

BALANCE SHEET AND PROSPECTS OF EU ENLARGEMENT<sup>1</sup>**A Great Success Story or the Last Nail in the Coffin of the EU?**

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**ABSTRACT:** The paper examines conditions of enlargement to the East and asks, if, and to what degree, enlargement of a basically unreformed EU has been at the root of the crisis of 2005? Part Two surveys major components of, and eventual “solution” to, this crisis, while Part Three offers potential avenues for a real breakthrough, once the usual extrapolation exercises will be overcome.

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In the first decade of the 2000s the great project of European re-unification, launched by the post-war generation of Schuman, Adenauer and de Gasperi has been completed. Already the Nordic enlargement of 1995 signalled the end of Cold War divisions of the old continent, with 'eternally' neutral states such as Austria and Finland joining the EU, a community that had just acquired a defense dimension through the Maastricht Treaty and its three pillar system.

The inclusion of previously Communist countries have concluded the division of the old continent.<sup>3</sup> Furthermore the process of enlargement itself has created an anchor for the systemic and policy changes in the new member states, allowing for the orchestration of an unprecedented degree of policy consensus. This has resulted in the emergence of the west European type of *social market economy*, rather than a previously unknown brand of 'east European capitalism', as forecast by a significant part of the social science literature. This accomplishment becomes all the more noteworthy if compared to the ambiguous performance of other transition economies, which have been left out of this process, or could participate as marginal players only. These – primarily the New Independent States and South-east Europe – underwent a process of experimentation and drifting, owing to a large degree to *the lack of the anchor* that the EU has provided for the frontrunner group. In the laggards many of the first and second generation issues of

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<sup>3</sup> For a detailed analysis see the exhaustive monograph of ex-Commissioner Balázs/2002, pp 219-257/.

transformation, such as privatization, liberalization and institution building – dubbed also as SLIP in the international literature – are yet to be mastered, especially in a convincing and socially acceptable manner. The stagnation of reforms in the post-war Balkans as well as the slowdown of reformist fervor in the NIS have been clear indications that the *perception* of „European-ness” as reflected in the commonly shared objective of EU membership, must have played a pivotal role in pushing the reforms of Central Europe at a much bigger speed than autochthonous developments would have allowed for.<sup>4</sup>

Looking from the other angle, the enlargement by 12 new members, has been a major breakthrough for the EU-15. Enlargement could take place without any of those wild scenarios materializing, that have constantly and diligently been produced in the literature. In financial terms, enlargement has not required the multiplication of redistribution, as some of the preliminary calculations based on *ceteris paribus* assumptions would have had it. Taking on board the 10 new members required an additional spending of 0.15 p.c of the GDP of the EU-15. In other words, stabilization of a historically divided and potentially conflict ridden neighborhood<sup>5</sup> could materialize by reliance on the arsenal of *soft security and integration* rather than large-scale 'buy-outs' or 'modernization injections' along the lines of a new Marshall Plan, advocated by some in the literature. By contrast, the generous and for a long period unilateral opening up of the markets of the EU has been instrumental in allowing for the successful reorientation of trade from East to West, a key factor in overcoming the transformational recession in Central – but not in Eastern and Southeast – Europe.<sup>6</sup>

It is no less important from the policy perspective that fears about mass migration from East to West have proven grossly exaggerated. In a typical vein the actual number of people migrating from the new members – as opposed to the largely unregulated flow of migrants from Muslim countries south and east of Maghreb and Mashreq, as well as from various crisis regions of the globe – has remained in hundreds and thousands, as opposed to the hundreds of thousands forecast by some of the models. The latter numbers actually reflect the South to North migration. The growing difficulties of integrating the culturally different and non-assimilating communities did emerge as a major challenge. This applied primarily to the traditionally most open European societies, such as the Netherlands, Belgium, France, Sweden and Denmark, though the advances made by anti-immigration/extreme right forces can by no means be limited to these nations<sup>7</sup>.

It is equally important to establish that economic growth in the new member states resumed *prior to accession*. In other words, major changes in intra-EU redistribution were not needed in order to enable the economies of Central Europe and the Baltics to grow. The new members' economic vibrancy has been manifest, their growth rate exceeding – quite in line with standard economic theory – those of the incumbents. While the growth of GDP in the euro area has declined from 2.7 per cent in 1996-2000 to 1.3

<sup>4</sup> For a thorough analyses of the two laggard regions cf Broadman et al/2005/ and /Ofer and Pomfret, eds, 2004/.

<sup>5</sup> On these dangers cf Hayashi, ed/1997/.

<sup>6</sup> More on the opening of the contemporary account of Rollo and Fleming, eds/1992/.

<sup>7</sup> It is all the more surprising NOT to observe a similar trend in any of the new member states, with the exception of Poland and Romania.

per cent by 2001-2004, growth rates of the newcomers remained more robust. For instance growth in Estonia accelerated from 5.6 to 7.0 per cent, in Lithuania from 4.2 to 7.4 per cent, in Slovakia from 3.7 to 4.6 per cent and in Latvia from 5.4 to 7.6% in the respective period. Even among the poorer performing economies growth exceeded that of the EU core, with 4.0 and 3.6 per cent in Hungary, 5.1 and 2.9 per cent in Poland and 4.3 and 3.3 p.c respectively in Slovenia/all data from: ECB: *Statistics Pocket Book*, September, 2005, Frankfurt/M: p.37/. In sum, this has become indeed *an enlargement 'on the cheap'*. Economically speaking it has not created any major burden for the EU-15 either in terms of employment or in terms of market destruction, nor did it require disproportionate spending for assistance.

It is equally important to note that enlargement has become feasible *without major retailing of the spending priorities* as well as of the regulatory framework of the EU-15. The first is explained by the major structural changes that have occurred in the frontrunner transition economies. Most importantly for the sustainability of the Common Agricultural Policy, still accounting for over 40 per cent of Community spending in the period until 2013, the farm sector in the new members has shrunk to a level that is comparable to that of the old members. While the share of agriculture and fisheries accounted for 2.2 per cent of the GDP of the euro area countries, it was 3.0 per cent in the Czech Republic, 3.3 per cent in Hungary, 3.4 per cent in Poland, 2.6 per cent in Slovenia, that is *below* the respective figure for Greece/6.4 p.c/ or Spain and Portugal/3.5 p.c. each/, according to the same source//p.38/ quoted above. As regional funds are being distributed increasingly through tenders and open competition, the better administrative capacity of most incumbents allowed for their competitive position retained also following enlargement. It is hardly by chance that most suggestions elaborated before the rejection of the financial guideline for the 2007-2013 period have not contained radical ideas about changing priorities or entitlements for Community support/Richter, 2006/.

In sum, enlargement can and certainly should count among *the major successes in European integration* under any standard we care to mention. On the other hand, it is perhaps equally fair to establish that the EU has indeed *fallen victim to its own success*. Given the limited economic weight of the 10 new members accounting for a mere 4.8 p.c of the GDP of the EU-15, thus comparable to that of the Netherlands, allowed for the procrastination in terms of institutional and policy reforms. The latter are needed *not primarily because of enlargement*, although enlargement has made this more imperative than before. Already the Cofu Council of June 1994 called for thorough changes, preferably prior to enlargement, in order to cope with new challenges. With the benefit of hindsight we can establish, that these ambitions have not come true. Three major intergovernmental conferences – of Amsterdam, of Nice and of Laeken – devoted to these issues – failed to produce new agreements over and above the continuous reform initiatives coming from Community organs and member governments/most recently from the British Presidency/. In short, while enlargement has though been feasible under largely unchanged conditions – a circumstance that used to be widely doubted by experts – in a Community of 27 any reform *is bound to be more complex* than it could have been in a smaller club. The more bread and butter issues dominate the agenda at the expense of more visionary considerations, such as the need for an all-European security order, or the

need to cope with the European neighborhood, or even at the expense of the more mundane considerations of the Lisbon Strategy as revised in 2005, i.e more growth, more innovation, more and better jobs, basically through nationally financed projects, the smaller is the likelihood for success.

### ***Why to Reform the European Union at All?***

This question is rarely raised by academics but is all the more pertinent among practitioners. The reason is manifold. For one, the normative-theoretical visions on the desirable future of the EU are perhaps even more divided than the policy positions among the member states' governments. Grossly speaking there are three major camps in the academe: the federalists/functionalists, the intergovernmentalists and the regionalists. *Federalists/funcionalists* would like to see the EU progressing towards political union, in line with the ideas of the founding fathers. Thus their objective is to move, as soon as possible, towards the ideal of the United States of Europe, in other words, the *finalité politique*. This idea has appeared, though in a watered down fashion, in the now defunct Constitutional Treaty, reiterating the primacy of European goals over national objectives, in all areas, including foreign and security policy.

The second group, reflected in the policy-making establishments more than in the academe, aims at retaining and actually *enhancing national decision-making competences*, following the slogan of 'Europe of nations'. It opposes any form of supranationalism, advocates renationalization of policies previously conducted at the Community level, calls for precise justification of the value added any common deliberation might have over joint national actions. It aims at – and actually achieved in the 2000s – the marginalization of the Commission as the wardian of 'supranationalism'. This group is reinforced by the change of generation among the policy-making elite, with the postwar veterans gone, together with their idealism and strong and unconditional commitment to the common European cause/over and above the nitty-gritty of any individual subject/.

Finally *regionalists* come unsurprisingly from countries where regional power and corporatism are strong, where the priority of central government is not a political given. They advocate Europe of the regions, also joining forces with those who want to bring the Union closer to its citizens. In the latter vein reliance on NGOs and various civil organizations gather momentum. In a number of areas, primarily in the ever more important environmental acquis, but also in the advocacy of animal rights and social norms these *non-governmental actors* of international relations gather momentum. Their influence, through publicity, through campaigns, through mobilizations as well as through entering in ad-hoc coalitions with more established groups has already produced remarkable – and mostly unexpected – outcomes.

Voting down the Nice Treaty in Ireland in 2001, the rejection of the single currency in Sweden and Denmark/against the professional consensus of the respective national élites/in 2003 and 2001, or more recently rejecting the Constitutional Treaty in France and the Netherlands are just the tips of the iceberg. In each of the cases listed above

'rainbow coalitions' of various, often single issue movements, having not much in common, let alone a uniform platform/organization around a constructive alternative have already shown their strength.

In other words, while – at least at the abstract level - the intergovernmentalist approach, especially in the until recently dominating public law perspective in European studies, seems unquestionable, reality has evolved into a more complex way. Even if the new movements lack the unifying platform/personality, they may thwart projects and impose agendas on non-willing governments. The extension of qualified majority voting in a number of areas, such as environmental policy or social affairs, allows for the emergence of a body of *soft law*, which may gradually become *enforceable* via courts. This is supported by the activist stance adopted by the European Court of Justice as well as of the creeping legislation of the European Parliament.<sup>8</sup>

Empirical analyses of policy transfer within the EU-15/Thatcher,2003/ has been indicative of the fact that the process, currently termed as '*Europeanization*', meaning the ever growing interchange between national and Community wide legislations and policies, has been a multi-dimensional and ongoing process. It has been gathering momentum, irrespective of the twists and turns of formal governmental policies. On the latter level European integration has been stagnant, since none of the wider ranging projects have been adopted since the single currency and enlargement, both originating in the heydeys of the Delors-Kohl-Mitterand era. In fact, the Bolkenstein directive, calling for the gradual liberalization of services/and rejected in March,2005/ is nothing more than the extension of the single market idea of 1986 to an area, where about 72 per cent of wealth creation is taking place.<sup>9</sup> The idea of complementing monetary integration with a degree of – soft – fiscal policy coordination has been reverted and rejected by the re-interpretation of the Stability and Growth Pact in March,2005/Csaba,2007/. The idea of continuing enlargement – with age-old candidates, such as Croatia and Turkey – have fallen victim to political wrangling. The mandate of the Commission, received in October 2005 is extremely restrictive in both cases. Indeed, former Commissioner Balázs/2005/ is quite right in highlighting that the rejection of the Constitutional Treaty in France has had little to do with its substance. Rather it was the perception of *the threats from further enlargements* that motivated the popular sentiment. The latter, in fact, has prompted President Chirac to amend the French Constitution so that it now *requires referendum* on the approval of *each* further enlargement. Knowing the contemporary polls, already the first – the British, Irish and Danish – enlargement of 1973 would have been vetoed, had the French electorate been asked on the subject.

Meanwhile *the process of Europeanization is alive and well*. Regular reviews of national regulatory practices by the Commission acts - basically through naming and shaming – towards a more uniform application of laws. The EMU and its rituals – with the Broad

<sup>8</sup> Wallace,H., Wallace W. and Pollack, M. eds/2005/.

<sup>9</sup> In March 2006 the European Parliament adopted a compromise solution. Similarly to GATS, it takes national protection as the norm rather than free market access. This holds especially for the "sensitive" sectors, from construction to banking. In the financial sector member-states openly obstruct most of the existing EU legislation prompting Commissioner McCreevy to „bang the drum” and threaten with legal sanctions those disobeying. in: *EurActiv*, 19 June, 2006.

Economic Policy Guidelines and Convergence Programs, with regular ECB Board and Ecofin meetings etc – do work constrainingly on national fiscal profligacy/more on that in the volume of Buti and Franco,2005/. The Commission warnings have triggered corrective measures in Ireland, Portugal, Greece and even in Germany. Social rights, not contained in national legislation could be enforced via invoking the European Court of Justice, e.g on the treatment of pregnant employees. Environmental guidelines are being advocated by the social movements cited above. In sum, the *drift between formal and informal arrangements* has become manifest.

For this reason 2005 might well become a watershed in the evolution of European integration, since the divergence between the formal and informal planes has reached a new high. At one plane, integration at the *microlevel* has been developing at *irresistible speed*, and not only in the economy. The introduction of the euro allowed more competition to evolve, cross-border cooperation to increase in the tradable sector. But also a large number of European programs, including those of student exchanges and the so-called Bologna process has, despite its obvious shortcomings, enhanced the transferability of persons by the automatic recognition and standardization of the degrees earned in higher education. Likewise the continuous exchange of views among members of the state administration in the course of operating the Union has created a way of operation that has obviously transcended the boundaries set by intergovernmentalism. The regular use of the single currency has, as political scientists observed/Risse,2004/, contributed to the emergence of a European consciousness unprecedented in previous decades. And the ever expanding EU level legislation acts inevitably in the same direction. The use of the single currency also has been spreading in those geographic areas which seemed less interested in it, such as reserve currency of Asian central banks/Rajan and Kiran,2006/.

For this reason it would have been expedient and welcome for the EU to adjust its decision-making and institutional setup to meet the new realities, as envisaged by the agenda-setting in three intergovernmental conferences. Looking from the point of view of functionality, the most urgent issue should have been to reform *decision-making* and the *joint institutional setup*. But the history of the EU, one based on gradual and incremental change, would also have required new visions, over how to proceed further once the deepening and widening project, best summarized in the Maastricht Treaty, will have been accomplished. The latter – the long-term goals – tend to be missed though, however they have always played a *fertilizing role* in bringing about institutional and policy innovations, preparing the ground for future developments, creating an atmosphere favorable for the joint projects, thereby *indirectly, still efficiently* bringing about major changes. The above dynamics of integration has been manifest in each of its previous stages of development, starting from the European Defense Initiative of 1951 and ending with the new edition of the Lisbon Strategy as of March 2005. In all these cases the Community initiative has created additional impetus for otherwise sclerotic, myopic and inward looking national administrations to start working of projects that might have no immediate policy significance, still those allow for preparing for the challenges of the future. In the case of the Lisbon Strategy the need to focus on the industrial and household use of IT, the rejection of the idea of relying on large scale projects financed

by the center, as well as the de-emphasis of quantitative plan targets, characterizing the first version count among the novelties.

By contrast, attempts to bring institutional innovation and new visions have foundered *in the domain of high politics* in the 1994-2005 period. It is all the more surprising, since the EU has, from the very outset, been conceived as an elite project. It has been based on the initiatives of visionaries, formulating plans that never enjoyed popular support/direct legitimacy at the time of their inception. From the very idea of Franco-German appeasement, a mere six years after the conclusion of the devastating World War II, or the setting up of the European Central Bank, independent of national governments, and thus 'uncontrollable'<sup>10</sup>, would surely not have passed any of the referenda, if such issues had ever been deemed to be subject to popular vote.<sup>11</sup> Once in place, however, they tend to have acquired *retroactive legitimacy*. Nowadays few authors in the literature – as distinct from political adventurers – would advocate the demolition of any important piece of the *acquis communautaire*, irrespective of the mostly controversial circumstances of the inception of the respective pieces of regulation.

How to explain this low ebb of the tide? European studies literature still owes an exhaustive answer, thus for the time being some preliminary suggestions may be advanced. *First*: with the collapse of the Soviet Empire much of the *defense rationale* behind the European project was gone, together with the fear and commitment to democratic values, as opposed to dictatorship. In short, democracy and welfare were taken for granted. No sacrifices were accepted in order to secure something which tended to be seen as a given by most of the public – this is neatly reflected in the continuously diminishing spending on the military in all EU countries except for Britain. And although the Kosovo conflict has uncovered the serious capability gap of Europe and the deep structural and economic roots of it/Yost,2001/, the trend has not changed. The headline goals of the Helsinki Council, envisioning an independent European defense capability by 2003 have clearly been missed. On the other hand, by 2005 the joint European chief of staff has been set up and the successful peace-building in Macedonia has contributed to the credibility of a meaningful CFSP.

A *second* important feature has been the *change of leadership*: the generation, that has suffered from World War II and considered its moral obligation to act against any potential replication, which had been devoted European at both emotional and rational levels, has gone. The new generation takes European unity for granted. In a strange twist of history, ever since the ascension of Tony Blair to power in 1997, Britain seems to have taken the leading role in European affairs. That was the case in the conflict in Kosovo, the Afghanistan mission or reforming the common agricultural policy for that matter. This is a contradiction in terms, knowing the deep-seated and historically rooted British distrust of the Continent, the lack of emotional attachment to grand projects, and the

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<sup>10</sup> On the accountability of the ECB cf. Issing, et al/2004/.

<sup>11</sup> It is a controversial issue in democratic theory if and what issues are subject to popular deliberation. In most countries of the EU, for instance, capital punishment, military actions, or issues of taxation, can not be subject to popular vote, and there is a good reason for it. These reasons seem to have fallen victim to the populist trend of the 2000s across Europe.

distance *vis-à-vis* anything not clearly defined and useful in the traditional utilitarian sense. The latter are, of course, hardly major features of European integration. If for no other reason, because of its incrementalist and creeping nature discussed above.

A *third* factor has been *German reunification*. To the surprise of many, this process has taken much longer and has proven to be considerably more costly than most observers would have had it. Germany nowadays is more often portrayed as the sick man of Europe than the superpower, even some of its allies feared it would be/notably Baroness Thatcher and Giulio Andreotti, with his famous dictum of the threat of *Pangermanismus*/. Stagnation in Germany has actually taken off the locomotive from the European train, with GDP growth of a meagre 0.6 per cent for the 2001-2005 period on average/ECB: *Statistics Pocket Book*, May, 2006, p.37/. It is common knowledge that European integration projects of the 60s and 70s, but also of the 80s were by and large developed under the next to certain assumption, that at the end of the day, the Germans will underwrite the cheque. The lavish arrangements of the Delors-II package, allowing for the broad financing of regional projects, basically in the South, have clearly been seen as side payments to the reluctant Mediterraneans to join in/and not to torpedo/ the project of monetary integration/Allen, 2000, p.210./. Whatever are the underlying reasons, the fact of the matter is that Germany could not, and has become - already during the late Kohl years - decreasingly willing to contribute to EU projects. The Edinburgh compromise of December 1992, capping common spending to 1.27 per cent of GDP, has been a clear sign of this.

A *fourth* factor was the changing *perception* of the European project in policy-making. Once the EU could no longer be portrayed, in the domestic policy games, as a source of money injection, the tendency to see the EU more *as it stands today*, rather than as it should/could be, has been gathering momentum. The Nordic enlargement of 1995 has brought in countries with hostile to indifferent attitudes to the idea of the 'ever closer union' of the original six members. In short, due to a complex combination of historic and economic reasons the Nordic countries have from the very outset strengthened the British-Irish view of the EU, stressing the free trade area, being sceptical against monetary integration, and de-emphasizing the second and third pillars - Common Foreign and Security Policy and Justice and Home Affairs - that is the political arms of the Maastricht vision of Europe. Given that they have been net contributors, and *the over-emphasis of intra-EU redistribution has increased*, they could throw their weight behind the Britons in setting the final balance when deciding over more ambitious projects of European deepening in the past decade, that is in each of the intergovernmental conferences listed above.

*Fifth*, mention should be made of *the populist turn in European politics*, in East and West alike, that has become manifest by the 2000s. This turn is in need of thorough analysis in political science, let me just confine myself to a few observations. First, this trend has to do with the spread of the electronic media and the dominant trend therein, which is *infotainment*. This approach does not allow for lengthy elaborations, even if complex issues are at stake. Yes-no answers, appearances, or what fits into a 40 second clip are the decisive factors in shaping what is or is not an important piece of news, that would finally

reach the median voter. With all national quality papers and public broadcasting stations fighting for survival, localization and entertainment dominates the media. This feeds back both to the style and substance of those politicians that wish to be successful in the political market. Answers tend to be yes-no ones, arguments condensed to 20 seconds, thus being simplistic by definition.

Once the local and the personal, as well as the entertaining dominates, *visions and value-based long term considerations tend to be relegated to non-starters*. The more materialistic is the value system of the electorate, the more immediate concerns dominate – as a cause and consequence of localization of activities and the media alike – the less likely strategic and longer term considerations, such as ones that shape the EU matter. Opponents of the Constitutional Treaty in each country have freely admitted not to have bothered even to read the text, not being influenced at all by its substance. Instead they /mis/used the opportunity of a referendum to send *a note of protest to their national elites*, conceived as alienated and selfish. The series of corruption scandals, in all core EU countries, from Germany through France, Poland, the Czech Republic to Italy, have shaken confidence of the public and made protest voting a *chic*.

In this context – as the *sixth* factor - *enlargement to the East* has gradually ceased to be seen as a historic opportunity, the culmination of the original European project, or even a challenge to support and spread democracy in the EU-15's own backyard. Rather it has developed into a murky process, with redistributory concerns, fear of the loss of jobs, of dumped commodities and migrating millions. While these concerns have shown to be inflated and lacking any economic substantiation, *perceptions in modern politics matter just as much as do facts and figures*. The perceived threats from the east thus have overshadowed more relevant processes and realities. Thus, besides the severing of the entry conditions, already enshrined in the Amsterdam Treaty in its outlawing any new opt-outs, though retaining the old ones, *not much has happened for preparing the EU policies and institutions for the enlargement*.

Enlargement per se, as we have indicated above, has proven unable to cause any 'external shock' to the EU, let alone the eurozone. However, as long as the internal decision-making structure of the Union has not been changed, *the room for accomodating a large number of newcomers has not been created*. This might be considered as a *seventh* factor of explaining the crisis. Suggestions to limit unanimity and extend qualified majority voting has stumbled over national egoism and short term/tactical considerations of the EU-15. Likewise the idea of adopting procedures, that allow, for instance, large shareholding corporations, to operate with an excessive number of players, such as pooling votes like in the IMF, has been rejected. True, this reflected justified *fears of smaller members to be run over*, as it happened in several matters of common foreign and security policy, from setting up the joint EU rapid reaction force to the way the Afghanistan issue was handled. The unlawful embargo of the Austrian government in 2001 has raised eyebrows in all small country capitals. And the new members themselves were less than enthusiastic when it came, for instance, of giving up 'their' Commissioners and 'their' working languages, two obviously symbolic issues where workability has been at stake. And it has been sacrificed in order to serve short term

purposes, irrespective of the dire consequences of decisionmaking in the immediate aftermath of enlargement.

### *From Eastward Enlargement to the Crisis of 2005*

The 1998-2002 period has been one of *tough bargaining*, conditioned by the already obvious tendency of net contributors cap their contribution to the common funds. Meanwhile traditional recipients of these, primarily, but not exclusively, the Southern members, have formulated policies to defend what they perceived as 'theirs' in terms of net transfers. At one point even the claim of sustaining their respective shares in the common funds was floated, an idea obviously at odds with that of taking upon board new and poorer members. Meanwhile the then candidate states formulated their priorities in sheerly selfish terms of *maximizing the benefits accruing to them*, rather than adopting a broader, strategic or even more idealist perspective. The latter could, indeed, have helped overcome some of the psychological fears, that a much too assertive bargaining stance /such as that of the Poles/ could trigger among the incumbents.

Unfortunately for this process the *pre-emptive measures have not been made* and the window of opportunity thus closed. From the point of view of the EU-15 the launching of the final and most important phase of the monetary union, the introduction of the single currency in cash form enjoyed unconditional priority. In part owing to – retrospectively unfounded, but at the time vocal – concerns about the stability of the euro no deviation from the agreed principles was tolerated. Also owing to the large number of applicants – 12 to a community of 15- the task could only be managed by not allowing for any special arrangements, but by trying to adopt across the board solutions. This consideration has dominated the final phase of deciding over enlargement. While the record of the then applicants, also according to the politically overloaded Regular Reports of the Commission, was rather mixed, the Community top level decision-makers agreed to avoid the compartmentalization and spreading in time of the endeavor. Contrary to the much preached principle of differentiation, the so-called *Big Bang solution* of taking everyone on board was adopted. In fact, the deal reached in Copenhagen in December 2002 has already contained the *irrevocable promise* to add Romania and Bulgaria by 2008 at latest, whatever their performance might be. With this step, the original enlargement project was concluded. True, with the latter deal both the stick and the carrot of Europeanization was given up, precisely for those two candidates, whose internal development and captive state would have required these the most.

In an unusual paradox, the technicalities of the Big Bang enlargement have been tackled in a nuanced form. The basic contradiction between the capping of funds and the admission of poorer members was solved by resolving to a most unusual procedure in international public law, that of *non-equal treatment*. True, in terms of Commission members and official languages the prerogatives negotiated by the incumbents have automatically been extended to the newcomers.<sup>12</sup> However, when it came to 'entitlements' new members had to be content with a *very gradual access* to Community

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<sup>12</sup> This resulted in strange situations, such as Latvian, spoken by less than a million persons, becoming the official EU language, whilst Russian, spoken by about 6 mn not.

funds. Especially in farming, arrangements of the CAP are going to be extended to them in a decade-long period, until the end of the next financial guideline in 2013. In this process a gradual *phasing in*/of subsidies for the newcomers/ and *phasing out*/of outdated subsidies, not in line with WTO arrangements for the old ones/ will take care of the balance. Indeed, to the surprise of many, in the year 2004, when accession actually happened, EU spending altogether *has not exceeded the cap*. On the contrary, actual spending was at the level of a mere 0.94 per cent of the GDP of the EU-25, with the leftovers transferred back to member-states in the second quarter of 2005.

In terms of structural and cohesion funds earmarked for *regional spending*, the limited administrative capacity of the new members, as well as the *growing bureaucracy* in allocating EU funds have limited the potential for overspending. Since the EU-15 could not agree to the restructuring of expenditure priorities, growingly cumbersome decision-making is an inevitable way of making both ends meet. For instance, public finance considerations would call for the discontinuation of regional support for the richest members, as those should be able to take care of regional inequalities due to their higher level of development and thus of financial strength. Likewise it would be vital to discontinue spending justified by tradition and intergovernmental bargains only, not however supported by any clearly defined common economic objective. These include side payments to capital cities, such as Lisbon, Stockholm and Berlin, financing large projects whose contribution to the common good is doubtful at best/the famous 'cathedral in the deserts'/ and many more. The original objective of the Cohesion Funds, i.e recipients' joining the single currency has been accomplished, thus these should, in theory, have been discontinued already by 1999. In reality, new members fight at great vigor for these, since these funds are allocated to government and can be used, in practice, as additions to the budget, rather than to be channelled to some specific and Community approved and controlled purpose.

Already the entry phase of the new members has signalled, that they were quick in emulating the 'best' practices of incumbents in terms of nationalist posturing and uncompromising economic stances. The Poles were conducting tough negotiations about additional farm subsidies literally into the 24<sup>th</sup> hour/missing even the ceremonial concluding dinner, but achieving something symbolic, i.e politically relevant, though macroeconomically insignificant/. Ever since then this has *set the standards* for each of the new member states. The latter continue to press for maximizing their 'entitlements' and thereby sabotaging and major reform endeavor, be that about the common agricultural policy or the retailing of regional expenditure priorities.<sup>13</sup> This approach has been joined by the old members, not willing to give up an inch of what they consider to be 'theirs' in any of the areas.

It has been clear from the very outset that the EU could though formally enlarge even if dodged the major reform measures, however this state of affairs can not sustain for too long. In terms of decision-making, the growing role of intergovernmental organs, primarily of the Council, as against those working on the Community method of collegiality, such as the Commission, has been a clear trend across the 2000s. Also the

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<sup>13</sup> The joint declaration of 9 new members, reported in: *Magyar Nemzet*, 21 October, 2005.

*enhanced co-decision role of the European Parliament* has proven to be a double edged sword. This development followed widespread calls to politicize the EU, thereby reducing its alleged democratic deficit, and turning it less of a technocratic organization. In reality, however, contrary to textbook suggestions, the European Parliament continues to act as an extended arm of domestic polity, rather than an emerging representative of the European *demos*, which is concerned primarily with Community level issues and strategies. This development has only been assisted by the ensuing misconceived attempt to get a more 'political' Commission from November 2004. The latter was hoped to be able to present a better counter-weight to the secretive and hardly accountable Council. In reality, already the formation of the Barroso Commission foreshadowed the mounting difficulties, with several domestically failed – rather than upcoming heavyweight – personalities being dumped to Brussels. The several months of bargaining, the voting down of some members and the transfer of others from their designated portfolios, has clearly shown, that the two organs – the Parliament and the Commission – that were to balance the Council have actually been entering in a fierce and *open power contest*. Since the latter are mirroring national lines, thus prove by definition unable to check and balance the Council. For this reason the Barroso Commission *has, from the very outset, been weakened*, its initiatives watered down, on occasion outright rejected, and mostly not for reasons of long run strategy. Assessing the situation from a more general perspective and in hindsight Bartolini/2006/ is quite right in *blaming the very basic idea* of „politicization” of the EU at times of lacking major institutional reforms, even as a replacement for the latter, as a populist chimera, raising false hopes that can not be met, thus itself generating additional tensions, whose lingering is outside the competences of the Community anyway.

This situation has been exacerbated by the ongoing divisions among the member-states over major issues of Common Foreign and Security Policy. The signing of the letter in support of the US administration by 9 members have made the division between the Berlin-Paris axis and New Europe manifest. Although it is right to underscore/Menon,2004/ that the dispute over the handling of transatlantic relations following Iraq was unlikely to escalate into a schism, rather it allowed for a new beginning, *the atmosphere of cooperation*, so much needed for any reform to take off, has been *missing* all across the post-1999 period. The situation has not changed by enlargement, nor by the appeasement tour of the new Republican Administration upon its re-election.

Disagreement over the future conduct of EU pertains to the largest players as well as key aspects of policymaking. First and foremost, France and Germany have proven unable to meet the quantitative criteria of the Stability and Growth Pact since 2001, and 2006 has seen the sixth consecutive year of the two giants' missing the targets. Moreover, since 2003 two other gints, Italy and Britain have also joined the club of trespassers, regularly overstepping the 3 per cent deficit limit at times of economic growth/ECB: *Statistics Pocket Book*, May,2006,p42/. This does constitute a problem, since Germany alone accounted for 29.1 per cent of EU GDP in 2004, and France for an additional 21.6p.c, with Italy, a third poor performer adding a further 17.7 %, altogether accounting for two thirds of joint economic performance in the eurozone/in: ECB, op.cit,p.37/. Thus

whatever happens in small economies, like Finland or Ireland, the zone of the single currency is likely to suffer from the profligacy of the giants. Furthermore new members, especially the Visegrád Four, but also the two islands, struggle with their own respective fiscal disequilibria. Once confronted with the observation, that the major operators of the club do not play by the rules, the incentive to emulate them, rather than to be 120 p.c. good Europeans was given, irrespective of the economic 'merit' of such reasoning.

The Franco-German non-compliance, as well as the all-out attack launched by the Italians and the British on the SGP over its alleged 'stupidity' and 'rigidity' has been all the more perplexing in 2004-2005, since in previous years several members instituted fiscal corrections, following the warnings from the Commission. While Ireland had to discontinue its pro-cyclical policy/resulting in fact in surpluses/, Portugal, the Netherlands and also Germany initiated fiscal corrections between 2000-2005/the latter without success/. In sum, the soft law nature of the Pact has not turned it into a piece of worthless paper, as critics often maintain. Also for the new members, conditions of their accession made monetary and fiscal policy a matter of common concern. Therefore the Broad Economic Policy Guidelines and the Fiscal Convergence Programs needed to be elaborated and updated, just as much as with the old members. The timing of accession to the single currency has though remained open, the obligation, however, has not been/more on that in: Györffy, 2005/.

Under these circumstances the Brussels Council of March 2005 agreed to *re-interpret* the SGP. The decision was an interesting compromise. On the one hand the basic construct of the Pact has remained intact, requiring close to balance fiscal positions over the business cycle as a whole. On the other hand, numerical objectives have become relative, and several items, such as assistance to developing countries or costs of European unification, or – temporarily – expenditures of private pension funds can be deducted from the reported fiscal numbers. Overall, while the ritual has remained, national accounting methods could become creative and deviating both from the Union's own ESA-95 standards and even more from the broader, IMF-inspired SNA, covering the whole of fiscal activities.

This message has certainly been welcome by those advocating *more leniency on the fiscal affairs*, in East and West alike. More interpretation allowed for more vested interest considerations to be taken into account domestically, when deficit reduction was further postponed in Germany, France, Hungary and Poland, to name a few. By the same token the very same vested interest considerations, this time stylized as 'national interests' could be advocated in an uncompromising fashion when it came to reforms in the EU. For instance the resistance of new members to reform the sugar regime of the EU is a case in point. For this reason those adhering to the idea of sound money and sound public finance tend to characterize these measures as steps in the wrong direction, undermining both conditions of growth and credibility of the EU financial framework.<sup>14</sup>

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<sup>14</sup> Jacques de Larosiere, former managing director of the IMF, in his luncheon speech of the conference *Rules-Based Fiscal Policy*, organized jointly by the State Audit Office, the Ministry of Finance and the National Bank of Hungary, Budapest, 19 May 2006.

The Barroso Commission did a good job to streamline the *Lisbon Program*, make it more business friendly/Csaba,2005/ It also attempted to open up the services market, which is, as seen above, over 71.9 p.c of wealth creation in the postindustrial economies of the EU. However, the latter initiative basically failed, due to resistance from France and the Scandinavians, fearing a new edition of social dumping. While these fears are, again, in line with commodity and labor markets, unjustified, *the unwillingness of members to adopt the Bolkenstein Directive* has clearly been a slap on the face of an embattered Commission. Twenty years after its adoption the principle of the Single Market is still contested at the policy-making/though not at the academic/ level.

Last but not least, in this series of mishaps, the Financial Guideline for the 2007-2013 period has been elaborated and submitted by the Luxemburg Presidency in June 2005. The debates were wide ranging and compromise points not very numerous. On the one hand, Commission and the new members insisted on two innovations. First: *common spending should have been increased to the cap*, as agreed to Edinburgh, that is from 0.94 to 1.24 per cent of the joint GNI of the member-states. This increment of over 20 per cent would have allowed for the continuation, and even extension, of traditional Community programs in farming, the environment and regional development, that are to be complemented by the Lisbon tasks and measures to support CFSP. Second, they advocated a resolute *reorientation of regional spending* on the principle of solidarity, to support the backward areas of new members and discontinue funding of the wealthiest member-states. Commission members/Hübner,2005/ repeatedly suggested to relocate regional spending to the poorest areas only. This would have made perfect economic sense, however the suggestion remained politically contested. This was so on two accounts. First: Community spending was shown to be quite inefficient in fostering convergence at the regional level.<sup>15</sup> Second: previous recipients – as the Spaniards regularly state – have 'not become wealthier by accession', thus the justification to withdraw their traditional 'dues' is politically contentious.

Trying to get both ends meet the Luxembourg Presidency has followed the *normal bureaucratic line* of progressing along the lines of least resistance. Taking the 2002 Franco-German compromise over capping, but by no means diminishing farm spending, and allowing for the parsimonious fiscal stance of net contributors, they cut the previously non-existent items, that were earmarked for the Lisbon Agenda. This ended up in a budget, where the share of agriculture related spending *has even increased vis-à-vis* the current period. This proposition was clearly irrational from the point of view of EU functionality and contradicted to the basics of the re-launched Lisbon Strategy, adopted only three months before. Furthermore it irritated the net contributors, primarily but not exclusively the Brits, joined by the Swedes and the Dutch, who wanted to see a thorough *review of the entire Community spending package*. The latter has, for obvious reasons, been dodged by the Luxemburgian Presidency. The outcome was a lengthy and controversial meeting, with the fiscal guideline rejected in all openness in the Brussels Council of June,2005.

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<sup>15</sup> Though contrarian findings were published by Beugeldijk and Eijfinger ,/2005/ for a recent short period though.

The crisis of funding has alerted a large number of players to the obvious fact, known by experts long before, that *the machinery of the EU can no longer – and will no longer – work according to the established routines and behind the door compromises*. In a way the price for postponed reforms had to be paid. The solution has emerged in a manner typical for the Union. In the Brussels Council of December 2005 a slightly modified version of the Luxembourg proposals have finally been accepted, in exchange for two concessions. First, net contributors were promised *a radical revamp of spending priorities* by the year 2009. Actual background work on this has, alas, not even been launched, neither at Community nor at the national levels. Second, new members could sustain a major component of the British proposals, i.e. *easier access to, and smaller co-financing needs of, Community funds*. Instead of the traditional 50 p.c. local co-funding can be as little as 15 p.c. in using the structural funds for the 2007-2013 period. This could, in theory, enhance the impact of EU spending on new members, while alleviating the burden of their fiscal adjustment that is overdue anyway in the same period.

Last but not at all least the *rejection of the Constitutional Treaty* by the French and Dutch electorates in the second quarter of 2005 has made the political impasse open. The Constitutional Treaty, though not very important on its own right for the actual workings of the EU<sup>16</sup>, has been *a symbol* of 'ever closer integration', that is the progress towards political union. For this reason it is not so much the actual letter/changes that matter for the future of the Community, but the absolutely clear victory of naysayers, that triggered such basic members as Britain and Poland to postpone their respective referenda, which has delivered the death knell for this particular project.

Rejection of the Constitutional Treaty at the *ideational level* coincided with the rejection of the 2007-2013 financial guideline at the *material level*. This coincidence has opened up the eyes of most analysts and convinced them of the impossibility and unsustainability of *ceteris paribus* assumptions, under which the workings of common policies are routinely elaborated. It means that enlargement, not so much by its actual economic importance, but joining in the series of controversies among EU-15, has indeed *contributed* to the crisis of the European Union. Meanwhile it is equally legitimate to note that new members, with the partial exception of Poland, have not even attempted to put their own specific concerns on the Community agenda. If they still did so, it happened in the context of traditional horse-trading over transfers, rather than over formulating general principles, let alone new priorities for a reformed, more flexible Union. New members tended to side with more conservative members also in all issues related to the Doha Round, basically in terms of – limited if any – agricultural liberalization. While in terms of the Bolkenstein Directive and the British proposals for revamping the financial guideline Slovakia and to a lesser extent Hungary joined the coalition of reformers, these episodes remained rather isolated while status-quo orientation dominated. Also in terms of administrative reform and smaller decision-making organs the national interest of newcomers continues to be seen in protecting „their” Commissioners, of the veto rights of each player.

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<sup>16</sup> The Nice Treaty contains stipulations over how to include Bulgaria and Romania in the common organizations, including the number of their Euro-MPs, and settles all practicalities for a Community of 27, but not more.

### *The Benefit of Crisis? Chances for Radical Reforms of the EU for the Post-2009 Years*

When economists talk about the benefit of crises they mean the chance that emerges owing to the impossibility of continuing with 'more of the same'. In other words, the breakdown of existing structures must be seen not only in terms of costs, born by those having benefitted from the *status quo ante*. But they also must be seen as window of opportunity for attaining Pareto improvements over the preceding situation.

The current state of the EU is perhaps a good example for such a situation. On the one hand most of those participating go out of their ways to ensure that the old arrangement be saved, one way, or another. If for no other reason, the known devil seems superior to the unknown. On the other hand the language as well as the arguments of those having advocated change leave no doubt about the *impossibility of getting back to the previous equilibrium*.

Perhaps the most important starting point – not very favorable to the new members – has been the staunch unwillingness of the net contributors to finance anything beyond 1.045 per cent of GNI, that is for all purposes equal to the current levels, despite two additional poor countries joining in from 2008. This puts severe limits on any grandiose development project to be at the heart of the integration projects of the coming decade.

Second, it seems *unlikely* that fundamental retailoring of funding along the lines of solidarity will enjoy currency and thus political feasibility. With the current low ebb of the enthusiasm for anything EU related in all big member countries, including Germany and Poland, renders such propositions of the Commission infeasible. Furthermore previous recipients are unlikely to forego their accustomed sums.

An inevitable consequence of the previous two will be a gradual and often *covert re-nationalization of spending*, in both the regional and the farming areas. In so doing reference can be made of the ever growing share of EU activities, where common goals are regularly *not* being complemented by setting up of community funds. Rather the practice already established itself in a variety of fields, such as environmental policy, social policy, common security endeavors/including the mission in Kosovo and Macedonia/ and not least in the new Lisbon Strategy, will serve as reference points. The above option does indeed entail a discontinuation of the Franco-German administrative tradition that used to dominate the first three decades, where common pools and common organizations were equalled to joint policies.

Fourth, if the above approach establishes itself, there will be some room for the long overdue *regrouping of community spending* for such and only such purposes which *demonstrably add some value added* over and above of parallel national initiatives. These are likely to be found in the area of justice and home affairs, of common security initiatives *in and around Europe*/primarily the Balkans and the Mediterranean<sup>17</sup>/, as well

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<sup>17</sup> But certainly not in such exotic places as Zaire/Congo, whose relevance to European security/as distinct from global concerns/ is hard to demonstrate.

as the improvement of transport infrastructure, primarily in the new member states. The review process to be completed by 2009 provides though such an opportunity, while the cemented national positions might prolongue the current state of affairs as reflected in the final form of the Financial guidelines adopted in December 2005.

Fifth, it will be urgent to revert to those problems that have been swept under the carpet prior to enlargement. These pertain primarily to the *decision-making* procedures and the *setup of Community organs*. Looking from the angle of functionality there is no justification to sustain 'national' representation in the Commission, one of the truly supranational organs. The number of Commissioners should be cut back to size, following the Prodi Presidency suggestions of slimming it to about six portfolios, by merging the overlapping ones/such as on foreign relations/ and abolishing the ones where the Community has no competences whatsoever/as in taxation, or research and development/.

A screening mechanism ensuring the principle of *subsidiarity*, i.e deciding over what does require top level decision and what not could be introduced, and costing of each measure to be made obligatory. Publishing the minutes of Council, including the distribution of votes, could help diminish the theatrical component currently dominating substantive work.

Sixth, in order to enhance the incentives to play by the rules, the role of *independent agencies* in assessing policy documents and outcomes should be enhanced. The revision of the SGP already stipulates reliance on independent institutions on setting the forecast value for growth and inflation. Similarly independent organizations, such as the European Court of Auditors, should be entrusted with assessment of the national practices of reporting, e.g on general government positions. Groups of independent experts should be entrusted to assess if measures envisioned by one country or another suffice to meet the target of returning to commonly agreed values.

Countries not meeting the SGP numerical targets in two or three consecutive years could lose their voting rights/Rostowski,2005/ on matters of the budget. Likewise voting rights in the ECB Council on matters of monetary policy could be suspended until the country returns to the commonly agreed framework.

These and other conceivable measures would hardly transform the EU into a 'super-state', as feared by the Brits. The EU is likely to remain, for a long period of time, a club of the like minded, where *codes of conduct and voluntary compliance*, rather than formal sanctions and shaming are the mechanisms of inducing coordinated action. Also enhanced cooperation might be the way to manage diversity/de Andrade,2005/ as long as the multiplicity of preferences is unlikely to diminish. In so doing not each member could participate in each action, thus a degree of uneven integration could evolve.

It is vitally important to acknowledge that the EU is being confronted with a series of challenges, especially from the global economy and its *immediate neighborhood*. In the seventh and final conclusion, none of these challenges can be answered if the traditional

*ceteris paribus* assumptions hold. For instance the issue of whether or not to integrate Turkey, despite its obvious democratic deficits,<sup>18</sup> is not to be sensibly answered if the question is assessed by calculating how much the extension of an unchanged common agricultural policy would cost. Also the accession of Croatia presupposes the internal regrouping of funds and also of re-weighting the complex Nice compromise. The fact, that the Croatian enlargement talks have been conspicuously and formally de-coupled from their Turkish counterpart<sup>19</sup> may point to this direction. Likewise the probability of any Ukrainian membership can – and should – hardly be assessed by a linear extrapolation of voting rights as agreed upon in the Nice Treaty. The potential role of the EU in the global economy, as envisioned by the Lisbon Strategy, is certainly in itself a call for *changing, rather than cementing, existing national institutions and policy practices*. However, this is easier said than done. The question if the EU will indeed become a global player in the decade to come, is inherently dependent on the type of answers it is able to provide, in its enlarged form, for these new challenges.

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<sup>18</sup> Motika/2005/, for one, rightly underscores: it is not Islam, but the authoritarian heritage of both the Ottoman Empire and the Kemalist state that create the real obstacles to a change to full European model of democracy. It does not really matter from this perspective that Kemalism is secular and western oriented, thus has been a modernizing force in the past 85 years.

<sup>19</sup> As reported in: *hvg.online*, 29 June,2006.

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