspoken opponent of attempts by Brussels to bring more of the common market to Germany. (It should not be forgotten that Germany is among those bringing up the rear not only in terms of economic growth but also in terms of implementing European law and directives.)

Most recently, governments have resisted the informal proposals made by Pedro Solbes, responsible for monetary and economic affairs in the European Commission. Despite sharp and immediate rejection by European ministries of finance, his ideas have been picked up by the Commission's President Romano Prodi. The main substance of the proposals is to give the Commission a "proposal right" concerning economic policy which should replace its "recommendation right" and give the Commission more teeth. The proposals of the Commission could then only be stopped by the Council of Ministers with a unanimous vote. This would ensure that most Commission proposals go through and that it would hence become more difficult, for instance, to stop future official warnings concerning the fiscal stance of member states. Europe's ministers of finance, among others, have not been amused by this suggestion. A second part of the Solbes-Prodi idea is that the Eurozone (all countries that are members of EMU, thus excluding four states) should form an informal body with decision making power. Not surprisingly, this part has found no support with the four non-members of EMU. Maybe worst of all for governments, Prodi has suggested that the President of the Commission should be voted into office by the European Parliament and no longer be picked by the heads of state. That is clearly too much democracy for the taste of European governments. It is very unlikely therefore that these proposals will be implemented.

One of the current problems in Europe is that there are at least two, not mutually exclusive, positions concerning the future of Europe. One camp is the populist "back to the nation state" group which wants to shift most political power back to national capitals. These are mainly those countries that do not like what is coming their way from Brussels because it constrains their good old favoured "national policy at discretion". The current champions in this group are Germany (competition policy), Spain (fishing industry), Italy (justice and home affairs) and France (neglecting the Growth and Stability Pact altogether). The other group of countries does not like what is coming from Brussels any better. They instead would like to shift power in some carefully selected areas to Brussels in such a way that they can influence decisions taken there. One example here is France and its long-standing interest in gaining influence on the European Central Bank's monetary policy. Even while the strategies of these two groups may be different, the goal is the same: make sure that nothing comes from "Europe" that would compromise your powers of discretion and which could in the slightest way be inconvenient.

Regardless of whether the proposals by Solbes and Prodi make sense or not, for the judgement of which more details would be needed, the underlying philosophy is right. The infamous row over the Growth and Stability Pact has demonstrated that national governments take too much influence and that the Pact has no bite. If fiscal restraint is meant to be taken seriously, an organ is needed that could proceed with measures laid down in

the Pact without the risk of being stopped by national governments. In this respect, the Solbes-Prodi way is probably the right one. In more and more policy areas the Council of Ministers is moving towards the simple majority principle and in many other policy fields the Commission has this "proposal right" already. Why not grant these rights to the Commission in economic affairs as well?

To avoid confusion, it has to be pointed out that the Solbes-Prodi proposals are not comparable with proposals to create an "economic government for Europe". The idea of the Commission is *not* to create a political body, preferably comprised of ministers of member states, that tells the European Central Bank how to run its business. That notion is rightly rejected by most member states (including Germany). The idea is instead to make Europe more effective and to "enhance the policy coordination framework" (Solbes) by strengthening surveillance and the efficiency of decision making. It should help to make progress with economic reforms in sensitive (meaning vote sensitive) areas where much too little progress is made. Germany in particular is slow in implementing labour market reforms, while others hesitate in issues of capital taxation.

Granted, some areas are better suited for harmonisation than others. But a proposal right for the Commission does not mean that it will harmonise without restrictions; this would easily be blocked by unanimous vote. In such cases, one can trust, there would be consensus not to do this. The Commission, being aware of this, would not even propose anything along these lines. What it could achieve, however, is that more national egoisms are stopped and that more of the well-formulated policy objectives of the Broad Economic Guidelines (BEG) are better executed and implemented in member states. After all, it was in the context of the BEG that Solbes presented his proposals. They were, without doubt, also inspired by the experiences the Commission had made with Germany and the warning concerning its fiscal stance, which obviously inspired Jacques Chirac's promise to simply neglect the Pact in France. The repetition of such an experience should be avoided and Solbes' proposal is one way to ensure this. In fields such as fiscal and competition policy more power for the Commission would be welcome. Pushing back governments' influence here is pivotal. There is no doubt that some control mechanisms in Europe do not work as well as they could. This is not surprising if the institutions with responsibility for this surveillance can too easily be stopped, and if governments can too easily avoid unwelcome messages. It is in this respect that the Solbes-Prodi proposals should be welcome.

It is to be expected but most unfortunate that these proposals will not be taken up and discussed without prejudice. The proposals should be worked out in detail and then governments should discuss them in their own right. Instead, it has become a sport in Europe – and this applies to parties of all colours – to attack Brussels. Decentralisation and more power for the nation (or the region) is the mantra that comes from all sides. While this is certainly right for some policy areas, it is equally wrong for others. A serious debate about power sharing and allocation is needed to find the most efficient decision making and surveillance mechanism for Europe. It is more than needed in view of the upcoming enlargement of the European Union. How enlargement could work otherwise is difficult to see.

The outright rejection of the Solbes-Prodi proposals would be a chance missed. One could only hope that similar proposals, should they be made, by the Convention would not be as easily and quickly dismissed. Since the Convention is staffed by the national governments, however, similar ideas should not be expected. Are European governments afraid of democracy?

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