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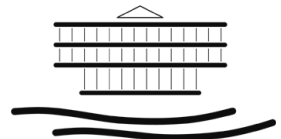
# THE EUROPEAN REPUBLIC

Reflections on the  
Political Economy of a  
Future Constitution

by

**Stefan Collignon**

in association with the Bertelsmann Foundation



Bertelsmann Foundation

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***For Fabian***

*Who was born on 12 May 2000, when Joschka Fischer gave his path-breaking  
speech on Europe's Constitution at the Humboldt University in Berlin.*



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## Foreword

Change and continuity are the two opposite poles between which European integration has veered for more than 50 years. Currently we are experiencing a period of especially rapid change. Both the single market and the euro are signs of the progress which has been made to weld the EU member states into a community with shared values and a common destiny. A further milestone in the history of the unification process is the constitution which the European Convention is currently preparing for the next Intergovernmental Conference in the second half of 2003. Its aim should be to improve Europe's ability to act both internally and externally, and to enhance its democratic legitimacy. If the constitution meets these requirements, it will transform the European Union into a political system that resembles that of a state.

Stefan Collignon's study on 'The European Republic', describes the way in which this can be achieved by defining core requirements of a future constitution for the wider Europe on the basis of a political economy approach and the theory of collective goods. The author analyses the reasons for the serious lack of democracy in the European Union in its present form and its inefficient decision-making structures from a political theory and economic perspective. Collignon then describes a way of overcoming this impasse that is both feasible and ambitious. The study clearly constitutes a signal contribution to the current debate about the future of Europe.

The Bertelsmann Foundation and the Center for Applied Policy Research have for many years shadowed the process of reforming the European Union, and have commissioned the present study in the framework of their joint "Consequences and Implications of the Euro" project. In The Federal Trust we have acquired a competent partner who has supported us in making the present study available to a wider European public.

Finally I should like to thank Stefan Collignon for his valuable reflections on the future shape of Europe. I am particularly grateful to The Federal Trust for the care with which the publication has been prepared.

Professor Dr Werner Weidenfeld

Member of the Executive Committee of the Board, Bertelsmann Foundation,  
Guetersloh; Director, Center for Applied Policy Research, University of Munich

Guetersloh/Munich, 2003

## Preface

We all want to live in peace and prosperity. Why don't we? This question has intrigued mankind from the beginning. Many solutions have been tried and often failed. European integration has been a success story over the last half-century, but in terms of history, this has been a short period. After the end of the Cold War, new challenges have to be faced. Has European integration simply been an instrument to resist Soviet domination? Or has it been the fruit of collective learning? Is the liberal democratic consensus, on which the European Union is built, a solid foundation for future developments, or will Europe revert to warring states as it has previously done for 350 years? These are questions, which loom in the background of the work of the *European Convention*, which is presently deliberating a Constitution for the European Union (EU). But the immediate task is to find institutions, which will allow efficient policy-making for decades to come. Today an intransparent web of institutions, procedures, rules, committees, governments, parliaments, etc. contributes to a wide range of policy outcomes, but this method is no longer coherent with the values and norms that Europe's polity proclaims to adhere to, nor is it likely to produce efficient results.

This book aims to contribute to the ongoing debate on Europe's future. It takes a political economy approach to analyse some of the underlying issues and argues that collective action problems require a courageous step forward in creating coherent governance structures for the Union. *The European Union needs a proper government and full democratic legitimacy by its citizens.* This does not necessarily mean that the EU has to become an oppressive Leviathan. But in the course of the last 50 years, a large number of European collective and public goods have been created which affect the daily life of each and every European citizen. It has to be recognised that their governance has become a 'public thing', a *res publica*. Hence, a constitution will establish a European Republic which one may also call a European Democracy. Today it has become

essential to give European citizens their democratic right to political autonomy. It is time to take the European 'common concern' out of the sole hands of national governments. For Europe does not belong to governments. It belongs to its citizens.

I would like to thank all those who have contributed to my reflections over the recent months, especially Keith Lehrer, Daniela Schwarzer, Susanne Mundschenk, Sebastian Dullien, Eleni Katirtzoglou and Maria Joao Rodriguez. I am especially grateful to Holger Friedrich and Thomas Fischer from the Center for Applied Policy Research and the Bertelsmann Foundation for the intellectual and financial support, including the stimulating discussions at the seminar in Gütersloh and the SommerAkademie Europa 2002 in Seon. Christopher Herrick has been a solid rock as my assistant. I am indebted to my colleagues at the LSE, notably Paul Taylor, Meghnad Desai, Charles Goodhart and Waltraut Schelkle, but the greatest treasure have been my students. I also have benefited from discussions with many policy makers. The visits by Giuliano Amato and Paul Nyrup Rasmussen to the LSE and our conversations were particularly helpful. Heinz-Joachim Neubürger's support cannot be overestimated. I also have learned from the discussions at the InterAction Council meetings. I would like to acknowledge Helmut Schmidt, who has inspired me for over 35 years. His generous support over recent years has strengthened my conviction that we can make a difference by standing up for our beliefs.

Paris, March 2003

# Abbreviations

CAP	Common Agricultural Policy
DPEF	Documento di Programmazione economico-finanziaria; the Italian Growth and Stabilisation Program
EC	European Community
ECB	European Central Bank
Ecofin	Economic and Financial Affairs Council
EMU	European Monetary Union
EP	European Parliament
EPP	European Peoples Party
ERM	Exchange Rate Mechanism
EU	European Union
FAO	Food and Agriculture Organisation
GDP	Gross Domestic Product
GDR	German Democratic Republic
IMB	Individual Marginal Benefits
LSE	London School of Economics
MEP	Member of the European Parliament
OECD	Organisation for Economic Cooperation and Development
SGP	Stability and Growth Pact
SMB	Social Marginal Benefits
TARGET	Trans-European Automated Real-Time Gross Settlement Express Transfer
UK	United Kingdom
US	United States
USA	United States of America
VAT	Value Added Tax
WWF	World Wildlife Fund



# Introduction

The European Union is not a state. Nor is it a nation. But what is it? A supranational community? A federation? Burgess (2000:29) affirms: ‘Whatever the EU is, it is *not yet* a state’<sup>1</sup>. And McKay (1999:3) claims: ‘When eleven countries of the European Union officially adopted the euro on January 1st 1999, few commentators doubted that the EU had embarked on a major step towards the creation of a federal system of government.’ Even if one does not fully subscribe to this statement, it is certain that European Monetary Union (EMU) has structurally transformed the European economies in many ways. By complementing the single market with the euro, economic integration has essentially been completed, but political integration is still lagging behind. With one single currency, the monetary economy of the participating member states has effectively become one unit. On the other hand, economic rules and regulations are still highly fragmented, even if European legislation has achieved some harmonisation with respect to the single market. This poses problems of efficiency. My concern in this book is that there are too many cooks in one kitchen. Governments conduct their policies primarily according to national objectives, while concern for the potential impact on others is frequently overwritten. I will show that this disequilibrium between Economic and Political Union is the Achilles heel of European integration.

In this context it is not surprising that doubts are also frequently voiced about the appropriateness of the present political arrangements for the monetary constitution of Euroland. Hardly a European Council passes without the EU requesting or promising better policy co-ordination. But the measures, which are agreed at these summits, are only meaningful for a small group of bureaucrats, mostly in the national capitals. The growing prominence of policy co-ordination issues in Euroland is a sign that existing policy-making rules are not optimal. There is little transparency about intergovernmental European policy-making,

both in matters of content and procedures. For ordinary citizens the summit communiqués sound like incomprehensible Chinese.

Hence, European unification has reached a critical stage. After the successful introduction of the euro as the single currency for more than 300 million citizens, new tasks and modes of economic governance are becoming the focus of attention. By integrating a potentially large number of new countries into the European Union, many of whom have had only a relatively short experience with market economies and liberal democracy, the quality of European policy-making will change. In many EU member states, new populist movements are voicing discontent and signal a divorce between policy elites and disenfranchised sections of the population. Will European integration face up to these challenges?

My principal focus is on constitutive rules for policy-making, with particular emphasis on the economic aspects of a European Constitution. This implies looking at how politics affect economic outcomes, but also how economics affect politics. Thus, my task stands in the tradition of political economy, but I will also touch on some deeper, political and philosophical issues. The reason is that with the creation of a unified monetary economy, Europe has consciously or unconsciously also opted for a model of society. Money is not neutral. The institution of money has a normative content, which requires a broader institutional context in order to achieve its welfare-enhancing qualities. My basic argument is simple: *the European Union needs a full-fledged government, which draws its authority from European citizens*. In a context of ongoing globalisation, near-complete economic integration and the enlargement to a large number of new member states, *European intergovernmental policy making is no longer efficient*. Authority can no longer be derived from national governments alone. It needs the legitimacy of a European democracy.

This proposition is controversial. For example, the British Foreign Secretary Jack Straw declared in a speech in Edinburgh (27/08/02):

‘There is a case for a constitution which enshrines a simple set of principles, sets out in plain language what the EU is for and how it can add value, and reassures the public *that national governments will remain the primary source of political legitimacy*. This would not only improve the EU’s capacity to act; it would help to reconnect European voters with the institutions which act in their name.’

I will show that the stated objectives of the EU can only be achieved if the primary source of the EU’s political legitimacy is its citizens and not its governments. I will therefore explain why a European government would improve European welfare. I will also have to clarify the intellectual background,



which may have led other observers to different conclusions. In order to find a *terrain d'entente* I will refer occasionally to some abstract concepts and theories, but I will always try to bring their relevance back to European policy making.

## Plan of the Book

In Chapter One, I will first look at the motivations for European integration and some basic concepts about policy-making and social consensus, which are important because they are the foundation of any European Constitution. In the next chapter, I will give a cursory glance at the changing environment of European policy making that will ultimately force the EU to take the next step in political integration – or to perish. Chapter Three sets the intellectual framework for my discussion of a European Constitution. I will then look at specific forms of European constitutional rules. Federalism is the most frequently used system of ideas, when Europe's Constitution is discussed. Chapters Four and Five will analyse different manifestations of federalism. First I look at the political concept, which has two different traditions. The anarcho-communitarian approach, which is today expressed in the principle of subsidiarity, goes back to the 16<sup>th</sup> century and reflects a holistic and exclusive vision of society. I will show that it is inconsistent with the explicit normative content of the Treaty on the European Union. By contrast, the liberal-democratic approach, as reflected in the US constitution, has transformed this traditional view of federation into a modern republican constitution. I will show that this approach is coherent with the economic constitution of European Union as it was established by the Maastricht Treaty. In Chapter Five, I will analyse in-depth economic federalism, which is a theory to determine the optimal regional organisation of government within one state. I will discuss efficiency criteria with respect to subsidiarity in the context of globalisation and deeper European integration. It turns out that collective action problems are likely to prevent the provision of a large class of European collective goods through voluntary intergovernmental co-operation between EU member state governments. A larger Union will increase the probability that the EU will turn from a 'privileged' into a 'latent' group, to use Olson's (1971) famous concept. This means that subsidiarity and EU enlargement risk undoing European integration. Hence, competences for supplying these goods need to be delegated to the European level, to a European government with full democratic legitimacy by its citizens. Chapter Six focuses on the macro-economic policy mix as a case study for the complexities linked with the provision of collective goods in Europe. I conclude that only a full, democratic constitutional consensus would be able to give European stabilisation policies the coherence they need. The last chapter summarises some of the main arguments developed in this book and discusses some practical applications.