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The Future of the EU: a Post-Laeken Perspective

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Summary

The paper is devoted to the issue of how eastward enlargement is likely to alter European governance in all major areas of redistribution and decision-making. It forecasts a slow, evolutionary change with a gradual de-emphasis on redistribution and an enhanced focus on efficiency and functionality. The Convention may pave the way to a gradual rather than Big Bang type of enlargement.

In preparing for the Laeken Council the President of the Republic of Hungary has initiated a wide-scale public debate on the future of the European Union. This seemed to be fully justified insofar as the Göteborg Council of June 2001 has already explicitly mentioned 2004 as the first possible date for the first round of eastward enlargement of the EU. Since the same Council decided over the calling into being of the Convention, finalized in Leaken, for elaborating what might amount to a Constitution for an enlarged European Union, this initiative was both timely and justified. As joining in the EU is a matter pertaining to the entire model of functioning of economies and societies in transition countries, the modalities of accession are not just concerns for a couple of diplomats, but for society at large.

The "Europeanisation" debate, long going on in the international political science literature, (Ágh, 1999) is focused exactly on how to overcome the mismatch that emerged between the traditionally developed endogenous structures in central and eastern Europe on the one hand, and the ever stiffer requirements of a deepening *acquis communautaire* on the other. This is why intra-EU debates are a prime concern for candidates. The President of the Republic of Hungary therefore initiated a public exchange of views on EU in June 2001.

To the surprise of the organizers, on the website of the Hungarian Ministry of Foreign Affairs, where the exchange of ideas should have taken place, a total of nineteen (!) interventions emerged, including the initiating speech of the President of the Republic, the intervention by the minister of foreign affairs and that of the chairman of the major opposition party, the Socialists (himself a minister of foreign affairs in the 1994-98 period). This number should be compared to the more than one thousand interventions in a single month that appeared on the website of one of the MPs, who put the same question in a different (populist) form, namely whether the government of the day has moved the country closer to the EU, or conversely.

Similar has been the fate of the Nice Council and the Nice Treaty of December 2000, which formally paved the way for reforming the decision-making structures of the EU and promulgated the road-map of enlargement talks. While officials went out their ways in praising the road map as guidance to concrete talks, comments on the substance remained muted if any. An exception was one analytical contribution (Borszéli, 2001) published in the special issue of a narrow circulation journal devoted to professional analyses of EU matters, and even this was part of a special issue devoted to Nice. All in all, the general feeling has

been that Nice - including the Irish no - is basically an internal affair of EU member-states, and outsiders should refrain from commenting on the internal workings of a club. All the more so, if they are right about to join, and they do know, that incumbents tend to disagree right about anything.

In sharp contrast to this over-diplomatic approach an enormous outcry followed the publication of the Commission draft paper of February 2002 revealing officially - what had already been basically known through leaks - that the amount of transfers new candidates are likely to receive provided their membership materializes upon the stages and schedules of the road-map) will be around 35-50 cent of what they originally hoped for.¹ Prime Ministers and heads of parliamentary committees on EU affairs of the Visegrád countries have convened and jointly rejected as "totally unacceptable" and "discriminatory" the propositions of the Commission, before the negotiating position of the EU could have developed its final shape through a series of Council approved modifications.

These contrasting developments indicate that *EU membership is often seen in false terms*, i.e. in terms of centralized redistribution and the national shares from these transfers. This is certainly a dead alley, since close to 99 per cent of the GDP of the European Union is not directly related to the official transfers, thus the well-being of incumbents - and by the same token also of candidates - is not crucially dependent on its size and composition. Moreover, as it could be demonstrated at the time accession talks had been launched (Csaba, 1998) *if and when redistributory issues dominate the accession talks, these are likely to founder*, for at least two reasons.

1. Reforms are rarely being undertaken in times and conditions when vested interest politics dominates over constructivist approaches, since in normal times redistribution is a zero sum game (Bates and Krueger, 1992, p.457). Knowing that net contributors are unlikely to allow for a radically growing EU budget, focusing on transfers creates a next to insoluble German-Spanish contradiction, with France intervening on a number of other issues.

¹ One source of the original hopes was a phrase of the Laeken Council making reference to enlargement talks to be conducted "in line with current financial guidelines", which meant the Agenda 2000, but candidates interpreted as an extension of present entitlements to them in an unchanged, automatic fashion.

2. Enlarging an unreformed Union is not affordable and would run counter to the already emerging trends to rearrange the expenditure priorities and mechanisms inside the EU. These aim at avoiding inefficiencies and rent seeking, particularly in the farming sector and at structural funds, together adding up close to 80 per cent of community spending. It is not only in the interest of the Union, but also of the candidates to avoid incentives for sustaining (or creating) new inefficiencies via cementing in a stratum living basically on direct income supports and/or inefficient lines of primary production (Kopátsy, 2002). Confronting the different approaches within a given financial guideline is likely to result in a lame duck situation where 2007 is the first theoretically possible option for the first new entries, but even this may be overoptimistic.

This state of affairs may justify a broader, less down-to-earth approach in which the real question is not what Hungary or any other accession country is likely to gain in terms of the net balance of official transfers, but instead, what model of the future EU is likely to be in the best interest of Hungary and other newcomers?

A Normative View of the Union

The idea of convening a new intergovernmental conference (IGC) on resolving the "leftovers from Nice" has emerged immediately prior to December 2000, when it has become the common understanding of the participants that the time has not yet come for a far-reaching modernization and restructuring of the Union. Therefore the idea, finalized in Laeken, of setting up a Convention of high-level representatives, but by no means of governments only, to reassess and revise the fundamentals of the workings of the EU. The target has been set similarly to Turin and Nice, i.e. to elaborate an *algorithm for decision-making in a community of 25 or even 30 states* (should the Swiss or the Norwegians change their mind). This time, the trap of setting too tight schedules is to be avoided, and a two-year preparatory period, as well as the independence of those participating may well allow for more radical propositions to be made. True, the final decision remains in the hands of the Council, i.e. in the end of the day, national governments will have the final word.

During this time and in this context the fundamentals of how an ideal EU should look like has become part of *Realpolitik*: depending on the longer term vision and the related feasibility postulates, grossly divergent interpretations of what constitute the national interest may

emerge. The normative view is a reflection of actual experiences within the current EU and may be formulated as follows:

a) The EU should be an *efficient organization* that is able to act when needed. This quality is by no means given if one thinks of the sluggish implementation of common foreign and security policy (CFSP) initiatives, or the fact that Council sessions regularly last into the morning hours. It is worth noting, that extending the co-decision rights of the European Parliament as well as the potentially growing number of participants in the Council do not foster this aim. Likewise the substantially weakened position of the Commission, reflected *inter alia* in the timidity of its White Paper on European Governance of June 2001, does not facilitate efficient decisionmaking. The Nice compromise, allowing for a further increase in the number of Commissioners up to 27 (instead of slimming their number to twelve, as initiated by Prodi) may sound excellent for those seeking well paid jobs in Brussels, but not so great if we think about generally established management principles of efficient deliberations in large organizations.

Inability to compromise on this minor point is all the more surprising, as the Commission is one of the few truly supranational bodies, where the idea of national representation does not really matter. The ongoing reforms of Prodi and Kinnock make this even more trivial. Still, the drive towards more rather than less national representation is a sign of misperceiving the future of the EU. Similarly the focus on the number of MEPs envisioned by the Nice Treaty for each candidate (20 for Hungary while 22 for Belgium) overshadows other efficiency considerations, including the democratic legitimacy of an elected person representing 400 thousand to 2 million people. Obviously, the real issue here is whether or not the *regional dimension of the EU could be strengthened*, not so much in terms of spending (regrouping) more money to the disposal of the municipalities as much as their freedoms in making economic choices and managing public-private partnerships (on various aspects of this cf. Ágh, 2002 and Horváth, 2001). Retaining the strict intergovernmentalist structures, by contrasts, are loaded with the threat of getting into UN-like discussion fora, where the principle of equal treatment dominates efficiency concerns.

b) A larger EU must also be an affordable one. This means that the practice of solving issues through what used to be known in the Genscher period as checkbook diplomacy is not

realistic. Nor is it desirable, knowing the oft criticized and limited efficiency - and often questionable equity - of spending practices in the various EU funds, but primarily in the CAP and in the structural funds.

Therefore some generally accepted principles of economics in general and public finance in particular should be observed. First: such long established considerations as additionality, concentration and accountability should be observed. Second, each case would require *justification why and how spending helps EU-wide cohesion*. It is not quite clear, e.g. in case of the French or Dutch overseas departments, how their development contributes to community cohesion. Third, the principle of *targeted assistance* should be taken seriously. It is hard to justify in economic terms why the most affluent members of the EU are unable to cope with some of their specific problems, say of depopulation in the North, without having to recourse to the EU coffers.

By regularizing current spending practices and by bringing them in line with already approved (pre-accession reformed) principles, and by allowing for a growth that naturally accrues by way of economic growth and inflation, relatively lavish funding of a larger scale enlargement is feasible under the caps set by the Edinburgh Council of 1992, i.e. not exceeding 1.27 per cent of the member-states' GDP.

Affordability on the other hand implies radical overhauls in the fiscal practices of accession countries. For the time being neither unspent amounts of public money, earmarked for co-funding EU supported projects, nor the practice of multiyear commitments exceeding the limits of one single electoral cycle are widely in use in any of the candidates. This state of affairs may per se severely limit their ability to draw on the funds theoretically allocated to them by the policies and guidelines of the EU.

c) Transparency is a call bordering with triviality when it comes to theories of public finance. However the entire political economy of fiscal sustainability (von Hagen - Strauch - Perotti, 1997) is basically an attempt to confront this simple principle with political practices in the current EU. The idea applies *a fortiori* for several if not all accession countries, where not even regular reporting of public spending necessarily follows the guidelines of Eurostat or the Good Fiscal Practices Code of the IMF. Major investment decisions and developmental

projects are realized under a predominantly discretionary framework, where considerations of decisions as well as horizontal equity considerations of public finance are rarely applied in a straightforward manner. In funding local municipalities it is quite often that their actual freedom to maneuver is constrained by high percentages of revenue centralization, "compensated for" by targeted assistance, i.e. allocation of funds that follow pre-set targets established by higher standing organs for the local government. Functioning of social security funds and of government managed investment funds outside the central government (such as the Consolidation Fund in the Czech Republic or the State Development Bank in Hungary) is often less than transparent, even for legislative control.

It is clear that the more each country is reliant on private capital markets, accounting for over 95 per cent of international flows, the more it has to play by the rules set by the agents of these. And these require observance of the international accounting standards, at micro- and macrolevels alike.

As a matter of fact, observing these transparency rules is in the best interest of the accession countries themselves. Not only the external, but *also the domestic investor needs clarity* over the spending practices as well as in the actual profitability developments of competing projects. It is not possible to make well established business decisions if the points of orientation are missing. The more private pension funds and private health care emerge, the more people find the capital market to be an alternative to savings books, and the wider is the societal interest on the individual level on settling these issues in a solid manner.

d) The ghost of Baroness Thatcher is by no means a good sign for the European project. The more widespread is the approach of "I want my money back", *the lower is the probability that anything over and above an industrial free trade area will prove realistic for the EU*. The Treaty on the European Union, as revised in Nice, but also its Amsterdam edition, is already much more ambitious than this. Consequently, at least in our openly normative framework, some allowance should be made for economic rationality. Being a net contributor, Germany does not "subsidize" the rest of the EU by an annual amount of about 14 billion euros, nor does Spain benefit in the range of 12 billion euros, if this money, or a good part of it is wasted on "cathedrals in the desert" as was the case in the 1980s and 90s.

Central and eastern European countries opt for a *mistaken* path if the only point of orientation for them is to *maximize potential transfers from Brussels*. For instance the rearrangement of Polish territorial system has greatly been influenced by the concern of avoiding the position of Warsaw being too rich, a concern which does not necessarily overlap with those of the most rational territorial setup for a central region in that country. Europeanisation may be an important point of orientation for the rare occasions when social constructivism makes sense. This applies for reconstructing regional development projects, the introduction of more seriously enforced environmental legislation, and better observance of consumer protection concerns in the organization of food production.

Under this angle the real concern is not the amount of net transfers but the *speed* and *efficacy* with which the rearrangements, occur that may enhance the administrative capacity of the accession countries, that really matters. On the other hand this is exactly the gain newcomers profit, across the board and on the long run, from joining a more sophisticated and more credible framework of international regulation.

On the one hand, the arguments like "Andalusia does not get richer from Bulgaria's getting in" should be flatly rejected. On the other hand, central Europeans, starting with Slovenia and the Czech Republic, but according to certain estimates, also Hungary must prepare for a period where in certain years they also may become net contributors to the community budget. This *should not be seen as a net loss*, since the cost must be measured against a situation of non-Europe, which for all participants is probably much more costly.

The sad reality is that our trivially sounding propositions look quite idealistic against the background of actual policy debates on reforming the spending priorities of the EU, where more traditionalist bargains on "the pork" are constantly the dominant features of the agenda. The last visionary initiative, the euro, still originated from the Kohl - Mitterrand era, and no commensurable follow-up is in the making.

Status quo and rational expectations

a) For the time being the *Convention* seems to be the *boldest and farthest looking initiative* that has been approved at the Union level. Other initiatives, from that of Joschka Fischer to those of Tony Blair, the Lisbon spirit and the like, have remained without practical follow-up

measures. Already the very start of the endeavor has been overshadowed by financial, organizational bickering and a most traditionalist power struggle along the national and political camps, casting doubts over the workability of the arrangement (Hoenig, 2002).

If we accept the old insight of war being too serious a matter to be deliberated by generals, health being too serious to be left to medical doctors only, a similar conclusion might be appropriate for bureaucracies. It has been the institutional decision-making structure that should have been reformed in Turin and Nice alike. It has turned out that governments are unwilling to go away from the principle of intergovernmentalism. This is hardly a surprise.

Under this angle we can look at the Convention in two ways. Either we see in it a step in the right direction, i.e. of getting others than those in government involved. Alternatively, we can underscore that government representatives have retained all strong cards, thus the Convention is only their slightly extended discussion club. IGC-ism is not the way to overcome problems deeply rooted in the intergovernmental nature of decision-making within the EU.

b) In an earlier criticism of the Treaty of Nice I tried to prove that inability to reach agreement among the major players - the big boys - has been at the root of a moot, inefficient and inadequate compromise, leaving the fundamental question of a workable algorithm for an enlarged union unanswered (Csaba, 2001). This situation has not been changed: the traditional German and Benelux view of federalism is in stark contrast to the Spanish-British and Scandinavian focus on intergovernmentalism as a fundamental principle.

In a way, the *small country - big country controversy* has also been gaining momentum by the unprecedented and legally more than questionable boycott of the right wing Austrian government, culminating in the commissioning of a Group of Wise Men to test the credentials of Austria as a democratic state. Though this initiative had been a clear reflection of domestic policy considerations of the initiators (Merlingen and Sedelmeyer, 2001), it has surely created an overall climate in which *smaller states are likely to watch any potential of conferring their sovereignty to supranational bodies* by way of qualified majority voting (QMV) on any issue of substance. This restraint has also been fed by the much too easy way how the Helsinki

decisions to set up the rapid reaction force have been made, disregarding the sensitivities and possible objections of small neutral members.

Whatever we may think of the merits of each and every of the above listed issues, it is clear that the overall political and psychological climate is surely not conducive to compromises and enhanced community spirit. This favors posturing in *Pater Patriae* roles by nearly everybody, with Germany vetoing the takeover rules of the EU, Italy rediscovering the Mezzogiorno as the real problem child of EU structural funds, and Spain making its *share* in the regional development spending as one of the independent variables for calculating costs of enlargement. The latter stances add to the traditional differences in approaches, such as on tax harmonization, immigration, direct income supports to farmers, or transferability of social security claims and opening up national markets for energy supplies and air traffic (just to list a few of those cases which have long been on the official EU agenda before enlargement and the latest IGC).

While the recourse to technical and practical matters as cases for defending the national flag has mostly been instrumental, the style and habit of old-fashioned nationalistic reactions have been reinforced. Meanwhile *old visions* - ever since the euro - *have not been complemented by never ones that would immediately mold EU practices*. This leads to a Catch 22 situation, where lack of visions lead to constant crisis management along national lines of egoism, while the latter torpedoes any major new vision that would put an end to the established bad practices. The inability to agree on the rather technical issue of cross-country regulation of capital markets, that complements the single market program, basically due to non-cooperative game among the various organs of the EU (Lámfalussy, 2001) is an excellent case in point.

In the longer run there is no reason for us to doubt in the ability of major players to adopt gradually a more forward-looking stance, since this had traditionally been the case in EU. Still, it would be naive to assume that this would be a close eventuality, and the meetings of the Convention alone would provide the necessary impetus for such a breakthrough. It seems likely, that with the British and the Swedes moving towards EMU, and especially the Brits being more interested in a leading role in and via Europe, improvements may be forthcoming.

But only very gradually, and definitely not according to the pre-set time schedules currently orienting EU accession talks.

c) A related subject is a direct consequence of making EU an issue of primarily *direct economic concerns for the median voter*. This has gone much deeper than merely a change in general attitudes: if in the 1980s the idea of stabilizing the South enjoyed support, in the first decade of the new millennium the cost aspect of getting new partners from the east on board is dominant. Moreover, owing to the microeconomic approach to enlargement, the tendency of mixing up costs for gifts or sacrifices has been dominating public discourse in the major EU countries.

To be sure: costs are not equal to gifts, when we give away something for charity. Costs imply less current consumption for future more consumption, and the chain is an immediate cause-consequence relationship. If we disregard future gains, this obvious misunderstanding leads the entire public debate in the wrong direction, where the *capping of final outlays* is in the focus of attention, *not the maximization of gains* and profits, as a truly microeconomic approach would have required. It is truly frightening that the countries profiting most from trade with the applicants are the most skeptical, where the 'good news' is that the Austrian government is unlikely to veto Czech membership in the EU - though 1 million signatures had been collected (in a country below 8 million) in protest of the Temelin power plant (Weide, 2002).

Since the cost-minimizing approach is dominant, the idea of Big Bangs and Big Bang Plus can not be seriously considered for a minute. As no new financial guidelines have been approved for 2004-2006 (which could have been theoretically conceivable), further not even the full scale filling up of community funds allowed for by Agenda 2000 materialized, there is simply no way to foot the bill of enlarging by ten new members.

This is not necessarily good news, given the small (macroeconomically insignificant) amounts that are at stake. However, it is not rational to expect major rethinking in the public. Thus even if professionals could convince EU governments of the need for a more lavish stance for eastward enlargement, the idea could not enjoy parliamentary support in any of the major net contributing countries. This, in turn, will make the final stages of enlargement talks

unnecessarily protracted, and foreshadows the emulation of egoistic approach of incumbents by the newcomers once they get inside the gates.

d) One of the major problems rendering the financing and the decisionmaking reforms intricate is the much observed fact that incumbents are often *unwilling to play by their own rules*. The wrestling around the community funds have been extreme examples of "political economy thinking", in which concessions have been traded among completely unrelated areas. Thereby diplomatic deals could finally be struck (in Berlin), however the principles of operation of the funds in the respective areas have often been compromised. Let me refer to some of the better-known cases.

1. Cohesion funds were meant to assist four countries on their way to EMU. By now Ireland, Portugal, Greece and Spain all joined the single currency, still continue to receive funding from this instrument.
2. Compensatory side-payments were never meant to be transformed into lasting direct income supports, i.e. as they do not go to the poorest part of the population in incumbent EU. Still, the intervention of President Chirac achieved of cementing these transfers in a period and for a purpose, where the consensus view at the political level had been the opposite.
3. In some cases symbolic payments are made in order to allow leading politicians of rich countries to report victories for their domestic audiences. Support for Stockholm, Lisbon or Berlin is hard to justify on usual public finance grounds.

The more current players stick to their "little candies", the harder is to find the sources of funding new members' minimal claims. Furthermore a poor standard and a bad precedent has been set, under which *it will be hard to resist inflated claims by the new entrants*. Costs of such arrangements may well skyrocket, where the real problem is not so much their size, as their efficiency. By building new 'cathedrals in the desert' only private interests are being served, not the public good, or the European cause.

Here we can easily see the schizophrenic state of candidates. Reforms of the big redistribution systems in the EU is a condition for them to get in. Meanwhile the deeper reforms go, the deeper the "injustice" they will face if they measure their treatments on previous experience,

or pre-enlargement practices. The feeling of lasting *second class membership* and its repercussions will be hard to remedy. The outcry for the income supports present members should also not be granted is a good indicator of the type and intensity of popular/populist emotions that are likely to be replicated in the protracted process of accession of all candidates.

e) The complexity of the situation is only likely to grow owing to the fact that in Nice (implicitly) and in Göteborg (explicitly) *2004 has been named* as the first date when the EU is ready to take upon board new members. This point is far too distant if we measure against the *annus mirabilis*, 1989. On the other hand it would be daydreaming even to postulate that the internal reforms discussed above would have been completed by this period. Under this angle enlargement in 2004 may come too early. One way or another the EU will enlarge in a partially reformed stage, where all contradictions typical of transitory period are likely to sustain and be compounded by a growing number of interested parties.

If five to ten years ago the dominant mood of the forward-looking analysts was "ex oriente lux"², this situation has changed. Previously open-minded analysts portrayed eastward enlargement as a window of opportunity to institute long overdue reforms. Since this has not happened, the chance for a new but reactionary coalition, based on the attempt to cement the status quo, irrespective of broader equity and efficiency considerations is becoming ever greater. In this case a shallow logic of following vested interests and the ensuing *further loss of global competitiveness* is the likely price both parties are to pay for this choice.

The Enlargement Crisis: Poetry and Reality

The process of eastward enlargement seems to have come to a crisis. The very cautiously formulated Berlin decisions of 1999 accounted for a process with funding needs from 2002 onwards. As we know by now, this proved to be overoptimistic, although no major exogenous shock or internal cataclysm emerged on either side.

In a typical vein the EU has made two interrelated choices. First it opened the door in the 1999 Helsinki Summit to the other half of the applicants (not budgeted nine months earlier). Second, and partly by the same token, not even the first six countries, or the better part of

them, could make use of the facility actually created (and not only envisioned) by the Berlin Council decisions. As we can see *the broader the concept, the slower the practical progress*.

True, the decision-making process of the EU has been carried away by other major world events, such as the change of the Russian Presidency, the Kosovo and Macedonian wars, and last but not least by September 11 and the global economic slowdown. Still, it is hard to overlook, that by taking upon a new and quite complex new task on the Balkans (Kotios, 2001), attention and administrative capacity have been refocused. *Enlargement*, being traditionally among the closing items of any EU Council agenda, has been literally crowded out by intra-EU infights over reforms and managing the single currency project on the one hand and current world affairs on the other.

The Helsinki option has certainly contained favorable items, such as bringing back the broader European context and the longer-term economic horizon, which set the condition for any further enlargement. This also allowed for the catching up of some countries, notably Slovakia, both in terms of actual legislation and in terms of theoretical reflection on the EU (cf. Kershaw - Zorvan, ed, 2001). On the other hand it contributed to the slowing down of the momentum in talks with front-runners. If for no other reason, than the principle of equal treatment and immediate generalizability makes any concession on the side of the EU a hard nut: each step has an implication for outside the bilateral context it has been taken. Thus the EU scrutiny of compliance with the *acquis* has become stiffer, delaying agreement in several cases. Meanwhile the idea of supporting lagging behind countries have lead to sometimes surprising closures of particular chapters that proved to be contentious elsewhere.

b) In naming the numbers - preliminary estimates - for footing the enlargement bill the Commission had been constrained by stagnant reforms, by the Agenda 2000 earmarked for a maximum of six states to be enrolled only gradually, as well as by the restrictive interpretation of the financial guidelines by the incumbent member-states. Thus the total cost estimate of 42.5 billion (actually only 40.6 billion) euros for 2004-6 is in line with all what we unofficially knew since 1997, when the first draft of Agenda was produced in July 1997 with politically feasible numbers. Following immediate emotional reactions observers were quick to note that "it is not such a bad deal": while accounting for about 40 per cent of the

² So most recently Philippe Schmitter (2002).

maximalist claim (based on current entitlements), still being 7 to 10 times of the current pre-accession transfers (Gyévai, 2002). Still other, more comprehensive analyses highlighted the consequences of what we expounded above: the high probability of Hungary's (and other candidates') administrations' *inability to absorb* even these funds if they are allocated according to the principles and procedures promulgated by the EU for the incumbents (Inotai, 2002).

By publishing the estimates in their premature from the Commission could be engaged in a multiple exercise. First the sobering effect will likely to work in the coming months and even years. Second the debate will go on about the preliminary numbers while elections in the two core countries, Germany and France will have been over. Third, public opinion in the incumbents will be made alert of the disequilibria inherent in the current situation of the double strategy, thus may be more forthcoming to less restrictive interpretation of the financial guideline.

Last but not at all least: when numbers are debated, both parties can be sure of *their talking about business*. No matter in what harsh tones, staging various scenarios, playing the entire arsenal of pressurizing, the end game is likely to be a deal. And this is good news after 15 years of often non-sincere horse-trading.

c) Our *optimistic forecast* rests on close observance of the facts. Joining the EU is basically about taking over the *acquis*, i.e. concluding binding international agreements. This is the real process, while all the rest counts as declaration of intent or a card played out for reaching the end-result. In the latter terms some countries, namely Malta, Cyprus and Hungary have made *considerable advances*, especially during 2001. In the Hungarian case such disputed issues have been closed as acquisition of land by foreigners, free flow of labor free flow of capital, EMU and last but not at all least, transport. In other words, only those chapters are open where no joint EU position could emerge as yet (such as farming, budget and the institutions).

Outlook: Without Grand Designs and Schedule

Nobody knows the future. However, on the base of available evidence we can draw some preliminary conclusions for the future of the European Union, from the perspective of the accession countries and the enlargement project at large.

a) The history of the EEC/EC/EU is one of crises, or a trend of muddling through. Already the foundering of the EDI and then of many other projects were the hallmarks of progress: none of them signaled the end of the world, of even the end/reversal to the original project. All difficulties notwithstanding the integration process in Europe continued to deepen, develop, and got extended to several areas not envisaged in the Treaty of Rome. The Nice Treaty, if ratified also by the Irish in November 2002, will define a new quality, of consolidating the progress achieved in the preceding decades, all *allowing for some, though limited, further enlargement* and further deepening (in the form of enhanced co-operation).

External factors have often triggered the reactions, still the EU tended to follow its own internal logic even when getting into conflict with the external world, as the sustaining transatlantic trade dispute or many other WTO dispute would indicate. Thus the enlargement is likely to be conditioned by the internal evolution of the absorption capacity of the integration, conditioned by internal reforms, rather than arbitrarily set timetables. The more we think that the strategic approach to southern enlargement is a matter of the past, the more likely this option looks to be.

On the other hand, there is no need for us to see the nonfulfillment of yet another plan and the missing of yet another deadline as signs of a sincere, deep root and irreversible crisis. On the contrary: this is the normal *modus operandi* of the Union.

b) It would be wrong to see enlargement entirely and exclusively under the budgetary angle. Budget lines can and may be modified if political will is there. To mention but one: if, as proposed in 1999, cohesion funds were abolished for those old members, which already qualified for the eurozone, the financial leeway for the present period could be doubled. Money, as Helmut Kohl liked to say, is not the main obstacle to enlargement.

On the other hand, *the acquis does differentiate among candidates*. It would be hard to believe, that a country like Latvia, which has serious problems with mafias, could with a stroke of a pen, simply join the third pillar cooperation. Similarly, it is hard to overlook that a divided Cyprus or an internally polarized Malta could easily join in CFSP. Bulgaria and Romania are also a long way off from EMU, and not only in quantitative terms. The state

administration in all the three Baltic countries is weak, so is the judiciary that is to control and implement the laws adopted during accession. And meeting the political criteria can be shaky under certain scenarios in some other applicants³.

As the EU membership is an irrevocable choice, post-communist countries must make *continuous efforts* to meet the criteria, basically out of their own interest. On the other hand, with the time passing the *acquis is becoming more demanding and also more expensive*. We can already observe the proliferation of environmental and consumer safety standards. These are not easy to meet via skilled diplomatic formulæ alone.

c) The good news is as follows: *integration of central and Eastern Europe follows the textbook model*. Following trade reorientation proprietary relations have been intertwined via large-scale privatizations and greenfield foreign direct investment. 2001 in the OECD members of Czech Republic, Hungary, Poland and Slovakia have opened up capital market operations but not elsewhere e.g. in Slovenia. Laws have been approximated in the course of a decade, new bureaucracies have evolved, able to operate these, partly re-trained in the EU, partly composed talented and uncompromised of young people. Thus institutional and legal integration has also advanced. In short: *the EU is already here*, and we are also part of the major part of the single market (having completed the Europe Agreements). Thus, the actual timing of accession is, in fact secondary.

It is hard to imagine that some enlargement, based on the Amsterdam Treaty and Agenda 2000, would not be forthcoming. It is equally hard to imagine that *full scale* enlargement would materialize *before major reforms of internal redistributory and decisionmaking mechanisms of the EU* pave the way for this, more than desirable, reunification of Europe, that could stabilize the rest of the continent, primarily the west Balkans, Belarus, Moldova and Ukraine.

³ On similar concerns of the Spanish foreign secretary concerning Poland, Cyprus, and Slovakia cf *Világgazdaság*, 11 February 2002.

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