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Introduction

Europe beyond the Treaty

The treaty includes no provisions for the economic rehabilitation of Europe ..., nothing to stabilise the new states of Europe, ... nor does it promote in any way a compact of economic solidarity amongst the Allies themselves. ... It is an extraordinary fact that the fundamental economic problem of a Europe starving and disintegrating ... was the one question in which it was impossible to arouse ... interest.

John Maynard Keynes,
'Europe After the Treaty', in *The Economic
Consequences of the Peace* (1919)

Slim down for Lisbon?

For once, the ways and practical details of Europe's construction give rise to debates and polemics and make the headlines. In an abrupt acceleration of its history, the year 2004 saw successive controversies, some acrimonious, between national governments and the European Commission concerning the Stability and Growth Pact (SGP), a new and massive enlargement of the European Union (EU), on 1 May, with the entry of 10 countries, mostly 'small' countries in central and eastern Europe. The year also saw the election by universal suffrage in the 25 member states of a new European Parliament, then the adoption a few days later by the European Council of Heads of State and Government, meeting in Brussels, of the draft constitutional treaty resulting from the work of the convention presided over by Valéry Giscard d'Estaing and slightly amended through several months of negotiations in the Inter-governmental Conference (IGC). The Council designated a new president of the EC, Duraõ Barroso, whose team was to replace,

on 1 November, the outgoing Commission presided over by Romano Prodi, at the end of its mandate. But the European Parliament, declaring a right that had hitherto remained theoretical, *in extremis* compelled Barroso to review the composition of his team before finally accepting it. The year also saw the first exchanges between governments and the Commission on the proposal for the European budget for the next financial planning period (2007–13); the proposal, made public by a departing Commission, for a more flexible reading of the Stability Pact; and, last but not least, the great debate about the possible membership of Turkey and the launch of ratification procedures for the constitutional treaty inaugurated by Lithuania. And the first half of 2005 was hardly less busy, with the ratification debates in France and the Netherlands; the failures to ratify by referendum that eventually materialised on 29 May and on 1 June, respectively; and the cathartic Brussels summit from 16 to 17 June, when the heads of states and national governments convened to declare a ‘pause’ in the constitutional process, but then had to admit publicly that they could not reach a compromise on the future of the European budget.

This richness of current European affairs contrasts, however, with the weakness and imprecision of the content of debates and with the recurrent deception of a European economy that is decidedly incapable of fooling anyone for long in a world whose economic dynamism is amazing. Apparently swept along by a new impetus for growth at the end of the last century, the EU had, under the Portuguese presidency, shown proof of voluntarism, and had in the spring of 2000 at the Lisbon summit put forward ambitious objectives. These were to make the EU ‘the most competitive knowledge-based economy ...’, to ‘activate’ social protection and make it an instrument to serve this competitiveness, to raise levels of employment, especially for older people, in order to counter the effects of the ageing population, and, in order to achieve these aims, to commit itself to a new method of government of the EU, especially in those domains not covered by the treaties, with open methods of coordination (OMCs) that set common objectives and allowed national governments the choice of the means to achieve them.

What remains of these ambitions? What are the conclusions to be drawn from some five years of new procedures and ‘open’ coordination? All the national players, national or local political representatives, civil servants and trade unionists unanimously testify to the vitality of the processes of consultation, the increasing interlocking of levels in the development of policies, ‘national action plans’, etc. – in short, the emergence of a new ‘governance’. Finance ministers and EC departments speak highly of the merits of the ‘broad economic policy guidelines’ (BEPGs),

which compel the different national administrations to conceive their actions within an overarching strategy and allow regular discussion of these by the Commission and by peers meeting within the body of the Council. However, the concrete advances are hardly penetrating, and above all the economic performance of the EU, far from being improved through the new methods and the ambitious objectives that are supposed to be pursued, has perceptibly deteriorated, remaining disappointing even during the recent recovery phase, while the whole world has been recording higher rates of growth.

Reform without growth?

The dominant trend in the development of economic and social policies within the EU seems to be the one that imposes, as evidence, the 'structural reform' of the European welfare states. The institutional developments mentioned earlier have in fact considerably strengthened the influence of finance ministers over the choices that face their various colleagues within national governments. This is especially so with regard to labour policy (labour law and labour contract termination, publicly aided employment and public employment, etc.) and social protection, especially in the areas of retirement and health, just as the directions chosen by the Ecofin Council, often proposed by the Commission, constitute the global framework, admittedly not binding but whose philosophy permeates the whole, with which all these policies must align through the intervention of the BEPGs. The watchword common to all of these reforms is the reduction of production costs and of the tax burdens whose harmful role in firms' employment and investment decisions is only equalled by that (assumed far more than empirically experienced) they are supposed to exercise on households' labour supply and saving and capital accumulation decisions. The cure for the European 'depression'¹ is therefore found: it is desirable to cut wage costs in order to ensure the good health of production firms and the attractiveness of the European nations and their competitiveness in the face of the new competitors arising from EU enlargement and from globalisation, and to slim down the European welfare states, both in order to re-incentivise the currently active generations to work and save and in order to prepare for the 'ageing shock', which will only increase the financial burden imposed by social protection on the incomes of those in employment, and which will automatically lead at the same time to a decrease in the working-age population within the EU.²

Nonetheless, such a defensive strategy, made up of regressive reaction and adaptation, appears at best unbalanced and incomplete, and at

worst doomed to fail. Indeed, if it is undoubtedly necessary that the European production sectors, firms and markets (particularly but not solely labour markets) adapt to the new constraints resulting from the increasing opening up in the economies of the new member states and in the rest of the world, and provide themselves with the means to participate fully in the new competitive games that are the result (by keeping the best firms and allowing them to measure up to their external competitors, by attracting foreign investment, etc.), such a 'toning up', which implies an increased flexibility in order to facilitate the necessary restructuring and the adoption of new technologies, will be effective and efficient only if it is conducted in a context that maintains, even strengthens, social protection and the safety nets. Convincing the economic agents of the benefits of competition, encouraging them to be bold and take risks, is in fact only possible if they can reasonably expect that in the event of failure or bad luck they will benefit from some protection; that, in addition, aggregate demand will be sufficiently foreseeable and growing for the investment and effort to enjoy a reasonably high probability of being rewarded; and that ultimately this reward for the effort, risk-taking and productive investment will, at least in expected terms, be greater than the monopoly rents of those sheltered from competition and the income from capital put to non-productive use.

Furthermore, a defensive strategy, a race to the bottom, which would rely only on wage moderation and on the reduction of the tax and social burdens bearing down on production costs and on mobile factors, would be doomed to fail, for in an open world there will always be economies whose production costs, at least for certain products, will be lower than those that can be obtained in Europe. Such a strategy, which essentially assumes that competition and trading on markets are zero-sum games and that the development of the one can only be achieved through the impoverishment of the other, apart from being broadly invalidated by the history of capitalism, would not be passively endured and happily accepted by its victims, namely the majority of those employed.

It can barely be contested that economic growth is necessary, and especially in the current context of the EU. As the different reports published over the last few years in Europe quite correctly remind us, it is quite evident that the prospect of demographic ageing is imposing changes in society in general and in the labour markets in particular. These changes will be much less painful if a sustained economic growth allows the losers in the required transformations to be compensated. Moreover, the ageing will bring about a virtually unavoidable increase in

certain categories of social protection expenditures, unless one believes that policies aimed at lowering the living standards of the retired will be pursued – an unlikely prospect. In addition, it is probable that a change, which many Europeans think desirable, towards a more durable and more environmentally friendly economic development model will require considerable additional expenditure, whose expected benefit will inevitably take some time to become apparent.

What is more, economic growth represents the only environment favourable to the adaptations required by globalisation and opening up. Investments in modernisation that bring down the production costs of existing products, those that incorporate new technologies and those that allow new products or services to be developed are encouraged only if the macroeconomic environment is buoyant, that is, if demand (particularly internal)³ is strong. Similarly, restructurings, which necessarily involve the demise of the less profitable firms, are all the less painful when the economic context is more buoyant, and when other activities are created that absorb the labour and resources no longer used by the firms and sectors in decline.

Henceforth, even from the debatable theoretical viewpoint where only structural policies would retain economic effectiveness in the medium and long term, it is essential for macroeconomic policies to be deliberately oriented towards supporting economic growth. This is far from being the case today in the EU. So, while the monetary union removed the temptations of the non-cooperative national monetary strategies so evident in the European monetary system (EMS) that had created, in the first half of the 1980s, a degree of monetary restriction practically without precedent in Europe (with real short-term interest rates of about 5%), the common monetary policy, while certainly less restrictive, scarcely reacts to economic fluctuations (partly because its priority objective is monetary stability)⁴ and passively endures the sometimes extreme fluctuations of the euro exchange rates, which nonetheless affect inflation and also the competitiveness of European firms and hence economic growth. In addition, although often considered to be inadequately disciplined and controlled, in the light of the rules provided by the EU and the criteria that the financial markets normally use to assess their sustainability, national budgetary policies are undeniably pro-cyclical,⁵ to the extent that they have, in recent years, been all the more restrictive when growth has been weak, which does not appear to be the best way of achieving the dynamism deemed necessary. Ultimately, it is probable that a different policy mix, in which monetary policy is more accommodating and fiscal

policies more 'virtuous', would be more favourable to growth. How can we explain the contradiction of this structural blockage that condemns Europe to the twofold grief of inertia today and debility tomorrow?

Impeached growth: Social norms and logic of collective action – two complementary hypotheses

How does one explain the choice of such rules for budgetary policies and for monetary policy? How can one understand why the national governments and European authorities persist with such orientations of macroeconomic policies and of the European policy mix when these appear to be so disadvantageous to the ambitions expressed elsewhere? It is quite implausible that such a degree of erroneous perseverance can be put down to chance, coincidence or fortuitous incompetence on the part of all the officials. On the other hand, one cannot exclude the possibility of a particular form of blindness and dogmatism; an avatar of the 'single thought' could be imposed on Europe through various factors, such as the apparent failure of Keynesian policies in the 1970s, the witnessing of a simultaneous increase in unemployment and public debt in the first half of the 1990s, the intellectual conformism of economic elites and of high-level EU administration and member countries' officials, the importance of reputation and peer pressure affecting national political leaders, etc. But, in a democratic context, this would not be enough to explain the persistence of manifestly erroneous policies.

Two broadly complementary hypotheses seem capable of explaining past and present choices and clarifying the debate on the European constitutional treaty. The first recognises the importance of 'social norms', that is, beliefs and objectives shared by the members of a society, and especially its leading elite, first in the choice of rules that the society equips itself with and then in the orientation of economic and social policies. In addition, it suggests that tolerance for the inequality of Western societies, and particularly European societies, has increased (or, conversely, that egalitarian aspiration has waned) during the past two decades. This would explain the orientation of the 'structural' policies of the institutions of the labour markets, the tendency towards alleviating taxation on high incomes and on capital, the reduction of social protection or its decreased generosity, and the implementation of macroeconomic policies less favourable to growth that, especially owing to the persistent mass unemployment in the major European countries,

contribute to a political pressure for 'structural reforms'. The second hypothesis is that the institutions of the EU – the mostly unprecedented combination of an independent central bank, collectively managed by the governors of the central banks of member countries and pursuing a priority objective of monetary stability, and a decentralised system of budgetary, fiscal and social policies, subject to the laws of competition and governed by rules, including the Stability Pact – do not allow, in the current context of a larger and more heterogeneous EU, the development of common policies or even the satisfactory coordination of national policies. On the contrary, they encourage the governments of member countries to choose non-cooperative strategies that, in the majority of cases, turn out to be harmful for the Union as a whole.

So, while the first hypothesis suggests that the preferences of public decision-makers have changed, thus helping to explain the change in the nature of European institutions, the second relies on the 'logic of collective action' (Olson, 1965) to consider that, in the absence of adequate institutions, even a convergence towards certain objectives, including worthy economic and social ambitions, would not be sufficient to resolve the European problem, to the extent that each country would still be tempted to achieve them through recourse to opportunistic strategies.

The European constitutional treaty: Powerlessness through alienation?

Would the constitutional treaty for Europe make it possible to emerge from this deadlock and find the path of an institutional efficiency put to the service of a strong and lasting growth? Would it make it easier, or at least possible, to overcome the current obstacles and allow the emergence of policies favourable to the collective good of the EU and individual behaviour by member states that facilitates the pursuit of ambitious common objectives rather than authorising, or even inciting, national governments to non-cooperative choices whose aggregated consequences are harmful for the Union as a whole? Unfortunately, the answer to these questions is no.

For a political economy of constitutional choices

There is no question here of passing judgement on the constitutional treaty for Europe purely on the basis of appearances. It is true that the latter are scarcely attractive. With its 350 pages (plus nearly 400 pages of appendices and sometimes authoritative protocols), the constitution for

Europe seems more like a settlement for co-ownership or a fiscal code than one of the great 'classic' and elegant constitutional texts such as the American Constitution or the German Basic Law. For all that, neither this opaque complexity nor the cumbersome inclusion in Part III⁶ of a quasi-notarial specification of the economic policies currently in force and of the rules that govern them constitutes in itself sufficient grounds to condemn the treaty out of hand. Any criticism must be more fundamental. We shall begin by listing the apparent advances of the treaty, before showing how, after being examined in the light of the political economy, they become of secondary importance.

It is undeniable that the European constitutional treaty marks some overall progress in some significant areas in comparison with previous documents. Thus, the first articles, which set out the values of the Union and the broad common objectives, are indubitably more satisfactory than their earlier versions, especially when they assert the 'social market economy' nature of the EU and recall the objectives of equality, full employment, etc. Similarly, the second part of the text, which promotes to the constitutional rank the Union's Charter of fundamental rights, could not be held to be a negligible contribution in particular by those, who consider that European integration has hitherto only favoured competition, deregulation and a 'shopkeeper's Europe'.

In addition, with regard to the institutions and their democratic nature, the role of the European Parliament is once again enlarged and consolidated, with the enlarged co-decision procedures. The composition of the Commission is simplified, stressing its characteristic of being a supranational executive responsible, like a democratic government, before the Parliament. Similarly, the institution of a stable presidency and a EU minister for foreign affairs and the formal recognition of the Eurogroup and its role in the coordination of the economic policies of the governments of the eurozone members all certainly represent progress, whose symbolic importance would be difficult to deny.

But, to start with, all of this is not enough to give confidence as to the likelihood of effective action. After all, some positions are purely honorary, and their holders have no power at all, in the absence of adequate procedures for reaching or implementing collective decisions. As for the noble ambitions and consensual objectives, all the preambles of all the constitutions and the majority of the large international treaties are packed with them – starting with the French Republic's proud proclamation of 'Liberty, equality, fraternity', about which all would agree that it is hardly restrictive as to the directions of economic and social policies.⁷ Besides, can one imagine a constitution or a treaty having an ideal

anything other than generous? The defenders of the constitutional treaty who admit its many shortcomings are quick to add that the text will be amended in the future, underlining that the EU has been provided with a new treaty about every five years over the past two decades. That is true, but apart from the fact that the conditions for unanimous revision as provided for by Part IV of the text are undeniably more restrictive with 25, or more exactly 27,⁸ even 28, than with 12 or 15 members, it has to be said that the process operates through successive accumulation, with each new treaty readopting, practically without change, the whole of the *acquis communautaire* that the preceding ones contained.

Let us return to basics: what is a constitution? We should try to determine the attributes in order to assess them with the help of the tools offered by economic analysis.⁹ Apart from the affirmation of shared values and common objectives, any constitution includes arrangements relating to the organisation of powers and the methods of decision-making in the society that it governs. In a democracy, these arrangements reflect a trade-off between two general requirements that are partly contradictory. On the one hand, there is the need to allow, indeed to encourage, collective action, which assumes methods of aggregating people's individual preferences, rules for decision-making that do not facilitate obstruction by the few and that, whenever it appears collectively desirable, encourage the different players to make the choice of strategies advantageous for all, while dissuading individual choices that would result in collectively harmful outcomes. On the other hand, there is the concern to protect minorities against abuse and possibly tyranny by the majority, which prompts the provision of safeguards and limits to its action and the imposition of thresholds to collective decision-making such that blocking minorities may be formed from the moment that principles or interests judged to be vital are in play. For example, it is well established that the rule of unanimity allows everyone to defend his own interests, but only very rarely authorises collective decision-making – unless for Paretian improvements, and even then on condition that they are actually perceived as such by all participants. Conversely, the rules of the simple majority facilitate collective choices on specific issues, but expose the minority to arbitrary power.¹⁰ The optimum constitution aims to guarantee, under the dual constraint, efficiency with integrity.

As Buchanan (1987) and Phelps (1985) remind us, the simple unanimity rule suggested in particular by Knut Wicksell (1896), because it makes the obtaining of individual consent generally too costly, does not allow this optimisation to be achieved. 'The logical foundations of

constitutional democracy' put forward by Buchanan and Tullock (1962) on the other hand allow clarification of the two contradictions in the European treaty with regard to the principles of integrity and efficiency. In contrast to ordinary political choices, which operate in the short term and involve the management of the current matters of the polity, constitutional choices must be set against the long term of democracy and endeavour to reflect a 'fair' and acceptable compromise between the two demands of the possibility of a social choice and the right to oppose it. Indeed, in order for an individual to accept that a public decision rule is unfavourable to her at some time, this rule needs to apply to the long term. This decision rule also needs to be a unanimous choice. But it is important, in this scheme, not to confuse rule and content of public action. If Buchanan and Tullock's model makes it possible to bypass the political aporia of unanimity, which is completely biased towards the side of integrity, it is through formulating a procedure for the unanimous constitutional choice of a decision rule, and not directly a decision.

Subject to the conditions of the long term and the unanimous choice of the rule for public decision-making (and here the analysis is very similar to that of John Rawls, 1971), individuals find themselves positioned behind a 'veil of uncertainty' that represents the guarantee of their liberty in a mutually advantageous political process. By posing the question 'How would I like the decision to be taken?', everyone therefore chooses the constitutional rules by successively considering the possibility of being, on any given subject covered by the constitution, either in the majority or in the minority. 'Which majority rules would I wish to have if, regarding such and such a policy, my preferences or my interests placed me in the majority, or perhaps in the minority?' One can well imagine that the answer depends on each person's view of the importance of collective action or, conversely, of safeguarding his interests, in each domain, but also the importance of the trust placed by each person in his fellow citizens and in the presumption of the closeness of preferences, and thus of the collective choices of the majority, to individual interests and preferences. All that then remains is to assess the quality, in terms of effectiveness, of the rules chosen.

In this respect, it is appropriate to add a further element of complexity. The constitutional rules do not apply only in the current social space; they apply equally to future generations. The simple 'veil of uncertainty' of John Rawls indeed assumes that if every person pretends to ignore the position in which she is likely to find herself regarding every subject covered by the constitution, everyone nevertheless knows the characteristics of all the possible choices and their impact on all the

possible positions. In other words, there is no uncertainty in Knight's (1921) sense (indeterminacy rather than complexity), no unknown other than that, purely virtual and mental, of the position that each person will occupy in a society all of whose positions are known perfectly by everyone. Now, this cannot be the case for a rule supposed to apply to all future generations, since the future is by its very nature radically uncertain.

The European constitutional treaty assessed by the yardstick of its ambitions

At the end of this short analysis, concentrating exclusively on political economy, two constitutional imperatives emerge: on the one hand, a constitution can only foresee arrangements for the rules for deciding on public action. It may, and in certain respects it must, allow for these rules to vary from one area of public action to another, but it may not, in any case, impose the content of the policies that it makes possible for current minorities or for the future. In addition, it is essential for a constitution to foresee the possibility of amendments to itself by formulating clearly the rules that make them operational in case of need – such as when new, unexpected developments occur that in most cases could not have been foreseen when the text¹¹ was adopted – while still avoiding the pitfall of making amendment too facile.¹²

By the yardstick of the first of these two principles, the major contradiction in the European treaty, located precisely at the point of contact between the third and fourth parts, appears quite clearly; because it mixes rules and choices, the treaty corrupts the meaning of the unanimous vote. Pronouncing unanimously on predefined choices renders meaningless the principle of integrity that this procedure is supposed to guarantee. There is no better illustration of this antinomy than the inclusion within the text of the 'bridging clause', together with the statutes and objectives of the European Central Bank (ECB). The first corresponds very precisely to the procedure defined by Buchanan and Tullock: it allows, after a unanimous vote, decision on the application of a majority rule for taking decisions in new areas of public action (why not, one day, foreign policy?). The second imposes on social minorities and on future majorities the contents of a monetary policy that nothing will be able to challenge. The supporters of the European treaty, who rely on certain real advances in the text, including the 'bridging clause', to justify their choice, are only half right, since the other half is just as conclusive. Now, the unanimous vote of the European people, by an absolute majority in each of them of 'yes' or of 'no', assumes *en bloc* support or

rejection, and this decision cannot be envisaged without assuming the constitutional *fait accompli* of a text ratified by 25 nations. This is not the least of the paradoxes; the constitutional treaty, which appears liberal in the economic sense, is anti-liberal in the political sense.

In the light of the second principle, one notes in particular that the criticism by many of the text's low social content cannot be appreciated in an independent way. Actually, one cannot blame the constitutional treaty for there being no 'social Europe'. Its supposed absence is the outcome of the treaties in force today and, without doubt, arises from the fact that there is not at present a European majority in favour of such an institution, whose outlines moreover have yet to be defined. On the other hand, one could legitimately say that the rules that would allow such a construction to see the light of day are much too restrictive. From this it is quite clear that, whatever view one takes, it is not appropriate – and it is even undemocratic – for a constitutional text to impose on future generations the choices, by definition topical, of the present generations, or even, in this case, of past generations, since for the most part the text adopts the arrangements from the treaties of Rome, and especially Maastricht and Amsterdam, which were conceived before the launch of the single currency and designed to prepare the candidate countries for disciplines that were new at the time.¹³ In this respect, the revision procedure included in Part IV conforms with the one that operates for all the treaties, but it is clearly unsuited to a constitution that, as we have shown earlier, must absolutely be capable of adapting to the preferences – by nature impossible to foresee – of future generations, and to the circumstances (equally uncertain) that the future holds for them. Now, while all constitutions set out the rules, with varying restrictions, that allow them to be amended, the European constitutional treaty on this matter keeps to the unanimity of member states and to the ratification by the people according to national procedures, which, given the 25 members, with more soon, and given the heterogeneity already indicated of current and future members, seems virtually impossible, or at least much more difficult than in the case of the previous restructuring of the European institutions. This view is confirmed by the difficulties encountered by the IGC in arriving at the text finally adopted on 18 June 2004, after many concessions had been granted, especially to the medium-sized countries (Spain and Poland) and to the United Kingdom with regard to the practical significance of the declaration of rights guaranteed by Part II.

Many of these concessions appear to be in favour of the 'small' countries. This is especially true of the new composition of the Commission, too large to constitute a true 'European executive', and dominated

by commissioners nominated by the governments of the 'small' countries, while the 'larger' countries can henceforth only send a single representative.¹⁴ It is, above all, true of the concession that it led to the appreciable raising of the threshold of the double majority for decisions requiring a qualified majority within the Council; this represents the greatest risk with regard to collective decisions in the future. It is true that the system of qualified majority voting adopted at Nice for decisions within the Council (weighted votes of member states and relatively high majority thresholds) was hardly transparent and already facilitated the formation of blocking minorities (Bobay, 2001). But while the double majority proposed by the Convention (50% of member states representing at least 60% of the European population) had the dual advantage of being clear and of allowing winning coalitions on a number of topics to be formed quite easily, the thresholds finally adopted (55% of the member states and at least 15, representing at least 65% of the EU population) make it much easier for a coalition of small states to stand in the way of the achievement of a common position regarding foreign policy or economic and social policies. In future, what would be the point of a EU president or his minister for foreign affairs if neither of them were able to defend collective decisions?

Finally, in the face of probable obstacles to the majority of subjects of common interest, due in particular to the different incentives that are directed towards the member states, even when they share common objectives, it would doubtless be desirable to create more homogeneous or more determined subgroups of member states – 'enhanced co-operations', 'vanguards' or others. But the conditions imposed on the formation of such 'pioneer groups' are such that, in terms of the agreement of other members, they make this practically impossible. To conclude, it seems clear that the question of the relative effectiveness of the rules for public decision-making selected at the end of the European constitutional process does not make up for or resolve the question of the integrity of the people at the time of their vote on the whole. On the contrary, it complicates and aggravates the process.

Contents of the book

Chapter 1 summarises the main macroeconomic developments in the EU, and particularly in the eurozone, during recent years. Apart from the elements of diagnosis and context, the directions of macroeconomic policies are described, highlighting the characteristics that do not favour growth. The changes, proposed in September 2004 in the interpretation

of the SGP by the Prodi commission and adopted by the European Council in March 2005, do not seem to provide an adequate response from this point of view; they even run the risk, if applied from 2006 in an environment of recovery, of prematurely adding to the restrictive nature of national budgetary policies.

In trying to explain the poor economic performance of the EU over the past few years, it seems appropriate to analyse the specific failure of the so-called Lisbon strategy, adopted by the European Council in the spring of 2000, which proclaimed the ambitious goal of making the EU 'the most competitive knowledge-based economy ...' by the year 2010. Chapter 2 is dedicated to a critical mid-term review of its achievements and to an analysis of some possible explanations for it having been so blatantly unsuccessful so far.

Part II of the present volume is devoted to the analysis of the two complementary hypotheses set forth above as fundamental causes of the observed economic developments in the EU. The hypothesis of a change in the social norms concerning the degree of inequality desirable or tolerable in European societies is exposed and analysed in Chapter 3. Actually, the distribution of incomes in a society, in general, is not directly determined by the general equilibrium of the economy and the marginal individual productivity of the wage earners that make it up. It is the fruit of a group of institutions in the labour markets and in the fields of taxation and social protection. When this distribution of incomes does not coincide with individual productivity, it is possible to reach full employment through a system of employment subsidies. But if the social norms concerning the individual distribution of incomes change, for one reason or another, the institutions of the labour markets and of social protection will have to be modified as a consequence. In the absence of appropriate 'structural' reforms, the macroeconomic policies and the rules that govern them might be instrumentalised in order to secure these changes.

Chapter 4 puts forward the hypothesis of a 'failure of collective action' as an explanation of the mediocre economic performance of the EU, and in particular the eurozone. It shows that the rules that member countries have adopted, especially with regard to budgetary policies, and the absence of coordination procedures encourage the governments of member states to choose, for the most part, non-cooperative strategies which are harmful to the pursuit of common objectives. The heterogeneity arising from the EU of 25 and the important differences in size of member countries contribute to accentuating these difficulties for collective European action; further, the arrangements of the constitution for Europe will do nothing to alleviate these. Quite the contrary.

Part III of this book is devoted to different economic aspects of the enlargement of the EU and to an analysis of the only financial instrument that could be devoted to the provision of collective goods and to the goal of economic and social cohesion, that is, the European budget. Thus, Chapter 5 emphasises the numerous weaknesses of the current multiannual budgetary procedure and shows that the insistence of national governments on targeting their 'net contributions' is ill founded from an economic point of view and inevitably leads to an inefficient outcome. In Chapter 6, developments in individual income distribution within member countries of the EU are described and analysed, documenting the preceding idea of a deepening of the inequalities over recent years. The data presented relate to the Europe of the 15 and to the 10 new members of the EU.

Chapter 7 presents a summary of the main conclusions of articles published in the special issue of the *Revue de l'OFCE* that appeared in April 2004 and dealt with the 10 new members and the different problems posed by their membership.

Chapter 8 analyses the prospects for fiscal policies in the central and eastern European countries (CEECs). Their specific situation is described and the explanatory factors of budgetary imbalances are studied in the light of the developments of these economies in the course of the past decade. The chapter ends with the considerable difficulties that would be likely to occur from any application to these countries of the budgetary rules in force in the Union, as is illustrated by the warnings issued in the spring of 2004 by the European Commission to the governments of several of these new members about 'excessive' public deficits.

Chapter 9 tackles the difficult question of Turkey's possible membership of the EU. The purpose is not to express a preference, but to put the observed developments in the Turkish economy over the past few years in the perspective of a convergence and to underline the strengths and weaknesses of the economic performance of this country that has for a long time been committed to a process of economic integration with the EU.

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