

FROM SINGLE CURRENCY TO POLITICAL UNION?

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“This Treaty marks a new stage in the process of creating an ever closer union among the peoples of Europe, in which decisions are taken as openly as possible and as closely as possible to the citizen.”

(Amsterdam Treaty, Article 1, Title I)

“The six founding nations (...) expressed clear political ambitions. The preamble to the 1957 Treaty of Rome stated their determination to lay the foundations of an ever close union among the peoples of Europe ... [in order] to preserve and strengthen peace and liberty. (...) Securing peace and liberty through political integration and increasing prosperity through economic integration were regarded as interdependent objectives of the Community.”

(Mathias Dewatripont et al., 1995)

“What I want is a United States of Europe”

(Helmut Kohl, 1992)

“In the long run, the single currency has to become the expression of a united political entity more complete than the present one”

(Tommaso Padoa-Schioppa, 1999)

“Il peut donc apparaître que nous avons désormais, dans la communauté de destin européenne, le ferment et le ciment, sinon d’une nation européenne, au moins d’une Unité méta-nationale, non seulement confédérative, mais même fédérative, qui aurait son identité, son unité, son vouloir-vivre en dépit et à cause de toutes les diversités ethniques et nationales qu’elle contiendrait.”

(Edgar Morin, 1998)

“What emerges (...) is the very real possibility that the European countries have already embarked on the road that will lead to the complete economic and political union envisaged by such pioneers as Jean Monnet. Perhaps the appropriate question is no longer whether but when.”

(Burda and Wyplosz, 1993)

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This article attempts to show that the European single currency should be looked at in two different ways: as the most important result of the process of European economic integration, and as a decisive point that determines the need for the acceleration of the process of European political integration.

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I. INTRODUCTION

This article examines the arrival of the European single currency as the arrival point of the process of economic integration in Europe. In this context, the study discusses some of the most important lessons of the process and the real importance of the euro, its advantages and costs, and its implications for the political and the economic organisation of the European Union.

In particular, it is argued that the economic organisation seems to have been largely strengthened in the last decades, with the main problems almost solved – even if some questions are still to be effectively faced, such as the real meaning of central bank independence, the impact of growing off-budget governmental expenses, or the sustainability of the social security systems. However, the economic achievements largely contrast with the weakness and the uncertainty that involves the political aspects of the integration process.

This growing imbalance leads to the other main part of the article, looking at the single currency as the departing point leading to a new “*élan*” of the European political union, which is becoming more and more necessary. This new “*élan*” would be likely to improve the equilibrium between the two sides of the same process – the economical and the political ones – and might lead the European Union to a new stage of integration, closer to the one envisaged by its “founding fathers” (and by some academics and politicians of the present), and by a large number of movements and persons since the end of the World Wars.

In particular, the study tries to show how a relevant number of questions raised by the advent of the single currency, as well as by other important dilemmas that the Union is facing – such as the impact of the globalisation and the information society, the creation of employment, the effects of the next enlargement, or the need for democratisation – can only be efficiently overcome through an important change in its political organisation.

Looking at the principles and the instruments of federal systems, it is concluded that this change should lead to the development, in the middlemedium-run, of an original federal system - a "Federation of Nation-States" - as it seems to be the most adequate way both to solve effectively the new questions raised and also to preserve "the unity in the diversity" in an enlarged and deepened Europe.

In this context, it can also be concluded that the latest developments in the European political arena, namely the institutional changes provided by the Nice Treaty, have not been as satisfactory as it would be desired. However, the recent call for a new Intergovernmental Conference in 2004 (dealing with the assignment of competencies among the various levels of political and economic powers), together with a new approach towards it (including its preparation within the frame of a Convention and a more diversified participation) and some recent proposals from the most important political leaders in Europe, might be seen as the opening of new "windows of hope" for a more integrated Europe.

II. THE SINGLE CURRENCY AS AN ARRIVAL POINT

A Long Road Leading to the Single Currency: Steps and Lessons

With the objective of promoting an area of political and military stability, the European process of economic integration had its first decisive steps in the 50's, with the creation of the European Coal and Steel Community (ECSC) and the European Economic Community (EEC).

The following decade saw the first important advances in the project, with the conclusion of the Customs Union, leading to the abolition of all tariff barriers to free movement of goods within the area and the adoption of a common external tariff concerning trade with other countries, and the appearance of the first European common policy, the common agricultural policy.

The success of these first steps led to a large amount of optimism concerning the evolution of the process. The Werner Plan, with the objective of creating a monetary union in the beginning of the 80's, has been the most important consequence of that optimism.

However, the radical change of the economic conjuncture, caused by the collapse of the Bretton Woods system and the emergence of the first oil crisis, sooner showed that the process would slow down. In fact, the 70's and the first half of the 80's saw a slower rhythm of advance in the process of integrating the European economies, frequently accompanied of asymmetrical reactions of individual countries when facing economic and social difficulties.

Nonetheless, some advances were made and the process began to go beyond the frontiers of economics, with some common actions in social and regional fields, showing how people were yet concerned to the necessity of going further than mere economic integration. In this context, this period is seen as the first common measure in terms of Regional and Social Policy, together with the creation of the most successful mechanism of monetary stabilisation in Europe until then, the European Monetary System (EMS).

In the second half of the 80's and some part of the 90's, there was a new impulse in the European process of economic integration, which was favoured by a change in the international economic conjuncture, together with the emergence of strong politicians in the European arena, such as François Mitterrand, Helmut Kohl and Jacques Delors, the latter leading the European Commission.

The new impulse has been, in some way, the response to the growing concern on how the efficiency and competitiveness of European firms were strongly and negatively affected by the maintenance of barriers to free movement of goods, services and production factors. It has also been the response to the growing concern on how investment and economic growth in Europe were negatively affected by some monetary and exchange rate instability, leading to transaction costs and significant uncertainty beyond the formulation of economic expectations.

In this context, new projects for a rapid growth in economic integration were put forward. The Single Market was concluded in January 1993, bringing an area of free movement of goods, labour, capital and services. However, some barriers have not yet been abolished, as the process of fiscal harmonisation is still to be developed and some barriers cannot be eliminated "by decree" (namely cultural and linguistic barriers, which still affect labour movements).

The Economic and Monetary Union (EMU) saw the light in January 1999, with the replacement of eleven national currencies¹ by a single currency (the euro). This has been so far the most remarkable step in the process of European economic integration and may be seen as the arrival point of a long journey, with many difficulties that have frequently put serious interrogations about how a "happy ending" might be achieved.

Regardless of the issues that this study points to later, a brief analysis of the long road leading from EEC to EMU allows for some important lessons regarding the future of the European Union (EU):

¹ Twelve currencies after the beginning of 2001, with the addition of Greece.

1. The EU is following the strategy of “small steps,” which was already the preference of its “founding fathers” (Jean Monnet or Robert Schumann). It means that any “innovation” appears to be the logical consequence of the previous one (as an example, the Single Currency appears as the logical way for completing the Single Market). This pattern of continuity has the obvious advantage of not demanding radical changes along the journey, making the evolution easier. The main disadvantage relates to a certain degree of non-transparency, with the Europeans being faced with the final decisions, frequently negotiated “behind the backs” of the citizens and leaving them with no power of choice.
2. Along the way, it is clear that there is a strong supremacy of the economical side relative to the political side of integration. It would be desirable to have an adequate equilibrium between the two sides of the same process, or even a relative supremacy of politics over economics. This feature has an evident advantage in the short run, as the transference of economical sovereignty is easier than the transference of political competences. However, in the medium and long run, as we will point out later, this situation might cause severe problems.
3. The dynamics of the process is still conditioned by the international economic situation, as it accelerates when the world is facing a period of economic expansion and slows down when the world is facing a period of economic recession. This may mean that Europe has not yet reached the necessary degree of solidarity between Member-Countries, which would put always the global objectives ahead of individual ones, even in the proximity of elections in some countries.
4. This lack of solidarity reflects the debilities of the political side of European integration. And it is particularly visible when one looks at how some criteria or objectives are reached by individual countries², with national creativity going further from what would be common interest.

² A good example of this is shown by Loureiro (1999), describing some national strategies for reaching the goals of Maastricht Treaty (the convergence criteria), particularly in what concerns the ratios of budgetary deficit and public debt to GDP.

The Importance of the Single Currency: Advantages and Costs³

From an economic point of view, the importance of the European Single Currency for the integrated area is undeniable. Following the Emerson Report (1990), many authors have pointed that the emergence of the single currency would mean the abolition of the last barrier to free movement of goods, services, capital and labour. In this context, the euro would lead to the completion of the Single Market and would amplify the gains resulting from the process that had conducted to that previous stage of economic integration.

On the one hand, the Single Currency brings growing conditions of micro and macroeconomic efficiency, by diminishing transaction costs and eliminating exchange uncertainty within the area. This way, the Single Currency creates conditions for a more favourable framing in what concerns to investment, thus improving European productivity and competitiveness, leading to an important growth in product and employment.

On the other hand, the Single Currency means a growing monetary stability, with low inflation and interest rates, as the main objective of the European Central Bank (ECB) is price stability. It also means a growing incentive to budgetary equilibrium, as the only way to fulfil the Growth and Stability Pact (1996) and still participating on the process.

Last but not least, the euro appears as a new international currency, capable of threatening the dollar hegemony in the international arena.

It is evident, however, that the creation of the Single Currency could not be achieved without losses. From an economic point of view, the most relevant ones are related with a reduction of flexibility in economic policy and with a possible emergence of an important disequilibrium in what concerns the definition of macroeconomic objectives.

The first element relates to the loss of individual monetary and exchange rate policies,⁴ leaving national authorities only with fiscal and budgetary instruments to deal with asymmetric or individual shocks, in a

³ This section deals only with some of the economic advantages and costs of the Single Currency, mainly those stressed by the Emerson Report (1990). Though being an important element of the first part of this paper, we decided not to go further in this subject, as the main idea of the paper is to stress the need for a new political (and economic) model in Europe and to look for the fundamental characteristics of it. Further development of this subject would include a detailed application of the Mundell's Theory of Optimum Currency Areas to the European Single Currency (Mundell (1961)), in particular showing that the Euro-area does not fulfil all the criteria for qualifying as an optimal currency area and the consequences that may arise from this fact.

⁴ Since the last 80's or the early 90's the use of monetary and exchange rate policies was already very limited.

situation where even the use of these ones are restricted by the convergence and participation criteria and the rules of the Stability Pact. According to some authors, greater problems would be faced by the less developed countries in the EU, where public investment would be an important piece of a real convergence policy,⁵ and/or by those countries showing greater differences in terms of economic structure, as it seems to be the situation where the loss of the exchange rate policy is more important.⁶

The other point refers to possible disequilibria between nominal objectives (namely low inflation) and real objectives (namely low unemployment). This criticism is frequently expressed by some opponents to the monetarist orthodoxy that is predominant in this debate and its relevance is largely shown when we look at the facts in the last years. In fact, as the ECB has been taking the necessary measures to prevent an increase in inflation rates, we saw, at the same time, few measures taken by national and European authorities to face the most important real economic problem within the integrated area, the maintenance of high rates of unemployment, namely in what concerns young people and long-run unemployment.⁷

Going ahead of the strict economic scenario, one can see how the creation of a Single Currency seems to be the most important transference of sovereignty (not only in the economic side, but also in the political one) since the beginning of the economic integration process in Europe. It also appears as the greatest step in the process of building a sustainable and coherent project of Union.

In fact, the historical importance of the euro is reinforced when we consider together the political framework with the simple cost-benefit economic analysis. However, even when the political picture is considered, one faces what seems to be the major reason of fragility for the European Single Currency: the existence of a single monetary entity without having a single political entity as a counterpart, i.e., the singularity "*di una moneta senza Stato*," as it is pointed by Padoa-Schioppa (1999). And this is a crucial element that this study will revisit later.

⁵ Cf. Lopes (1993).

⁶ Cf. Gros and Thygesen (1992).

⁷ Certainly we cannot ignore that a solution for the unemployment problem, which has structural reasons, implies structural measures (in particular, those that may promote mobility). This means that the costs originated by the constitution of EMU, although being important at least in the short-run, should not be overestimated when we make a long-run analysis.

The Impact on the Economic Organisation

Monetary unification in Europe also accounts for important changes in the definition and execution of economic policy. In this matter, as with the trade-off between inflation and unemployment, a certain degree of imbalance is seen between the solutions adopted for the conduction of monetary and exchange rate policies and those adopted for the definition and execution of fiscal and budgetary policies.

The definition of monetary and exchange rate policies is necessarily unified and left as the main competence of the ECB, and the execution is in a certain degree federalised, with a system of shared competences between the ECB and the national central banks. A similar strategy is not applied to fiscal and budgetary policies, which are still under the control of the national authorities, with some restrictions resulting from the tight rules of fiscal convergence (art. 104 - Amsterdam Treaty), the necessity of obtaining a situation of budgetary equilibrium in the medium-term (Stability Pact) and the idea that the economic policy is a matter of common interest, thus needing to be co-ordinated in the Council (art. 99 - Amsterdam Treaty).

It is under this context that several authors have raised some important objections to this economic and institutional framing for economic policy.⁸

First of all, the process of co-ordination seems to be very incipient and characterised by an excessive bureaucracy and lack of transparency. In fact, not only the rules imposed by the Maastricht Treaty and the Amsterdam Treaty seemed to contain too many bureaucratic steps, without any provision of sanctions, but also the recent years show how the European Union is very far from an effective and efficient coordination toward for common goals in the non-monetary areas.⁹ It is true Europe saw the creation of a new forum (the “Euro 11,” now “Euro 12”), especially devoted to that kind of questions, but it has not yet been institutionalised.

The second aspect refers to the emergence of possible difficulties in the adoption of an optimal policy mix for the whole of the Union, as at this point in time there is no political entity that could play the role of being simultaneously the partner and the counterpart of the ECB. In fact, the present situation, characterised by monetary federalisation without counterpart in the budgetary field, would open the possibility of emerging hard

⁸ Cf. Alves (2000).

⁹ As an example we could stress the successive discussions on some employment issues, with few practical results. Later on we shall return to these issues.

contradictions between the single monetary policy and the national budgetary and fiscal policies, even if all of them are conditioned by the main goal of price stability.

The last aspect deals with the inexistence of a strong central budget for the Union. This situation is completely different from the ones seen in other "federations" or "unions" formed by countries that share the same currency. As this happens, the capacity of dealing with asymmetrical shocks is reduced, as long as countries have also lost the instruments of monetary and exchange rate policy and the fiscal policy has only a restricted autonomy. In this context and according to some authors, as a strengthening of the common budget seems to be very difficult to occur in the short run,¹⁰ the creation of an insurance fund would be useful. This insurance fund would be characterised by a significant capacity of promoting some macro-economic stability without a significant increase in common budgetary costs.¹¹

Although these are important questions, there are several others that are worthy of mention, as they correspond to some other non-resolved problems in the economic area, even after the emergence of the euro, and they may threaten the future evolution of this new construction.

One of these relates to the impact of growing off-budget governmental expenditures. That corresponds to a growing practice of some national governments, as they are conditioned to Maastricht rules in what concerns public expenditure. This practice may lead in the medium and long run to severe threats to economic and social stability in the Union, as after all expenditures have to be paid by someone and that might mean rising taxes or diminishing expenditures. And if it becomes a strong tendency not only in small but also in big countries, it would also lead to a decrease in the credibility and stability of the new single currency.

One other issue concerns the sustainability of social security systems. As the population is ageing and reforms in these systems are still unsatisfactory or simply postponed, Europe may be faced in the medium run with strong social problems, which may cause severe instability, affecting not only the new single currency but also the whole construction, i.e., the European process of integration itself.

¹⁰ Fitoussi (1999) says, "*The idea of a federal budget of a substantial amount does not seem to be a realistic perspective.*"

¹¹ In what concerns this point, see, for instance, Italianer and Pisany-Ferry (1994) or De Grauwe (1994) and, more recently, Fini (1999) or Hens and Saenen (2001).

The Impact on the Political Organisation

The above mentioned are some of the critical aspects¹² that together provide evidence of the consequences of the emergence of a single currency – the arrival point of the process of economic integration – without the previous (or at least simultaneous) creation of a more complete political union. As Louis (2000) says, “*The EMU is born before the existence of a political union. For the first time, political and monetary powers have been dissociated. [...] This is, without doubt, an element of weakness of the European construction.*”

In the author’s opinion, this situation is also one of most important causes for explaining the severe depreciation of the euro in the year 2000 and also its fragility since then Figure 1.¹³ This evolution has been the opposite of the initial expectations and lead to some doubts on the credibility of the currency.

The fact that the emergence of the single currency (and the subsequent economic changes that it determined) has not been accompanied by relevant changes in the EU political and institutional framing is not, however, the only important question raised by the effective lack of political will and leadership that has been characterising the European countries in the last years.

The effects of the successive postponement of necessary institutional reform and its failure if we consider the weak results of the Nice Summit, together with the feeble discussion on the European political model, may also be seen in some other areas.

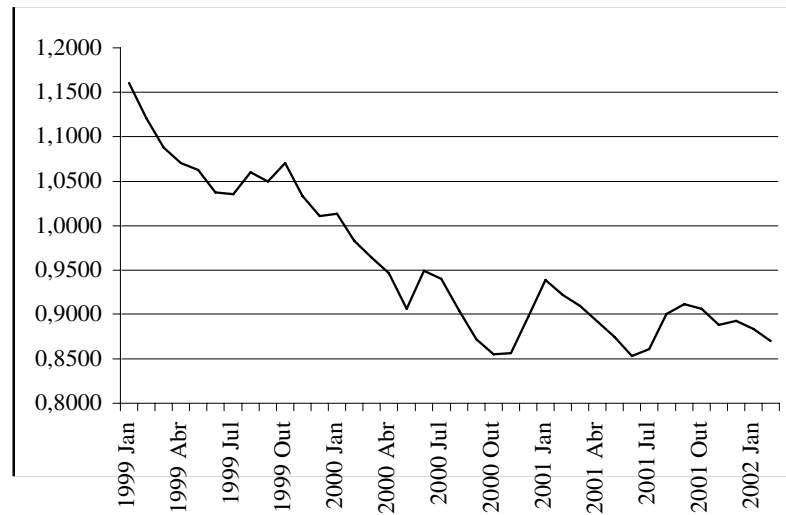
They may be seen in the absence of a single and powerful voice in what concerns external policy, leaving Europe in a position of a strong dependence before the American interests.¹⁴ Then it may be seen in the origins of several economic and political problems in the Union, from the

¹² The eternal quest for fiscal harmonisation should also be mentioned. See Tsoulakis (1993) and Alves (2000).

¹³ It is obvious that there have been other factors affecting the euro value against the dollar, in particular the differences between the growth rate in Europe and the growth rate in the United States and the youth of the European single currency (still without history and needing to gain credibility). The author, however, points to the supremacy of political causes when explaining the severe depreciation of the euro – in fact, how can a new currency become credible when almost simultaneously we hear European politicians defending opposite positions regarding the adequate external value of the euro?

¹⁴ It should be sufficient to remember the European debilities when facing tragic events occurring in Europe, such as the Balkan Wars or the Albanian exodus.

Figure 1.
Evolution of euro/dollar exchange rate (monthly averages)



Source: Bank of Portugal, www.bportugal.pt

most ridiculous (the most paradigmatic one being the nomination process of the first president of the ECB) to the most serious ones concerning European unity (the most important examples would be seen on the divergent reactions to some proposals of embargos to third countries or on the disproportionate – and even not so democratic – reaction to the right wing coalition in Austria). Finally, they may be seen in the absence of a real strategy for Europe, nowadays placed between the game of national interests and the necessity of attending relevant common goals, as the first ones frequently are put ahead in a context of non-political unity.

Conclusion: The “Political Union” as an Essential Reflection

The above-mentioned elements seem to point to an obvious conclusion. A look at the single currency cannot only be as the arrival point of the integration process, but also as a step to new changes, which may lead to a growing equilibrium between the two faces of the same process, the economic and the political ones.

This means that it is becoming more and more important to think about the exigency of new advances, not only to solve some of the raised questions, but also to leave room for an effective answer to the new challenges that Europe is facing, namely those raised by the effects of globalisation, by the need of a new competitive paradigm in the Information Society and by the pressure on advances in the enlargement dossier. The absence of such effective answers would accentuate the debilities and the fragility of the common European building.

III. THE SINGLE CURRENCY AS A DEPARTING POINT

What Challenges Will the European Union Face in the Near Future?

The need for an efficient answer to the effects of globalisation. In recent years, international economic relations have intensified and became more and more complex. Some authors refer that it has risen to a level never seen before, in its real and financial components.¹⁵ This phenomenon has been determining significant changes in the way of analysing questions in Inter-National Economics. In particular, the multiplication of references and discussions around the concepts and the effects of the globalisation or the mundialisation of economies has been seen.¹⁶

Globalisation has brought the need for a significant change in the traditional theoretical frameworks and put again in the front that “old” debate around the meaning and the way(s) of intervention of the traditional State, whose internal (and eventually external) sovereignty and space for manoeuvring seem to be significantly reduced as the economies become more and more interdependent.

In this debate, there are some issues that necessarily condition the vision of how the EU must be organised in political and institutional terms and of how economic intervention must be operated.

As a first and probably primordial issue, there is the question of the relevance or the irrelevance of the traditional Nation-State in this new context. The diversity of answers is almost surprising, going from pointing out to

¹⁵ See, for instance, Drache (1996), Petrella (1996) or Sachwald (1995), and for a more moderate position consult Bairoch (1996).

¹⁶ This expression has been recently used by several authors, as Porter (1990) or Ohmae (1996), but it was already implicitly present in older works, such as the ones of Byé (1965) or Michalet (1976).

the disappearance of the Nation-State in the context of the globalisation¹⁷ to the idea of a possible substitution by regional entities¹⁸ or to the affirmation of the maintenance of a relevant role for the Nation-State.¹⁹

Closely associated to this question, one finds the recuperation of the unfinished debate of the roles for the State and for the Market, leading to some questions around the subsistence (or not) of some space for public intervention and also around its characteristics in the new globalised framing.²⁰ Here we also find a great variety of answers: for some authors the State has become superfluous;²¹ others defend that it must only be a simple creator of an adequate environment to innovation and competitiveness for national firms;²² others call for intervention, but restrained to the situations where market failures may have significant effects (the existence of externalities, the supply of public goods, etc.); finally, others point to a more intervenient role, with the objectives of discipline the market and correct some results of its functioning (such as deficient macroeconomic performances, the creation or the increase of inequities or social problems, the loss of cultural or social values, etc.).²³

Going a little further, and taking also account of the European scene, it is possible, in this context, to look at the growth and the increase in complexity of “regional” integration processes as possible answers to the problems raised by globalisation.²⁴

The essential questions would then turn to be: whether and how these “new” supranational entities would do better facing the markets; whether and how these “new” supranational entities would substitute or complement the traditional role of the Nation-State; whether and how there would be a real possibility of an evolution towards supranational governments and situations of “multi-citizenship”.

¹⁷ See Reich (1992) or Guéhenno (1995), this one having a very radical perspective, saying that politics and democracy will also end together with the end of the Nation-State.

¹⁸ Cf. Homage (1996) and O'Dowd and Wilson (1996).

¹⁹ Cf. Michalet (1976), Boyer and Drache (1996) or Bienenfeld (1996).

²⁰ On the challenges and the problems raised by the globalisation, cf. Sassen (1998) or Mander and Goldsmith (1996), with pessimistic visions in both cases.

²¹ Cf. Reich (1992).

²² Cf. Porter (1990) or Sachwald (1995).

²³ See, for instance, Boyer (1996).

²⁴ Sweet and Sandholtz (1998) mentioned the EU as being one of these cases.

This analysis is still in development in the EU, certainly hidden in some degree by the “bug-bear” of the loss of political and economic sovereignty. However, as some perverse effects of the globalisation are faced, and as some questions raised by the debilities of the single currency are becoming more important, it is also an essential question to think about whether we are seriously discussing the evolution of the integration process in Europe.

The need for an efficient answer to the questions of employment, competitiveness and the information society. One of the most relevant real problems in the EU is that of the creation and the quality of employment. It is relevant as the EU continues to face a huge number of unemployed persons in a large number of Member-Countries, even if there has been some decrease in recent years, as some economic recovery has taken place in Europe. This situation may favour the emergence of severe social problems that would put a strong threat to the European project itself.

It is also relevant as deficient conditions in what concerns the quality and the stability of employment are faced, the case of Portugal being a good example. This situation may also serve as the ground for the emergence of severe social tensions, with the same (or even worse) results than the situation above-mentioned.

The truth is, however, that, albeit the acknowledgment of the importance of this problem (that has lead to the creation of a new chapter in the Treaty of the European Union exclusively connected with issues of employment) and the multiplication of discussions and projects, the results are still very disappointing.

Jacques Delors, former President of the European Commission, presented some years ago a set of dynamic projects with a large impact on the level of European employment, namely the transeuropean networks that would be financed by the emission of European bonds. Those projects have never been implemented and the results of the Summits following the Amsterdam Treaty have been very disappointing in what concerns the employment policy(ies). In this context and assuming the importance of the problem, the leaders of the Member-Countries decided to organise in the year 2000 a Summit dedicated to employment questions.

The Lisbon Summit showed clearly, however, enormous difficulties in obtaining any general agreement about possible and adequate solutions, as the visions on the desirable functioning of the economies still are very divergent amongst the Members. So, it becomes understandable that the major part of the conclusions and the concrete measures decided to be

taken referred not to the main topic of the Summit but to the Information Society. The following Summit that dealt with these questions – the Stockholm Summit, occurred last year – was also very disappointing concerning real and concrete measures.

The above-mentioned divergences, the excessive bureaucracy behind the mechanisms of policy-making in the employment area and the difficulties that still lie behind the creation of employment with quality are three issues to be added, in this context, to the arguments already presented in favour of a new political and economic organisation in the EU. In fact, only a radical transformation in policy-making mechanisms and in the institutional framework seems to provide for an efficient way of dealing with these questions.

An important change in the political and economic organisation seems also to be needed if the objective of an efficient insertion of the EU in the so-called “Information Society” is to be achieved. Remember that this goal was assumed in the Lisbon Summit as the key to promote competitiveness of the EU, making the integrated area the most competitive economy of the world by the end of this decade.

In fact, it seems clear that, in the actual framing for decision, we may only find traditionalist solutions applied to a very different logic, that of a new area. The adoption (eventually only rhetorical) of a vast set of measures is done in a context characterised by the lack of stimulus to entrepreneurial activity, by a deficient interaction between universities and firms, by the leading role of heavy entrepreneurial structures, by the effort of “resolving by decree” (in the old style of state paternalism). This means that the EU is doing the job exactly in the opposite way as the USA has done, i.e., in the opposite way of the country where the so-called “New Economy” has found its major success.

Also in this field Europe needs a new political and economic strategy that, simultaneously, allows for its leadership in the world and leads to the disappearance of divergences between public statements and private intentions of many European politicians. However, it should be noted that these divergences are not exclusive to this field.²⁵

The Question of Enlarging the Union. Nobody seems to deny that the enlargement of the EU is nowadays a necessary step for the success of the European integration. It became an essential element for keeping peace and

²⁵ As an example, we could compare, in what concerns budgetary questions, the maintenance of accounting “tricks” (i.e., private intentions) with the credibility on combating the problems and the credibility of the integration process itself (i.e., public statements).

stability in Europe. In particular, it should be stressed that very high expectations have been created in the people of Central and Eastern Europe by the time that they abolished their totalitarian regimes.

However the enlargement is also one of the most intricate problems that the EU has to deal with. The enlargement will lead to the development of a growing competition that may strongly affect an important number of Member-Countries (including Portugal). The enlargement will call for a reorientation of the financial aid and/or for a growth in the dimension of the common budget, as the only ways of facing new questions in what concerns the social and the economic cohesion. The enlargement may lead to a re-centering of political power in the Union, with an inversion towards Central-Eastern that would accentuate the weight of Germany. These facts play for the emergence of a very complex web of divergent political and economic interests that favours the softening of the enlargement process.²⁶

But the enlargement also calls for the solution of three other essential questions: the acceptance of the most important European values by the new Members – namely the total acceptance of democracy and the defence of human rights; the creation of an efficient framing for new ethnical and cultural questions, allowing stability and unity in a scenario of an enlarged diversity; the creation of an efficient decision-making process involving almost thirty Members and allowing for no relevant obstructions, which means the need for a profound institutional reform.²⁷

The maintenance of the diversity in habits, traditions and cultures without imposing a severe threat to European unity in some essential issues (such as defence, security or justice) seems to claim for a relevant change in the political organisation of Europe, leading to a “regime” that assumes “the unity in the diversity” as its main objective. The maintenance of an efficient decision-making process seems to claim for a relevant change in the institutional organisation of Europe.

Taking both aspects together, it seems that it is not possible to accommodate the necessary changes – which also have a deep impact on the future consolidation of the distance already covered by the Union, the single currency being included as a major step – without the deepening of the Political Union.

²⁶ These facts, together with the growing indifference of citizens regarding the European process of integration, might have been the basis for the negative result in the Irish referendum on the Treaty of Nice. Remember the importance of this result, as the Treaty will only prevail if all the 15 Member-Countries accept it as it is, regardless of its weakness, an essential piece for the conclusion of the enlargement.

²⁷ As we will argue later, the institutional reform brought by the Nice Treaty is largely insufficient.

The Questions of European Strategy and Democracy. The questions of (the lack of) a dynamic European strategy and the (lack of) participation of the European citizens in the European process of integration appear as the last pieces of this panoply of urgent and complex challenges for Europe nowadays. As this study will argue, they also call for a deepening in the political side of integration.

In what concerns the first issue, the perverse effects of the “small steps” strategy are now clear, expressed in the excess of bureaucracy and technocracy and in the growing centralisation of the decision process. It is also clear that the “European train” has lost some *élan* in recent years, a situation that might be associated with a significant (but not so positive) change in institutional mechanisms. In this area, the study observed, in the post-Delors years, a growing role of the European Council – an institution that was born *ad hoc* – with a clear loss of importance of the European Parliament and the European Commission. It is worth stressing that this happened together with the disappearance of strong political leaders that in the past had been able to frequently put European interests ahead of national interests.

Even though it has not been a reason for the postponement of the solution or for the re-emergence of some political, economic and social problems that may cause a great deal of instability (namely the emergence of populist phenomena, immoderate nationalisms and xenophobia), this lack of a clear and dynamic strategy for Europe has certainly contributed to them.

The large distance between those who decide and the citizens has also promoted the disillusionment and the indifference of many Europeans regarding the integration process. This has been leading to a growing ignorance concerning this process and to an important lack of participation, becoming one of the most relevant deficits for a process that has the materialisation of an European ideal and a European citizenship among its main goals.

It should also be stressed that the above-mentioned indifference of the Europeans is also frequently associated to the non-existence of credible alternatives in the political arena, to the disillusionment provoked by the substitution of governments/parties without any change in public policies,²⁸ to the loss of credibility of politicians and politics as situations of corruption grew, or to the primacy of a “single economic thought” before

²⁸ Raising the dangerous idea that “they are all the same.”

politics and the society.²⁹ The above-mentioned disillusionment of the Europeans is contributing to the emergence and growth of extremist and anarchist movements and raising serious interrogations on the future of democracy.³⁰

A Preliminary Answer. The arguments presented so far suggest that the questions raised by the emergence of the euro, together with other recent or emerging problems in the Union, seem to call for a significant change in the political organisation of the EU to be completed in the middle term.

In fact, if there seems to exist enough reasons to admit that the model of the State-Nation is not yet depleted, it is also true that there seems to exist strong arguments in favour of its redefinition. In particular, it seems that an effective “battle” against the negative effects of a deregulated globalisation – and also against some political, economic and social problems that threaten the stability of the goals achieved so far – calls for a new articulation of the public powers, with a clear and adequate assignment of competencies between the central and the sub-central levels of political power.

The arguments also seem to suggest the need for an internationalisation of some of the traditional economic functions of the State-Nation.³¹ At the EU level this would mean a real necessity and possibility of a new kind of governance. It is argued, in the next section, that its implementation would imply an institutional change leading to a system with a federal nature – probably the only that allows to preserve “the unity in the diversity” in Europe – even if it would present some unique and original features³² when compared to other federal models already existent.

²⁹ One must also be aware that the aloofness is also associated with other crucial factors that are not necessarily negative. The growth of welfare, the ageing of democracy or the decrease on the weight of the State in the economy in some Member-Countries certainly are among these factors.

³⁰ Guéhenno (1995) is one of the most radical authors in this context: “if there is no longer a city, if there is no longer a nation, can there still be politics? (...) the disappearance of the nation carries with it the death of politics”.

³¹ Cf. Streeck (1996).

³² At this point, it should be noted that the past evolution of the European integration process has always shown unique and original characteristics, when compared to other integration processes.

The Answers: the Politics and the Economics

The intergovernmental approach: the preferred method until the present. The decision-making process at the European level has been largely characterised by the primacy of a perspective of co-operation and coordination among the Member-Countries.³³

Far from the idea of a close articulation between a central government and different national and regional governments – as it would happen in a federal model – the most important decisions (and even other less important decisions), have been taken in a context of supremacy of intergovernmental agreements in which the Council is gaining more power of decision and other institutions (namely the Commission) are losing it.

In fact, the agent envisaged by some academics and politicians as the “antechamber” of a real European “government” has been losing importance since the substitution of Jacques Delors. At the same time, essential decisions (and other decisions) are more and more performed by the leaders of the Member-Countries in the context of the European Council (an institution not previewed in the founding Treaties).

Objectively the primacy of the intergovernmental approach has some advantages, associated in particular with the need for more consensual decisions and the appearance of having fewer costs in terms of sovereignty transfers. However, in the author’s opinion, this approach brings a set of very inconvenient results, some of them already mentioned before. The following ones in particular are stressed:

1. The possibility that compromises are obtained together with the sacrifice of the best results; the need of agreement also slows down the decision-making process, leading to a greater lag between the moment when problems are detected and the moment when measures are taken; this problem, already with some importance in a “Europe of 15”, would be increased in an enlarged Union, leading to obstructions to advances and creating instability.
2. The intergovernmental method tends to favour the interests of the most powerful countries, those that can put more pressure – at various levels – on the others, worsening for these last ones the problem of sovereignty losses.

³³ Note that this situation has some exceptions, the best example probably being the present model of definition and execution of monetary and exchange rate policies.

3. The intergovernmental method favours a situation of more indifference of citizens before the decisions and probably leads to a situation of insufficient democratic control; that appears to be the case when we compare this approach to an alternative characterised by a decentralised structure of decision-making, in which the different Parliaments – European, national and sub-nationals – would have more sanctioning power over the Executives.

It is in this context that one can better understand the difficulties that marked the process of institutional reform apparently concluded in Nice. Along the discussions, three kinds of interdependent conflicts took place: between different perspectives; between different models; and between different institutions.

In what concerns the first issue, fundamental divergences were seen between a set of bigger countries (led by France and Germany), to which the essentials of the reform would be a reinforcement of qualified majority mechanisms and a significant change on the division of votes in the Council, and a set of smaller ones, constituted by those who fear these changes as they might be just one step of an evolution towards a situation of institutional domination *de jure* (and not only *de facto*) by the bigger countries.

The second issue is a natural reflex of the first one, the polemics going on the myriad of possible choices: between the creation of an “European government” and the reinforcement of inter-governmental coordination; between the adoption of a model of an “Unitary Europe” and the prevision of an enlarged variety in a model of an “Europe *a la carte*,” between the reinforcement of centralism and the reinforcement of “subsidiarity,” etc.

In what concerns the last issue, a kind of battle for power between the Parliament, the Council and the Commission was seen, the first being interested on the federalisation of Europe (as is proved by many of its reports), the second on the reinforcement of the intergovernmental approach, the third probably on an evolution of the formula of an “European government” with a more centralised power of decision.

The Nice reform has greatly favoured the position of bigger countries, the intergovernmental approach and the power of the Council, following the decisions already taken in the previous Lisbon Summit. However, it has been a minimal, disappointing reform, as it appears not to solve the essential questions regarding the future of Europe. The best evidence of this may

be found in the decision – also taken in Nice – to call a new Intergovernmental Conference in 2004 to discuss the repartition of competences among the various levels of political power.

In fact, the above-mentioned conflicts have not yet been definitely overcome. More important it is the fact that they are only a visible corner of a giant iceberg,³⁴ i.e., the fundamental decision on the most adequate model of political and economic organisation for Europe, the one that might truly allow dealing effectively with the challenges Europe is facing.

In the presence of the inefficiencies of the present system (increased by the Nice reform, exception made to the reinforcement of the rule of majority), together with the consideration of the true principles of federalism, it seems justifiable to call for an evolution towards a federal model of political and economic organisation in Europe – with a very decentralised decision-making process – as the most adequate way to deal with those challenges.

Federalism: concepts, principles and “non-truths” - The concept(s) of federalism. There is no unique and consensual definition of “federalism,” even because, as Schmitt refers (1999), it is a concept in permanent evolution³⁵ and with different practical implementation regarding the diversity of co-ordinates in terms of time and space.³⁶

In any case, it is possible to find a common essential point in all approaches to federal models of organisation: they show as one main feature the assurance of preserving “unity in diversity.”³⁷ In this context, it turns to be possible to situate a federation as a system that combines some elements of centralised systems (whose extreme is the unitary State) and others of systems that are largely oriented towards diversity (whose extreme would be anarchy). So, the federation would be situated, as it is in Figure 2, somewhere between the decentralised State (more unity and less diversity) and the confederation (less unity and more diversity).

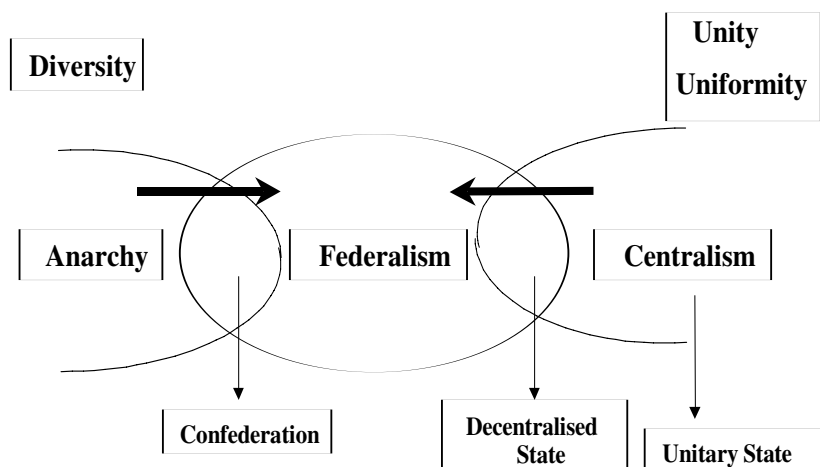
³⁴ The same might be said about some other elements that are connected to those mentioned, from the creation of a “Charter of Fundamental Rights” to the proposals of creating a “Directory” of countries or to some recent statements in favour of a Federation of Nation-States.

³⁵ “*Le fédéralisme, en tant que recherche constante d'un équilibre efficace entre centralisation et décentralisation, est en évolution permanente et (...) certains de ses aspects son toujours d'actualité.*”

³⁶ It is sufficient to observe, as the author does, the diversity of organisation models in the existing and more frequently studied federations, namely United States, Switzerland and Germany.

³⁷ Cf. Héraud (1995), Kinsky (1999) and Schmitt (1999).

Fig. 2
The position of federalism³⁸



The federation is clearly different from the decentralised State. In a federation a Constitution for each Member-State is found that cannot contradict the Federal Constitution. The federal States participate on legislative, executive and judicial power, according to a distribution of competences defined by the Federal Constitution. On the opposite, the decentralised State has the legal statute of an “autonomous region” and this one is defined by the central State to which it is submitted.³⁹ Note, in particular, that to a major or minor extent the central State may declare (by itself) the nullity of any decision of its “regions” if they are considered as being against the general interest.

The federation also differs clearly from the confederation. The federation is created upon the existence of a Constitution that guarantees the equality of all its Members. On the opposite, the confederation is charac-

³⁸ This figure is not an original of the author. It was presented, for instance, by several lecturers in the Ateliers du Fédéralisme, Aosta, Summer of 1999.

³⁹ The case of Spain is a good example of this system.

terised by “weak” supranational structures, which frequently leads to anarchy or malfunctioning and/or to the supremacy of the most powerful Member.^{40 41}

The principles of federalism.⁴² A) Autonomy. The members of a federal structure (States, regions, municipalities,... branches, associate enterprises,...) are autonomous and they have a constitutive power. The expression of this power comes along a “not so easy” way,⁴³ integrated by the following set of powers:

1. auto-affirmation: each member has the power to declare its own existence and to have juridical form;
2. auto-definition: each member has the power to define its own limits;
3. self-determination: each member has the power to choose the “compound collectivity” to which it wants to adhere;
4. auto-organisation: each member has the power to endow with a statute of its own (this allows to clearly distinguish the federate State from the decentralised State);
5. auto-management.

⁴⁰ Some academics and politicians consider that it is the case of the United States in NATO and the case of Germany in Europe.

⁴¹ More development on the distinction criteria between a federation and a confederation may be found in Schmitt (1999). In particular, this author shows that the application of those criteria, although simple in theory, is to some extent complex. He notes that the key for distinguish the two systems should be searched on the existence (or not) of a real will of establishing so tight links among the Members that we could classify the construction as a new nation or, at least, a new State. He also stresses that: “*Le passage de la confédération à la fédération consiste en une capacité à mobiliser les forces vives d’un pays en faveur d’une union, tout en respectant la souveraineté propre de chaque partie constituante*”.

⁴² In this issue, we follow closely the “classification” proposed by Héraud (1995).

⁴³ Mainly because of important political barriers that emerge between the first and the last elements of the set of powers included in the principle of autonomy.

B) Exact adequacy. Also known as “subsidiarity,” it refers to the attribution of competencies, which is done by assigning to each level of power the necessary competencies to answer the problems that arise at that level. In this case, the central power should not intervene unless when its intervention shows to be more efficient than the (individual or combined) action of its sub-components.

As it becomes obvious, this is one of the most relevant and difficult questions at the political level – the multi-level repartition of power and competencies. Its efficiency conditions the success and the stability of the federal system. We are also talking about the principle that, simultaneously, imposes limits to autonomy and (together with the principle of autonomy) guarantees that federalism does not mean more centralism.

C) Participation. According to this principle, members should participate in the decision process of the federation and they may do so by two different and complementary ways: on the one hand, by individual participation, i.e., the participation of their citizens; on the other hand, by institutional participation, i.e., the participation of the collectivities themselves.

A good example of this second mean of participation may be found on the relevance that the institutions, that represent (in any way) the interests of Member-States, have at the legislative power level in three of the most important federations in the present. They are: the Senate, in the United States, with two representatives elected by each State; the *Bundesrat*, in Germany, with members of each Länder government; and the *Conseil des États*, in Switzerland, with representatives of the cantons and semi-cantons.

As Schmitt (1999) says, this kind of participation might be seen, in some way, “*comme l’extension des droits de participation des États membres en guise de compensation à la perte – inévitable – de leurs compétences dans un environnement de plus en plus «globalisateur»*”.

D) Co-operation. It is the essential mean for the solution of problems and conflicts that may arise, in particular in the context of the practical implementation of the division of powers and competencies among Member-States and between these and the “central” power.

This principle may assume one of the following shapes: vertical cooperation, which refers to the agreements established between the “federation” and its Members; horizontal cooperation, reporting to the agreements established among the Members themselves. This last kind of cooperation is also known as “cooperative federalism” and has been developing in the last years in the most important federations worldwide, as it appears as

another way to face some pressures towards more centralisation of power in the “federation”, some of them connected with the phenomenon of globalisation.

E) Guarantee. To preserve the stability of the federal system, sanctions may be imposed when the established rules are violated by any of the Member-States. At the top of them we find the juridical decisions taken by a federal institution (like the Federal Supreme Court in the United States) that should be respected by all members. It is obvious that the efficacy of these principles demands the existence of a coercive force, i.e., the existence of an authority, at the federal level, that has the *capacité de contrainte légitime*.

Some “lies” about federalism. Having in mind the above-mentioned principles, it becomes possible (as well as relevant) to show, at least with a theoretical point of view,⁴⁴ how some of the “accusations” frequently thrown up to the defenders of a federal model for the EU have no solid grounds. In fact, most of them are only contributions for keeping the status quo and maintaining the debate on federalism as a “taboo”, when it appears to be, as the study argues, a decisive debate on the future of Europe.

As a first point, it must be underlined that **federalism is not centralism**. As it was mentioned, the existence of the principle of autonomy, together with the exact adequation of the repartition of competencies between the various levels of power, allows for an adequate “decentralisation” of power.

In this context, the association between federalism and centralism corresponds to a “non-truth.” Maybe it emerged as a result of the way the integration process has been conducted, namely with the “small steps” strategy and the distance between the institutions and the citizens, leading to successive transferences of competencies towards a supposed “central power” not elected and sometimes out of the necessary political and democratic controls.

As a second point and associated to the above one, it is also arguable that **federalism does not mean an increase in technocracy and bureaucracy**. The author thinks this confusion is just one result of the “small steps” strategy implemented so far.

⁴⁴ In what concerns the practical effects, it all depends on how the application of the principles is correctly done.

In third place, it is also arguable that the **federalism does not imply a total loss of national sovereignty or a submission of the smaller states before the bigger ones**. Any additional step in a process of integration implies, in some way, necessary changes in the sovereignty domain. However, it is not clear that the actual model (or other intergovernmental models or even a model of different velocities in Europe) presents fewer restraints to the autonomy of the small States than the federation model. By the opposite, the adequate functioning of the participation mechanisms ensures that the federation model is more likely to promote the preservation of diversity than the intergovernmental models.

Finally, **there is no such thing as a unique model of federalism**. A simple analysis of the principles of federalism would be enough to argue. But another simple analysis, now towards the practical application of the principles in the most important federations in the world, would also lead to the same result. In fact, if it is certain that the main characteristic of federalism lies on obtaining some degree of unity together with the preservation of diversity, it is also certain that there is not only one model, but several models, each of them adequate to the coordinates of time and geographical space where they are grounded.

According to Schmitt (1999), we easily describe the American model as an illustration of a system where the separation of powers is clearly defined,⁴⁵ the German model as a federal system where each Member-State (each Länder) vigorously manifest their existence and autonomy, and the Swiss model as a system that lies on history and pragmatism, where “*on pratique de toute éternité le fédéralisme*” and where the individual participation – via referenda – assumes significant relevance.

European Union and federalism: the present. Having in mind the principles of federalism, it is possible to describe how some of the most relevant federal elements are yet embedded on the organisation and the decision process of the EU. However, that analysis also turns clear that the EU model is still far from the model of a federation.⁴⁶

Among the existing elements that seem to approximate the EU to a federal model, the following are worthy to mention:

- The situation in the field of monetary integration, where the institutions and the decision-making process are clearly federalists, as was briefly described in the first part of this article;

⁴⁵ According to Schmitt (1999), it is a clear "illustration of Montesquieu's theories".

⁴⁶ For a development of this issue, see Kinsky (1999) or Moravczik and Nicolaidis (1998).

- The existence of an European Justice Court whose decisions must be respected by all Member-States also as the existence of a Common Law with primacy before the National Law, in a situation that approximates the Union to the existence of a principle of guarantee;
- The existence of something like a “bicameralism” at the legislative area, with some share of power between the Council (representing the governments of the Member-States, thus looking like the institutional participation) and the European Parliament (representing the citizens, thus looking like the individual participation), even if the situation is clearly in disequilibrium in favour to the Council;
- The changes occurred in several European States leading to a lower degree of centralisation (Spain, Italy and, more recently, United Kingdom) or even to the constitution of a federal State (the case of Belgium being the most notable).

However, the model of organisation in the EU is still far from the federal model. That is particularly clear when observed that:

- There is no European Constitution, i.e., a constitutional document where the essential values and objectives of the Union were expressed together with the assignment of powers between the “centre”, the Member-States and their sub-units; also, the probability that such a document appears in the near future is relatively low, even if it has increased with some recent statements favouring its creation and the prospects for a new Intergovernmental Conference in 2004;
- There is very little legislative power assigned to the European Parliament in practical terms; in fact, the decisions of the Lisbon Summit concerning the decision-making process have even reinforced the statute of the European Council;
- In what concerns a large number of relevant areas, with the Common External and Security Policy (CESP) being the better example, there is a clear predominance of situations of simple co-operation; the emergence of Mr. CESP, the constitution of a common military force for quick intervention or

the discussion about the need of a unique voice concerning external affairs have not yet lead to a significant change of the situation;

- This subject – the federalism – has been largely kept as a “taboo”; it is certain that federalism has progressed in the European organisation, but by the “worst way”, i.e., by timid steps, frequently hidden from the common citizen, and sometimes with the reinforcement of central powers not elected nor controlled in a democratic manner.

IV. CONCLUSION: THE NEED FOR A FEDERAL MODEL AND THE PROSPECTS FOR A MORE PROFOUND DEBATE

In terms of the present model of political and institutional organisation, the EU joins some elements of federal models with some others that mainly characterise confederal systems, these last ones having a certain primacy that has been growing in the last years together with the reinforcement of the intergovernmental approach to the decision-making process.

The present model, however, seems to be very unsatisfactory to effectively deal with the problems and questions the EU is facing or those the EU will be facing in the near future.

The stability of the EMU, the reinforcement of the results already obtained along the European journey since the 50's, the creation of an adequate environment for a growing competitiveness of Europe, the effective answer to the new challenges of the information society, the efficacy of employment policies, the possibility of doing the enlargement in the near future, the need to call back the citizens to the European project, the existence of a real strategy for Europe: these are some of the major elements that are calling for an alternative model. This one must assure more unity – allowing the desired “unique voice” in some fields – without threatening the preservation of the national identity and the cultural values of the enormous diversity of people that, in a few years, might be together in the European “ship.”

The author believes that an evolution of the European political and institutional model towards a federal model is now clearly necessary, corresponding, in some way, to the return to the ideas of some of the pioneers of the European project. The impotence that the actual model is showing in face of the above-mentioned problems (as we tried to show

along this paper) and the situations of obstruction that it has lead to in what concerns some crucial questions (the institutional reform being the most evident), together with the consideration of the correct principles of federalism and the success of federal models in some developed societies also characterised by a strong cultural, linguistic or ethnical diversity (the United States and Switzerland being the best examples) seem to play for the implementation of a federal model in Europe.⁴⁷

However, **federalism in Europe would assume an “original” form, probably looking like a “Federation of Nation-States,”** a concept proposed years ago by Jacques Delors and nowadays defended by some politicians and academics.⁴⁸ In fact, three main reasons legitimate this conclusion. First, it is clear that the situation of the EU is far from those observed in the above-mentioned federations, in particular, because of historical reasons; second, there is a political impossibility (and even a political non-desirability) of changing the scenario of the existence of Nation-States with a relevant role;⁴⁹ finally, the success of the new (federal) model would necessarily lie on an adequate and strongly decentralised attribution of powers and competences.⁵⁰

Having in mind the previously presented facts and arguments, **the evolution towards an “original” federal model seems to be the necessary solution for an efficient functioning of the Union enlarged to about thirty countries, the essential solution for the preservation of unity in Europe within a context of strong respect for the autonomy of national values, and the central solution for a new “élan” of the European Union.**

⁴⁷ According to Fischer (2000), the answer is simple: Europe would make a transition towards a parliamentary system as an European Federation, according to what was asked by Robert Schuman some fifty years ago. That would mean no less than an European parliament and an European government that truly perform legislative and executive powers within the Federation. This one would have its grounds on a constitutive treaty.

⁴⁸ Even though they do not agree in what this Federation would mean.

⁴⁹ Also according to Fischer (2000), the idea of a European Federal State that would replace the old Nation-States and their democracies by a new sovereign power is not viable, as it would be an artificial construction, ignoring the established realities. He argues that the deepening of the European integration is only conceivable in the context of a share of sovereignty between Europe (i.e., the "centre") and the Nation-State.

⁵⁰ Also according to Fischer (2000), a clear assignment of competences between the "union" and the Nation-States would be necessary. The Union would deal with the subjects that absolutely have to be regulated at an European level and all the other questions would be responsibility of the Nation-States.

It is in this context that the debate of federalism in Europe should be reviewed, with serenity and without “taboos.” It is particularly important to discuss how the transition to the new federal model would be done, how competences would be assigned, how a real European government and a real European parliament would be created and how their actions would be articulated with those of national and sub-national entities,⁵¹ etc. It is also important never to forget, along the debate, that the federalism will never be a “miraculous medicine” for all problems of the European integration,⁵² even if it corresponds to the solution that, at this moment, seems to be the most adequate to deal with the new (and with some old) questions and challenges.

Looking into what happened these last months, one would be tempted to say that this debate is somehow placed again in the European agenda. In fact, some new proposals on the organisation of the Union have been heard, following Mr. Fischer’s speech in 2000 and some statements made last year by Mr. Schroeder in favour of an evolution towards a federal German-kind model. There also were some important reactions by other European leaders, such as Mr. Jospin or Mr. Blair. Recently, the Convention, that will prepare some proposals for the Intergovernmental Conference in 2004, began its work and it is expected to give some important answers in the near future.

For the moment, it is important to look at the proposals presented by the above-mentioned personalities (Figure 3), as they might be important to bind the agenda of the IGC of 2004 and as they are showing how, behind the appearance of looking towards the interests of the whole Europe, nowadays leaders are still thinking in first place on the interest of their particular countries.⁵³ In this context, the most recent proposal concerning the functioning of the European Council, presented by Mr. Schroeder and Mr. Blair, is particularly relevant, as it clearly shows the intentions of evolving towards a “Directory” of big countries.⁵⁴

⁵¹ Some interesting clues on these aspects might be found in Schneider (1995) or Hesse and Wright (1996).

⁵² According to Constantinescu (1998), *“il faut ne pas confondre fédéralisme et angélisme: le fédéralisme ne vise pas à fournir un modèle de société parfaite”*.

⁵³ In this context, look in particular to the proposals of renationalisation of some European policies made by Mr. Schroeder, to Mr. Jospin’s defence of a decisive role for the European Council (which would mean the reinforcement of nowadays intergovernmental model, even if he calls for a Federation of Nation-States.), or to the refusal of any kind of federalism and even of an European Constitution by Mr. Blair.

⁵⁴ Note the important difference of opinion of Mr. Schroeder: this new proposal goes in a completely different way when compared with the one presented last year (then defending a German-like federalism for the European Union).

Figure 3
Some proposals on the future model for the European Union

Proposals	Gerhard Schroeder	Lionel Jospin	Tody Blair	Antonio Guterres
Model	Federal German-kind	Federation of Nation-States Reinforcement of the inter-governmental co-operation	Europe of free, independent and sovereign nations" Europe should be a super-power, not a super-State	Gradual evolution Deepening of the two rationales: the federal one and the confederal one
"Existing Institutions"	Reinforcement of the powers assigned to the Commission, the future "European government"; Reinforcement of the powers assigned to the European Parliament, namely in what concerns budgetary questions.	Reinforcement of the powers assigned to the European Council, namely the power to dissolve the European Parliament	Supremacy of the European Council	The European Commission as the central institution Reinforcement of the role of the European Council Reinforcement of the powers assigned to the European Parliament
"New Institutions"	Creation of a Second Chamber, where the States are represented "i.e., <i>transformation of the Council</i> "	Creation of the Congress, with representatives of the national Parliaments; Creation of a permanent Council in Brussels to manage current issues and to assure the connection with national governments; Creation of an "Economic Government for the euro area		Creation of the Congress, leading to a reinforcement of the participation of national Parliaments
European Constitution?	Yes, with a clear assignment of competences among the various levels of political power	Yes, together with an "European Social Treaty"	No (absolute refusal, as well as with any proposal that may involve the word "federalism"	Yes(?)
Other	Rationalisation of some common policies (such as the agricultural)	Absolute refusal of a proposal that may involve the renationalisation of common policies	Yes to "reinforced co-operation", but absolute refusal of the idea of creating an "hard group" of countries that go further on the process before the others	Political federalism must be accompanied by fiscal federalism "Reinforced co-operation" seen as a mean to avoid the possibility of any restriction of the deepening forced by the enlargement

As a last point, it should also become obvious that, if a change in political organisation towards a federal structure occurs, it would also call for some significant changes in the way that economy is organised. In particular, the definition and the execution of all kind of public policies would also suffer important transformations, as they would have to adequate to the “rules” of federalism, in this case of “fiscal federalism.”⁵⁵

In a situation clearly different from the discussion of “political federalism,” in the area of “economic federalism,” a large number of consensual points are found, even if some polemical ones subsist.⁵⁶ More than this: it is observed that, in the context of the developed arguments for a federal model in Europe, the main conclusions of the “fiscal federalism” theory⁵⁷ would be largely compatible with the political idea of a strongly decentralised Federation composed by the “former” Nation-States.

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⁵⁵ As Oates (1999) notes, the meaning of “federalism” in Economics is not exactly the same as its meaning in Political Science. In this area, as observed, it refers to a political system grounded on a Constitution that allows for some degree of autonomy and power to all levels of political jurisdiction. In the area of Economics, we note that the public sectors are always “more or less” federal, in the sense that there are different levels of government supplying public services and performing some power of decision de facto. The subject of “fiscal federalism” is therefore the set of questions concerning the vertical structure of the public sector, i.e., concerning the intervention of the State itself in the economy at all different levels.

⁵⁶ Cf. Oates (2001).

⁵⁷ This subject goes further from the objectives of this paper. Some development might be found in Oates (1999) or Spahn (1994).

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