

Bonn, 3. May 1999

Dr. Wolfgang Schäuble, Chairman of the CDU Germany Karl Lamers, Foreign Policy Spokesman on Foreign affairs of the CDU/CSU Parliamentary Group in the German Bundestag

Reflections on European Policy II - the Future Course of European Integration -

The purpose

More than four years ago, we presented to the general public a number of fundamental reflections on the future course of European integration. In the meantime, the Amsterdam Treaty and Economic and Monetary Union have come into effect. Economic and Monetary Union in particular has triggered a broad debate in virtually all the EU's member states, including Germany.

The CDU and CSU now find themselves in opposition. In this role, they will seek to foster the political inheritance of their chancellors from Konrad Adenauer to Helmut Kohl, who shaped all the fundamental tenets of Germany's policy on Europe, and to ensure that the present Federal Government does not gamble this inheritance away.

The CDU and the CSU are the most powerful force in the centre of the political spectrum in Europe. Most of their fellow parties of the centre and centre-right in other European countries are also in opposition. Together with them, and more forcefully than hitherto, we shall take a common stance in relation to social democratic and socialist policies in Europe.

It is for this reason that we would like once again to present a number of reflections on the future course of European integration.

The basic question

With the launch of economic and monetary union, the process of European integration has acquired a new quality. This has far-reaching consequences both for relations within the European Union and for its ties with the outside world. Indeed, European integration is having an ever more powerful impact not only on *domestic policy* in member states but also on their *internal structures*. As a result, in Germany and other EU countries the debate on the goal of integration is once again becoming more intense. **Ultimately, this debate centres on the question of how the European Union and its members states should be constituted, both politically and legally**, not least with a view to the strategic goal of enlarging the Union. The debate on Agenda 2000 and the EU's financial system is also an aspect of this basic question.

Calling to mind the foundations of European integration

1.0. In addressing all the challenges inherent in the present and future course of European integration, we must first of all **call to mind the relationship between national identity and national interests on the one hand and the European project on the other; that is, we must call to mind Europe's common spiritual and substantive foundations.**

1.1. The conviction that in today's world Europe's nations must work together if they are to safeguard their existence and their prospects for development, i.e. if they are to defend their basic interests, constitutes the main substantive foundation of European integration.

Since the member states enjoy a broadly equal level of development, their individual interests are very similar and, as far as their relations with the rest of the world are concerned, indeed identical: owing to the transnational reality of today's world, these interests are as interwoven as this reality itself; and it is this reality which makes Europe's nations inevitably dependent on one another.

However, wherever these interests are not complementary but in opposition to one another, they can be asserted only by balancing them in line with the wellbeing of Europe as a whole. Wherever, on closer examination, it is not the interests which diverge but opinions on the best way to defend them, as is mostly the case, they must be approximated through a constant, intense dialogue.

The conviction that the European nations' shared values, rooted in a common culture, as well as their largely identical notions of the individual, of society and of the future to which they aspire can only be safeguarded and carried forward in concert is the spiritual foundation of European integration.

If, however, the nations of Europe are to work together effectively, their cooperation must be governed by a common body of law to which each individual state voluntarily submits in recognition of the fact that Europe is the means to both individual and shared political ends.

1.2. Recent decades have provided overwhelming evidence that the path hitherto taken is the right one. This goes for Germany in particular.

Perhaps because it was compelled by the self-induced catastrophe of 1945 to become more clear-sighted than others, Germany was also quicker to comprehend Europe's duality as a political means and a political end. It was forced to learn the lessons of its history, i.e. that whenever Germany was tempted by its relative size to seek dominance or even hegemony, the rest of Europe would always come together to form a coalition by which it would ultimately be defeated. This taught Germany that only integration could ensure that its relative weight served not only its own well-being but also that of its neighbours. In turn, this has been the key to Germany's extraordinary success, both at home and in its relations with other countries.

At home, Germany managed to combine, within the framework of the social market economy, a liberal, well-functioning economy with a social order based on solidarity. It was due above all to this success that Germany's partner countries were willing to accept its views on the parameters for economic and monetary union. Economic and monetary union provides an institutional safeguard for the stability of the global economy in which Germany operates and from which it benefits. In turn, economic stability is a key precondition for social and political stability.

The Maastricht Treaty is taking the place of Germany's relative, and therefore fragile, dominance in the field of monetary policy; in the light of the crises in Russia, Asia and Latin America, it has already furnished impressive evidence of its benefits in terms of enhanced stability for Europe as a whole. Hence, economic and monetary union is the most recent proof not only that European and national interests - and here one must add, German interests - are compatible but also that they are mutually enhancing.

1.3. Reunification - Germany's specific national interest - would not have been possible had Germany not consistently demonstrated its readiness to pursue European integration and made clear its intention to continue down this path.

Reunification and the end of the East-West conflict have lent Germany's interest in European integration an additional dimension, since Germany is now no longer more threatened or dependent than its Western partners in Europe - and has increased in size.

At the same time, however, eastern Europe's return to the European stage brings with it the danger that the old problem of Germany's conflict-laden position in the middle of Europe might also return, especially since the difference between East and West in terms of their levels of development is immense and therefore poses the risk of conflict. This danger can be averted only by ensuring the thorough integration of the nations of eastern Europe into the system of stability erected in the western half of the continent. It is clear that Germany has a particular interest in this.

The German Federal Government would be well-advised to become conscious of the fact that, in the eyes of our neighbours, enlargement of the European Union will bring with it an extension of German influence which could upset the balance in Europe, instead of, with its talk of Germany finally achieving normality, introducing a new, naively nationalistic style apparently intended to demonstrate self-confidence.

Quite apart from this, however, the economic, political and psychological difficulties involved in the process of eastward enlargement fully eclipse those of previous enlargements. They are the acid test of the durability and viability of European integration as such. If the considerable risks of enlargement are to be averted, and the equally substantial opportunities seized, the European Union as it stands must be consolidated in every respect.

Here, Germany bears a responsibility stemming from its history and transcending its own national interest: without the war unleashed by Germany, the fate of its eastern neighbours after 1945 would have been different - notwithstanding the guilt of the USSR. And it was precisely the freedom movements in the communist countries, and the Solidarity movement in Poland in particular, which made an essential contribution to German reunification. Despite their very negative experience of Germany in the recent past, these countries supported German unity, on condition of course that Germany remained an integral part of the European Union to which they also now wish to accede.

But just as Germany's interest in European integration, and its responsibility for this process, have clearly grown following the end of the East-West conflict and the re-establishment of German unity, so too have the difficulties in doing justice to both.

1.4. These difficulties, which are normal given the exceptional nature of this historic project, should not obscure the fact that until now Germany has wisely given its long-term interests precedence over its short-term interests, its economic potential allowing it to be generous in making an above-average contribution to the necessary financial transfers within the EU, which, incidentally, are far smaller in volume than intra-German flows. If Germany helped in this way to facilitate European compromises, it did so because it realized that the European system could only function on the basis of a balancing of partially divergent national interests and that it was in Germany's vital long-term interest that this system should function well.

This approach requires a great deal of staying power - as well as a constant awareness, which must be consistently fostered among the general public, that German generosity has nothing to do with philanthropy or altruism but reflects a wise course of action based on the principle of "do ut des".

Germany has always defended its national interests - without constantly using the term - and has been exceptionally successful, for some indeed too successful, in doing so. Its success has stemmed from its ability - embodied most recently by Helmut Kohl - to give its fundamental, long-term interests precedence over short-term interests. Germany must not lose this ability.

However legitimate Germany's desire for a reduction in its share of transfer payments within the EU might be, it is dangerous to justify this desire by citing the financial

consequences of German reunification. This leads our partner countries to doubt whether the maxim followed by German chancellors from Adenauer to Kohl, namely that German unity and European unity are two sides of the same coin, still applies.

1.5. The interwoven nature of national interests in Europe is a consequence of the supranational reality created in our continent by the process of globalization. This process, which on closer examination is nothing other than the result of the spread of European civilization, has created a supranational reality which has eroded the old territorial principle of power. The economy has been the driving force behind this development. And at the same time it is the economy which has the most direct impact on the lives of individuals, as well as on the life of nations and how they live together, and thus also on politics. From this point of view, it is only logical, and not a result of the failure of the European Defence Community in 1954, that the process of European integration should rest on the economy.

Europe as an institutional entity is the Europeans' response to globalization and to the need to find a new way of organizing politics in line with the highly condensed supranational reality prevailing within Europe's borders. At the same time, this response is a precondition for the ability of the nations of Europe to participate in shaping the necessary body of binding rules for the global economy. The WTO is proof of the success of these endeavours.

It is no exaggeration to say that the process of European integration is the most progressive and at the same time most realistic project in the field of international relations. Europe is a step towards a better world. The Europeans are also the first to draw the political conclusions from the process they have set in motion. Of that they can be proud.

And Germany, too, can be proud since it has made a significant contribution to this forward-looking project: the wisdom it showed in driving the process of European integration forward, and the benefits it has itself derived from successful integration, are reason enough for Germany to feel assured and self-confident. There is no need for Germany to adopt a new, swaggering style in its policy on Europe, especially since this would only make defence of German interests more difficult.

1.6. Viewed in this light, Europe is the organizational framework for adjusting national policies to our continent's supranational reality, by means of a process which ensures that the disadvantages of uncoordinated action by mutually dependent nations are avoided. The inability of our nation states to solve the fundamental problems facing them within a national framework is one of the key reasons behind the identity crisis afflicting all of Europe's societies. By strengthening national politics, Europe also strengthens national identity, and as citizens become more aware of this link and look ahead to a common future, they will develop a layer of European identity which will complement and enrich their national identities. The process of convergence leading to economic and monetary union has furnished impressive proof of Europe's function in reinforcing national policies. EMU will sharpen our nations' perception of their mutual dependence, symbolized by the single currency.

Our regional, national and European identities are mutually dependent. The relationship between them can also be described as that between our local origins, our native country and our common future, or between where we have come from and where we are going. The stronger our local and national roots, the more able we are to open ourselves to a future in Europe. But many see the future as a threat - to their traditional identities as well. The removal of national frontiers creates greater freedom but also greater insecurity. Anxiety fuels the desire for protection. Policymakers must resist the temptation to engage in populist demagoguery. They must present Europe as a means for overcoming the challenges of the future, not as a source of threats or dangers. Our

past must not be played off against our future: our local and national identities underpin European integration and are in turn strengthened by it.

The "European model"

2.0. With economic and monetary union, Europe has acquired a new type of federal structure, the aim of which is to combine, along the lines of the social market economy, a liberal and globally competitive economy with a social order based on solidarity. Together, these two elements constitute the "European model".

The new constitutional quality of economic and monetary union characterizes the constitutional situation of the Union as a whole and its future development.

EMU is a core area of political union. The debate within EMU on the thrust of economic and social policy has begun. Together with its sister parties in the European People's Party (EPP), the CDU will engage passionately in this debate.

2.1. The new type of federal system in Europe differs in two ways from traditional federalism. Only one element of economic policy - monetary policy - is centralized; the terms of the Maastricht Treaty make it a key element, however. Otherwise, economic policy remains the responsibility of national governments. It must, however, be complementary to the monetary policy of the European Central Bank. What is new in this federal system in Europe is not only the division of powers between the federal level and that of the constituent states, but also the lack of transfer payments, which would be comparable in volume to those within Germany's federal system, for instance. In Europe, equality and justice will not be achieved by means of transfers but by means of competition. European federalism is a form of competitive federalism. Competition and dynamism have become a fundamental principle and have acquired a new dimension with the introduction of the euro. This principle applies not only in relations between companies but also in relations between states as locations for industry and on the subnational level. It will also alter the internal structure of states.

Europe's federal system is also of a new type because it aspires to strike a new balance between:

- the Union and the nation states
- freedom and equality
- unity and diversity
- solidarity and competition.

2.2. There is a certain tension between competition and solidarity. In order to achieve a balance between the two, fair and strictly imposed rules on competition are of fundamental importance. Given that the euro creates the conditions for more intense competition, a race to grant the most attractive subsidies, with each country doing what it wanted, would be even more damaging than is already the case. Rules must be put in place at the European level to protect the internal market; the European level must also be responsible for ensuring that they are complied with. Quite rightly, however, the member states and the regions - in Germany, the Länder - are demanding that they be able, as part of their capacity for effective policymaking, to pursue structural policies of their own. Therefore, rules on competition must be strict but not rigid.

The taxes and conditions imposed on industry are of central importance with regard to competition between business locations. For reasons of transparency and comparability, the aim should be to have the same types of tax and the same tax base in all

participating countries. Tax rates should be approximated, not to prevent competition but to avoid distortions of competition. That is why there is a need to harmonize taxation of turnover, consumption and investment income, which does not rule out variations within certain margins. With regard to other taxes, it must be borne in mind that fair tax competition is also an incentive to use public money efficiently and economically, and therefore strengthens Europe's position in global markets. The, in principle justified, call for minimum taxes, charges and standards must not result in a neutralization of this effect.

Other moves towards harmonization, in the systems of social security in particular, can be the result of a competitive search for the best solutions but not of regulations imposed from above.

The CDU will take care to ensure that the new Red-Green Federal Government does not, in seeking coordination of European economic policy, reinforce the trend in this direction already evident in a number of high-tax countries.

2.3. It is the Maastricht Treaty and the Stability Pact which form the framework and the basis of the debate on economic policy and its coordination in Europe. They state unequivocally that economic policy in the countries participating in EMU must, notwithstanding their continuing sovereignty, point in the same direction, and they contain provisions designed to achieve this. These include the obligation of the European Central Bank to give precedence to price stability, and the obligation of participating countries not to allow their annual net borrowing to exceed three per cent of gross national product and even, as a rule, to balance their budgets. These two stipulations complement one another. They are an expression of the voluntary commitment by participating countries to avoid the mistakes of the past, when they masked their weaknesses by borrowing money, and to steer a course towards structural reform, which is the only way to remove the causes of unemployment and public indebtedness. This is the core of employment policy. The objective of the Maastricht Treaty is to modernize and reinvigorate Europe's economies and societies, thereby helping them to adjust to the realities of globalization. Anybody seeking to pursue a "different" policy is in breach of the Treaty. This is the dangerous course on which the new Government seems intent to embark. This would be all the more calamitous since Germany plays a guiding role in Europe in this sphere of policy; if it strayed from the right path, other important partners would be likely to follow suit.

2.4. This "different" policy, which on closer inspection turns out to be nothing more than the vain attempt to maintain the status quo, is justified by pointing to the need to redress the social imbalance. However, its advocates overlook that the main cause of social imbalance - unemployment - can only be remedied by initiating structural reforms, and that although adjustment of social insurance systems and labour markets will be painful in the short term, it is the decisive precondition for a social order founded on solidarity. Although it is true that today we know more about how, and how not, to foster a competitive economy and less about how at the same time to promote solidarity within society, the considerable achievements of individual countries in both respects do show that structural reforms are the only key to success. We can, and we must, learn from these countries. And this process of learning from one another must be organized. Europe must become a community of learning. The purpose of competition is to learn.

The traditional left-right dichotomy is no longer a suitable framework for the debate on the best way to construct a European social market economy. Today, the forces opposing one another are, on the one hand, those who cling to the status quo out of fear of the future and, on the other, those who believe in our ability to actively shape our own future. The CDU belongs to the latter; for them, conservative means preserving what is worth preserving for the *future*. Many - not all - of the Social Democrats and Socialists who once claimed the future as theirs have now become defenders of the status quo. In light of this, any "new Social Democratic age" would be a setback for Europe, heralding

the failure of the forward-looking European project as embodied today by the Economic and Monetary Union.

2.5. It is in the nature of economic and monetary union that adherence to the agreed policy represents a fundamental act of solidarity among participating countries since, even though the Treaty excludes the possibility of "bailouts", all participants in EMU would have to bear the consequences of one partner pursuing the wrong policy. It is therefore necessary and legitimate for participating countries to take part in each other's domestic debate on this issue: it is not interference in their "internal affairs", of which the number is in any case constantly diminishing. This in turn creates an ever more pressing need to shift from what continues to be inadequate cooperation between political parties and social groups in Europe to the establishment of genuinely European parties and associations. With this in mind, the CDU will intensify its international activities and, together with its sister parties in Europe, will strive to foster concerted opposition to the dangerous tendencies displayed by certain social democratic-socialist governments.

The debate on economic policy - and thus on social policy - has been Europeanized. European policy is becoming domestic policy and vice versa.

2.6. Economic and monetary union reinforces the need for Europe to speak with one voice in defending its interests vis-à-vis the rest of the world and to assume its global responsibility.

As a result of monetary union, the EU has become a global economic player of the first rank - in importance, it is now second only to the United States. If Europe is properly to assume this responsibility for the global economy, and to defend its interests, it must speak with one voice in all the relevant bodies.

2.6.1. Europe's enhanced importance in the global economy, and thus also in the field of foreign policy, brings into even sharper relief its deficiencies in the field of security policy. This huge discrepancy is a latent source of conflict, especially in relations with the USA. The economic element of political union must be complemented urgently by a foreign and security policy component. In the field of foreign and security policy, too, Europe must become an equal partner of the USA and - finally - create a European pillar within NATO. Quite apart from the consequences of the euro, there are of course enough reasons for Europe to pursue a common foreign and security policy. Solidarity in relations with the outside world is a core element of Europe's self-image and self-confidence.

2.7. The new kind of federal system taking shape in Europe - competitive federalism as embodied by Economic and Monetary Union - directly affects participating countries: each country's economic policy is still sovereign but no longer autonomous; it has not become European, but Europeanized. It is constrained by the terms of the Maastricht Treaty and the Stability Pact, by the monetary policy of the European Central Bank, and by single market legislation, competition law in particular; and is determined in part by the economic policy of other participating countries. This Europeanization of national policy-making has an impact on the way the latter is structured and organized.

2.7.1. National governments must increasingly coordinate their actions in an effort to reach a uniform position in Europe. Ultimately, this task will fall to the heads of government. This will affect the internal power structures of national governments.

2.7.2. The Europeanization of economic policy will also have serious repercussions for national parliaments, as it threatens to erode their decision-making powers. For instance, an agreement among finance ministers to harmonize taxation would be, de facto if not de jure, binding on national parliaments. The EU affairs committees in national parliaments must therefore intensify their activities and cooperation within the framework of COSAC. New methods must be found for both. National parliaments must remain the arena for

decision-making on European policy. Public scrutiny and democratic control cannot be ensured by the European Parliament alone.

Ultimately, however, the requirements of democracy within the EU can only be met by a comprehensive constitutional re-structuring of the EU.

2.7.3. Within Germany's federal system the Europeanization of policy is creating a need not only for additional coordination between the Federation and the Länder but also for a reform of the relationship between the two.

Even today, Germany's ability to act within the European Union is occasionally restricted by the need for coordination between the Federation and the Länder arising from their respective competencies as set out in the German constitution. This applies not only to the decision-making process but also to the transposition of European law into national law, a field in which Germany often brings up the rear. A more clearly structured division of responsibilities between the Federation and the Länder could make coordination between these two levels easier and thereby strengthen Germany's ability to act.

But a reform of German federalism must go beyond this. Such a reform, already necessary for national reasons, has now become compelling as a result of developments in Europe.

It is revealing that a lively debate on the structure of government in general, and on federalization in particular, is currently underway in all countries of Europe. It stems from the realization that centralistic systems of government are too rigid to meet the need for internal adaptation and adjustment; to master the challenges of competition from abroad; to ensure closeness to the citizens; or to satisfy their need for identity. All these demands on national governments have constantly grown as policy has become Europeanized.

To meet them, lower-level units of government (communes, regions/Länder) must have the capacity to act on the basis of their own - and not only allocated - powers and resources. Today, not even Germany's Länder possess this necessary degree of independence any more. Although the Länder are accorded considerable competences under the Basic Law, their powers have become mixed with those of the Federation in an increasing number of fields. Germany's centralistic financial system in particular conflicts with the concept of strong political federalism since it severely constrains the fiscal sovereignty of the Länder. The tax-raising capacity of the Länder is extremely unequal; some are not even in a position to finance their organs of government themselves. The system of financial equalization between them has acquired extreme dimensions, and robs them of any incentive to raise their performance. German federalism in practice is the opposite of competitive federalism. Federalism and a minimum degree of competition are synonymous, however. Anybody who wants diversity must promote competition; diversity is a precondition for competition as it ensures that the best solution is identified and rewarded.

Germany urgently needs a reform of its federal system so that it can hold its own against European competition. Together with its regional associations, and with the Länder governments led by the Christian Democrats, the CDU will press ahead vigorously with this reform project. For the Länder, the right to participate and have a say of their own in decision-making in Brussels is no meaningful substitute for the power to shape affairs at home.

2.7.4. A reform of this kind must at the same time strengthen the Federation. It is crucial that the loss of functions experienced by nation states should be compensated for by their active participation in international structures. As far as the nation states of Europe are concerned, this means active participation in the process of European integration in

particular. Through this process of integration, the nation state will recoup any capacity for effective action it might have lost as a result of the supranational reality in which it is embedded. At the same time, the nation states are prime movers behind the process of integration, which in turn transcends them by creating supranational institutions, structures and consciousness. Against this background, the Federal Government must be fully capable of effective action in Brussels. The European architecture will prove durable only if it rests on three strong foundations: the subnational, the national and the supranational/European. The reform of German federalism must also serve this objective.

3.0. Europe needs a constitutional treaty

The degree of integration reached in a core area of European policy following economic and monetary union; the impact of this development on domestic policy and internal structures in participating member states; the need for a European foreign policy and more joint action on issues relating to internal security and migration; the forthcoming enlargement of the EU - together, these factors make a fundamental debate on Europe's understanding of its role both possible and necessary. This debate must provide answers to the following questions:

- **What are the fundamental values, beliefs and interests which unite Europeans?**
- **How do they view their relationship with one another on the one hand and their nations' societal model (the "European model") on the other?**
- **What is Europe's task, and what responsibility does it bear, in relation to the rest of the world?**
- **Where does Europe end? How can a balance be achieved between widening and deepening, density and size, diversity and unity? (Flexibility and core)**
- **How must the policies of the European Union and its member states be organized? ("Who does what?")**

3.1. The framework of a constitutional treaty should be drafted under the auspices of the European Parliament and European Council by a group of eminent persons which must include representatives of the first tranche of acceding countries. Written and reasoned in clear language, and addressed to a European public, it would give structure to, and provide direction for, what is currently a fragmented debate. It would then become clear that terms such as "the European superstate", "a federal Europe" or "the United States of Europe" are unsuitable in defining the innovative nature of Europe's legal framework. There will be as little sole, ultimate or overall responsibility at European level as there currently is at national level. What is crucial is not the terminology we use but that Europe should be democratic and capable of effective action. Now that the territorial principle of power has become outdated, a new organizational principle will give rise to new legal constructs. The new type of federal system established by economic and monetary union is an illustrative example of this. Our European future is not merely a continuation of our national past.

3.2. This insight indicates how we should address the fundamental question of the European *demos* as the basis of European democracy. Our answer must draw on universal historical experience: human communities corresponding to the European definition of a nation did not come into existence *overnight* but as the result of *gradual evolution*. As their members drew closer together and constituted a political community, so they came to share a common destiny and thus acquired a common perception of themselves. This is also reflected in the process of European integration taking place today. It is debatable to what extent Europeans are already aware of themselves as a

community with a shared destiny. There is no disputing, however, *that* they constitute such a community – or that this process of awareness is, in historical terms, evolving with remarkable speed today by virtue of the rapidity of communication at the end of the 20th century compared with earlier eras. Increased communication between our nations is creating a European public which in turn is the medium of European democracy. This European public, however, is not yet fully developed and must therefore be strengthened. This, above all, is the task of a European constitutional treaty which regulates Europe's competencies in line with citizens' expectations, for only then will citizens accept them as legitimate. Today, they often feel that some of what Europe does is unnecessary (whether this is true or not in an objective sense is a moot point), yet they are acutely aware of its inaction in other areas: above all, for example, the absence of an effective European policy to combat international organized crime, a common policy on migration (including asylum), or a common foreign, security and defence policy. Clearly, satisfying these needs is vitally important for the development of a European consciousness. The same applies to competencies and decision-making processes *at* European level; both must be as clear and transparent as possible.

3.3. It is precisely here, however, that it will become apparent that in future, too, the federal arrangements for European democracy will not be identical to those at national level; the division of powers in the European Union will always differ from that envisaged under conventional federal systems. The innovative form of federalism established by the euro, mentioned above, is an illustrative example. The euro system is likely to give rise to other innovative institutional arrangements, for instance with regard to the participation of national parliaments or, indeed, the European Parliament in the coordinating mechanisms of Ecofin/Euro 11. The concept of a double majority in the re-weighting of votes in the Council would also be an innovative solution and, as we continue to believe, one that is in keeping with European democracy.

The codecision procedure between the Council and the European Parliament is also an innovative constitutional arrangement at European level. It is significant that the European Parliament's codecision rights have continually increased – most recently through the Treaty of Amsterdam. And they must continue to grow. This process is especially important in terms of the development of a European identity. In some respects, the European Parliament anticipates the emergence of the European *demos*; and, like the Commission, it serves our common European interest. The citizens of Europe will become more aware of its role the more significant its decisions become. Their awareness must be sharpened in a more organized and effective way, however, in particular by the European parties, but also by the media in Europe, which would be very capable of organizing themselves at European level.

3.4. These reflections on the European *demos* show that subsidiarity, as a basis for a division of powers within the framework of a European constitutional treaty, is not simply an organizational principle. Rather, it is also a key element in guaranteeing Europe's legitimacy and acceptance, and thus in encouraging the development of a self-aware European *demos*. In this context, it is equally important to ensure that Europe does *not* do what can be done at national or sub-national level, and that it actually *does* do what can only be done at European level.

Seen in this light, the fear of an erosion of national or regional powers manifest in the debates in almost all the European countries is not simply the result of a narrow and blinkered view or a desire to cling to power at all costs; rather, it is part of the struggle to achieve the best way forward for Europe. And the best way forward is subsidiarity. Subsidiarity must be the guiding principle for a division of powers in a European constitutional treaty. Such a division of powers could make a general clause – such as the current Art. 235 of the Treaty establishing the European Community – redundant if at the same time the treaty base were amended by a qualified majority vote in the Council and the European Parliament (cf. Michel Delebarre and Edmund Stoiber in their noteworthy

paper "Für eine neue Subsidiaritätskultur! – Ein Appell des Ausschusses der Regionen" [*For a new subsidiarity culture! – An appeal by the Committee of the Regions*].

3.5. A division of powers in a European constitutional treaty must encompass clear financial arrangements with equally clear structures for revenue and expenditure.

Expenditure from the EU budget should be categorised according to the interdependent principles of solidarity and subsidiarity.

Expenditure which promotes solidarity is spending which helps member states with weaker economies to bridge the gap with more developed member states. It is clear that these funds have to be contributed by the latter, in line with their above-average economic capacity.

Expenditure in accordance with the principle of subsidiarity is spending which helps to create public goods which cannot, or can no longer, be created at national level, and which can now only be created effectively at European level. Naturally, such expenditure also promotes cohesion. The required funds are, of course, contributed by all member states, in line with their economic capacity.

If these two categories are used as a yardstick, it is apparent that the current situation in the EU is extremely unsatisfactory.

At present, only the Cohesion Fund accords fully with the principle of solidarity. The Structural Funds do so in part, i.e. to the extent that economically weaker member states benefit more than those with stronger economies. However, since they are financed from the EU budget for *all* Member States, there is almost inevitably a temptation to view the European Union as a kind of "savings bank", as demonstrated in recent months by the unfortunate debate on net contributions and receipts. If only for this reason, targeted financial payments to economically weaker member states, combined with strict scrutiny of how they are used, would appear to make more sense. In the long term, following a clear demarcation of powers in a European constitutional treaty, a system of (horizontal) financial equalization appears to be the best solution. The allocation of these subsidies in *all* member states would have to remain subject to uniform regulations, even if the funding were drawn from national budgets. In this context, however, the aim of strengthening the efficiency of economic structures in the regions concerned should be given as much priority as the objective of equalization is under current EU policy. In contrast to current practice, shaping the European Union's subsidy policy in this way would be entirely in keeping with the principle of subsidiarity and would not infringe the solidarity principle in any way. It would produce more satisfactory results – not only because it would avoid additional red tape and higher costs, but also because it would counteract the very negative attitudes described above.

The funding of agricultural policy, which continues to account for around half of the European Union's expenditure, is extremely unsatisfactory in terms of both solidarity and subsidiarity. It leads to a form of redistribution, primarily among the wealthier countries since they have received almost three-quarters (74% in 1997) of all payments. This is due to the structure of agricultural expenditure in combination with Member States' highly diverse agriculture systems. As a result, Denmark – which alongside Luxembourg is the wealthiest country in the European Union – contributes less to European Union financing than it receives. At the same time, the structure of agricultural expenditure is the main reason why Germany contributes disproportionately to European transfer payments (Germany's share of 60 per cent in transfer payments compares with its share of 26 per cent in the EU's GNP). A common agricultural policy – notwithstanding the current debate on the CAP – is no doubt necessary. But in terms of solidarity, common financing from the central budget clearly has nonsensical and unfair results which could be avoided if part of the funding, at least, were drawn from national budgets (co-

financing) as a first step towards subsidiarity. Co-financing would be in line with the subsidiarity principle, since financing from the common EU budget is clearly the worse, not the better, solution. A solution based on subsidiarity would also strengthen member states' interest in improving financial control and ensuring more economical use of funds. These considerations also apply to other potential common policy areas in future. In this context, however, co-financing in its form as mixed financing should be ruled out through a clear allocation of responsibilities.

At less than 10 per cent, the share of expenditure on creating common public goods is alarmingly low, and reflects the mistaken priorities of the EU. This currently applies in particular to expenditure on foreign policy measures, such as TACIS, PHARE, the Euro-Med programme, and development policy. In view of the pressing need for a European foreign and security policy, it is precisely these items of expenditure which must be increased, e.g. by funding a joint satellite project, such as the failed Franco-German Helios-Horus project, within the framework of a European armaments agency without a budget of its own. However, while expenditure on mega-science projects must be substantially enhanced, it is clear that expenditure on agricultural and structural policy must be equally substantially reduced.

The debate on EU financing reveals a divergence not only of specific interests but also of views on institutional arrangements. Financing via the central budget tends to lead to more centralisation; and it equates justice with equality and solidarity with transfer payments.

3.6. Following a clear division of powers - including an assessment of their impact on expenditure as described above - and harmonization of the tax base, the source of EU revenue should switch to a Euro tax. Provided the potential disadvantages of a Euro tax are avoided, it has incomparable advantages.

3.7. In order to avoid the impression that the views expressed in this paper merely seek to justify, in ideological terms, a short-sighted, "I want my money back" attitude, we would like to make it clear that we are convinced that Germany should continue to make an above-average contribution to EU financing. This is justified by Germany's interest, described above, in a continued intensification and expansion of the European system.

3.8. A constitutional debate, i.e. a discussion about the future of Europe, is also necessary in view of the forthcoming prospect of enlargement. Enlargement will change the European Union; it must not weaken the EU, but ultimately strengthen it. By achieving greater clarity about its role, the European Union will equip itself for the period after enlargement. This constitutional debate must therefore be conducted with a view to ensuring that the first round of enlargement is accompanied by initial steps to deepen the EU in institutional terms in line with the new situation.

Irrespective of this debate, however, every possible measure must be taken *prior* to enlargement to consolidate today's European Union and make it ready for enlargement. Here, the key elements are: carrying forward the process of economic and social modernization and consolidation intended by the Maastricht Treaty; continuing (and/or completing) the reforms under Agenda 2000; introducing a financial reform as outlined above; and, lastly, completing the reforms of the Commission, the decision-making process and the weighting of votes in the Council, which was not achieved in the Treaty of Amsterdam.

We firmly take the view that the last of the aforementioned reforms must precede enlargement, but they must not be used to block enlargement. Instead, enlargement must serve as a lever for these and, indeed, for all the reforms. These reforms are indispensable in any case, but with enlargement, they become crucial to the EU's continued existence. By implementing them, the EU must be ready to admit new

members from the year 2002. This is the timeframe which we also cited four years ago. At that time, we were fully aware of the extraordinary challenges associated with enlargement; today we are even more conscious of them. However, we are also more convinced than ever that the costs of delaying enlargement would greatly exceed the costs of carrying it through on time. The clear prospect of future accession dictates the pace and scope of reforms in the acceding countries. Without it, stability in these countries, and very soon in their Western neighbours - especially Germany - would be jeopardized. It would also affect the morale and the self-perception of the present European Union if the EU failed to keep the promise, within an appropriate timescale, which it made to the Europeans still unfree at the moment of its founding in Rome.

3.9. The process of EU enlargement will soon highlight the need to find a mechanism to ease the conflict between deepening and widening, and between flexibility and cohesion. Today, even more so than four years ago, we are convinced that the concept of a *solid* – not a *hard* – core is correct. Now that the misunderstandings surrounding our proposal have been dispelled, and economic and monetary union, as a model of a "core", has proved its powerful appeal, there appear to be good prospects that the basic outlines of a European constitutional treaty can provide a better institutional framework for this process than was achieved in the Treaty of Amsterdam. Otherwise, similar constellations would certainly emerge outside the treaty framework.

Our observation that Germany and France form the "core of the core" has likewise been fully confirmed by developments in recent years – also, indeed, by the fact that progress has slowed, and sometimes come to a halt, as a result of insufficient cooperation between these two countries. For this reason, we are concerned that some of the positions and attitudes adopted by the present Federal Government display a basic misunderstanding of French (self-)perceptions: e.g. on the issue of civil or military use of nuclear energy, the political importance of agriculture, or the significance of recent history. There has also been a repeated lack of consensus between France and Germany not only on economic policy but also on the role of Europe in the world, its relationship to the USA, and the shaping of a European defence identity.

In view of enlargement, we urgently need a genuine Franco-German dialogue on these problems aimed at forging a lasting consensus on the future of the European Union in particular, and, not least, on a European constitutional treaty.

France and Germany must pull together to ensure that our continent stays together.