FIT AT 50?

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The European Union has been far more successful than anyone expected when the Treaty of Rome was signed half a century ago. But, argues John Peet, it now has three big problems to solve

ON MARCH 25th 1957 a gaggle of leaders from six European countries (France, West Germany, Italy and the Benelux trio) met in the great hall of the Horatii and the Curiatii in Rome's Capitoline museum. Behind them two 17th-century frescoes depicted ancient Rome's bloody history: a suitable backdrop, since one of their concerns was to prevent a recurrence of Europe's internecine wars. They signed a treaty to establish a European Economic Community (EEC), soon to become known as the common market. Next weekend the present crop of European Union leaders will gather in Berlin (because Germany holds the rotating EU presidency) to mark the 50th anniversary of this historic step towards European integration.

The German chancellor, Angela Merkel, wants the Berlin summit to issue a ringing declaration about the values and successes of the EU. She sees this as a way to relaunch the "European project", which many think has been in serious trouble ever since French and Dutch voters rejected the draft EU constitution in the summer of 2005. Shortly afterwards Jean-Claude Juncker, prime minister of Luxembourg, which then held the EU's presidency, declared solemnly that "the

EU is not in crisis; it is in deep crisis." Jacques Delors, who was president of the European Commission from 1985 to 1994, says that the present "crisis" is the worst in the project's history—worse than the period of Charles de Gaulle's "empty chair" in 1965, or Margaret Thatcher's persistent demands for “our own money back” between 1979 and 1984.

Yet today's difficulties should not be allowed to obscure Europe's achievements of the past 50 years. True federalists actually saw the Treaty of Rome as a move away from the building of a European superstate that they had hoped would develop from the European Coal and Steel Community, set up in 1951. But in fact the EEC grew out of two other events: the French National Assembly's rejection of the proposed European Defence Community in 1954 and the Suez crisis of 1956. The first pointed to a reassertion of nation-states at the heart of Europe; the second led France to conclude that a European community was in its vital interest.

A bigger objection to the EEC was that it covered only a small part of Europe. Soviet-dominated eastern Europe was excluded, as were fascist Spain and Portugal, because they were not democracies. But Britain and others chose to stand aside, either because they disliked the political integration implicit in the new grouping or because they wanted to preserve their neutrality. Indeed, two years after the Treaty of Rome came into force, seven countries (Austria, Britain, Denmark, Norway, Portugal, Sweden and Switzerland) set up the rival European Free-Trade Association (EFTA). “Seven and Six” was how this newspaper greeted the news.

Fifty years later the European Economic Community has changed out of all recognition, having metamorphosed into the European Union and grown far beyond the original six members. Despite the EFTA experiment, Britain applied for membership only four years after the Treaty of Rome, but was blocked by de Gaulle's veto and did not join until 1973, along with Denmark and Ireland.

Several waves of further expansion followed, including Spain and Portugal in 1986. The biggest of all saw the admission of ten new members, including many ex-communist central European countries, on May 1st 2004. At the start of this year Romania and Bulgaria became the EU's 26th and 27th members. Plenty of others are clamouring to be let in. The only countries that have chosen to stay out even though they would instantly qualify for membership are Iceland, Norway and Switzerland.

The European Union has also moved far beyond the economic sphere. The completion of the single market was set in train only in the 1980s and remains a work in progress. But just as the American government used the constitution's interstate commerce clause to expand its powers, so the European institutions have exploited single-market rules to extend their responsibilities into such areas as social policy, welfare and the environment. Along the way the EU has acquired a single currency, a common foreign policy, a passport-free travel zone and policies on justice and home affairs, plus a nascent defence alliance with its own military-planning staff.

This does not sound like an organisation in deep crisis. Even in the past two years the EU has agreed on a seven-year budget and set out ambitious plans for an energy policy and for tackling climate change. It has sent troops as far afield as Aceh and Congo and co-ordinated big national deployments in Lebanon. It has started membership negotiations with Croatia and, most momentously, with Turkey. Claims that this club has been unable to function since 2005 seem overblown.

The 50-year itch

Yet the EU does face three huge, related problems. The first is what to do about its draft constitution, which was signed in October 2004 in the very room that witnessed the signing of the Treaty of Rome. The constitution's declared purpose was to improve the functioning of the institutions, to clarify the distribution of powers and to bring the union closer to its citizens. But because it was turned down in the French and Dutch referendums, the treaty has not been ratified.

Ms Merkel hopes that the Berlin declaration will not only relaunch the EU but also start resuscitating the constitution. Yet the task she has taken on is immense. Any new treaty must not only be unanimously agreed on but also ratified by all of the union's 27 members before it can take effect.

That seems much less likely to happen because of the second big problem facing the union: popular disenchantment with the project. As Mr. Delors notes, there is no dream, no vision that strikes a chord with today's European citizens in the way that reconciliation and an end to war did 50 years ago. Most of today's leaders, he complains, devote their time to attacking Brussels and all its works, not to spreading the word about the EU's achievements.

The mistrust of the union is perhaps most pronounced in Britain, but the regular opinion polls taken by Eurobarometer reveal high dissatisfaction with the union in other countries as well. In many of them, voters seem strongly opposed to further enlargement. The French and Dutch “no” to the constitution reflected this bleak mood. The new members are more enthusiastic about the union than the old ones, but even in them it is not hard to discover Eurosceptics.

This special report will weigh the chances of making progress with the EU constitution or devising some other “institutional settlement”, to use the current catchphrase in Brussels. It will consider how this is affecting plans to admit yet more new members. And it will assess the debate over how to persuade Europe's citizens to take a less jaundiced view of their union. But it will start by considering the union's third and perhaps most serious problem: the poor performance of its economies in recent years.

It was the roaring economic growth of the EEC, above all else, that made it such a success in its early days. It was this economic dynamism, too, that lured first Britain and then all the others to apply for membership. Conversely, it was gloom about the economy, and particularly over persistent high unemployment, that played the biggest part in the rejection of the constitution and in the spread of Euroscepticism across the continent. If the EU is to flourish far beyond its 50th birthday, it is its economy that most needs attention.

Are you sitting comfortably?
A brief refresher course on the workings of the European Union

THE nuts and bolts of the European Union are hardly riveting, but a basic knowledge of its institutions is essential to understanding how it works, so here is a quick reminder.

At the heart of the EU, as envisaged by its French founding father, Jean Monnet, is the **European Commission**, to which each national government appoints one commissioner for a five-year term. The “college” of 27 commissioners sits atop a 20,000-strong bureaucracy that constitutes the EU's executive. The commission also has the sole right of initiating legislation, administers the budget and has other independent powers including deciding competition cases and representing the union in trade negotiations.

The commission takes its political cue from the **European Council**, made up of the 27 heads of government, which meets four times a year and also nominates the commission president. The European Council is, in practice, the highest incarnation of the **Council of Ministers**, the main law- and budget-making body, which brings together national ministers (eg, of finance, foreign affairs or agriculture). The presidency of the council rotates every six months, so each country now gets to be in the chair once every 13½ years. The council often makes decisions by qualified majority, a weighted system of national votes, but on some issues (eg, taxation) it has to be unanimous.

As part of the council, the **high representative** for foreign policy reports to national governments and may (or may not) work closely with the commissioner for external affairs. The common foreign and security policy he runs is not part of the classic Monnet machinery (sometimes known as the "community method"), but is formulated by the member governments. The same is true for most policies on justice and home affairs.

The other law- and budget-making body is the **European Parliament**. It has 785 members, directly elected in rough proportion to each country's population. Like the commission, the parliament serves for five years; unlike the commission, which is in Brussels, it holds its plenary meetings mostly in Strasbourg, though committees meet in Brussels. Most EU laws are subject to "co-decision" by the council and parliament, but in some areas, including justice and home affairs, the parliament has no say. The parliament has to approve the choice of commission president and can dismiss the entire commission, but not individual commissioners.

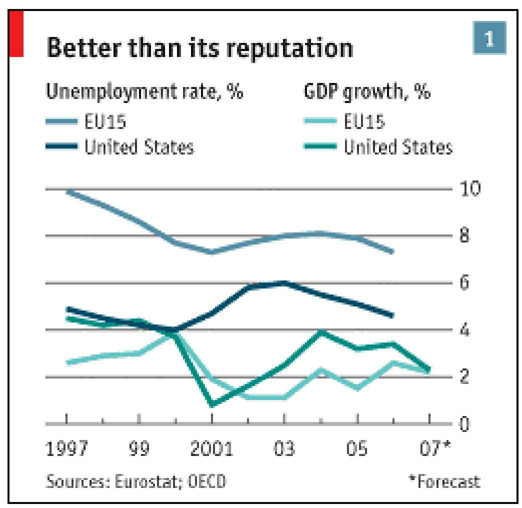
The **European Court of Justice**, based in Luxembourg, acts as the EU's supreme court in areas for which the union is responsible (which does not include criminal law, for example). There is one judge per country. A court of first instance helps with the caseload. Cases are decided by simple majority. Luxembourg also hosts the Court of Auditors, which checks EU spending—and qualifies the accounts every year.

The EU has a plethora of other agencies, as well as the Luxembourg-based European Investment Bank, the world's biggest multilateral borrower. Among the more puzzling are two Brussels-based advisory bodies: the Economic and Social Committee, which brings together the "social partners", and the eponymous Committee of the Regions. Between them they cost some €150m ($200m) a year to run, and nobody can remember what they are for. But this being the EU, nobody dares to scrap them either.

The quest for prosperity
Europe's economy has been underperforming. But whose fault is that?

AS IT happens, the recent economic figures in Europe have been better than anyone dared hope. The German economy, in the doldrums for six long years, is at last gathering speed. In 2006 GDP in the EU as a whole grew by 2.9%, and in the euro area by 2.7%. In the fourth quarter of last year the euro area's GDP growth outstripped America's for the first time in five years. Average unemployment has fallen to 7.5%, the euro area has generated 12m new jobs over the past eight years and even productivity growth has started to pick up. Across Europe the mood has become noticeably more optimistic.

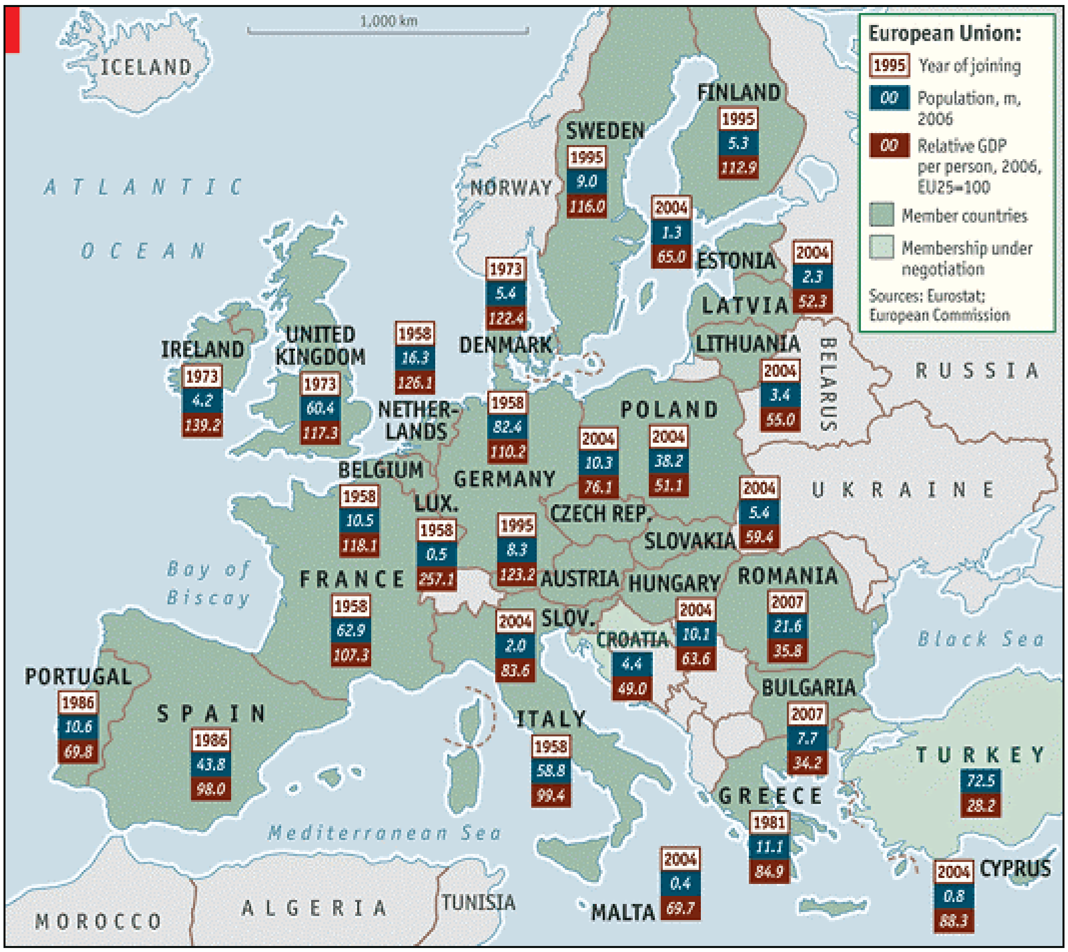
Yet this greater optimism comes after an extended period of profound gloom. Over the past decade GDP growth has been generally lacklustre; productivity has stagnated, in some countries even fallen; and unemployment has stayed stubbornly high (see chart 1). The contrast with 50 years ago, when the Treaty of Rome was signed, could hardly be greater. West Germany was in the midst of its *Wirtschaftswunder*, a miracle country of rapid growth, low unemployment and fast-rising living standards. France was enjoying *les trentes glorieuses*, 30 splendid post-war years when everything went right. And Italy was quickly gaining ground on its richer European neighbours.



Some slowdown after the catch-up years of the 1950s and 1960s was inevitable. Reconstruction after the war had boosted growth; the movement of workers out of farming and into industry had raised both productivity and GDP; and many more women had entered the labour force, lifting output. Once these effects had run their course, rapid growth became much harder to sustain.

The same factors played a part in other rich countries, such as America. Yet the EU economies, and especially the euro area, have in recent years performed much less well than the American economy, which is comparable in size. GDP per head in the euro area is almost 30% lower than in America, and the gap is widening: the OECD reckons that trend growth per person is only about 1.5% a year, compared with America's 2%. Productivity growth in Europe slowed in the late 1990s, whereas in America it speeded up. Unemployment in Europe has been persistently higher than across the Atlantic. Europeans have also been slower to take up information technology, and the economic climate has been less conducive to innovation and research and development (R&D).

The transatlantic gap can be exaggerated: much of America's faster GDP growth merely reflects faster population growth and longer hours of work, and differences in measurement also play a role. But the perception that over the past decade Europe has stopped catching up with America, and in some respects actually fallen behind, is broadly accurate.



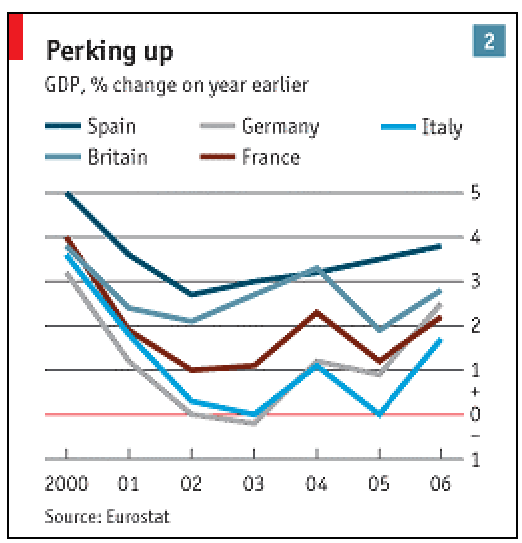
Europe's response has come in two main forms: the creation of the euro in 1999 and the drawing up of the so-called Lisbon Agenda in 2000 to boost the EU's competitiveness. The Lisbon Agenda set an ambitious goal for Europe: to turn it into “the most competitive and dynamic knowledge-based economy in the world” by 2010. The plan was to promote liberalising reforms, increase R&D spending and encourage the deregulation of labour and product markets across the continent. Similarly, the euro's proponents hoped that the single currency would not only increase cross-border trade but also, by imposing tougher price and wage discipline on its members, speed up structural reforms in all European economies.

Yet even the most fervent EU enthusiast would concede that these hopes have come to little. Joaquín Almunia, the economics commissioner, maintains that the current revival is linked to the structural reforms made in recent years, which may be starting to pay off. But most economists put it down to two other factors: a cyclical upswing and a huge improvement in German competitiveness after years of real wage restraint. If they are right, it is reasonable to doubt that today's recovery will prove sustainable—and to fear that Europe's economies could slip back into their previous underperformance.

Look on your doorstep

So what is Europe's problem? First, whatever it is, it is not Europe-wide, nor indeed linked to the euro. This supposedly sclerotic continent includes three of the world's five best-performing and most competitive economies: Denmark, Finland and Sweden. Britain and Ireland have also done well in recent years. Nor is it only north European economies that have put in a spurt: Spain, too, has grown fast since 1999. Of these six success stories, three are in the euro zone and three are not.

The poor performers in Europe have been the core countries of the euro, in particular France, Germany and Italy (see chart 2). Since these three account for two-thirds of euro-area GDP, their failings have led to slow growth for both the euro area and the EU as a whole. It is evident that Europe's economies have sickened at national not European level, so it is at national level that the cures are needed.



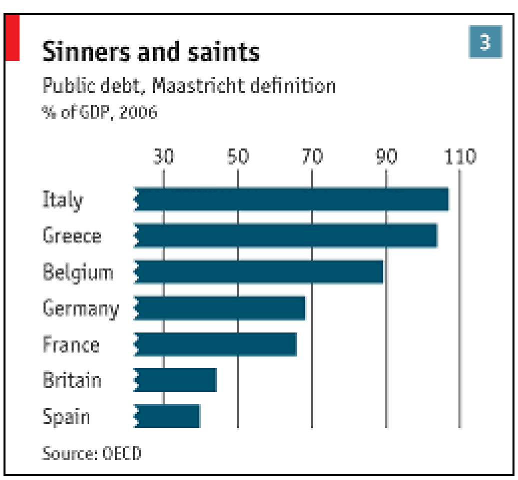
Nor is there much disagreement among economists about what those cures should be. In all three countries labour and product markets are too highly regulated, holding back employment growth and making their economies less flexible. Both the IMF and the OECD have been urging further liberalisation as the only sure route to better economic performance. Even Europe's political leaders understand this, though they are also swift to spot political obstacles to reform. As

Luxembourg's Mr Juncker once said, "we all know what to do, we just don't know how to get re-elected after we've done it."

Mr Almunia hopes that the recent improvement in the EU economies may break the unfortunate cycle of partial reforms that take time to bear fruit and are often followed by election defeats. But there is another, less hopeful possibility: that opponents of change will treat the present recovery as a sign that no further reforms are needed.

Within the euro area a debate is in progress over whether the single currency itself encourages or discourages reforms. Most of its progenitors had hoped for the first. The euro has clearly boosted intra-EU trade, by somewhere between 5% and 15%, according to the OECD. It has also been a spectacular success from a technical point of view, establishing itself not just as a viable currency but as the only plausible rival to the dollar. For example, it now accounts for 25% of global foreign-currency reserves. Yet the euro's broader economic impact has been limited because of its members' failure to liberalise enough. As the OECD puts it in its most recent report on the region, "insufficient flexibility prevents the euro area reaping the full benefits of economic and monetary union."

When the euro began, critical economists directed most of their fire at the stability and growth pact, which attempted to set rigid limits on budget deficits run by euro members and threatened huge fines if those limits were breached. This provision made little economic sense. Because the single currency deprived members of monetary and exchange-rate flexibility, they were likely to need more, not less, fiscal flexibility. Predictably enough the stability pact was swiftly bust by France and Germany, after which it was fitted with extra loopholes.



Since then the pact has become much more accommodating as more and more countries have breached the budget-deficit ceiling of 3% of GDP. Mr Almunia maintains that it is now sufficiently flexible to set a reasonable long-term path for those euro-area members that still need more fiscal consolidation. In particular, the level of public debt remains too high in Italy, Belgium and Greece, and to a lesser extent in France and Germany (see chart 3).

But the failure of the euro countries to liberalise has become a much more pressing concern. Not only is it holding back the euro area as a whole, it is also increasing the divergence between members. This shows up most clearly when comparing movements in unit labour costs.

The coming crunch

Germany initially suffered from entering the euro at a high exchange rate, but over the past seven years German companies have spectacularly improved their competitiveness, thanks mainly to keeping a tight rein on wages. This is at the root of Germany's economic recovery and has allowed it to claim back from America its position as the world's biggest exporter. But part of this improvement has come at the expense of other euro members with which it is now locked into the single currency. In particular, the Mediterranean quartet of Italy, Spain, Portugal and Greece has suffered a huge loss of competitiveness in a relatively short time (see chart 4).

This loss is reflected in colossal current-account deficits (eg, 8.5% of GDP for Spain, which has been growing fast) or pitifully slow growth (only 1.3% a year for Italy since the euro began). Without the euro, Italy at least would surely have had to devalue by now. In a sense, the single currency has protected its members, but at the price of storing up big problems in future. Some analysts still speculate that Italy might one day be forced out of the euro.

That would be politically unthinkable, and most politicians in Rome duly refuse to think about it. Leaving the euro would also be costly, as Argentina found when it was forced off its currency peg to the dollar in 2001. So what else can Italy do? One possibility is to follow the German example and endure years of wage restraint. But that requires a lot of discipline. Moreover, the two-tier labour markets that have become common in Europe, with insiders on permanent contracts insulated from the fears of unemployment afflicting temporary workers, offer little incentive for workers to accept real pay cuts.

The harsh conclusion is that, for euro members, there is no alternative to substantial reform, liberalising product and labour markets alike, to make their economies more flexible and better able to cope with shocks. Ironically, the two EU members with arguably the most flexible economies are Britain and Denmark, both of which have chosen not to join the euro. Alas, the political leaders in Mediterranean countries show little appetite for taking on the special-interest groups that always resist painful reforms.

Meanwhile the new EU members that were once pressing for early entry need to think again. Slovenia scraped in at the start of this year; Malta and Cyprus may follow soon. But the Baltic states do not seem ready; and Poland, Hungary and the Czech Republic, the three biggest new members, are unlikely to join before 2012 at the earliest. They would be wise to employ the waiting time not only to grow fast but also to make their economies more flexible.

Constitutional conundrum
Damned if they do and damned if they don't

IT IS clear that economic reform ought to be at the top of the EU's agenda, especially for euro members. Yet Germany, currently in the EU president's chair, is mostly ignoring it. That may be because the German economy is looking good at the moment, or because Ms Merkel's grand coalition of Christian and Social Democrats cannot agree on further reforms. But it is also because she has lit on another priority altogether: to revive the EU constitution rejected by French and Dutch voters.

The story of the constitution (or more accurately, constitutional treaty) is tedious, but it must be told to explain why the EU is in turmoil. In truth, too much of the past 20 years has been spent debating the union's institutions, a process usually triggered by an inter-governmental conference (IGC). The trouble is that each IGC (and consequent treaty) has left some national governments dissatisfied,

A treaty too far? 5
EU treaties

	Year signed	Year in force	Main provisions
Single European Act	1986	1987	Majority voting, single-market legislation by end-1992
Treaty on European Union (Maastricht)	1992	1993	Monetary union, common foreign policy, justice and home affairs; Danish opt-outs added later
Treaty of Amsterdam	1997	1999	Social policy, more majority voting, incorporation of Schengen passport-free zone
Treaty of Nice	2001	2003	New voting system, smaller commission, provisions for enlargement to 27; Irish declarations added later
Constitutional Treaty	2004	Not ratified	More majority voting, new institutional settlement, establishes a constitution for Europe

Source: *The Economist*

leading to perpetual calls for yet another IGC and treaty (see table 5).

This game began with the Single European Act in 1986, which extended qualified-majority voting to a whole raft of policy areas because that seemed the only way to push through the legislation needed for the 1992 single-market programme. Jacques Delors, then the commission's president, seeded the act with references to monetary union, and three years later another IGC was summoned against British wishes (an IGC can be called by simple majority, even though any new treaty needs unanimous agreement). That produced the Maastricht treaty of 1992, which not only promised to create a single currency by 1999 but also set up a common foreign and security policy and new arrangements for co-operating on justice and home affairs.

Maastricht was followed by Amsterdam and then Nice, agreed on after a nightmare four-day summit chaired by France's president, Jacques Chirac, in December 2000. That made three new treaties in the space of eight years, none of them wholly satisfactory. In 2001 an EU summit at Laeken, outside Brussels, considered what were termed the Nice leftovers: simplification, greater transparency, a bigger role for national parliaments and subsidiarity (the buzzword for ensuring that decisions are taken at the lowest sensible level of government). But rather than call yet another IGC, the Laeken summit decided to summon a convention in which representatives of the EU institutions, national governments, parliaments and the public could debate what to do.

The convention on the future of Europe was chaired by a patrician former president of France, Valéry Giscard d'Estaing. Eager to leave his mark, Mr Giscard d'Estaing soon persuaded his colleagues to go well beyond their Laeken remit and, in a deliberate invocation of America's Philadelphia convention of 1787, draft a full-blown constitution for the EU. The result was not, however, an elegant 20-page document like its model, but a 300-page behemoth which was presented to another EU summit in mid-2003.

Time for a little constitutional, says Merkel to Barroso

The first part of the new text features institutional changes. These include a new council voting system that reflects countries' populations; an extension of qualified-majority voting and of co-decision-making with the European Parliament to most legislation; a permanent president of the council, in place of the six-monthly rotating presidency; a new foreign minister, to combine the jobs of high representative and external-affairs commissioner; and a smaller commission. It also provides an exit clause for any members who might wish to leave the club.

Part two of the constitution consists of a charter of fundamental rights, first drawn up as a declaratory statement at Nice. A lengthy third part comprises a consolidated and slightly amended version of all previous treaties.

There followed another IGC, featuring more rows about institutions, but in mid-2004 a text of the constitutional treaty was unanimously agreed on. The snag was that by then as many as 12 governments had promised to put the constitution to a referendum at home before ratifying it—including Britain, France, the Netherlands, Spain and Poland, as well as ballot-happy Denmark and Ireland.

The campaigning for these referendums was mostly shambolic. Mr Chirac sent copies of the entire, largely incomprehensible, text to all French voters. The Dutch government refused to campaign at all. With so many national governments mired in unpopularity and economic troubles, it was scarcely surprising that opinion polls in both countries started to turn against the treaty, even after Spanish voters had said yes in February 2005. On May 29th French voters rejected it by 55% to 45%, and on June 1st Dutch voters turned it down by 62% to 38%.

This was not the first time that countries had said no to Europe. Norway twice voted against joining the club at all. The Danes rejected the Maastricht treaty in 1992 and the Irish the Nice treaty in 2001. After both these rejections a few adjustments were made, some declarations added and the verdicts reversed in a second vote. The Danes and Swedes also voted against joining the single currency.

Yet the French and Dutch snub to the constitution in 2005 still came as a huge shock: it was the first time that two countries had said no simultaneously, the first time any big country had done so, and the first time a founder member had rejected anything. When a few weeks later an EU summit failed to agree on a budget for 2007-13, the sense of crisis was complete.

Picking up the pieces

Since the double rejection the EU has officially been observing a "pause for reflection". The trouble is that even now, nobody knows what to do. The French and Dutch governments have made it plain that they are not prepared to follow previous practice and submit an only slightly revised text to a fresh vote. Others, notably the British, Poles and Czechs, now balk at ratification as well. But 18 of the 27 EU countries have endorsed the constitution, and no fewer than 20 recently met in Madrid to declare themselves its "friends". Germany is especially keen to stick to most of the present text, if only because the new voting system in the council would substantially increase its weight.

Ms Merkel plans to present the June EU summit with a "road map" for taking the constitution forward. Each country has nominated two officials to meet in secret to prepare this—a bizarre decision, since one purpose of the constitution was to increase transparency. The timing is very tight, because a new French president will be chosen only on May 6th, and the new French National Assembly will not be elected until June 17th, four days before the summit. There will also loom the prospect of a new British prime minister, presumably Gordon Brown, preparing to take over from Tony Blair.

Yet whatever the political permutations in different countries, it is clear that there are only four broad options:

• **Treaty plus**. This would add material to the present text, such as more social protection (an EU-wide minimum wage?), plus perhaps new provisions on such currently fashionable topics as energy and the environment. The word "constitution" might be quietly dropped. The Spanish and other governments favour something along these lines, as apparently does the Socialist presidential candidate in France, Ségolène Royal. But the British government is not alone in strongly opposing more social measures. And such a maximalist document would surely have to be put to the vote again in several countries, including the two that said no in 2005, risking another rejection. Ms Royal has said she would like to hold a fresh referendum on an expanded treaty in 2009.

• **Treaty minus, with a promise of more to come.** This option was first branded by Nicolas Sarkozy, the main centre-right candidate in France, as a "mini-treaty", though he has since dropped the term. It would adopt only the big institutional changes in the constitution—a new voting system, the foreign minister, a permanent president of the council and more majority voting (but drop the smaller commission). Such a text might be called an amending treaty, which could be ratified by national parliaments alone, in time for the 2009 European election. Yet cherry-picking from the present document would upset the delicate compromises that went into it. The Irish and perhaps the Danes might still have to vote, which could lead to demands for referendums elsewhere. To reassure maximalists, the rest of the constitution might be put off to a further convention or IGC to be summoned soon after 2009, but others would not find that prospect reassuring at all.

• **Treaty minus, with a promise of no more to come**. This is a slimline version of Mr Sarkozy's mini-treaty, favoured notably by the British, who do not want to hold a referendum or be dragooned into another huge convention or IGC. It would adopt the sort of small treaty proposed by Mr Sarkozy, but probably with no extension of qualified-majority voting. It would be purely a piece of institutional tidying-up, which could be ratified by national parliaments on the promise that nothing else would soon be put before them. Even so the Irish would have to vote, as might the Danes if the new treaty transfers any new powers to Brussels. And any such document would cause deep dissatisfaction in most of the 18 countries that have already ratified the full constitution.

• **Nothing at all**. This is the option if all else fails. It also sometimes seems to be the preferred choice of Britain, and perhaps of Poland, the Czech Republic and even the Netherlands. All four countries have reservations about some of the institutional provisions in the present text, even if they are wrapped up in a mini-treaty. For example, the British are against the charter of fundamental rights and most extensions of qualified-majority voting; the Poles oppose the new voting system; and the Dutch dislike the proposed foreign minister. But the do-nothing option will satisfy neither those who argue that the EU of 27 cannot continue as it is, nor those who have already ratified the constitution. It is also awkward because the Nice treaty specifies that the commission to be chosen in 2009 must have fewer commissioners than member countries, and its voting provisions extend only to Romania and Bulgaria. The absence of any new treaty could thus become a big obstacle to further enlargement.

New members will come CAP in hand

Over the next few months negotiators will concentrate on these four options, or variants of them. Two concerns will be uppermost in their minds. The most important will be that the union cannot afford another failed ratification. In several countries that points to avoiding a referendum at almost any price. This desire could put the countries seen to be most at risk of losing such a vote (Britain, France, the Netherlands and perhaps Poland) in a strong bargaining position should a new IGC be convened—except that these four do not agree on what they want.

The second concern will be to achieve something, anything. José Manuel Barroso, the commission president, is a pragmatist who has spent the two years since the French rejection urging that the EU should concentrate on what it can deliver best—in fields as diverse as foreign policy and energy security. But he complains that, wherever he goes, half the questions he is asked are about the constitution. The feeling of unfinished business haunts everything else that the EU does, which is why so many countries are anxious to avoid the do-nothing option.

Budget blues

Into this combustible mix is about to drop another issue that has been largely neglected recently: the EU budget. The financing package for 2007-13 agreed on in December 2005 included a clause promising a thorough budgetary review in 2008. This was a concession to the British, who had to give up a chunk of their budget rebate to get a deal. Mr Blair had demanded further reform of the common agricultural policy (CAP) as his price for negotiating on the rebate, but Mr Chirac's intransigence blocked that. The promise of a review became a face-saving device for Mr Blair.

Now, however, the budget review is acquiring new significance, for three reasons. The first is that the commission is taking it seriously. The EU budget, at just over €115 billion, or 1% of the union's GDP, is relatively small. But it is also ludicrously archaic. Mr Blair rightly pointed to the absurdity of devoting almost half of all EU spending to the CAP (though that is an improvement on the 1980s, when the CAP absorbed 70%). A further one-third of the budget goes on regional support, especially for infrastructure spending, but nearly half of that regional money is bagged by relatively rich countries. Only a tiny fraction of the budget is spent on projects that might further the Lisbon Agenda's goal of promoting high-tech growth.

These blemishes were pointed out forcefully in the 2003 Sapir report, written at the commission's own request. The report recommended cutting CAP spending to nothing and redirecting regional spending to poor countries, with the balance of the budget being either returned to national governments or devoted to such worthier activities as R&D. But when the commission and the council drew up the budget for 2007-13, they largely ignored these recommendations. Still, Sapir sets a useful framework for the budget review.

The worst feature of the EU budget is that, to make up for spending so much on the CAP when some member countries have so few farmers, it is littered with rebates. The British rebate, bludgeoned out of her partners by Margaret Thatcher's handbag-wielding in 1979-84, is the best-known, but the Germans, Dutch, Austrians and Swedes now all have special rebates of their own. Indeed, the latest budget row in Brussels is over how far countries that get rebates should contribute to others' rebates. A useful aim for the budget review would be to put paid to this Alice-in-Wonderland world altogether.

The best way of doing that would be to tackle the CAP once and for all. In fact it has already changed far more than its critics allow. Since 2003 most farm subsidies have been switched to direct payments, not linked to production and therefore not trade-distorting (whereas American farm subsidies have shifted the other way). A growing chunk of the money goes on rural-development projects, not farming as such. Feeding into the budget review is a mid-term "health check" of the CAP to be conducted by the agriculture commissioner, Mariann Fischer-Boel. She wants to cap payments to individuals, shift even more spending to rural development and scrap milk-production quotas.

An idea she is not keen on is national financing of the CAP. When farm subsidies took the form of price support, they had to be paid at EU level because products crossed borders. But as they switch to direct payments, the case for financing at EU level is weaker: there is no reason why national governments should not pay for their own farmers. Several countries favour partial national financing of the CAP, as does the budget commissioner, Dalia Grybauskaite. More surprisingly, so do some influential Frenchmen, including Alain Lamassoure, an MEP who is one of Mr Sarkozy's advisers. The French realise that, when the full panoply of farm support extends to central Europe (it is now being phased in), they will become net contributors to the CAP. Indeed, opponents of future farm reform will be found not in Paris but in Warsaw and Bucharest.

Looking for a bargain

The time is thus ripe for another attack on the CAP and the way it is financed. And that adds another reason for paying attention to the budget review: that it could become linked to the fate of the constitution. The timing is tricky, because negotiations on the constitution could start later this year and the budget review is not starting until next year. And the odds of a quick deal on the constitution remain low. Britain, the main architect of the budget review, is a big obstacle to a renewed treaty. And it is no secret that Mr Brown, as chancellor of the exchequer, strongly opposed the EU budget deal in December 2005.

Yet there are now whispers in Brussels about one of those grand bargains often struck at EU summits: give Mr Brown a serious dose of CAP reform, including some national financing, and he might accept a revised constitution after all. Certainly it makes sense that a new treaty should be accompanied by a fresh look at the budget. Other countries might buy the idea if they see a prospect of getting not only a chunk of the constitution (perhaps with an understanding that more might come later) but also an end to the hated British rebate, which would become redundant if CAP reform were sufficiently bold.

Any such bargain would, however, take time and patience to strike. With a new French president and a new British prime minister, it will certainly be hard to do before 2009. Meanwhile another issue may come to a head: further enlargement of the union to the western Balkans, starting with Croatia. The trouble is that several countries, as well as the commission itself, have said that there cannot be any further enlargement without an institutional settlement. Thus enlargement, a key foreign-policy goal for the EU, has also become hostage to the constitution.

The ins and outs
The EU's most effective foreign-policy instrument has been enlargement. But how far can it go?

IT IS sometimes said that the European Union is an economic giant but a political pygmy, with no foreign policy to speak of. Certainly foreign and defence policies, above all others, remain largely in the hands of national governments; and foreign-policymaking with 27 countries, every one of them with a veto, is inherently difficult. Last year, for example, Poland alone blocked the start of negotiations on a new partnership agreement with Russia. Yet to conclude

A vote against further enlargement too

that the EU has no foreign policy at all would be wrong.

For a start the union is the world's biggest aid donor, which gives it great sway in Africa, parts of Asia and the Middle East. It has also acquired military heft, with troops deployed (sometimes with NATO, with which links have not always been close enough) in Bosnia, Congo, Darfur and Kosovo. Chris Patten, a former external-affairs commissioner, suggests that success in Afghanistan is now crucial to the EU's credibility, as well as NATO's. In the diplomatic world the union also pulls more weight. Javier Solana, the high representative for foreign policy, is in touch with the American and Russian foreign ministers at least as much as his British, French and German counterparts.

Consider Iran and nuclear proliferation. Besides having their hands full with Iraq, the Americans have no diplomatic relations with the government in Tehran. So Britain, France and Germany were entrusted with trying to persuade the Iranians not to build a nuclear weapon. Mr. Solana soon joined the trio on behalf of the wider EU. Their approach may not have been particularly successful, though it has probably strung the process out—but it has been a substantial example of a common EU foreign policy in the making.

If any version of the EU constitution were ever adopted, it would bolster the common foreign policy by turning the high representative into a “foreign minister”. More important than the exact title of this person would be three accompanying changes: merging the job with that of the external-affairs commissioner, giving it extra clout and money; setting up a common EU external service that could, in time, become more important than national diplomatic services; and making the foreign minister the permanent chairman of EU foreign ministers' meetings.

Yet even this would not resolve the biggest weakness in the EU's foreign policy: that it cannot work when national governments disagree with each other. This was most obvious over Iraq, on which the EU as a whole did next to nothing. It has also often been true of relations with Russia. The new east European EU members generally take a tougher line than older members; and the Russians, as Europe's chief suppliers of energy, have proved adept at playing divide and rule. Even on China, internal differences have persisted over whether to end the EU's arms embargo. No institutional change can alter these, even though polls suggest that a common approach to foreign policy is near the top of the list of what voters want from the EU.

By far the most successful EU foreign policy has been its own expansion. In the 1980s the prospect of joining played a critical part in ensuring a smooth transition from dictatorship to democracy in Greece, Spain and Portugal. More recently it has transformed the east European countries as they moved from communist central planning to liberal democracy. The countries of the western Balkans have been pacified and stabilised after the bloody 1990s thanks mainly to their hopes of EU membership. And Turkey has made wholesale changes in its politics, economics and society largely to boost its chances of joining. Indeed, judged in terms of success in exporting its values to its backyard, the EU has done much better with its neighbours than the United States has with central and south America, largely because of the carrot of enlargement.

After this year's arrival of Romania and Bulgaria, there is further work to do in south-eastern Europe. Entry negotiations began with Croatia and Turkey in October 2005, and are due to start with Macedonia some time in the next 12 months. EU foreign ministers also acknowledge that the only way to prevent the Balkan tinderbox of Serbia, a newly independent Montenegro and a would-be independent Kosovo from exploding again is to hold out to the whole region the prospect of joining their club. Yet the very notion of further enlargement is now in question, for three reasons.

Enlargement fatigue

The first and perhaps most serious is a decline in support for enlargement among EU voters. Opinion polls for the whole union still show a narrow majority in favour, but in some countries the mood has turned sharply against. The French and Dutch rejections of the constitution in 2005 partly reflected dissatisfaction over the 2004 enlargement. Olli Rehn, the enlargement commissioner, complains that EU governments have made little effort to spell out the beneficial effects of that enlargement to their voters, even though a commission analysis shows that the economies of new and old members alike have done well out of it—with the three countries that fully opened their labour markets to workers from the new entrants immediately, Britain, Ireland and Sweden, gaining the most.

The second, related reason is that, partly in response to the new arrivals in 2004, many EU governments have lost enthusiasm for enlargement. This is particularly true of France, Germany and Austria. Although Mr. Chirac has always favoured Turkish accession, he did not speak in favour of it when it became an issue in the referendum campaign in 2005. Instead, he amended the French constitution so that a referendum is now required on all future new entrants after Croatia.

Germany's Angela Merkel is no fan of enlargement and has long argued against Turkey's entry (though her government is willing to let the negotiations proceed for now). Austria is even more hostile to Turkey, though it would like to take in the countries of the western Balkans in its own backyard.

The third reason, inevitably, is the failure to ratify the constitutional treaty. In part this is because of an age-old argument known, in the EU jargon, as widening v deepening. Brussels folklore has it that widening (admitting new members) naturally conflicts with deepening (further integration of existing members). To avoid this, expansion has often been timed to coincide with treaty changes: a key motive for the treaties of Maastricht, Amsterdam and Nice was the knowledge that the east Europeans were waiting in the wings. This time round, the constitution was meant to provide the deepening: if it is blocked, that raises questions over further widening.

Some critics also see the lack of an institutional settlement as a bar to enlargement, arguing that the EU's machinery, initially designed for six members, cannot function effectively with 30 or more. The Nice treaty provided votes and parliamentary seats for Romania and Bulgaria, but not for Croatia (though in practice the necessary changes, along with a new deal on the size of the commission, could go into Croatia's accession treaty, which like all treaties must be ratified by all EU members). This argument is aimed mainly at Britain, which opposes attempts to revive the constitution but is the chief proponent of more enlargement. The none-too-subtle message is that turning down the first would mean losing the second.

A Turkish tangle

The elephant in the room in all discussions about EU enlargement is Turkey, which was one of the earliest applicants to the European club and was accepted as eligible back in 1963. The Turks were miffed to be overtaken by the east Europeans in the 1990s (one Turkish general wondered whether his country would have done better to spend 40 years in the Warsaw Pact instead of NATO). The EU, for its part, argued that Turkey was far from fulfilling the “Copenhagen criteria” for membership (which include democracy, a free-market economy, observance of human and minority rights, and political stability).

When the mildly Islamist Justice and Development Party won the Turkish election in 2002, it soon proved itself a bigger reformer than the fiercely secular governments that preceded it. Recep Tayyip Erdogan, who became prime minister in March 2003, made it his top priority to get Turkey ready to join the European Union. Over the next two years his government passed a huge array of constitutional and judicial reforms to that end. He won his reward in October 2005, when the EU opened membership negotiations with Turkey.

Will Europe open its doors?

Unfortunately things have mostly gone downhill since then. After making such efforts to qualify, the Erdogan government lost its reforming zeal. Relations with the Kurds in Turkey's south-east, which improved when the government scrapped many of its most repressive laws, deteriorated again after the Kurds of northern Iraq cemented their autonomy and the separatist PKK guerrillas resumed fighting following a ceasefire. Moreover, the Turks soon ran into predictable trouble over Cyprus.

A condition for the opening of membership talks was that Turkey extend its customs union to all the 2004 entrants, which included Cyprus. Admitting the (Greek-Cypriot) republic without settling its dispute with the (Turkish-Cypriot) north was, as Lord Patten concedes, “a mistake”. A UN plan to reunite the disputed island fell apart in April 2004 when the Greek-Cypriots, who had been promised membership of the EU in any event, overwhelmingly rejected it in a referendum. (The Turkish-Cypriots, desperate to be admitted to the EU as well, endorsed it.)

An exasperated EU promised to alleviate the isolation of the Turkish-Cypriots, but as full members the Greek-Cypriots now have a veto over this. In December 2006 the Turks refused to open their ports and airports to the Greek-Cypriots because nothing had been done for the north—so the EU suspended negotiations on eight of the 35 “chapters” in the membership talks.

Heading off a train-wreck

Mr. Rehn insists that this is not a “train-wreck”, noting that good technical progress is being made and a new chapter will be opened shortly. He describes the commission's approach as firm but fair. There is a case for a breathing-space in EU-Turkish relations ahead of Turkey's presidential and parliamentary elections later this year. He suggests that the right course is to muddle through the rest of 2007. Croatia may join the club “about the turn of the decade”. After that the Turks will have a choice: to resume their reforms, putting their talks back on track towards membership later in the decade, or to turn away from the road towards Europe altogether.

The trouble is that the issue may come to a crunch sooner than that. Mr. Sarkozy and his advisers are explicitly saying that Turkey has no place in the EU. Many Germans note with horror that, if Turkey ever joins, it is likely on present demographic trends to become the most populous member by 2020, with more voting weight and more MEPs than Germany. Elmar Brok, a German Christian Democratic MEP who until this year chaired the European Parliament's foreign-affairs committee, says it was wrong to open negotiations in the first place, and the more honest course would have been to tell the Turks that they must settle for something short of full membership. Yet Turkey refuses to contemplate anything second-class.

A fallout between the EU and Turkey, one of its biggest and most important neighbours, would be disastrous. It would surely put an end to any hopes of settling the Cyprus problem. Worst of all, many Muslims would see a failure of Turkey's membership hopes as a rebuff administered by a Christian club. Not only would that further sour the West's relations with the Islamic world; it would also cause disaffection among the EU's own 15m-strong Muslim population, many of whom are already hostile to the countries they live in.

A close eye is being kept on Turkey and the western Balkans by those with membership aspirations of their own: Ukraine, Moldova, Belarus, and countries in the Caucasus and even north Africa. The union has not so far recognised any of these as actual or even potential candidates for membership. Instead it has adopted a “neighbourhood policy” that is supposed to cover such bread-and-butter issues as aid, trade concessions and immigration and visa policies.

Living with the neighbours

Yet the neighbourhood policy suffers from an inherent structural flaw. It is meant to apply equally and without discrimination to countries that may one day join the EU, and to countries that will never do so. However, the first group will always have an entirely different agenda: to them any neighbourhood policy is a mere stopgap until they can begin the long march towards membership.

Countries that can never hope for this might be readier to invest in making the neighbourhood policy itself more substantial.

So is it time to define the boundaries of the EU? Even enthusiasts for enlargement think it may be approaching its natural limits. The western Balkans, now surrounded by EU countries, obviously ought to be in. Moldova, Ukraine and Belarus also seem likely candidates. There might be more doubt over the Caucasus, which is even farther off—though Georgia makes no secret of its ambition to join. But north Africa would be off most lists of potential candidates. Morocco has been told that it is ineligible because it is not part of Europe. Talk of the Roman empire, of the Mediterranean as *mare nostrum* or of Algeria's and Morocco's old status as parts of France and Spain will change few minds.

To say now where enlargement will end might also be a good way to reassure nervous voters in existing member countries who have turned against the idea. But their nervousness reflects mainly a failure on the part of EU leaders to explain the benefits of expanding the club, not a hostility to any specific countries (Turkey being perhaps an exception). And it would seem odd to set limits now to a policy that has worked such wonders. If Turkey and Cyprus, why not—one day—Lebanon? Why not Israel (already a participant in the Eurovision song contest)? Indeed, why not—another day—Morocco or Russia, both of which have a strong European heritage and culture?

Four Ds for Europe
Dealing with the dreaded democratic deficit

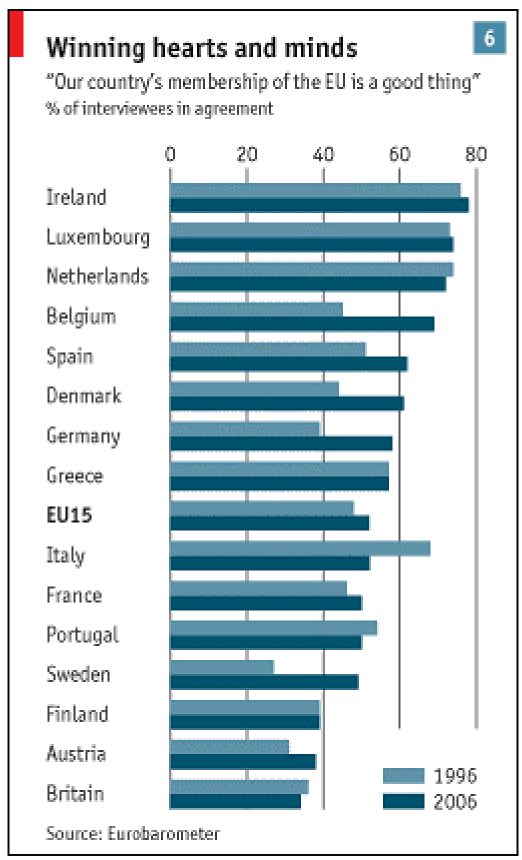
THE biggest failing of the EU has long been the yawning gulf between the union, as both a project of integration and a set of institutions, and the mass of its citizens. Nobody could pretend that, when French and Dutch voters voted against the constitution in 2005, they were objecting merely to specific provisions in the text; nor that they were just using the opportunity to give their governments a good kicking. It seems much more likely that they were expressing a general feeling of resentment towards the

An expensive and unloved talking-shop

European project and its remoteness. That feeling is more emphatic in some countries than in others, but it seems to be strong everywhere.

The traditional response by governments has been to ignore such resentment. Europe was always an elite project, went the argument, and so it should remain. As long as political leaders understood and pursued the case for European integration, that should be enough. French voters would probably have refused to endorse the creation of the European Coal and Steel Community back in 1951, and German ones, if given a voice, might have vetoed the abolition of the D-mark in favour of the euro 50 years later.

But ignoring the people's views is no longer tenable. Margot Wallstrom, a commission vice-president, even deplores the word “club” as connoting an elitist institution. Politicians these days have to be more responsive to voters. Mindful of this, many leaders in Europe spend more time attacking the Brussels institutions for interference (even though almost all EU laws require those leaders' endorsement) than preaching the European dream. The media have also become more critical of the EU. And the spread of referendums means that the people in the member states must now be repeatedly persuaded of the case for Europe. In the past 15 years a dozen national referendums have been held on EU questions (not counting acceding countries)—and half of them have been lost.



Popular support for the EU has, in fact, risen a bit in most countries over the past decade (see chart 6), but it remains dismayingly low. Worries over this lay behind the Laeken declaration, the convention on the future of Europe and the ill-fated constitutional treaty. But whatever the ultimate fate of the constitution, it is not going to be a vehicle for regaining voters' affection. That leaves three other options.

Love me do

The first is to concentrate on showing European citizens that the union works. Mr Barroso, the commission's president, is keen on this idea. In the economic field, it means persisting with the Lisbon Agenda for further reform and liberalisation across Europe. To this can now be added the related issues of energy and the environment, as examples of areas where it is self-evident that EU governments should be co-operating (though what is really needed is global co-operation). Foreign policy is another area where most European citizens believe that a union acting together can do more than nation-states acting alone.

A concentration on delivery does not always mean doing more at European level. Indeed, the arguments on subsidiarity over the past decade suggest that there is merit in giving back to nation-states some of the powers that Brussels has arrogated to itself over time. Mr Barroso's commission has repeatedly promised to review and scrap some of the torrent of regulations and directives that has poured out of Brussels in the past 20 years, and it also claims to subject new regulatory proposals to a more rigorous cost-benefit analysis than before. There has been more talk than action, but at least the amount of new legislation being proposed by the commission has dramatically declined over the past decade.

The second idea for making the EU more popular with its citizens is to deal with what is known as its democratic deficit. Eurosceptics make much of the European institutions' lack of transparency and accountability, their corruption and their remoteness from the citizens. They note that the commission is not merely far away from most national capitals but unelected (although the last thing a Eurosceptic wants is an elected commission), and yet perhaps 80% of the laws passed at national level originate in Brussels.

This is a seductive line of reasoning, but it is flawed. There is indeed a democratic deficit in Europe, but it is hard to maintain that it lies at the European level. In comparison with most national governments the Brussels machinery is highly transparent: information is always easy to find. Corruption certainly exists, as it does everywhere; but the auditors' habitual qualification of the EU's annual budget relates largely to how the money is spent at national level. As for accountability, the commission answers not only to national governments, through the council, but to the parliament as well.

In truth, the deficit is to be found more at national than at European level. The EU is a creature unlike any other: neither a superstate, nor a federal union, nor an inter-governmental organisation. But it is closer to the third, in that nation-states remain the main actors. Against this background the failure of democracy has been not to make clear to citizens that they can find out about and influence what is going on in Brussels through national institutions. Yet this ought to be easy, since the senior law-making body, the Council of Ministers, is made up of national governments.

As it happens, there is an example of how this might work: Denmark. When the country joined the then EEC in 1973, the Danish Folketing (parliament) was anxious not to lose its ability to steer legislation, despite the loss of sovereignty to Brussels. So it set up a powerful European committee to call ministers to account. This committee summons ministers every Friday to discuss the following week's council meetings in Brussels, and agrees to a negotiating mandate. If ministers want to deviate from this mandate, they must telephone from Brussels to secure fresh instructions from the committee, which can reconvene at a moment's notice.

It sounds cumbersome, but it seems to work—and it certainly gives Danes a greater sense of understanding of and involvement in the EU. The EU committee in the Folketing also maintains a large information and library service and a website that all Danish citizens can use. Denmark's famously Eurosceptic voters have become noticeably more relaxed about their country's EU membership over the past decade, even as hostility to Brussels has grown in some other countries.

A distant parliament

What about the European Parliament? It has a reputation as an expensive talking-shop, with a ludicrous monthly commute between Brussels and Strasbourg that adds some €250m a year to its costs. But it is better than its reputation: the average quality of its members has risen, and it has learnt how to work the EU system. In the past year alone the parliament has played a crucial role in forging the necessary compromises to secure an agreement on the EU's services directive and also on REACH, a set of rules governing the use and disposal of chemicals. Its influence over the commission has increased too: in 1999 the parliament even engineered the commission's resignation.

Yet there is one area in which the parliament has failed utterly, and that is to establish its legitimacy as the natural conduit connecting citizens to the European project. Few European voters have the slightest idea who their MEP is, and fewer still know what he or she does all day. Turnout in European elections is mostly low and falling; campaigns are fought on national not European issues, reflecting in part the fact that the media are national not European; there is no sign of a Europe-wide *demos*. Voters see little connection between how they cast their ballot and what happens in the EU. MEPs form broad political groups—the centre-right European People's Party, the Socialists, the Liberals and so on—but tend to act together, not in opposition to each other. The agenda of the place, it often seems, is largely to advance its own powers.

One answer sometimes put forward to remedy this is to increase the parliament's powers. Give it more say in the choice of commission president, for example, and more voters might take an interest. In 2004 MEPs made clear to EU governments that their choice of commission president should reflect the political make-up in Strasbourg. It would be easy to entrench this practice, perhaps getting political groups to propose their own candidates if they gained a majority. Yet even if this were done, it is hard to see the parliament winning greater legitimacy.

A more robust solution would be to acknowledge that the parliament has failed in this goal and to scrap it altogether. In its place there could be a European Senate, made up of nominated members of the European committees of national parliaments (the American Senate was nominated, not elected, until 1914; the original European Parliament was nominated from national parliaments before direct elections in 1979). Such an innovation might encourage other parliaments to follow the Folketing example and improve their scrutiny of what goes on in the EU. Sadly, the union, like most international organisations, never abolishes anything.

The third idea for re-firing European citizens' enthusiasm for the club is to give them a new dream, what some have called a narrative. The original narrative for the project was about peace and prosperity. But the first is now taken for granted, except perhaps in the Balkans; and many voters feel that the EU is either not helping or is actively hindering the second. So what might a new narrative for the 21st century consist of?

Dream and reality

Concern for the environment might furnish something. A second idea would be a more active foreign policy, which might even include a renewed push for enlargement. Poles and Lithuanians are not the only people who would be pleased if Ukraine were to join the club one day: the orange revolution of December 2004 resonated all round Europe. But what is needed most is more inspired leadership by European heads of government, including a full acknowledgment to their voters of the practical importance of the EU. And in the end surely what voters really want above all is economic success and greater prosperity—which is why further economic reforms are so pressing.

Yet harder-headed Europeans may not be interested in dreams or narratives at all. As Germany's Helmut Schmidt once put it, “if you have visions, you should see a doctor.” Such folk might prefer a different reassurance: that the EU will be a group of diversity not uniformity, and that not everybody on the European voyage needs to go at the same speed. The Brussels jargon for this idea changes and evolves: recent examples include flexibility, variable geometry and a multi-speed EU. What it means in practice is that some countries opt for projects of closer integration that others prefer to avoid.

In fact this is already happening. All members must participate in the single market, with its four freedoms of movement (of goods, services, labour and capital). Most of them are also members of NATO, but some are not; only 13 of the present 27 are in the euro; a different but overlapping 12 are in the Schengen passport-free travel zone, with the addition of three non-members; and just seven have signed the Prüm treaty governing the exchange of information among police forces (see table 7). The Amsterdam and Nice treaties both provide for “reinforced co-operation”, another piece of EU jargon referring to projects that only some countries choose to join.

Overlapping circles 7

Countries in...

	EU	€	NATO	Schengen	Prüm
Belgium	✓	✓	✓	✓	✓
France	✓	✓	✓	✓	✓
Germany	✓	✓	✓	✓	✓
Luxembourg	✓	✓	✓	✓	✓
Netherlands	✓	✓	✓	✓	✓
Spain	✓	✓	✓	✓	✓
Greece	✓	✓	✓	✓	–
Italy	✓	✓	✓	✓	–
Portugal	✓	✓	✓	✓	–
Austria	✓	✓	–	✓	✓
Slovenia	✓	✓	✓	–	–
Denmark	✓	–	✓	✓	–
Finland	✓	✓	–	✓	–
Ireland	✓	✓	–	–	–
Britain	✓	–	✓	–	–
Bulgaria	✓	–	✓	–	–
Czech Rep.	✓	–	✓	–	–
Estonia	✓	–	✓	–	–
Hungary	✓	–	✓	–	–
Latvia	✓	–	✓	–	–
Lithuania	✓	–	✓	–	–
Poland	✓	–	✓	–	–
Romania	✓	–	✓	–	–
Slovakia	✓	–	✓	–	–
Sweden	✓	–	–	✓	–
Iceland	–	–	✓	✓	–
Norway	–	–	✓	✓	–
Cyprus	✓	–	–	–	–
Malta	✓	–	–	–	–
Turkey	–	–	✓	–	–
Switzerland	–	–	–	✓*	–

*Approved but not yet enacted

Sources: European Commission; NATO

Once again Denmark offers an interesting case study. The Danes are almost as famous for their supposed Euroscepticism as the British. When they voted no to the Maastricht treaty in 1992, it was renegotiated to give the country four opt-outs: from the single currency (from which Britain was also excused, but Sweden was not, so although it has chosen to stay out of the euro, technically it has no right to do so); from defence policy; from EU citizenship; and from justice and home affairs.

Living with these opt-outs can be awkward. In defence, for example, Danish forces are able to join NATO operations but must pull out if the EU takes over. And although the country retains the krone, the Danish National Bank is not independent of the European Central Bank in its interest-rate policy because it has chosen to hold the krone in lockstep with the euro. The governor, Nils Bernstein, admits that he moves interest rates two hours after the ECB does so. In the money market Denmark pays an average interest-rate premium over the euro of 0.15-0.25%, according to Mr Bernstein, which could be said to represent the cost of remaining outside the single currency. The other cost is a certain loss of influence, but a Denmark inside the euro would hardly hold huge sway.

Yet despite, or perhaps because of, their opt-outs, the Danes seem increasingly comfortable inside the EU. They no longer fear that a superstate is being built in Brussels. There is little pressure to follow the lead of Greenland, a Danish territory that holds the distinction of being the only place to have withdrawn from the club (in 1985). Nor do Danes cast envious eyes at Norway and Switzerland, the two biggest European countries to have chosen to stand aside from the union. Both must apply almost all EU laws to gain full access to the single market, and even make large payments into the EU's budget—but play no part in its decision-making.

A multi-speed Europe could, in principle, be a way of solving several different problems at once. For example, the argument over the constitutional treaty has shown yet again that some EU members want more integration than others do. As things stand, this can lead to blazing rows, with those that want to hang back eventually being pushed into a corner from which they either veto a project or, reluctantly, sign up to it to avoid being isolated. A far better approach would be for those who have no interest in joining to allow others to go ahead—which is how the British dealt with the European single currency at Maastricht.

Equally, a multi-speed Europe might be a good way of resolving growing tensions within the union over further enlargement. Already new, often poor members are invited on the basis that they do not take part in all EU activities right from the start; they are usually given long transition periods before benefiting in full from the union's four freedoms. A multi-speed Europe might take that idea a stage further. Turkey, say, might join on the basis not just of a long transition period but of an open-ended exclusion from the EU's rules on the free movement of labour.

The risks of multi-speeding

A multi-speed Europe clearly harbours potential dangers. The EU can work only if all its members sign up to the bulk of its rules, known as the *acquis communautaire*, especially for the single market. It will not be possible for members to opt out of competition rules, for example. Indeed, most single-market laws are not suitable for the multi-speed treatment, though the single currency clearly is.

If a multi-speed Europe were to become a multi-tier Europe and those in the lower tiers felt frozen out, that would be unsatisfactory too. Most proposals to create a "hard core", a group of "pioneers" or even a "United States of Europe", embracing either the original six or, more likely, the 13 euro members, fall into this category. Nor could a multi-speed arrangement work if those who pursue a project can capriciously stop others joining if they want to.

Yet it should be possible to find ways round these problems, using the European Commission and, if need be, the European Court of Justice as arbiters. The goal should be not to create categories of first- and second-class membership, nor to fragment the union. Rather it should be to accommodate diverse views on how far and how fast to go, and to take in a wider range of members—but all within a broad common framework set by the single market and the EU institutions.

In 2005, after the French and Dutch rejections, the commission published a paper by Mrs Wallstrom called plan D, outlining various ways of bringing the EU closer to its citizens. A better name for what Europe really needs might be plan 4D, to stand for democracy, delivery, dreams and diversity.

The European Union at 100
Is the best yet to come?

LIKE anybody nearing a 50th birthday, the European Union needs a makeover. But as this special report has suggested, the past two years' talk of a deep crisis is overblown. The union is functioning as well (or as badly) as it did before French and Dutch voters rejected the constitution.

The efforts by the Germans to use their stint in the EU president's chair to resuscitate the constitution may thus be as mistaken as the fatuous logo they have chosen (above). It is possible that an agreement may be reached on a minimalist treaty, but it depends on a string of heroic assumptions: that Mr Sarkozy wins the French presidency; that the Poles can be bullied into accepting institutional change; that some way can be found to buy off Britain; and that almost everybody can avoid referendums. Since at least one of these assumptions is likely to prove wrong, the odds of a successful deal on the constitution seem low.

Rather than harping on institutional reform that may never happen, the EU should concentrate on things it can achieve. That means putting forward sound policies in fields such as the environment; continuing the union's enlargement to take in the western Balkans and, ultimately, Turkey; and doing more work, both in Brussels and in national capitals, to engage citizens in the project. Above all, it means taking advantage of the present recovery to push through economic reforms.

The future of the EU is hard to predict. Over the next decade or so it could undergo a burst of further integration; it could fall apart into opposing camps of those who would go forward and those who would go back; or, perhaps most likely, it could just muddle through. So how might it look in 50 years' time?

A centenary celebration, 2057

The EU is celebrating its 100th birthday with quiet satisfaction. Predictions when it turned 50 that it was doomed to irrelevance in a world dominated by America, China and India proved wide of the mark. A turning-point was the bursting of America's housing bubble and the collapse of the dollar early in the presidency of Barack Obama in 2010. But even more crucial were Germany's and France's efforts later in that decade, under Angela Merkel and Nicolas Sarkozy respectively, to push through economic reforms.

These reforms produced a sharp fall in unemployment just as Europe began to enjoy a productivity spurt from the spread of information technology. The eventual result was a growing labour shortage, which was not resolved until the arrival of Turkey and Ukraine as full members in 2025. The accession soon afterwards of the first north African country, Morocco, helped to prolong Europe's boom.

Of course it was not all plain sailing. The great Italian crisis of 2015, when the government of Gianfranco Fini quit the single currency just as David Miliband's Britain was about to join, cast a long shadow. Yet although Italian bondholders took a hit from the subsequent default and Italy's economy was soon overtaken by Spain's, financial markets proved forgiving, and the government of Walter Veltroni managed to rejoin the euro fairly quickly. Since then no country has been tempted to repeat Italy's painful experiment.

The other cause for quiet satisfaction has been the EU's foreign policy. In the dangerous second decade of the century, when Vladimir Putin returned for a third term as Russian president and stood poised to invade Ukraine, it was the EU that pushed the Obama administration to threaten massive nuclear retaliation. The Ukraine crisis became a triumph for the EU foreign minister, Carl Bildt, prompting the decision to go for a further big round of enlargement. It was ironic that, less than a decade later, Russia itself lodged its first formal application for membership.

At the same time politicians in Brussels and Washington, grappling with the blocked Middle East peace process, had a eureka moment. EU membership had worked, eventually, in Cyprus, which was reunified in 2024; why not try it again? So it was that Israel and Palestine became the EU's 49th and 50th members.

The big challenge now is what to do about Russia. Its application has been pending for 15 years. Some say that it is too big, too poor and not European enough to join. But now that the tsar has been symbolically restored, Russia has an impeccably democratic government. A previous tsar saved Europe from Napoleon nearly 250 years ago. It would be apt to mark the anniversary by welcoming Russia back into the European fold.