

EUROPE

- The Global Challenges



Editors

Antoni Kukliński

Krzysztof Pawłowski

WYŻSZA SZKOŁA BIZNESU
NATIONAL LOUIS UNIVERSITY

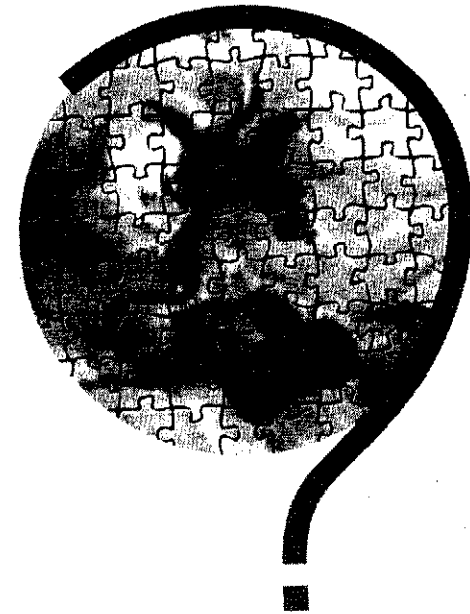
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**ANTONI KUKLIŃSKI
KRZYSZTOF PAWŁOWSKI**

VOLUME 1
EUROPE—THE GLOBAL CHALLENGES

VOLUME 2
EUROPE—THE STRATEGIC CHOICES

EUROPE - The Global Challenges



**Editors:
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kola Biznesu
Louis University
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PREFACE

Wyższa Szkoła Biznesu—National-Louis University is one of the most successful private business schools in East Central Europe. It is a driving example of the structural change of the Polish Academic Community in the period of glorious transformation at the turn of the XX and XXI century.

In spring 2004 WSB-NLU has decided to create new Research and Publication Programme as an attempt to integrate three fields of academic and pragmatic reflection:

- 1) regional studies including the management of regional development
- 2) studies in the field of science and technology including knowledge management
- 3) European studies as an reflection on global challenges and strategic choices related to the future of Europe

This Programme will be animated and coordinated by RECiFER—Research Center for European Regions founded by WSB-NLU. In this context the WSB-NLU has decided to create a New European Publication Forum—defined as RECiFER—Eurofutures Publication Series (REUPUS).

It is a great honor and pleasure for me to introduce the first volume of this New Series: *"Europe—The global challenges"*.

Let me acknowledge in this place the generous grant of Bank Przemysłowo-Handlowy which creates the financial background for the publication of the first two volumes of REUPUS.

Krzysztof Pawłowski
Rector of WSB-NLU

Nowy Sącz, December 15th 2004.

LÁSZLÓ CSABA

EUROPEAN GOVERNANCE —THE CHALLENGES AHEAD

The enlarged European Union is facing a multiple of challenges in the 21st century. This has to do with the changed international environment, the ITC revolution, the processes of so-called globalization, but not least with the un-addressed challenges emanating from within the EU. The latter are multidimensional. Some of these, like ageing or the environmental challenge are rather long term and structural in nature. Others, like the ones to be discussed in this essay, pertain to immediate, that is medium term challenges and thus are becoming formative for delivering proper answers for the questions already put on the agenda by the policy processes, falling increasingly under the myopic policies following the daily trends in the popularity indices only.

In the following we shall expand upon six issues that may be of defining importance for the way the European Union will evolve in the future. These are the Lisbon Agenda, the Constitution, the Stability and Growth Pact/SGP, the defining new features of common and security policy/CFSP, the issue of further enlargement and finally the EU position in WTO negotiations. As seen from this preliminary list, our agenda does not aspire to be exhaustive, still, some of the issues of immediate policy importance, that will definitely have a bearing on the strategic choices and outcomes will definitely be covered. Depending on the type of answers given to these challenges the nature and efficiency of the common European institutional framework, and by implication, of economic and social dynamism, will be substantially different.

The topicality and importance of our subject is given by a number of considerations. First, the EU is not, contrary to many statements of intention, the most competitive community of the global economy, either in terms of finance, or in terms of innovation. Second, enlargement has taken place without any major reforms of the European structures of governance. This circumstance has already delivered first signs of over-stretching the decision-making capacity of the Community. Third, quite related to the previous point, there is not much agreement as yet, either among the EU organs, and even less among the member-states, about how to proceed, especially in terms of financing common measures and policies for the 2007–2013 period. Last but not at all least, the EU seems to have come to a fatigue in more than one dimension. While the process of enlargement is anything but complete, with several old and new candidates knocking on the door, the Union has not yet digested the enlargement by ten new members, even if the combined economic significance of these, in terms of GDP or trade flows, is actually less than the potential inclusion of Switzerland or Norway alone would mean. Moreover day to day management of various strains have replaced visions. Due to the dominance of short-term redistribution related issues of the agenda, no serious debate over reforms has become possible. Moreover the general public has grown increasingly skeptical vis-à-vis the European project in general and the enlargement process in particular.

is means, that contrary to the 1970s and 1980s visionary policy initiatives, if any, chances of implementation owing to limited acceptance by the general public.

In order to elaborate a better understanding of the alternatives in terms of thinking and potential policy alternatives let us therefore consider some major aspects of the focal areas of European governance and the implications of the insights for future development!

The Lisbon Agenda

Lot has been written upon the March 2000 decisions of the European Union on transforming itself into the most competitive community of the globe. The fact that the EU has become involved in soul searching, that it has come up with a critical self-assessment, and that it formulate a detailed schedule and targets for further improvement can only be considered a plus. Furthermore the so-called open method of coordination has constituted an important novelty in terms of management,¹ moving the Community away from the inherited Franco-German bureaucratic-administrative traditions that used to dominate the initiatives of the first decades. Likewise the idea that a long-term project needs continuous monitoring, preferably at the highest level, has been also institutionalized, to mention yet another innovation. Furthermore the move away from centralized procedures and opening up for diverse methods of implementation is also to be appreciated as a step in the right direction.

Meanwhile, it would be hard to deny, that the Agenda itself has been a strange mixture of economic and social goals, that were hardly synchronized. For instance the objective to enhance stakeholder participation in economic activity may well qualify as an objective on its own right. However it is hard to establish how exactly meeting this criterion contributes to global competitiveness. This matters in a number of ways. First the example clearly illustrates, that one of the basic principles of management sciences, that is the clear assignment of tasks, has been missed. Second, to have multiple tasks, it might be next to impossible to set a clear standard, against which success or failure could be measured. This opens the door wide open to subjective evaluations. Recent analysis² has indicated not only the remarkable similarities of the Lisbon Agenda to previous experiences in Comecon, but also has highlighted, that by and large, social indicators led to be met, while economic indicators/competitiveness in narrow sense/ missed. Therefore it is not surprising that the reflection committee, set up by the Brussels Council of March 2004 under the aegis of Dutch Premier Wim Kok to evaluate progress, has been facing a next to insoluble task. It may well be seen as a promising sign that the new president of the EU Commission, José Manuel Durão Barroso has retained responsibility for the Lisbon Agenda as his own competence. On the other hand, as commentators immediately noted³ that it may soon backfire. First, the Commission does not have the competence most needed to spur industrial innovation, venture capital financing and many other items, including budgetary funding or providing tax breaks. Second, in many cases not even national governments are in a position to be of assistance: innovation can not be declared by fiat. This holds particularly to issues of the ITC revolution and its management, where the state may contribute to, but hardly generate progress.⁴ Third, societies in Europe may

¹ A broad analytical assessment of this innovation is offered in the special issue of *Journal of European Public Policy*, vol.11.no.2./2004/.

² GÁCS, J./2004/:' Planning redivivus—on the Lisbon Agenda of the EU— paper presented at the 40th anniversary conference of Kopint—Datorg Institute of Economic Research entitled 'From Economic Reforms to EU Accession' Budapest, 8 April.

³ See the editorial of *Financial Times*, 13 August, 2004.

⁴ More on these issues in the recent monograph of SZALAVETZ, A./2004/: *Az informáciotechnológiai forradalom elzárkózó gazdaságok/The ITC revolution and emerging economies*. Budapest: Kossuth Könyvkiadó.

or may not favor the idea of competitiveness. If one thinks about the scale of resistance brought about by recent German attempts to reform the labor market, similar Italian efforts to streamline public pensions, or the wild resistance of the French public to slim down civil service, the idea is anything but trivial.⁵

Without necessarily wanting to expand more on this controversial subject, the Lisbon Agenda has shown, in a nutshell, the paradoxes inherent in the current stage of European integration. On the one hand, outside observers⁶ rightly emphasize that the process, sometimes called 'Europeanization', has created inter-twinings and regulatory regimes that were considered unthinkable among former/traditional enemy states even a few decades ago. On the other hand, what the same author aptly baptized as inter-governmentalism, is still a defining feature of the EU. With the accession of states with newly regained independence, and strong concerns about intra-EU redistribution, this feature has only been strengthened. The Nice Treaty, though allowing for enlargement, fell short of making any steps transcending this traditional feature.

For this simple reason the EU, here and in many other policy planes, is confronted with a paradox. On one hand, the challenges it meets, such as terrorism, migration or technological change are global in nature. On the other hand, the EU is still mostly just a cap upon willful and extremely self-conscious national governments, anxious to safeguard their perceived or real sovereignty in each of these policy areas. Therefore the EU, as a limited regional government, is unable to manage in the full the tasks it has amassed, or that is expected from it by the member states. Furthermore, given the limited progress in the area of systemic and policy reforms, that is clearly observable in the Constitutional Treaty adopted in June 2004, it is unlikely to evolve on its own, in a quasi-automatic fashion in the directions the good intentions of the Lisbon Agenda would let us expect to move.

This state of affairs is burdened with the risk of further deepening the divide between expectations and realities. On the one hand, the European public, as well as much of the policy making elite continues to cherish the hope of immediate and sizable improvement even in the absence of unpopular reforms that would enhance market coordination, liberalize entry and turn the economy and society more competitive. On the other hand it is less than surprising to see that the relative lagging behind of European industries, science and technology and the entire quality of the European investment spot/locality is unlikely to change against American and Asian competitors. Facing these facts is relatively simple, both at the reflective/academic and at the everyday levels. Therefore the breeding ground for Euro-skepticism is continuously being provided, over and above the levels justified by actual performance of the European institutions and policies. The recent very low turnout in European elections, on average only 37 per cent, with the new member countries faring actually much worse is just as much a warning sign as the increasing strength and electoral support of radical parties and movements subjecting the fundamentals of European construction in doubt.⁷ This outcome is per se a critique of the way European policies are being formulated and communicated to the electorate—that is a major

⁵ These issues have been analyzed in broader context by the 'four dilemmas' of Antoni Kuklinski/2003, pp126-127/ in his: *The future of Europe. Four dilemmas and five scenarios. A challenge for prospective thinking*. In: KUKLINSKI, A. and SKUZA, B. eds: *Europe in the Perspective of Global Change*. Oficyna Wydawnicza 'Rewasz' for the Polish Association for the Club of Rome, Warsaw, 2003, pp125-137.

⁶ MORAVCSIK, A./2004/: *European Governance—still a Model for the Rest of the World?—keynote delivered to the 3d international conference of the Munk Center for International Studies, University of Ottawa, entitled 'Canada and the New Europe' 24-27 February, 2004.*

⁷ For the time being most of these protest movements, with some exceptions as the Czech Communist Party or the Front Nationale of France, or the Vlaamans Blok in Belgium, tend to be ephemeral in nature. However, from the point of view of Europeanization it is hardly consoling to see that one protest movement gives way to another one, the common denominator being the rejection of salient features of the European project as it has emerged over the postwar decades.

blunder in a democratic society/community. It also allows us to predict a slow rather than comprehensive movement in improving the present state of European policies.

2. The European Constitutional Treaty

A lot has been written on the European Constitution both in the academic and the daily press. However, in this essay we consider it in a narrow sense, only insofar as it is a possible constituent of a new, reformed policy framework, an instrument to achieve the Lisbon Agenda.

It is clear, not least from accounts provided by the insiders⁸ that the lack of confidence, that arose not least because of the different interpretation of the Afghanistan and Iraq involvement of the United States by the Paris-Berlin axis on the one hand, and by the London-Madrid axis on the other, has not allowed for any major step that would have transcended the compromises of 2000, enshrined in the Treaty of Nice. The latter, while being a typical compromise outcome not accommodating basically any of the parties involved, has still paved the way for enlarging the community by ten new members. It also has sustained the balance of power among European institutions and among European nations. That was a maximum to be attained under the circumstances, thus in instrumental terms it may have been seen as optimal, a point tirelessly emphasized by policy makers.

What is optimal from the diplomatic perspective, however, may well turn sub-optimal from a dynamic perspective. As could be seen by the negative vote of the Irish public on the first referendum on Nice, the drift between diplomatic talk and public discourse have widened into a deep split. At the end of the day, there was nothing to be sold to the Irish public. The very fact that the pressure from large member states triggered the Irish to organize the referendum anew has been a sign of the democratic deficit of the Union. Likewise the ever larger number of countries, starting up with Great Britain, that are to test the legitimacy of the Constitutional Treaty through a referendum, is itself an indication of deep distrust 'in Brussels' also in matters, that have not been produced by the bureaucracy, but by the convention composed of representatives of national elected legislators.

In view of the insiders/policy-makers the Constitution is no less 'optimal' than the Treaty of Nice used to be: it contains the maximum that was to be delivered under given constraints. However, this instrumental argumentation falls short of addressing the weak points that we have already listed in discussing the limited outcomes of the Lisbon Agenda. Furthermore it might well be advanced that not having a basic law at all might well be a superior option to having a poorly conceived Constitution. This is clearly so if one believes in some of the elementary insights of sociology and public administration.

In view of the latter disciplines basic laws normally set the rules of the game for many years to come. Therefore it goes without saying that not any time is appropriate for devising and adopting such fundamental arrangements. Experience of Great Britain with the system of common law, or the ever growing spread of *lex mercatoria*, the unwritten but observed law among merchants, created by business practice rather than by lawyers, are indicative of the validity of our point. If we take the constitutional Treaty as a guideline for future evolution, it is a very vague and imprecise one. It is redundant on issues it should keep silent, and is silent on matters it should provide guidance—this is the inevitable outcome of pushing an agreement among basically disagreeing and distrustful contracting parties. For this reason it may well be less than a tragedy

⁸ Haensch, K./2003/ 'Beschreiben was sein kann': der Verfassungsentwurf des Europäerischen Konvents. *Zeitschrift fuer Staats- und Europawissenschaften*, vol.1, no.3. pp 299-312.

if the Britons, and perhaps the Dutch or the Swedes, the Irish or the Danes simply reject the artwork of diplomacy. It will be a loss of face for those involved, but a new opportunity for the Community to find better compromises at a later, more appropriate stage.

3. Softening Up the Stability and Growth Pact

The idea of softening up the rule based framework for common fiscal policy has been on the policy agenda ever since the SGP was born. There are a number of considerations that have led to this initiative of the Commission of the EU, submitted to the Ecofin council of finance ministers in September 2004. First, a substantial part of the academic literature considered the numbers of the SGP arbitrary and the interpretation by the ECB unreasonably rigid. Second, large member states have experienced a 'consolidation fatigue'⁹, meaning that in good times of high growth no effort has been made to reach surplus positions, therefore at times of lull there remained no room for fiscal easing. As the analysis quoted below indicates, it were the big member states that failed to comply, while the small ones adjusted. Third, despite the ruling of the European Court of Justice of 13 July 2004 finance ministers agreed anew for France not observing the SGP targets, in the fourth consecutive year in a row. A similar situation is emerging in Germany. Last but not at all least, a populist consensus among right and left wing ruling parties called for more lenient interpretation of those rules that 'nobody observes anyway'.

This is not the place to re-iterate the more technical argumentation behind the rationale of the SGP¹⁰. Let us just recall that the rules versus discretion debate is one of the evergreens of economics and politics over the past three decades. There are fairly strong arguments favoring rules-based behavior, including credibility, calculability, policy efficiency and many more, including transparency that is a major guide of democracy. On the other hand, nobody with experience in management would dispute the supreme role of judgement, discretion based on evaluation of circumstances.

The major issue thus is not if rules should 'always' be enforced, 'at any cost', irrespective of circumstances. The subject of the debate is if the circumstances observed in the two economies, accounting for over a half of joint GDP of the EU, such circumstances exist that could be remedied by fiscal easing. The latter claim seems to be strongly debated both inside the respective core EU economies and in international agencies, such as the OECD, IMF or the rating agencies. For this reason the Commission proposal is a long way from what it is called in a part of the daily press, the abandonment of the Pact. In reality, there is an attempt to bring the rules in line with existing practices, without however robbing them of their substance. For instance, the early warning mechanisms, including publicity of feedback of Commission evaluation of the convergence programs will be strengthened. Likewise governments in difficulty will have to produce credible adjustment programs, including the list of measures that are to be taken to remedy the fiscal imbalance. The softening of the interpretation of poor economic performance, from a recession of 0.75 per cent drop to below one per cent growth is in fact adjusting the rules to the practice of the past few years. The real problem is not so much the adjustment, but the consequence of it. The public, being mostly unaware of the complexities of fiscal sustainability, may sigh up, whereas the real problems, such as the non-payability of public pensions, the cost explosion in health care, and conditions that have brought about slow growth in Europe remain unattended.

⁹ Hughes-Hallet, A. et al.; *Fiscal Policy in Europe: an Evidence-Based Approach*. London: Center for Economic Policy Research.

¹⁰ CSABA, L./2004/: A non-stability and anti-growth pact for Europe? In > CSABA, L.: *The New Political Economy of Emerging Europe*. Budapest: Akadémiai Kiadó.

It may well be, at least for the short run, that this softening of the SGP will not translate into higher inflation rate in the euro-zone. The interrelationship between fiscal balances and inflation is an intricate one, and countries with a deficit may, for some time, easily enjoy the benefits of price stability. However a public deficit is always and everywhere involves a crowding out of private investment, therefore a lax public finance attitude is invariably a way towards slower growth in the medium and long run. This has indeed been the case in Europe, therefore there is no good reason to sigh up at seeing the softening up of the SGP.

What should we think of the interest of the new members? It is hard to spend a week without hearing a political personality speaking of the 'inevitability' of larger deficits in the new member states. These claims are based on the need to invest in physical infrastructure and in environmental protection.

It is beyond doubt that certain institutional and structural reforms have unfavorable ramifications for the fiscal balances, reflecting short term cash flow, rather than stock phenomena. Therefore, as could be seen in Hungary and Chile, introducing private pension funds do lead to temporary deterioration in public finances. However, in the case of the new member states, those who are struggling with fiscal imbalances, that is the larger ones, do so not because of their extreme reform zeal in such areas as health care or environment, where any move to rationality/sustainability will be costly. These deficits derive primarily from overspending on current expenditure items, mostly related to immediate consumption, not to public investment in general or financing structural reforms in particular. Governments of the Central European countries seem to have been trapped in an attempt to 'compensate' the public for the sufferings inherent in economic transformation. Whatever we think of the merit of the latter consideration, incurring debt for investment, and incurring debt for current consumption remain two different cups of tea. Weakening the status of the SGP thus may send the wrong signal to societies where the culture of fiscal prudence is yet to be established.

4. Common Foreign and Security Policy

It might well sound as only a slight overstatement to make the claim that the CFSP is not much more than a bunch of good intentions. However the reality of decision-making in the Community is such that regular and intensive cooperation up to the point of coordination has become a practical must also in areas where no common funding has become available. This has gone as far as setting up joint foreign representations abroad in some cases by some member states, or to the point of making decisions, say on environmental protection, under qualified majority, enforceable by courts against the will of local authorities.¹¹ For this reason the regular and intensive interaction, not only among ministries of foreign affairs, has shaped the *modus operandi* of European administrations in the past few decades. Also the working method of the Union, based on avoiding/pre-empting those embarrassing situations when one or a few members are voted down, has created a culture of intensive cooperation.

This situation has changed primarily due to the divergent assessment of the security risks and the emerging, largely unilateralist, American responses to these during the 2000-2004 period. But the differences in the assessment of US foreign policy constituted only one component of disagreements. Member states have remained split over a number of issues, especially ones relating to the future. What should be the speed and scope of further enlargement? How far should

the Community proceed in centralizing decision making? What should be the policy relevance of the social agenda? What should be the terrain of European policies, as markedly different from those of the US in view of the enormous capability gap of European defense? What is the relative significance of Mediterranean policies against Eastern good neighborhood policies?

Without even attempting to be exhaustive, this list of disagreements is already long enough to illustrate, that the EU has come to a watershed. Either it will be able to formulate and not least operationalize policies and procedures, where issue areas of common interest are being treated jointly/even at the cost of giving up a part of national sovereignty, as understood in the sense of 19th century/, or take a different root. The latter would retain and even strengthen the component of national representation/intergovernmentalism, thereby relegating the EU into a small United Nations on the regional scale. The latter approach is, of course, severely interacting with the new line adopted by the net contributing countries. In their joint statement of January 2004 these advocated the capping of common funds to one percentage point of common GDP. While the latter may be justified on grounds of efficiency, the very fact that such a capping emerged as a major policy item is telling about the lack of enthusiasm currently surrounding anything that has to do with deepening integration. It is sad to observe that new member states, fell hostage to their mis-perception on the economics of the EU, thus keep on fixing on the balance of official transfers, have been instrumental in strengthening this line of minimalism.

In the broader perspective, however, it would be wrong to deny that the underlying commonality of interest and shared values inevitably help overcome those divisions within the European Union, that look unbridgeable at times of their emergence. The joint celebration of D-Day in June 2004, with the Germans and the Americans involved in what had traditionally been primarily a Franco-British event has been but one item of politics carrying unmistakable, but strong symbolic messages. Similarly, there have been observable signs of what economists like to call 'the benefit of crisis'. Faced with European inability to offer positive contributions to solving the dilemmas in a series of conflict areas, not only in Iraq, but also in Afghanistan, Kosovo, Bosnia and the Middle East, with Macedonian peacekeeping figuring as a minor point of success. Under this angle the defense planning of the European Union had to be confronted with the inescapable challenges, leading to a more positive and practical approach to ESDP, the European arm of Atlantic security.¹² Likewise, in a number of other areas, from the reform of agriculture to the adoption of modifications in the statutes and voting procedures of the European Central Bank, preparing it for enlargement by the new members have been indicative of the continued commitment of the member states, also at the level of hard core policy-making, to sustaining the European project and adjusting it to new realities.

In a way all this is supportive of the theoretical insight¹³ that the process of 'Europeanization' has indeed already transcended the boundaries conceptualized by the model of inter-governmental co-operation. While the dominance of the latter is a fact of life, over and below the central state level a web of inter-twinings has been evolving. The latter has changed the nature of the nation state. By the same token foreign policy can not and should not be conceptualized along the 19th century lines of the realist school, with non-state actors gaining more and more ground. Furthermore, not least due to the co-operative structures that have long transcended the competence of foreign ministries, CFSP has emerged as something very real, despite the obvious limitations due to limited funding and fragmentary institutionalization. In the future, not least because of the ambitions embodied in the Lisbon Agenda, this dimension of EU policies is likely to gather momentum and counteravail the current trend of national egoism.

¹¹ More on that in the classic collection of WALLACE, W. and WALLACE, H., eds/2000: *Policy-Making in the European Union*. 4th edition. Oxford: Oxford University Press.

¹² MENON, A./2004: From crisis to catharsis: ESDP after Iraq. *International Affairs*, vol.80, no.4, pp631-648.

¹³ LANGEWIESCHE, D./2004: Zentralstaat—Foederativstaat: Nationalstaatliche Modelle in Europa in der 19 und 20 Jahrhundert. *Zeitschrift fuer Staats- und Europawissenschaften*, vol.2, no.2 .pp173-190.

5. The Challenge of Further Enlargement

Ever since the Helsinki Council of December 1999 has opted for the Big Bang type of enlargement and opened up the door to potential membership to countries of the Western Balkans and also Turkey, there emerged a large and controversial literature over the frontiers of Europe. Regrettably these discourses have been conducted on two unrelated planes. At one level a quite abstract theorizing emerged, whose parameters have tended to be set in terms of philosophy of history and culture, thus these remained to be quite disconnected with those strategic policy options that should have been the subject of deliberation. Parallel to these, a quite narrow technocratic debate has been conducted over potential costs of any further enlargement in terms of official transfer, redistribution of the net recipient position, or allocating seats to a close to a 65 mn strong country in the European parliament. The latter debate was no less immaterial than the first one, as long as any further enlargement would, by definition, presuppose changes. Therefore the *ceteris paribus* assumption employed by most analyses produced in official and semi-official think-tanks were simply missing the point. To give but one extreme example: why should Turkish farming be, even in abstract terms, be supported according to the principles and procedures elaborated by the French and the Germans half a century ago under different conditions?

It would be thus hard to overlook that the debate about further enlargement is not, as in the Council sessions, item no47 on a three day long agenda, in which nobody can take serious interest in any longer. If anything these complex, and in many ways open ended, issues bring back to the policy-making agenda the long forgotten basics about the European project. The EU is not, and has never been, an arena for bargaining over official transfers hardly adding up a percentage point of any recipient nation's GDP. The EU is about creating and sustaining a lasting order of peace. The road toward this supreme goal leads via economic, financial, organizational and diplomatic channels. However none of these, not even the Lisbon Agenda or SGP is to replace the original, higher ranking objectives. It is more than unfortunate that the media coverage of EU events has distorted its image to the degree that few analysts would venture to restate this platitude.

The ability to enlarge therefore is not a given that can or should be calibrated in any technocratic procedure under pre-set conditions. The ability to cope with larger numbers is of course a function of the decision-making structure that is in place. It also is a function on the amount of financial resources that are to be allocated to this purpose. The number of potential members is crucially dependent upon the degree of centralization versus the competition of legislations¹⁴: the more the room for diversity is institutionally secured, the larger number of preferences can be accommodated within the same community. Last but not at all least the opportunity costs of non-enlargement needs to be assessed. Are not the lasting crises on the Balkans as well as in the Middle East and in the Caucasus related to a lack of clear European perspective to these regions?

In my view these and similar long term issues should be discussed, and the prospective institutional and policy options should follow this normative path, rather than just cementing the status quo, as has been the case in Nice and Laeken. Following these deliberations the contours of a new European project, building upon the existing one, but extending it to new areas and under new conditions could be conceptualized. Once there is a fair degree of consensus over its salient features, a new set of rules, perhaps but by no means inevitably, in the form of a Constitution or a founding treaty could be adopted. In so doing the concerns of the newest, now prospective members, as well as the vision about the future global role of the EU could be formulated and

¹⁴ Van den BERGH, R./2000: Towards a model of regulatory competition in Europe. *Kyklos*, vol.52, no.4.

spelled out in such detail, as was the case with the Single European Act or of the Maastricht Treaty.

The history of these two precedents, as well as of their implementation has been a thorny one. Nobody thought that these were easy choices, they also entailed costs and sacrifices. Still it is hard to ask why it should be a realistic proposition to extrapolate the current status quo, that does not show any signs of sustainability? Are not the signs of terrorism, of uncontrolled migration, economic slowdown, inadequate innovation, or the non-sustainability of welfare systems all signs of crisis rather than of equilibrium? And if so, is there more to the majority 'realist' school more than intellectual laziness and the inability/unwillingness to cope with the challenges of the new era?

All in all, without a wide ranging and broad debate over the future size, scope and nature of the European project no convincing/sound answer can be given to the question over the limits of Europe or to the potential costs and benefit of enlargement versus non-enlargement. For this reason many debates surrounding the Constitutional Treaty seem to have missed the point, as answers pre-empting future options tended to be formulated on an ad-hoc base, rather than relying upon the conclusions that could, even in theory, have been derived from the consensus based on the deliberations summed up above. Extrapolation of the status quo, working with *ceteris paribus* assumptions are, certainly of no avail.

What we do know for sure that no further enlargement seems feasible under the current arrangements, that were not reformed upon taking upon board the ten new members. We also know that the role of redistribution and centralized decision making is on the decrease. Furthermore we also do know that many countries need a European perspective to help overcome their developmental dead ends. The alternative option, such as building democracy from outside, has yet to prove its viability in the cases of Iraq, Afghanistan, Bosnia, Kosovo, Rwanda and Somalia alike.

6. The EU in WTO

Last but not at all least mention should be made of the so-called 'developmental round' of the World Trade Organization. This process, started with the scandals in Seattle in 1999 and still in a pre-negotiation stage following the debacle of the ministerial round in Cancun in September 2003 is perhaps the most influential process defining the contours of future EU legislation. In a nutshell, the evolution of WTO from a purely trade organization into a set of disciplines regulating the entirety of global interchanges except finance, has made the Doha Round of exceptional significance. The WTO, as a dispute settlement and norm generating structure, has been gradually intruding into a variety of areas traditionally thought to lay in the exclusive realm of national sovereignty. These areas include intellectual property, via the regulation of services the movement of people, IT and electronic trading, investment and trade promotion, taxation, public procurement, law enforcement, transparency criteria, state aids and their transparency, just to mention a few.

For the time being the EU is a major obstacle to improving the conditions of international trade, insofar as its policies, especially ones protecting selected producers and traders, do not accommodate legitimate claims of the poorest countries, not even to the degree, it has been accorded to them by the 1994 Marrakesh agreements. For this reason the cheerleaders of the South, China and Brazil have initiated a much tougher negotiating stance as before, thwarting the ministerial round in Cancun.

It is correct to recall that Cancun was yet another poorly prepared gathering, furthermore that commonality of trade interest is likely to trigger a reconvention of the talks.¹⁵ Still, the ability of the EU to give concessions in matters of farming is crucially dependent upon the progress of its internal reforms. For the time being a powerful new coalition of old farm lobbyists and of the new members adopted a 'conservative' stance of preserving the status quo, if possible even extending the support systems until 2013. Without concessions in farming, however, there is no hope for improvement of market access, of securing foreign investment and enforcing better protection of intellectual property rights—all on the top of the list of EU priorities—this is an un-ambiguous message of Cancun

At the bottom line here again the EU is confronted with similar challenges as in the preceding areas. The extrapolation of current myopic and vested interest dominated policies does not allow for any flexibility, thus conflicts of the future are already inherent in the agenda. By contrast, in order to be able to opt for a longer term strategy, such changes would be needed that are though feasible, however not on the agenda as set by the Constitutional Treaty and the financial guidelines for 2007–2014.

7. Instead of Conclusions

In short, EU has long been in need of reflection and action, perhaps in a much quicker pace than the current wave of thinking would allow for that. The issue of European governance, though somewhat abstract, is a very practical one. New and innovative answers to the global challenges and its own policy aspirations need to be found. And while we can suggest the contours of change, as we have at least implicitly tried, the split between our normative and predictive scenarios is marked, indeed. Let us hope that besides short-term interest and myopic politics, democracy and transparency will, again, prove its viability. This allows for a more optimistic assessment of the chances of major reforms than the currently dominant rational choice theories of political science would lead us to believe.

JAN OLBRYCHT

COHESION AND/OR GROWTH POLICY

The first years of our EU membership coincide with an exceptionally important period for the Communities. It is time when one has to give answers to a number of crucial questions regarding the future of the Union in both short and long-term perspective, including in particular in the next Financial Perspective of 2007–2013. The preparatory work with regard to the EU budget and its internal structure reflects the main themes of the debate.

This paper is not going to embrace the complexity of conditions determining the process of preparation for the new Financial Perspective. We intend to focus on the second biggest element of the budget i.e. the cohesion policy allocation.

The basic question of the discussion on the future of the cohesion policy is 'what shape it should have' and not 'whether it should exist'¹. It is, among others, a consequence of the debate initiated by the European Commission (naturally interested in maintaining one of its main forms of activity). Most importantly, however, it is a result of the consensus to preserve the solidarity principle as one of the basic principles the functioning of the European Union is based on. And finally, it stems from the conviction that social and economic cohesion is not only the target but also the indispensable condition for successful economic development.

What sort of cohesion policy?

The debate on the shape of the new cohesion policy reflects the key dilemmas of the accelerated EU development². Both old and new member states are faced with a number of basic questions related to the area of regional policy. It has to be decided whether the focus should be on reducing disparities and stimulating those regions which are economically lagging behind or on supporting strong and competitive regions, which would in turn motivate the weaker ones and thus get them to catch up with the rest. The essence of this dilemma is analysed by A. Kukliński, who distinguishes between a regional policy focused on the social aspect (assessed negatively) and a regional policy with an emphasis on global issues and increased competitiveness of the Union on a global scale (assessed as more efficient).³

¹ It should be noted that the first consultation meetings organised by Commissioner Barnier to discuss the new cohesion policy focused on "whether to maintain the cohesion policy", which however was a reaction to the suggestions of the renationalisation of regional policy made by some member states and concerned the question of "whether to maintain the EU regional policy".

² Compare: T.G.Grosse, Introduction in: T. G. Grosse (red.) *Polska wobec nowej polityki spójności Unii Europejskiej*. ISP, Warsaw 2004, p.22–24

³ Compare: A.Kukliński, *Rozwój gospodarki opartej na wiedzy. Trajektoria regionalna*, in: A. Kukliński (ed.) *Gospodarka oparta na wiedzy. Perspektywy Banku Światowego* Warsaw 2003, p. 201

¹⁵ BHAGWATI, J. 2004: Don't cry for Cancun. *Foreign Affairs*, vol. 84, No.1, pp 52–63.