



A certain idea of Europe: Can European
integration survive eastern enlargement?

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Abstract

This working paper is based on the 2007 Sussex University Lecture in London that was given by Professor Alan Mayhew from SEI, on 14 March. The lecture itself was held at One Birdcage Walk in Westminster and was attended by more than 150 guests, including VIPs, members of Council and Court, alumni and friends of the University. Prof. Mayhew is an economist specialising in problems of economic transition and integration in central and eastern Europe as well as economic policy and budgetary issues in the European Union (EU). The lecture asked, 'Can European integration survive eastern enlargement?'

Since the fall of the Berlin Wall, the EU has more than doubled in size; two more countries are negotiating for accession and a further four in the western Balkans have been promised membership in the future. And that still leaves Ukraine and others in eastern Europe waiting to join. This paper analyses the extent to which the EU has followed a consistent policy towards the east and how that policy has evolved over the last decade and a half. It then questions whether we have now reached a turning point in EU openness, with the debate about the Union's absorption capacity emerging at a time when the Union might be in sight of its goal of reuniting Europe.

The paper then analyses the impact of past enlargement on the Union and notably of the last enlargement, which brought the countries of central and eastern Europe into the Union. The overwhelmingly positive impact on both the old and the new member states of the Union contrasts with the current lack of public or elitist support for further enlargement.

The reasons for this are explained, important amongst which is the poor economic performance of key old Member States, leading to high unemployment and a feeling of economic insecurity amongst the public. For the elites the institutional challenges are also a major problem. Policies are needed which tackle these problems and possible reforms to institutions are outlined which would maintain efficiency in decision-making and help those affected by globalisation to retrain and find new employment in expanding sectors.

A certain idea of Europe: Can European integration survive eastern enlargement?

The University of Sussex Lecture

London, March 14th. 2007

Professor Alan Mayhew

Sussex European Institute, University of Sussex

Like the University of Sussex, the European Union is also approaching fifty. Like Sussex University, it too has been a great success. Its numerous triumphs include the development of the world's largest internal market, the creation of a functioning monetary union and the construction of a system of governance, which while sometimes appearing to teeter on the brink of disaster, successfully coordinates the work of 27 increasingly different member states.

But these triumphs are overshadowed by its greatest achievement – creating an area of peace and stability in Europe in which the fundamental values of democracy, human rights and the rule of law are upheld to the point that they are considered automatic.

Today we can hardly imagine that Greece, Portugal and Spain passed through dictatorships before joining the Union. These states are now so absolutely normally European that we have forgotten that they were rather different just thirty or forty years ago.

But it is the enlargement of the European Union to Central and Eastern Europe which is the most obvious jewel in this achievement. That the peoples themselves in these countries overcame the totalitarian regimes behind the Iron Curtain to join the mainstream of European development is certainly one of the greatest achievements of the second half of the twentieth century. Today these new member states are all functioning democracies and successful economies.

But the job is not done. Those far-sighted European leaders who signed the Treaty of Rome fifty years ago wrote in the preamble to the Treaty that they were

“resolved by ... pooling their resources to preserve peace and liberty”, and they called “upon the other peoples of Europe who share their ideal to join in their efforts”

The obvious success of the European Union means that there is still a long waiting list of countries which want to join. The list begins with Croatia, Turkey and Macedonia, all of them recognised as ‘candidate countries’ by the Union. The EU has also promised full membership to Serbia, Montenegro, Albania, Bosnia-Herzegovina and Kosovo, when its status has been finally decided. In the east, Ukraine and Moldova cling to the idea of eventual membership, and they may one day be joined by Belarus. Of the Caucasus Republics, both Georgia and Armenia have expressed interest in the Union. It will take many years, and perhaps two decades for some, to meet the conditions for membership but preparing for accession also gives a stability which might otherwise not be present.

Finally of course we have the rich nations of Europe, Norway, Switzerland and Iceland, which in many ways are quite deeply integrated with the Union already and may some day ask to join.

Yet just at the moment when the ultimate dream of reuniting Europe appears to be within our grasp, the Union itself seems to be turning its back on future enlargement.

We see this when we read our newspapers, we hear it often when we listen to our politicians. And even a superficial review of the Presidency Conclusions of European Council meetings over the last few years leaves one with a clear feeling the Union is becoming less confident about future enlargement.

I would like to explore why this is the case, why it is fundamentally wrong and what can be done about it.

European integration has always been an elite project. Today the construction has become so complex that even many involved deeply with the project are no longer able to explain all the governance rules of the European Union. The elites in Brussels and in the governments of the Member States, still fundamentally control the

development of the Union. Until recently these elites could govern with little reference to the Union's citizens.

Citizens of the Union have always supported European integration because it was identified with peace, security and prosperity in Europe. The level of knowledge of the functioning of the Union has however always been very low even in the six founding states. Information for many years was difficult to obtain and though today we have large amounts of information it is often in a form which makes reading a chore. Citizens in general still look to their national parliaments as the seat of political authority; hardly any of them can name their MEPs and ever fewer are bothering to turn out to vote at European elections.

What seems to have changed recently is that citizens have become aware of the significance of Brussels in their lives and that their elected national politicians have little control over EU business. The referenda in the Netherlands and France on the European Constitution gave the citizens of those countries the chance to make a clear statement of concern. I am convinced that this change in public attitudes is fundamental not only to the future of enlargement but to the future development of the Union itself.

This change has been recognised by the political elites in the Member States, a few of which have tried to turn to their own advantage what they see as a rejection of further enlargement, and perhaps of European integration itself, by taking nationalist positions on a wide range of subjects from sovereignty to national champions.

I would like to analyse the question of the future of enlargement on the basis of the objectives of both the elites and of the citizens, as they are by no means identical.

Elites have been debating the compatibility of 'deepening and widening' for much of the last fifty years – General de Gaulle was not in favour of widening if it included Britain, though he was not too keen on the deepening proposed by Hallstein either as the Luxembourg Compromise testifies. But the subject became particularly acute with the imminent accession of the EFTA states in the mid-nineties and then again,

and more particularly so, with that of the Central and East European states in the early part of this decade.

Let me recap a little of the history of the nineteen-nineties.

When political change came to Poland and Hungary in Spring and Summer 1989 and the wall fell in Berlin in November of the same year, the political leadership of the European Union was taken by surprise. The Union was still consumed by the programme to complete the internal market, which was the one great political objective after 1985. Indeed some of Europe's politicians regretted the passing of the Iron Curtain, which had allowed them peacefully to pursue their policies of deepening integration in the Union. Even perhaps the most enlightened foreign minister in the Union, Douglas Hurd, looking back in December 1989, is quoted as having said that Europe divided by the Iron Curtain was a system "under which we have lived quite happily for forty years".

The defeat of Communism was of course welcomed by most of the Union's political leaders; many giving jubilant speeches. However not many of them thought beyond the immediate triumph over Communism. The new leaders in the east however had concluded early on that accession to the European Union was an essential part of anchoring democratic and market economy reforms in their countries. Pressure on the Union mounted therefore with urgent requests, in the face of instability in Russia, for the negotiation of Association Agreements. The first Solidarity Prime Minister in Poland, Tadeusz Mazowiecki, insisted on the need for a strong contractual relationship with the Union in his contacts with Jacques Delors, and his successor, Jan-Krzysztof Bielecki, created an Office for European Integration in the Polish Government already in January 1991, with the aim of preparing Polish accession to the Union.

By this time the 'deepening' agenda had grown from the completion of the internal market to include monetary union and institutional change. The end of Communist rule split the elites between those who considered that enlargement would slow down further integration in the Union and those who gave priority to extending the area of peace and stability in Europe. This divergence of opinion affected the European

Commission at the time as well as many administrations in the Member States. The European Economic Area Agreement was devised partly to avoid an enlargement to the EFTA members and a variety of proposals was made to ensure that the integration of the new democracies in central and eastern Europe would not lead to their early accession.

One might have expected the German Government to have taken the lead in handling relations with the new democracies and moving integration forward, but it was overwhelmed by the intensity of the work required for German reunification. Once the first strains of reunification were over, Germany decisively moved to support both processes. And with hindsight, we know that both deepening and widening continued in parallel.

The same arguments amongst the elites continue today with 27 member states. In June 2006, the European Commission was asked by the European Council to evaluate the 'absorption capacity' of the Union in relation to future enlargement. In a very diplomatic answer, the Commission left the door open to new accessions but suggested ways of tightening conditionality still further to make accession that little bit more difficult. France, with one of the least enthusiastic elites in the Union, has been leading opposition to further enlargement and has gone so far as to require referenda to be held in France before accession treaties can be ratified. And only recently on the margins of the European Council meeting, it was again widening and deepening which was one of the main disputes over the contents of the declaration on the occasion of the fiftieth anniversary of the Treaty of Rome.

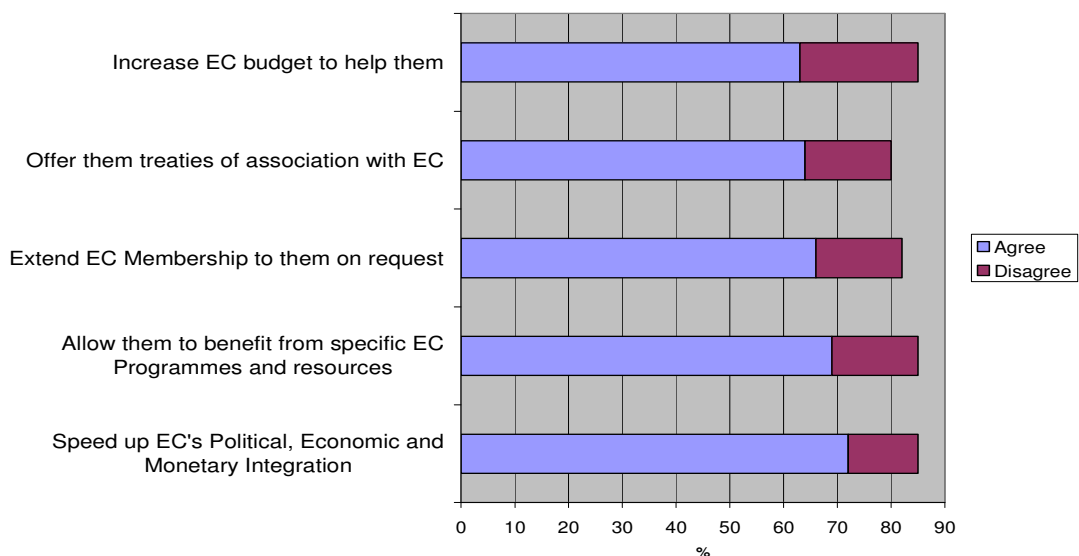
Beyond these **fundamental policy issues**, the **institutional questions** related to the future of the Union are also of great importance to the elites.

As the number of member states increases, so obviously does the level of diversity. Diversity of interest probably will complicate the policy process because the aims of member states will be different and perhaps even irreconcilable. This will put a strain on decision-making in the Union, especially in areas which require unanimity.

In the view of some Member States further enlargement can not be considered until decisions have been implemented which reform the institutions. It is of course the complex reactions to a possible accession of Turkey which explain both elite and popular behaviour. It is certainly true that under current institutional arrangements the arrival of Turkey would put a certain strain on the Union's institutions and policies. There is however also no doubt that the accession of Turkey, having met the strict conditions set by the Union, would be a major benefit to the Union.

As far as the public is concerned, the initial scepticism of the elites about enlargement does not seem to have been shared. According to the Eurobarometer poll at the end of 1990 only 15% of those questioned did not agree with extending EC Membership to the new democracies in central and eastern Europe. In 1990 however the public knew little about the countries which had been hidden behind the Iron Curtain and had very little information about the impact of enlargement on the European Union. Nevertheless even with increased levels of information and knowledge, support held up quite well throughout the nineteen-nineties in spite of the public gradually becoming more aware of the consequences of enlargement.

EC Citizens' Support for C. and E. Europeans

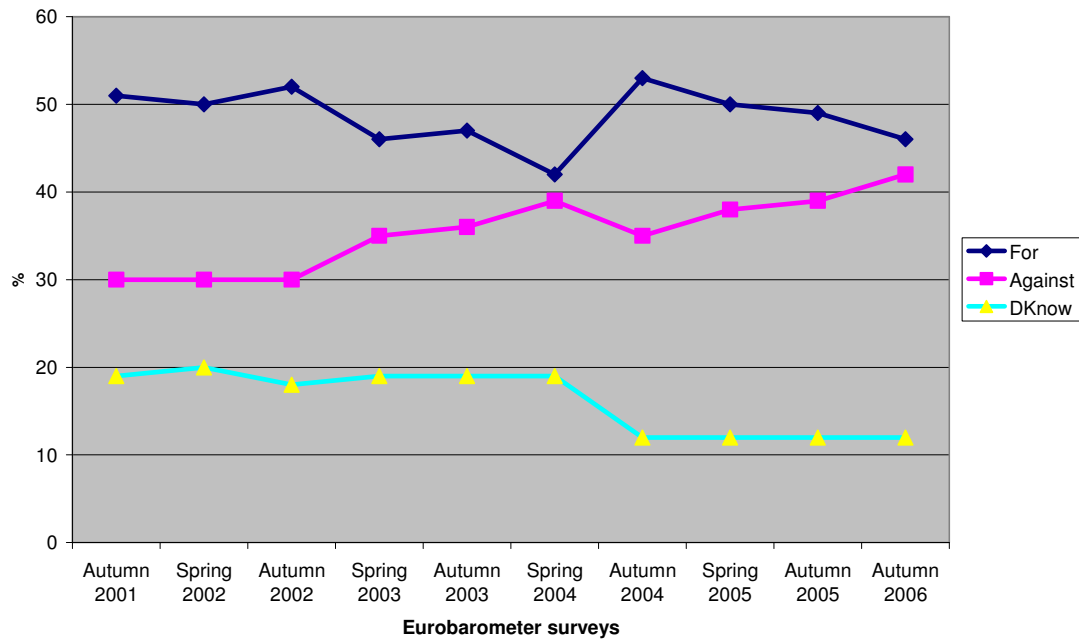


Eurobarometer 1990

This support appears however to have fallen away after 2001. According to the results of Eurobarometer, the decline in the old member states was continuous through until today. High levels of support for enlargement in the new member states after May 2004 raised the level in the EU-25 of course, but there has been a steady fall since then. Today those in favour of further enlargement have only a narrow lead over those who are against, and opposition is strongest in the old member states and notably in Germany, France and the United Kingdom.

It is difficult to say with complete confidence why this decline in support for enlargement has taken place. It would seem that for some people immigration is equated with EU enlargement and that they fear changes in their way of life caused by large numbers of immigrants arriving in their societies – what is called in German *Überfremdung*. But economic arguments are certainly very important. EU enlargement is considered part of globalisation, which is perceived as destroying jobs in the EU, creating high levels of unemployment and reducing wages. Economic reasons were clearly at work in the French referendum on the Constitution, where it was the regions with the highest level of unemployment which voted ‘No’. We of course do not know how much of the opposition to the draft Constitution was a result of opposition to enlargement. Fear of the budgetary costs of enlargement, however, is unlikely to have played an important part in public thinking, as there is no direct link between the EU budget and taxation.

Support for enlargement



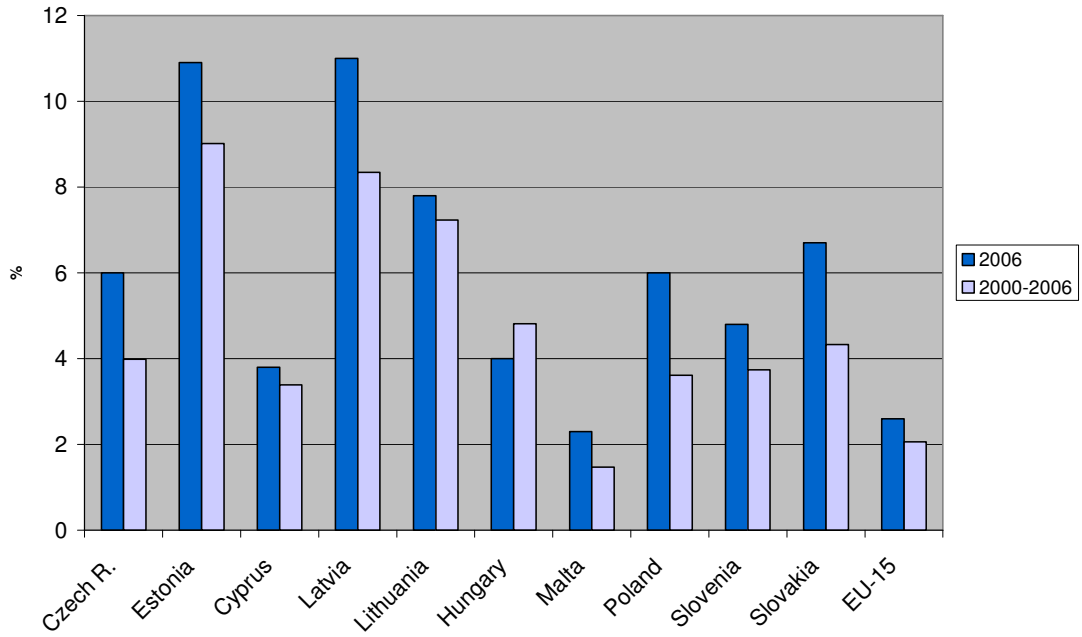
Source: Eurobarometer

This recent decline in support for enlargement may of course be linked to the **results of the fifth enlargement** with central and eastern European countries, so I will look briefly to see if there are any impacts of that enlargement which could explain the decline in its popularity.

Theoretically we would expect any enlargement to be good for the EU economy. Bringing countries relatively rich in skilled labour but poor in capital together with the EU-15 where factor endowments are rather the reverse should lead to an increase in the productivity of both labour and capital, assuming that these factors can move freely. Indeed we see that just this has happened, although the restrictions placed on the free movement of labour in the accession negotiations by most of the EU-15 countries has meant that migration has been concentrated on those member states which opened their labour markets – notably the United Kingdom and Ireland.

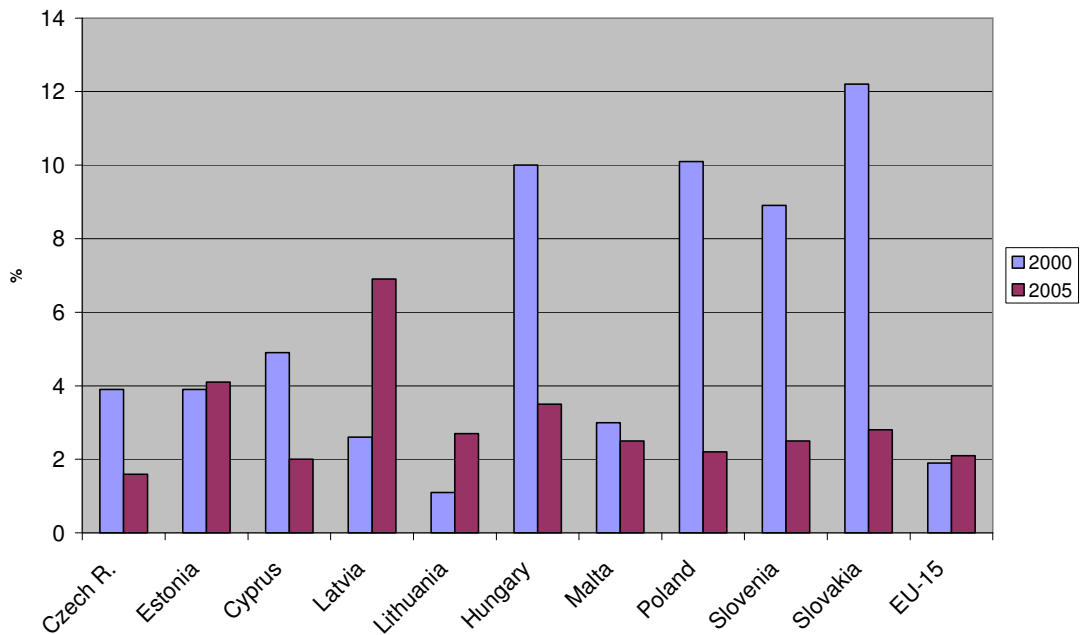
The new Member States have all grown rapidly since accession, with a considerable inflow of capital from abroad, mainly, but by no means exclusively, from the Union. From 2004-2007 the average annual real economic growth rate of the ten new member states has been around 5% with extremely high rates of growth in the Baltic countries of between 8% and 9%. As a result in many of these countries unemployment has come down from high levels. These economies have also shown growing macro-economic stability, in spite of some difficult fiscal problems facing one or two of them today. Slovenia has met the Maastricht criteria and entered the Eurozone while Slovakia is hoping to join in 2009. So the process of catching up the EU-15 is well underway.

Real GDP Growth 2006 and 2000-2006



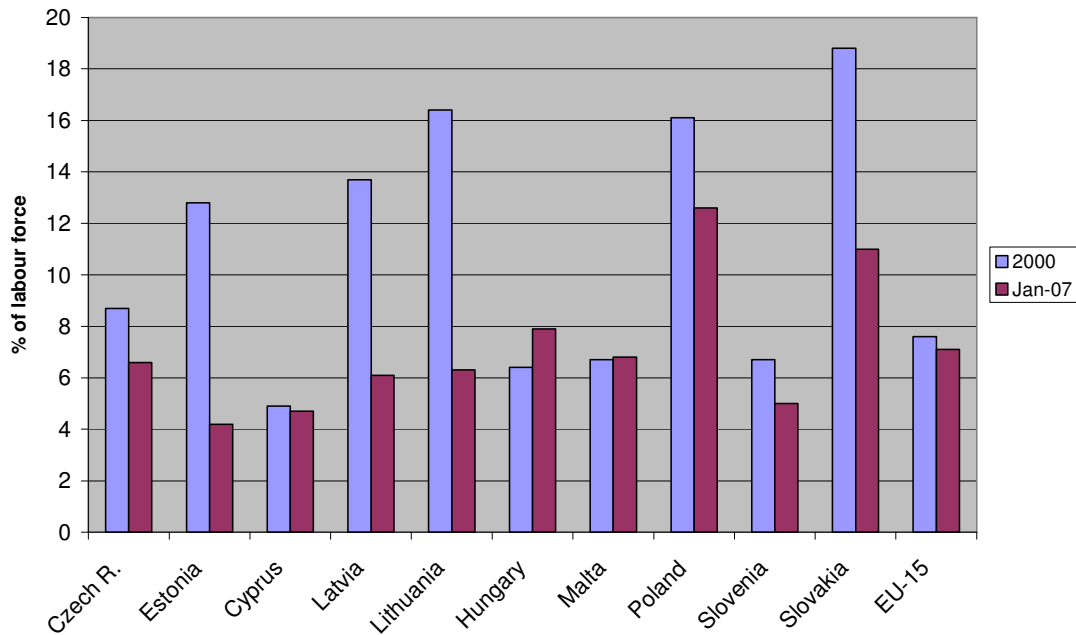
Source: Eurostat

Annual Consumer Price Inflation



Source: Eurostat

Unemployment 2000 and latest (Jan. 2007)



Source: Eurostat

There is also plenty of evidence that the EU-15 countries have been gainers from the integration process. Trade has expanded between the EU-15 and the new member states and the old member states still have a considerable trade surplus, as would be expected. Many west European companies have shifted labour intensive parts of their production to the new member states, allowing them to control costs and to compete globally. While the newspapers have highlighted a few cases of complete production lines being shifted eastwards, a sober look at the statistics shows that this has had only a very marginal effect on employment in the EU-15. In 2005 intra-EU-25 foreign direct investment flows amounted to EUR 340 billion. Of this only EUR 22 billion went from the EU-15 to the new member states, just 6%. Those countries which opened their labour markets to workers from the new member states have not suffered any negative effect on unemployment and have profited from the new labour input and from its benign impact on inflation.

The real bonus for Europe as a whole of course has been the extension of the Union's values into central and eastern Europe, augmenting political stability in what might have become an unstable region on the Union's doorstep.

The main negative impact could be the wage effect in the low wage sector in those countries which have opened their labour markets to workers from the new member states. Without the migration which followed enlargement, wages in this sector would probably have risen slightly faster, leading of course to somewhat higher inflation. On the other hand recent research suggests that the wages and salaries of middle and high-earners have risen faster than they would have done without migration.

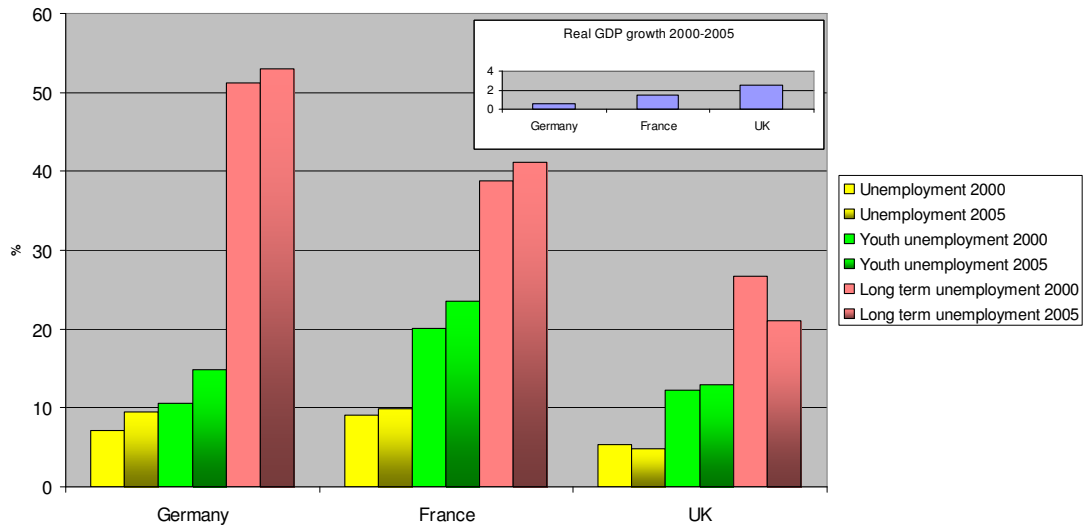
Naturally as with all structural change, some people have suffered from the movement of capacity from the old member states to the new. There have been several celebrated cases shown widely on television. These negative stories affect public appreciation of enlargement, even though they give a completely false view of the global impact of enlargement on the Union.

Objectively then the fifth enlargement of the Union has had a positive impact on the economic situation of member states, new and old.

The decline in popular support for enlargement must therefore be explained either by irrationality or by a confusion of causes and effects. I assume the latter to be the case.

The fifth enlargement coincided with a downturn in the European economy, which had nothing to do with enlargement, and which led to higher unemployment in the core states of the Union and notably in Germany and France. Unemployment rose in Germany from 7.2% in 2000 to 9.5% in 2005. Equivalent figures for France were 9.1% and 9.9%. Youth unemployment also rose sharply in both countries. Economic growth in the two countries over the same period was respectively 0.25% per year and 1.5%. It also coincided with the realisation that the globalisation of economic activity would mean considerable changes in economic structures and in the continental-European version of the European Social Model.

Unemployment 2000-2005



Source: Eurostat

The worryingly slow pace at which Member State economies were adjusting to change led the Union to adopt the Lisbon Agenda in 2000, the aim of which was to encourage structural adjustment in the light of the growing speed of economic globalisation. Governments in general however were slow to take the necessary measures and the Kok report on the first five years of the Lisbon Agenda gave a dismal assessment of progress.

High unemployment, less job security and a squeeze on public budgets at national, regional and local levels has led to considerable public resentment. In many cases this resentment has been turned by national politicians against enlargement and indeed against the idea of European integration itself.

The problem for politicians is that the changes which are required by the Lisbon Agenda imply a break with the traditions of social protection which have grown up since the last war. Some politicians have faced down opposition in order to push through reform, though at the risk of political disaster.

Germany is a case in point where Chancellor Schröder introduced reforms in the social security system, which cost him dearly in the following election. These reforms were underpinned by the private sector, which, using rather tough measures ensured that German unit labour costs remained stable. The result is stronger economic growth and falling levels of unemployment and rising employment.

In other countries Governments have hardly started to tackle the necessary reforms. Some of them have begun to look to protectionism as a way of avoiding reforms and in France the Presidential candidates are both blaming some of their country's troubles on the last enlargement and globalisation in general.

In a recent speech in Strasbourg Nicolas Sarkozy, with impeccable logic, said:

"I believe in free trade but in free trade that is controlled, regulated, where the state intervenes to compensate against social and ecological dumping."

He went on:

"I want a Europe where no country can practice social dumping. I want a Europe where European financial transfers cannot serve to finance fiscal dumping which hurts other Member States".

This was an obvious attack on the tax regimes in the new Member States and a threat to their financial transfers from the Structural Funds of the Union.

It is true that this may be electioneering and an attempt to match the protectionist speeches of the Socialist candidate, but it mirrors some of the political messages coming out of other member states and indeed out of the United States itself.

But we know that protectionism will only make our problems worse. We have been good at enjoying the fruits of globalisation, but we must also face the challenges it poses, not through a hopeless protectionist policy but through structural change.

I am convinced that the main cause of popular opposition to enlargement comes from the supposed link with poor economic outcomes and high unemployment and the fact that, though change is necessary, citizens do not like it and little is done to help them understand why it is necessary.

If we want to reunite the Continent, then we must propose practical and effective remedies for the perceived problems of both the elites and the citizens

Tackling the problems of the impacts of increasing diversity on institutions and policies will not be easy. I am sure it will also require changes which will offend some of the purists in the Brussels elite. However we should remember that even in a highly integrated federal country like the United States of America, there are major differences in policy and law between the States. There are also quite significant differences in local tax rates. One argument for uniformity in the Union is of course that it is needed because the Union is so diverse but I am afraid that this is a little difficult to believe.

We are already beginning to see a watering down of the monopoly of the Community method of governance, in which the European Commission proposes, the Council and the Parliament decide and the European Court of Justice rules on legality. In a more diverse Union, we will also have more flexible systems in the policy process.

The Eurozone is already an example of flexible integration, but it is a very special example of course. It is interesting to see the Eurozone begin to develop into a Union within the Union. There are already several examples of decisions taken at the Eurozone meeting, which precedes ECOFIN meetings, and which were then forced through the ECOFIN Council itself. It is quite probable that this Eurozone coordination will spread outside the purely financial area to influence other policies in other Councils. The growing influence of the Eurozone group of countries is one of the reasons which is attracting several of the new Member States to apply to join the Monetary Union.

I also expect that we will see the Amsterdam rules on “enhanced cooperation”, as amended by the Nice Treaty, being tested at some time in the future. With greater diversity, there is a far greater probability that groups of countries will wish to forge ahead in certain policy areas, in which other Member States will not be interested.

Finally inter-governmental agreements totally outside the Treaties but between EU Member States may proliferate. The two examples to date, the Treaties of Schengen and Prüm, suggest that this may well be a way of innovating in certain policy areas where it is impossible to get agreement within the Treaties either according to the Community method or the rules on enhanced cooperation. These agreements, like Schengen, may later be written into EU law.

This increased flexibility would put an end to the Commission’s monopoly of initiative but then in fact this has already happened. The European Council, and the Parliament today often effectively tell the Commission to draw up draft legislation in areas of importance to them, reducing the Commission’s role to that of a civil service. If the first part of the draft Constitution were ever to be agreed, it would also become possible for one million citizens to ask the Commission to draft legislation.

The dangers of increased flexibility to the very existence of the Union are however not negligible. Certain policies would have to remain unaffected by the proliferation of enhanced cooperation. The Nice Treaty already lists several of them in article 43. That the internal market should not be affected by enhanced cooperation is obvious, as is the case with the other common policies which are the exclusive competence of the Union, such as the Common Commercial Policy. Flexible integration arrangements could also not conflict with the rest of the *acquis communautaire*. It will also pose a major problem of management for the Council, the Commission and for the European Court of Justice, which will have to police an increasingly complex Union legal construction. But this is a price worth paying for a more inclusive European Union.

Reforms to the Union institutions and their procedures will also be necessary to maintain efficiency and effectiveness as the number of Member States increases. The question is whether the measures proposed in the first part of the draft Constitution will be sufficient or whether even more dramatic changes are needed. These are vital issues because the Union is not just a talking-shop but a set of institutions in which decisions of great importance to all Member States are taken. It must therefore remain efficient and effective as a regulatory machine and a policy initiator.

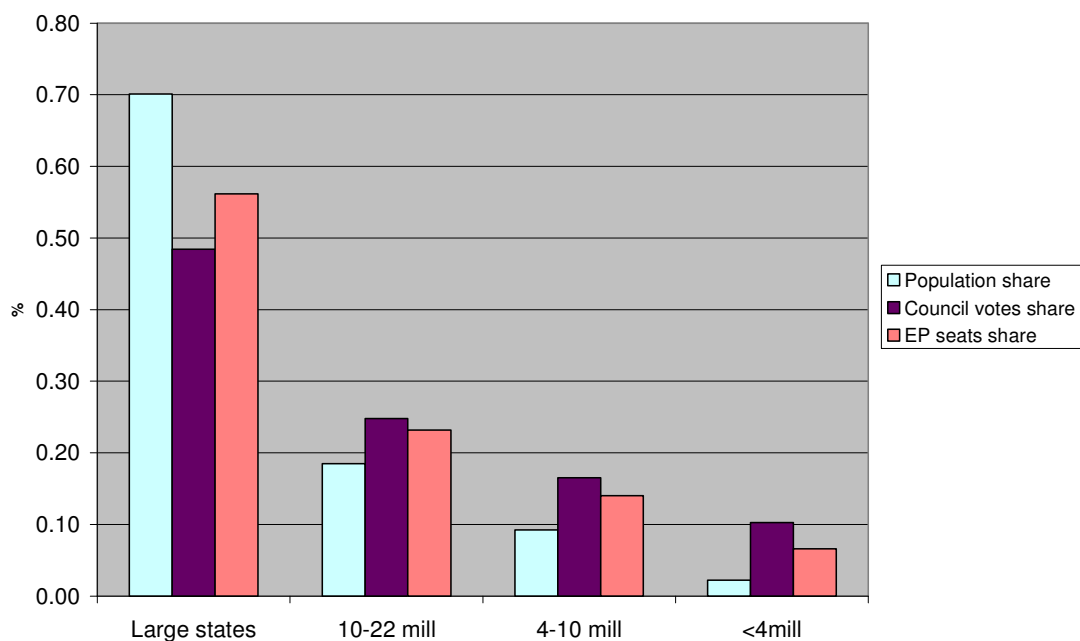
It is really too early to say whether the enlargement from 15 to 25 Member States has had any fundamental effect either on the overall efficiency of decision-making or on the more qualitative characteristics of procedures and behaviour in the Council of Ministers. In a recent paper, Hagemann and deClerck-Sachsse show that while first indications are that the institutions are still working effectively and efficiently, there have been subtle changes in the way business is conducted and regulation which is passed may be less ambitious.¹ Consensus still appears to reign in the Council but there has been an increase in the number of formal statements appended to legislation, which in fact detail the opposition of the Member State to the proposed measure. Debate has become more formal replacing the club-like atmosphere which has always prevailed, though this was already a complaint when the Union expanded from six to nine! Meetings have also become longer. In these circumstances the roles of the Commission and the Council Secretariat have tended to grow.

The fact that over the last two years decision-making in the Union has not become drastically more complicated and difficult, yet the climate in the Council has changed towards more formality, may point to gains in efficiency in procedures. As the number of delegations round the table increases, so it becomes necessary to organise meetings better; more prior-consultation, positions laid out in written form available to other delegations, stricter chairing of discussions may all improve efficiency and work in the opposite direction to the increase in the number of Member States. The club-atmosphere is lost but the Council continues to operate quite effectively with more members.

¹ Hagemann S. and De Clerck-Sachsse J, Old Rules, New Game: Decision-Making in the Council of Ministers after the 2004 enlargement, CEPS Research Report, March 2007

Apart from these efficiency questions, there are also **equity issues** which are beginning to pose problems. Enlargement has brought a large number of quite small countries into the Union and future enlargement will bring more. Today we have six largish countries with a total population of just over 340 million and 21 small and medium-sized Member States with together only 146 million. Yet in the Council the six large states have 170 votes and the remaining Member States 175. The Union's obligation towards the western Balkans will bring potentially another seven small countries with a population of around 24 million into the Union. Where the unanimity rule prevails, proposals can be blocked by any one of the smaller states, although at some risk to itself. In decisions using qualified majority voting 14 countries with 55 million could block any proposal supported by the 13 countries with 430 million.

Shares of population and representation by Member State size



Source: own calculation

Of course these extreme cases will rarely happen though the role of Cyprus in dealing with Turkish enlargement is perhaps a warning of more trouble ahead. The very favourable treatment of small states when the Union had 9 or 12 or even 15 Member States was rarely raised. Now with the possible membership within the next two decades at between 35 and 40 this is beginning to be seen as a problem. Even if the official power-relationships within Union procedures do not radically change, it is likely that the large Member States will find ways to guide much of the Union's policy either informally inside or outside the Community method.

With enlargement, the overall size of the Union institutions also becomes a serious issue. The Commission now has 27 members, the European Parliament 785. It is difficult to imagine new accessions leading simply to incremental change. Yet for new Member States it is important to have their own Commissioners in Brussels. It is also important for Brussels to be able to relate to these countries through their Commissioners and their Members of the European Parliament.

The draft Constitution tried to deal with certain of these institutional challenges – more qualified majority voting, a new voting system which gave the large members slightly more influence, the size of the Commission and Parliament as well as efficiency and effectiveness through the appointment of a longer-term Chairman of the European Council and of a coordinator of foreign policy – perhaps too arrogantly called a Foreign Minister in the Constitution.

Extending Qualified Majority Voting to a far wider number of policy areas would of course be a big step on the road to efficient decision-making in a larger Union. The proposals in the draft Constitution do not go very far in this direction and it will probably be some time before significant changes can be agreed. The continuity proposed in the draft Constitution through the appointment of a Chair of the European Council, who could become a powerful player in the Union, would also help to keep the Union on track with a larger membership.

But given the size of the challenge of enlargement will this be enough? Many other institutions round the world operate successfully with more members than the Union is ever likely to have – the Bretton Woods Institutions, the WTO and the United Nations for instance. These are of course very different institutions from those of the Union and they have all solved the problem of the efficiency of decision-making in different ways.

Common elements of solutions to this challenge appear to be the establishment of an inner-core of decision-making, as in the UN Security Council, and/or the creation of constituencies of Member States, as in the IMF.

Both of these approaches may be necessary to ensure that the Union can continue to expand the area of peace, stability and prosperity in Europe while remaining relatively efficient in decision-making.

Jacques Attali wrote an interesting report for the Quai d'Orsay just before the last enlargement in which he proposes that the maximum number of delegations in the EU Council of Ministers should be 20. He does not explain why 20 is the magic number but he maintains that efficiency and effectiveness are lost beyond this number. He proposes that the smaller Member States should be grouped in constituencies, the countries in any one constituency having to decide how their representative in the Council should vote. France would of course be a constituency of its own ... and fortunately for us the UK too!

Other ideas have been canvassed for reform of the Commission. The draft Constitution foresees a reduction in the size of the Commission to two thirds the number of Member States, which would be 18 at the present time. They would be selected by rotation from the Member States, with all countries treated equally. Other alternatives include the creation of senior and junior Commissioners, while retaining the right of each Member States to send a Commissioner. My own experience in the Commission suggests to me that it works best when there are fewer Commissioners than today but they must be of the highest quality.

A further possible way forward might be the **more frequent use of non-regulatory techniques** such as the ‘open method of coordination’ which is the hall mark of the Lisbon Agenda or other forms of quasi-decision-making which are more flexible than the Community method. Lisbon makes use of a fairly sophisticated set of indicators of structural reform in the form of benchmarks, which are not legally binding. Best practice is diffused to encourage a high quality of reform. The system works through mutual nagging and encouragement in a closely integrated Union. No Member State can be brought before the ECJ. This open method has been criticised, often by lawyers, for being ineffective, but in a large and diverse Union it could well play a greater role.

If we could go back to the drawing-board, no doubt we would design a rather different set of institutions for the enlarged Union. However institutions usually change slowly and by small steps and I am sure that this will continue to be the case in the Union. Revolutionary changes to maintain full effectiveness, such as those suggested by Attali, would clearly lead to losses of influence for certain Member States. But changes will be decided by unanimity and it is difficult to imagine Member States voting to lose influence.

The Council continues to operate at 25 and now at 27. The addition of Croatia would not substantially change this performance. Additional efficiency gains in all the Institutions are undoubtedly possible. With the changes proposed in the draft Constitution, it is likely that the Union could continue to operate effectively with substantially more members than it has today.

While some of the institutional changes proposed in part 1 of the draft Constitution may not be very controversial amongst the public, more serious changes will be. **But in my view the growing public resistance to further enlargement is due more to the economic problems I have mentioned than to institutional change at the Centre.**

Globalisation has become an objective of popular anger in France and Germany but in many other Member States as well. It is not only M. Sarkozy and Mme. Royal who

have been calling for a protectionist response. More alarmingly, politicians not facing immediate elections have been doing the same.

The only possible response to globalisation is structural change in our economies. The Presidency Conclusions from last week's European Council meeting note, with typical optimism:

“Member States are determined to take full advantage of the improving overall economic situation to strengthen the momentum for reforms and thus to further improve Europe's global competitive position.”

In certain manufacturing sectors and in some services it will be impossible for the Union's businesses to compete with China, India and other rapidly developing countries. These countries can fall back on large numbers of unskilled but cheap labour moving from rural areas to the cities. Our response must not be to protect businesses which get into difficulties and which are unviable in the longer term. Instead, through raising educational and training standards we must ensure that high quality staff are available to work in new industries and services which can compete on world markets. This will require considerably more investment in education at all levels from Kindergarten to University.

At the same time labour markets must be made more flexible to ensure that people are not permanently excluded from work. Liberalisation will mean that the reward for lower skills will probably rise more slowly but we must strive to ensure that through the offer of life-time training, people of all ages have the chance to upgrade their skills.

However there will be losers in this strategy of structural reform and the Union and its member states have responsibility towards them. We know that we can only make the situation worse by introducing measures which are designed to protect but which do not give an incentive to retrain for new jobs. The measures which are taken should work in the direction of encouraging the structural change which is so necessary if we in Europe are to prosper in the future.

This was the idea of the small ‘Globalisation Fund’ which was introduced this year, financed from the Union budget. This Fund can support active labour market measures to help those put out of work through the impact of globalisation. While there is a risk that this Fund may be used politically for dubious purposes, there is an argument for increasing the amount of money available to it in order both to cushion the impact of large scale job losses and to accelerate structural reform.

If the Union pushes hard for structural reform as a response to the challenge of globalisation, it also has a responsibility to ensure that those affected by the change receive help to improve their skills in order to find alternative employment.

Indeed if it does not, it runs the risk of being mired in a plethora of protectionist measures which will put the Union itself at risk. In a recent paper entitled “Will Global Capitalism Fall Again”, Jeffrey Frieden considers the reasons that the last great period of globalisation before the first world war came to an end.² He concludes that to avoid another failure will require a delicate balancing act. On the one hand, there is the need to build a global economic order but on the other the need to commit the resources to “maintain the social and political stability necessary for national political economies to reap the fruits of international economic integration”.

Structural reform and measures to assist the vulnerable would transform the economic perspective of many in the Union, who today oppose enlargement because of fear for their jobs and the welfare of their families. The review of the budget and Union policies due to take place in 2008 or 2009 will be a good opportunity to look more closely at these issues.

Of course many politicians have come out in favour of **an alternative to accession**; the German Chancellor has called it ‘privileged partnership’. The idea is to allow neighbouring countries to integrate with the Union without becoming full members. This they say would reduce the institutional problems about which the elites feel so strongly.

² Frieden J., Will Global Capitalism Fall Again?. Bruegel Essay and Lecture Series. 2006

The extreme case of such a relationship is the European Economic Area Agreement, signed in 1992, and which was designed as an alternative to accession for the EFTA countries. EFTA states in EEA are part of the internal market of the Union in those sectors covered by the agreement. The drawback is that they have to adopt all Community regulation in these areas but do not have a say in the decisions on the draft regulations – in other words regulation without representation! It was for this reason that Austria, Sweden, Finland and Norway decided to apply for full membership of the Union rather than accepting the EEA agreement.

It is not impossible to imagine that a deep trade agreement involving some approximation of internal market regulation and regular and serious political dialogue and some development finance might satisfy one or two of the countries lining up to join the Union. This is the strategy being followed by the Union in the negotiation of a new agreement with Ukraine. The problem for the Union is that if this strategy is successful and the integration develops well, it is very likely that the country will eventually feel itself ready for full membership of the Union and it will apply to join. The paradox of European Neighbourhood Policy, designed to keep neighbouring states out of the Union, is that if it is successful in integrating these countries with the internal market of the Union, it will defeat its own objective.

Allow me then to summarise my argument.

The highest good that the European Union has to offer its citizens and elites is peace, stability and a reasonable prosperity. The enlargement of the Union has been one of the main instruments to achieve this goal, through the geographical spread of the Union's values and regulation. Enlargement to the western Balkans and eastern Europe will further extend these gains to the benefit of our neighbours and ourselves.

These decisions however can no longer be taken by elites in Brussels independently of the Union's citizens. It is therefore necessary to tackle both the reservations of these elites and of the voters.

The elitist worries about the policy process and the efficiency of Union institutions are serious and should not be underestimated. However more diversity in the way policies are formulated has already become evident and this trend will continue and, rather than listening too closely to European lawyers, we should encourage it. The institutional issue is likely to be eased by a combination of greater efficiency and certain reforms already proposed in the draft Constitution.

The popular disillusionment with enlargement may be partially the result of general worries about the volume of immigration, however in my view it is mainly conditioned by the perceived negative effects of globalisation. The right policy here is to continue on the path of structural change suggested by the Lisbon Agenda – any return to protectionism would be disastrous for future generations. At the same time however, careful consideration at Union and national levels must be given to helping those who are affected by globalisation to retrain for new skills which are in demand. In situations of full employment, people feel secure, they can plan their futures and they are more likely to welcome new Member States to the Union.

I regard the open hostility being shown by some politicians in the Union to future enlargement as a danger to peace and stability in Europe. It puts at risk stability in the countries which are hoping to become members and it therefore puts at risk stability in the Union itself. This is particularly true for the Western Balkans, which have a promise from the Union that they can join when they meet the conditions. The legal position is clear. According to Article 49 of the Treaty, when these countries meet the conditions for accession to the Union they can apply for membership. All options are open for the future and accession depends on the performance of the countries in meeting these conditions.

In my view we are still a long way from overcoming the division between east and west in our thinking. Forty years of division have ruptured the holistic notion of a Europe from the Atlantic to the Urals. Belgrade and Kyiv are very distant concepts for people and politicians living in London or Paris. But they are just as much part of Europe and we neglect them at our peril.

In fifty years the European Union has grown from a small group of six states to include 27 today. It has been a great success. We should NOT now turn away from finishing the job.

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