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on the State
of the European Union*

Synthesis

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The present Report is the result of the team work of a wide group of researchers coordinated in this occasion by Efisio Espa. In particular, the drawing up of single Chapters was edited by Efisio Espa and Luisa Sciandra (Chapter 1); Stefano Costa (Chapter 2); Margherita Cagiano de Azevedo, Clemente De Lucia, Marco Fioramanti and Claudio Vicarelli (Chapter 3); Maria Cristina Mercuri and Emanuela Tassa, with the collaboration of Marco Fioramanti (Chapter 4); Raffaele Malizia and Simona Tenaglia (Chapter 5); Annalisa Cicerchia, with the collaboration of Germana Bottone (Chapter 6).

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Introduction

The Third Annual Report on the State of the European Union (EU) is presented at a time when much attention is paid to the problem of the European economic and institutional integration.

As we shall deal with later on, twenty days ago, the European Convention presented to the European Council of the Heads of State and Governments of Thessaloniki a “draft Treaty establishing a Constitution for Europe”. Indeed, July 1 marked the beginning of the Italian Presidency of the European Union, during which the Intergovernmental Conference (IGC) will say a definite word on the European Constitution. Few weeks ago, Member States reached an agreement on the guidelines of the Common Agricultural Policy (CAP) reform, an area which had seemed impossible to modify for a long time. Indeed, not much time elapsed since a compromise was reached on a question which has been discussed for decades, namely saving and investment taxation.

On the top of it, one should recall the epoch-making decision to enlarge the borders of the European Union to include ten further Member States starting from May 2004 (and new Members will follow in the near future), which dispels all forms of doubts, uncertainty and scepticism.

The European Union is changing and indeed it is about to adopt a common charter of values, of principles, of major rules. It is an institution which is and remains sui generis (one of a kind), but which is able to guarantee to its people (more than 450 million people in the EU-25) the right to be a European citizen, a sense of belonging to the EU destiny, which is something going alongside and not cancelling their national spirit.

At the same time, the rekindling of the war in Iraq registered in the past few weeks brought to mind the echo of the deep and painful conflicts between Member States which emerged on the eve of the Iraqi war. The existing differences between Member States – and, even more so, the gap separating some groups of States from others - in terms of international stand and crucial aspects of the foreign and security policy have never been felt so much as in the early-2003.

Following upon the conclusion of the IGC, with the subscription of the Nice Treaty, the Laeken European Council set up a European Convention with the task of drawing up a draft institutional reform in view of the EU enlargement. Once completed its proceedings, the Convention presented its draft Treaty (which was favourably welcomed) at the Thessaloniki Council. Indeed, it is still a Treaty between sovereign States and will be analysed by an Intergovernmental Conference - which

has to approve it unanimously - and then it will be ratified by Member States. In the future, this Treaty may be modified only through a similar procedure, that is through a unanimous vote of all Member States. Thus, it is difficult to label this draft Treaty as an out and out Convention. But, going beyond questions of procedure, to try and give a fair assessments of the results of the Convention it is necessary to set the criteria on which that evaluation is based.

Generally, speaking, a wide-spread approval welcomed the draft Treaty, while Tommaso Padoa Schioppa wrote a critical editorial on the Italian newspaper Corriere della Sera of June 19 2003 with a suggestive title (“Giscard’s camel”), explicitly making reference to the saying whereby a camel is a horse designed by committee. The main criticism he made to the draft Treaty concerns the failure to generalise the majority vote, as indeed underlined by the European Commission in its declaration of June 13, 2003. We generally approve his evaluation, but we feel one should also consider that the new Treaty had to reply to two completely different questions. On the one side, it had to provide a solution to the Nice left-outs - that is elaborating the necessary reforms for a smooth functioning of the enlarged Union with 25 Member States having the same competences and responsibilities – and, on the other side, it had to create a Union able to take up the challenges Europe is called to face and which concern, in particular, the economic policy in a period of long-lasting international economic crisis and the management of the common foreign and security policy after the war in Iraq.

In extreme synthesis, the assessments on the draft Treaty may be formulated as follows: the Convention tackled in a generally positive way the problems of management of an enlarged Union, but was unable to introduce the necessary institutional reforms – because of the very different positions of the Member States - to successfully take up the challenges which the Union has to face. With regard to the former point, the Chapter devoted to the Convention (Chapter 1 of the Report) provides a detailed description of the steps forwards made by the draft Treaty and of the unsolved problems (also considering that we still do not know the definite drafting of Part III). This latest aspect shall be dealt with more thoroughly later on. Indeed, our assessment may be summarised by stating that the novelties contained in the draft Treaty seem substantially unable to create a Union autonomously conducting its own economic policy –in particular its own fiscal policy – and a common foreign and security policy which is something more than the common denominator of 25 different national foreign policies.

With regard to economic policy, the draft Treaty reiterates the principle – already contained in the Treaty of Maastricht – whereby “ the Union shall adopt measures to ensure coordination of the economic policies of the Member States, in particular by adopting broad guidelines for these policies” (art. I-14). For the time being, it is taken for granted that Part III of the draft Treaty shall

stress the principle that fiscal policy decisions must be taken unanimously. In the field of foreign and security policy, a Union Minister for Foreign Affairs will be appointed to conduct the common policy elaborated by Member States “through the convergence of their actions”, but no instrument is foreseen to guarantee an autonomous foreign policy whenever there is no convergence and two opposite stands emerge, as happened in the case of the war in Iraq. In this case, the Union Minister for Foreign affairs shall simply take account of the existing divergence and of the Union’s lack of power to start its own autonomous foreign and security policy.

There is a fundamental parallelism: a confederation-like mechanism prevails in those two areas, which are vital for the future of the Union. This means that a somehow “common” policy is carried out through a coordination method based on unanimous decisions. There is still no real autonomous European policy, but only the sum of national policies which, in the best of cases, are mutually coordinated. In the future, an evolution towards a really European foreign and security policy and an European economic policy will hopefully be feasible, but, for the time being, the result of the Convention looks more like a camel than like a horse. Indeed, the limits of the draft Treaty are even greater than those indicated by Tommaso Padoa Schioppa, as the generalisation of the majority vote is a necessary but not a sufficient pre-requisite to guarantee a common economic policy and a foreign and security policy. In particular, the conduct of those common policies is not left to a super-national body – namely the Commission, which is in embryo the core of the future European Government – but remains in the hands of the Council. Hence, even if the IGC hypothetically extended the majority vote to those two areas, this innovation would remain a fundamental but not a decisive step forward, because, as long as the Council – i.e. the expression of national Governments – maintains its power in questions where national interests are relevant, the right of veto will prevail.

Indeed, the President of the Commission (and even more so, the Union Minister for Foreign Affairs who is one of its Vice-Presidents) - even though he/she is elected by Parliament by qualified majority - continues to be appointed by the Heads of State and Government, which means he/she is not directly voted by European citizens. This means he/she has neither the political authority nor the power to govern essential areas of the common life such as the foreign or the economic policies. Admittedly, to effectively take up the major challenges Europe is called to face – playing a major role in the definition of new world equilibria and managing the economic and monetary Union with the objective of ensuring not only stability, but also a sustainable development following the broad guidelines of the Lisbon Council - an institutional step forward is necessary, namely the creation of a direct link between citizens and the European decision-making body. In this prospect, the Commission should be the decision-taker and it should be elected through a

democratic mechanism taking account of the results of the European elections. The Council of Ministers would have a merely legislative role, that is it would become another House of Member States to impose their interests and guarantee the correct implementation of the principle of subsidiarity.

*Indeed, the Convention respected the Laeken mandate whereby it had to draw up a draft Treaty acceptable to all Member States. In a 25-Member Community unanimity may be reached on the management of the *acquis communautaire*, even though it is difficult. It however becomes impossible, if the primary objective is transforming the Union into a federation with limited but real powers in areas where Member States should confer the competence upon the Union on the basis of the principle of subsidiarity. Even more than that: even the simple indication of this objective as the outcome of the process of European unification seems hardly realistic in the present political situation, because there are countries opposing a federal structure in the unification process which are able to hamper that unanimity be reached in the IGC on a federal-like solution, as indeed already happened within the Convention, where each explicit reference to federalism was eliminated from the Treaty.*

*On this point, a significant contribution in analytical terms may be brought by simple political economy remarks. The problem to face is crystal clear: now that the Convention apparently succeeded – in spite of all the doubts linked to the final outcome of the IGC and of the ratification process – in defining a constitutional framework for the management of the *acquis communautaire* in a 25-Member Union, is it possible to think to a concentric-circle Europe, with a federal core (a group of few countries ready to accept further reductions of their sovereignties to have a common foreign and security policy and an economic policy) set within a wider confederation of (25, 27, 28, 30) States, which shall only manage the *acquis communautaire* without further sovereignty reductions? Some useful indications to answer this question may be traced in the economic theory of federalism, as the creation of a Union – hence the conferral of competences - is justified by relevant externalities and economies of scale, while the conferral of specific competences from Member States upon the Union is made more difficult by the considerable heterogeneity of preferences. For instance, on this basis, von Hagen and Pisani-Ferry (2003) observe that the conduct of the foreign and security policy should be left to the Union to guarantee the internalisation of spill-overs and a full exploitation of economies of scale. However, this conferral is particularly difficult given the heterogeneous preferences shown by Member States in those areas.*

*From a theoretical point of view, one might find a way out of that dilemma if preferences were not considered exogenous but endogenous – along the guidelines fixed by Alesina and Grilli (1993) – and assuming the Union size as a variable. Bordignon and Brusco (2003) analysed this point from a theoretical point of view and evaluated the possibility to adopt the instrument of a strengthened cooperation. Alesina, Angeloni and Etro (2003) elaborated a model of European Union where the trade-off between the benefits drawn from the spill-over internationalisation and the sacrifices deriving from the loss of autonomy in policy management endogenously determine the “size, composition and scope of the Union”. Hence, the choice of a concentric-circle Europe may be justified in terms of effectiveness. Indeed, a first group of countries – the hard core – might draw benefits not only from the internationalisation of externalities and of economies of scale, but also from the relative homogeneity of their preferences, which might led them to accept a welfare-enhancing federal option. A second group of countries – with more heterogeneous preferences compared to the hard core - may have at the same time the advantages linked to the exploitation of the *acquis communautaire* and the maintenance of a high margin of autonomy in the management of other policies. In political terms, this solution was already submitted by President Mitterand and was then reiterated in the Scaùble-Lamers Project and further developed by German Foreign Minister Fisher in his intervention at the Humboldt University of Berlin. However, in the Convention proceedings, that formula was never seriously considered. It remains to be seen whether some countries submit it again during the Intergovernmental Conference to find a way out of the standstill which will emerge if some countries want a generalisation of the majority vote and the gradual creation of a common economic and foreign policy, while others oppose a federal solution and are not ready to further renounce to their sovereignty.*

With regard to economic policy, the problem which has come to the fore-front is the slowdown which has been characterising the European economy over the last year. In many countries great coverage was given to an ample debate on the possible review of the Stability and Growth Pact (SGP), as, on the one side, the effects of the budget automatic flexibility have mined the equilibrium of public finances – particularly in large countries -, while, on the other side, it has been ever more difficult to respect the SGP constraints, particularly in terms of maintenance of the political consensus.

Indeed, the Treaty of Maastricht calls the General Government deficit of Member States to fall below 3% of GDP so as to avoid that negative externalities emerge on the other EU Member States. Indeed, whenever asymmetric shocks hitting one single country emerge in the European Monetary Union, the automatic adjusting mechanisms foreseen by the theory of optimum monetary areas – namely wage flexibility, labour mobility, existence of a considerable federal budget - do not succeed

in their stabilising role. Hence, in the presence of an asymmetric shock, the only feasible adjusting mechanism is the automatic budget flexibility in the country hit by the shock: revenues decrease in the presence of a GDP contraction, while the expenditure grows owing to a deterioration of the economic situation. Thus, the SGP stated – and rightly so – that, if the automatic fiscal stabilisers are to be smoothly implemented while avoiding that the deficit exceeds the 3% reference value, the budget must necessarily be in balance or in surplus. In this way, a deficit expansion within 3% enables to face the recession while respecting the Maastricht constraint.

However, the Stability and Growth Pact has also considerable limitations, as it envisages that the maximum 3% ceiling may only be breached in extraordinary circumstances (particularly serious recession, characterised by an annual fall of real GDP of at least 2%). However, in this case too the excess over the reference value must be temporary, as the deficit must fall within the ceiling as soon as the economic downturn has been overcome. If the breaching is not justified by a severe downturn, the Council – once recognised the existence of an excessive deficit – formulates a recommendation for its correction which should be completed within one year (unless particular circumstances emerge). Hence, given these constraints due to the SGP, if a country starts from a situation characterised by budgetary positions close to balance or even in surplus, the room for automatic flexibility may be used to guarantee a suitable anti-cyclical policy. Conversely, if a country starts from a situation where a balanced budgetary position is still an objective-to-come, the effects of the automatic stabilisers immediately lead to breach the 3% reference value, particularly if the recession is not so serious (not exceptional) and it is long-lasting. In this case, the Council must formulate a recommendation indicating the provisions to adopt to live up to the Maastricht parameters.

The negative effects of the GSP are two-fold, namely:

- a) given that the principle of primum vivere, deinde philosophari (enjoy life first, then philosophise) holds true for Governments as well, the provisions to honour the Maastricht parameter – reducing expenditure and increasing taxation - in a situation already characterised by recession are either not respected or, even though they are implemented, may cause (alongside with anti-cyclical effects) a political consensus fall which eventually affects the party holding the power as well as the process of European integration;*
- b) to avoid those effects, the Council recommendations tend to be eluded, which mines the credibility of the SGP, which should conversely be respected, as it helps consolidate the culture of stability introduced by the Treaty of Maastricht.*

Many draft reforms were submitted to overcome those shortcomings. To begin with, the recent ECOFIN decisions have loosened the SGP constraints by stating that, to define the deficit value, reference is to be made to the structural budget balance, that is to the balance net of cyclical fluctuations. But the more wide-encompassing draft reform concerns the implementation of the golden rule, that is the exclusion of public investments from the definition of balance. This proposal has the advantage of enabling Member States to adopt expansionary provisions and, in particular, to finance investments aimed at the creation of infrastructures through deficit. However, it has some limits, because

- a) the definition of public investments is very ambiguous, hence some SGP provisions may be eluded by including current expenses in the category of investments;*
- b) in any case, through this kind of measure, a prejudice is introduced in favour of investments – which may be financed through deficit – compared to current expenses, which may sometimes be more productive (for instance, in the area of education the preference is given to building new schools rather than hiring new teachers);*
- c) the most important limit derives from the fact that, within the single market, the expansionary effects of national expenditure tend to be reduced as leakages from the income circuit through imports are high, which reduces the multiplying effect on income through the variations induced by the purchase of domestic goods. In the presence of positive externalities favouring the EU countries, but not prompting expansionary policies, the production of the public good “stabilisation” in each country tends to be below the optimal level.*

To overcome those limits and guarantee at the same time both the re-launching of the European economy and the respect of the Stability Pact, a major programme of public investments able to strengthen the single market structure and to sustain demand in this phase of economic stagnation should be carried out at European level. This is no novelty, as the European Commission (1993) already elaborated a project of this kind and it is generally known as Delors Plan. This Plan foresees a wide programme of public investments conceived not only as a support to demand in a phase of cyclical slowdown, but also as an instrument to strengthen the European economic structure. Besides, the Delors Plan suggested a shift of the fiscal approach from taxation on labour – in particular on unskilled labour – to levies on energy, thus favouring a sustainable model of development not only in social terms but also from an environmental point of view.

In today’s agenda there is a re-launching of the Delors Plan in a more updated version aiming not only at stabilising the European economy, but in particular at starting the implementation of the

Lisbon strategy. The target is promoting a European coordinated plan of – both material and immaterial – infrastructure investments to fill the gap which was caused in many EU countries by the restrictive policies necessary to respect the Maastricht parameters first and the SGP constraints afterwards and, at the same time, to strengthen competitiveness and foster a sustainable development model. In first approximation, this plan might include

- a) investments to complete the European networks of transportation, energy and telecommunications;*
- b) a plan of R&D expenditure to strengthen the European competitiveness;*
- c) the financing of a series of projects to improve the EU citizens' quality of life (sustainable mobility, introduction of water depuration plants, use of renewable energy, new sources of clean energy, etc.);*
- d) investments to guarantee the maintenance and use of the cultural heritage.*

Those guidelines were followed by the Italian Government, which sets its Action for Growth at the first point of its Plan for the semester of Italian Presidency of the Council of the European Union. The successful implementation of that Plan depends on the following pr-requisites:

- a) the Plan should be a real European Plan, that is the first instrument of a common European economic policy aimed at promoting growth;*
- b) the Plan should envisage an amount of public infrastructure investments (either material or immaterial) equalling about 0.5-1% of the European GDP;*
- c) the Plan should be able to transmit a strong positive signal so as to affect the confidence climate of households and firms.*

It is difficult to foresee the prospects of this Plan, even though the first reactions were positive and the ideas which are at the basis of the Plan widely coincide with what the Commission is elaborating. Admittedly, the ECOFIN has the last word and the unanimous vote still applies to the fiscal area. The Convention reluctance in generalising the majority vote is thus also mirrored in a sort of uncertainty dooming the future of the Italian Action for Growth, which however marks a turning point as, after a decade when the stress was obsessively laid on the idea that there is no growth without stability, the idea is eventually emerging that there is no stability without growth.

Our last remark on the Convention concerns the further developments of the process and, in particular, the prospects which are looming ahead after the conclusion of the Intergovernmental Conference. Indeed, this marks another important phase, as the new Constitution may only be

enforced after being ratified by all the Member States in accordance with their respective constitutional requirements. The possibility that the Constitution is not ratified increases as the number of Member States which have to complete this formal act grows. On this very delicate point, the draft Treaty discussed by the Convention – the final version of which we still do not know - is rather ambiguous, as in its temporary drafting only foresees that if, two years after the signature of the Treaty establishing the Constitution, four fifths of the Member States have ratified it and one or more Member States have encountered difficulties in proceeding with ratification, “the matter shall be referred to the European Council”.

This provision implies that the final choice is of political nature. This should pave the way to the Member States which are more aware of the need for a further institutional strengthening of the Union to fight within the IGC to obtain a generalisation of the majority vote at least for the creation of new resources aimed at financing an European development policy. It should be the first step towards the creation of a “hard core” aimed at promoting an European Government responsible for the economic policy and, in the future, for a common foreign and security policy with inevitable consequences in the area of defence. This hard core might approve the Treaty in the awareness that a group of Member States - which will remain within the Union with all their rights and duties – will not be ready to join the hard core for the moment, but will not hamper its creation. This may happen if, within the Council, the idea prevails that the decision on the Constitution implementation may not be unanimous but may be taken with the only approval of countries which shall be part of it.

Thus, the game is not over and the choices which are taken within the IGC on the ratification procedure become important if there is the real will of a group of Member States – in particular of the six founder countries – to advance towards the creation of a stronger Union able to foster the economic development in Europe and to show the weight of Europe in the new international order, which is the fundamental pre-requisite to guarantee peace and a balanced development of the world economy.

Within the above-listed critical points, the present ISAE Report aims at providing elements for analysis which might help understand the direction and intensity of the ongoing process of economic integration and of action which is becoming ever more important in the light of the greater political and legislative responsibility of the Union. Thus, the Report deepens some aspects which are particularly relevant in this moment: the Convention (Chapter 1), the debate on the religious fundamentals of the Union (Chapter 2), the single currency trend during the past year (Chapter 3), the debate on the SGP (Chapter 4) and other areas which seem able to significantly

describe the intensity of the ongoing super-nationalisation process (environmental policies) or to show, in a delicate area such as public expenditure (Chapters 5 and 6), the distance separating the different national models of State intervention (thus the evident Union difficulties to introduce an effective common policy in those areas).

One of the central points of the whole Report is the institutional array of economic policy as it is organised at European level. As a matter of fact, if – with a specific reference to Euroland – monetary policy is fully conducted at European level¹, the same does not hold true for public budgetary policies. From this viewpoint, many-fold problems emerge and they are thoroughly dealt with in Chapter 4 of the present Report, which is devoted to the Stability and Growth Pact.

Firstly, Member States continue to be against any further reduction of their powers in the area of taxation. We have the impression (at least for 12 out of 15 countries) that, after the conferral of national monetary sovereignties - which were pooled together into the common monetary policy autonomously conducted by a super-national institution (which is a Union institution pursuant to art. I-29 of the draft Treaty -, any further loss of power in particularly sensitive areas – including foreign policy – is interpreted as the elimination of the last barrier separating the Union from its obtaining a real national physiognomy, thus from the definite elimination of national competences.

Secondly, as widely analysed in Chapter 5 of the present Report which investigates the “quality” of Member States’ public expenditure, the models of State intervention – as filtered through the public budgets – are very different one from the other. Small wonder, even a synthetic presentation of the European public budgets point to very different values, sensitivities, traditions, conceptions of the State role in the policies of distribution and support to firms and development or of aid to situations of discomfort. The extreme cases of Ireland (where about 30% of GDP is devoted to public expenditure) and of Sweden (where more than 52% is allocated to this primary objective) – and the wide range of national experiences lying in-between - are useful to understand the different models of public expenditure existing in Europe. Hence, Member States’ fiscal policies respond to particular needs, which may be disciplined in terms of quantitative budget surveillance, but which can hardly be governed in terms of single items and of qualitative spending choices. In synthesis, the budget analysis – even at a strongly aggregate level – is able to provide a measure of the heterogeneity of preferences which is still present among the Union Member States. A thorough awareness of the most important items for each Member State helps understand the resistances and difficulties met while looking for a better coordination of fiscal choices.

¹ It is no coincidence that, in the draft Treaty establishing a Constitution for Europe, “monetary policy for Member States which have adopted the euro” is one of the exclusive competences of the Union (art- I-12).

Thirdly, as analysed beforehand, the most important shared rules of public budget surveillance – namely the one contained in the SGP – have been questioned for some years owing to the ongoing phase of economic standstill in Europe. The main concern referring to the SGP functioning is its pro-cyclical role or, if you prefer, its role in strengthening the vicious circle consisting of smaller growth/smaller tax revenues/public expenditure reduction (or harshening of taxation rules)/ further growth weakening (or economic standstill). And this within a framework where the advantages typically deriving from a rigorous budget conduct – a very low interest rate level - have already been exploited and consolidated.

Thus, squeezed between the need to avoid that fiscal policies of Member States – at least of those belonging to Euroland - exert a dangerous pro-cyclical role (by creating a sort of involuntary coordination, given the degree of intra-Community trade integration) and the need to avoid that the financial rigor be mined, any possible intervention to modify the SGP rules seems difficult.

Over the past few months, the unsatisfactory cyclical trend of the European economy was strengthened by the consequences of the sudden euro appreciation against the dollar (comparing March 2002 and May 2003, the euro had an appreciation exceeding 30%). Chapter 3 of the Report deals with the recent (still ongoing) experience of the “strong” euro. Indeed, that strength – as the Chapter shows – is smaller (an appreciation of about 20%) if it is measured on the basis of the real exchange rate taking account of the whole European trade towards third countries. Hence, also the inevitable negative effects of the smaller competitiveness of the European trade somehow diminish.

Besides, the euro quotation – even though it rapidly increases after a period of pronounced depreciation – seems not to be particularly far from the long-term values of the ECU/euro exchange rate both against the dollar and in real terms. The European currency thus seems not to be far from a long-term equilibrium value. If this is true, expectations for an European cyclical recovery linked to a considerable expectation of the exchange rate against the dollar would seem not grounded.

Indeed, those considerations – which show, though good times and bad, what the disappearance of national currency policies really meant - urge to consider which instruments of coordination and cooperation may be adopted to support the economic activity.

Within this context, the analyses presented in Chapter 5 devoted to the “quality” of public expenditure underline – with few exceptions – that State interventions in European Member States are generally inadequate (in terms of resources for specific public functions) to support a more intense growth. The combination of public expenditure chosen in the European public budgets excessively privileges – and indeed with a gradual growth – less productive expenses. Conversely, allocating more funds for infrastructures, improving the quality of human capital, funding the

scientific and technological research all seem ways to guarantee a more dynamic development in the medium-long term and to provide more solid and testable fundamentals to the ambitious indications of the Lisbon summit of Spring 2000.

However, in this very moment, the European fiscal policy is unable to provide a single and concrete reply to the present harsh cyclical phase. Indeed, we lack that “agility”, that rapidity of action which recently emerged from the United States, that ability to avoid that fiscal choices are “dominated” by the cycle and eventually prove unable to stimulate growth. Mutatis multa mutandis (with the necessary changes), the core of those remarks also applies to the common foreign and security policy.

The Convention – thoroughly examined in Chapter 1 – does not fully solve the problem of the Union economic governance. It substantially reiterates the coordination modalities of economic and employment policies by giving them the “aura” of an institutional provision. Nothing seems to stress the importance of this process, in a situation where the unanimous vote is maintained in fiscal matters. Besides, if foreign policy is endowed with a “Union Minister” (who is the only person to have that title within the EU structure), in spite of the existing differences between Member States, this does not happen for fiscal policy, although the need for a similar figure has long been stressed to create an authoritarian counterpart to the President of the European Central Bank.

Admittedly, the Convention makes fundamental steps forward in terms of democratic legitimacy, of simplification of legislative instruments and procedures, of competence division within the EU.

With reference to this last question, the Convention makes a clear competence attribution by introducing a distinction between exclusive and shared competences. To tell the truth, the list of distinctions between different competences seems very wide and the overall impression we have is that the classification of matters is still too scattered. However, the Community rules and regulations seems to prevail in a wide number of shared competences. To dispel all doubts on the hierarchy of rules, it is worth making the example of the Union environmental policies which are thoroughly dealt with in Chapter 6 of the ISAE Report.

The area of environment is a shared competence, but it is also one of the favourite areas of Union intervention – and indeed rightly so, given its evident spill-overs – which is second only to the Union legislation on the internal market. The strong process of super-nationalisation which has been characterising environmental policies fully responds to the interpretation whereby the Union powers are growing thanks, in particular, to the full consensus of Member States, which have well understood the advantages (let alone the need) that policies are pooled together. Within this

framework, particularly in such a vast cross-sector competence as environment, the Union seems to have played the role of “warrant” towards its Members, binding them to respect precise rules and avoiding that their competitive positions be altered because of the opportunistic behaviour of some of them. At the same time - in matters which are often considered as examples of the Union’s overruling which eventually obstacles the firms’ dynamics - the Union has taken up a leading role and has compelled Member States to pay more attention to the environmental needs.

This Union’s role has further been strengthened by the enforcement of the strategy of “sustainable development”, which has many-fold implications and on which the Union proceedings for the next few years will concentrate much.

Indeed, the experience in the environmental sector is far from those policies – which the present Introduction widely analyses – where the super-national Government has hardly taken up the necessary robustness and credibility. In those fundamental sectors – economic policy and foreign and security policy – there is an intermediate situation, a sort of limbus where single national policies are not efficient enough, but where the Union choices are constrained by a time-consuming decision-making mechanism which make them slow and ineffective.

Admittedly, in a Europe which is about to open the door to around thirty new Member States, the diversity of national preferences strongly affects the most delicate sectors of public intervention. Diversity of preferences – in terms of traditions, culture and history – also characterises such a complex matter as religion within the Union, which is an area so different from all those described so far. If it is examined from the viewpoint of the complex relations between State and confessions, it is worth noticing that national features – analysed in Chapter 2 on the basis of the single Constitutions - seem to have hampered the reaching of a compromise whereby, in the preamble of the draft Treaty, the future of Europe was somehow connected to its Christian fundamentals.