



The Future of Europe - A View -



European Movement
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Abstract

This text introduces an encouragement for discussion referring to analysis of changes on the European continent, particularly in the European Union into the area of public debate. The idea of deepening of the process of European integration is being promoted and advocated here. Unlike usual interpretations and predictions about collapse of the European Union, we consider that the next step in the process of integration of European countries should be clearly aimed towards strengthening of confederal structure of the EU.

Keywords:

Europe, European Union, crisis, European integration process, euro, treaty, confederation

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Introduction

An author who works for Reuters news agency started a report on euro crisis with the same question as the one which was asked by General Petraeus at the beginning of Iraq invasion: "Tell me how this ends..." A dilemma which is formulated like this suggests that the problem Europe is facing nowadays is very difficult and that a clear idea about how the crisis could be overcome or solved still does not exist. Due to the crisis it is going through, Europe is in the centre of attention, and not only attention of Europeans, the first ones to feel the consequences of the crisis, but many others who represent or reflect interests of the most powerful nations and companies around the world.

In Serbia, this topic is mostly dealt with in daily and weekly press, through translations of texts by foreign authors, and partially through research articles of local authors. It would be difficult to come up with an integral idea which flows through all these texts, except the one that the EU is in the middle of possibly the biggest crisis so far, which is the same message that we get from European officials. Depending on the extent to which the idea of a union of European countries which is embodied in the European Union is, in general, close to those media where texts were published or to author of those texts, to that extent the prognoses about the future of the EU are optimistic or sceptical.

In Serbia, the focus of attention is also on the effects of two summits of European leaders where the discussion was about establishing a fiscal union, apart from the existing monetary one. This idea would be integrated into the Stability Treaty, which would be appended to the Treaty of Lisbon. The proposal of introducing a "budget stability union" is a good example which shows the direction of efforts made in order to get out of the crisis. At the last summit held in 2011, Great Britain clearly opposed such plan, and at the first summit in 2012, Czech Republic did the same. Czech president, Václav Klaus, predicted that European Union is at the beginning of a lost decade and he said that the solution for overcoming the crisis is the return to making decisions at the level of national countries.

This retrospective of most recent meetings of European politicians is a good way to portray the number of constant discrepancies in plans for overcoming the crisis and discrepancies between the heads of countries themselves. Some of them constantly advocate for "more Europe", while others constantly stand on the sidelines hindering deeper political integration and even mentioning ideas of disuniting the frameworks which have been established so far. This is also the relation of texts about the crisis issue written by authors in Serbia. Some of them are guided by the idea of overcoming the crisis through deeper integration, while others think it should be done through disintegration. Most of them just pose the question without daring to predict the future scenario.

Examples of quotes with striking messages could be some of the sentences directed towards the Union every day by German Chancellor Angela Merkel and former French President Nicolas Sarkozy, a duo which many consider to be the ones who make key efforts to overcome the crisis. After their statements of "Europe being on the verge of explosion" press reporters do not have to put in much effort into inventing catch phrases for their texts. Such tension can be properly felt in the speech of Polish Minister of Foreign Affairs, Radoslaw Sikorski:

"But we are standing on the edge of a precipice. This is the scariest moment of my ministerial life. Future generations will judge us by what we do, or fail to do. Whether we lay the foundations for decades of greatness, or shirk our responsibility and acquiesce in decline. As a Pole and a European, here in Berlin, I say: the time to act is now."¹

¹ <http://pescanik.net/2011/12/buducnost-evropske-unije/>, visited on April 10, 2012.

It is clear to everyone in the European Union that it cannot overcome this crisis without being changed. The direction of those changes is vague at the moment even for those who are supposed to put the changes into practice. In Serbia there are many people who want to predict and interpret possible scenarios. From a brief overview of texts published in Serbian media you can feel that there are the ones who use financial crisis in Europe as a cover to justify Serbia's failure on the path of European integration or you can even feel nurturing of the idea of harmfulness of cooperation with the European Union. However, there are also the ones who believe that European countries should belong to a more tightly connected union. Whether that is going to be as the United States of Europe, as predicted by Victor Hugo as early as 1870, a Europe which is reduced to a common market or something else?

There are two goals which we want to achieve with this paper. One of them is related to our wish to introduce the public space in Serbia with a discussion encouragement referring to a subject which concerns a political area which is larger than the scope of domestic subjects. That is the topic of changes on the European continent, primarily in the European Union, which are going to be determined by the crisis the Union is going through nowadays. We want to take part in a discussion which goes beyond the region of the Balkans and has been going on for months with unabated intensity. The other goal is to promote and advocate the idea of deepening of the integration process. Unlike usual interpretations and predictions about collapse of the European Union, we consider that the next step in the process of integration of European countries should be clearly aimed towards strengthening of confederal structure of the EU, because that is how Europe would be less susceptible to impacts of crisis like the current one and would, at the same time, have at its disposal important mechanisms for confronting and solving problems.

We think that it is necessary to reflect on several important subjects in order to put light on our points of view in the best way possible. The first topic we are going to deal with concerns the description and analysis of the crisis which the European Union is going through nowadays. That is why we are going to use the first part of the paper to try and make as precise representation as possible of the essence of the current crisis in the EU. Then we are going to focus on the description and analysis of crises which both the European Community and the European Union were facing in their history, and which were by their nature, importance and severity similar to the current one. By a comparative approach we want to determine whether there was a certain regularity in the way crises were dealt with, in terms of institutional changes which EC/EU were going through. We are going to focus on the question whether, in six decades of its life, Europe was developing through responses to great crises whose result was deepening of the integration process, or crises led to slowdowns or setbacks. In the third part we are going to present the institutional structure of the European Union and decision-making procedures used in the European Union nowadays. The idea is to present an outline of a confederal Europe we stand for along with the image of Lisbon Europe, as well as other relevant scenarios of Europe's development. At the very end we are going to try and point out those examples in the EU's institutional design and decision-making mechanisms which would provide a revival of Europe's development scenario we advocate for, because such scenario has a clear advantage over the others.

Unlike usual interpretations and predictions about collapse of the European Union, we consider that the next step in the process of integration of European countries should be clearly aimed towards strengthening of confederal structure of the EU.


1. Euro crisis: what is going on in eurozone?

One group of authors considers that the EU crisis stems from irresponsibility of eurozone member states and politics as an inadequate initiator of economic integration. There is a dual responsibility of countries. The first aspect includes creation of criteria for becoming a part of the eurozone, especially those parts which refer to ratio of deficit and gross domestic product and ratio of public debt and gross domestic product. The way in which some states were accepted into the eurozone, taking into account that in 1999 only three of eleven accepted states met all criteria, can also be a part of the first aspect. The second aspect of responsibility includes behaviour of countries from 2002 until now, also including the “ever financially disciplined” Germany when it comes to public debt. It is very easy to notice harsh violations of monetary union agreement which have gone unpunished.

Some authors have a theory of a “behind-the-scenes agreement” of countries not punishing each other, precisely on the way in which a country blocks a punishment from being imposed to another country. A separate group of problems consists of insufficiently good mechanisms of controlling countries, non-efficient punishments, as well as insufficient workforce mobility and thus the inability of having an “optimal currency area” needed for unobstructed functioning of the monetary union. The necessity of euro as a common currency is also questionable, and the decisions which are mentioned here are mostly of a political nature and they have precedence over the economic ones. The crisis was, according to these authors, caused by mistakes in creation of the monetary union, so the events from 2008 were only a trigger for a domino effect.

Another group of authors has a less harsh attitude towards the countries and considers that the crisis is rooted in the nature of the monetary union. Precisely, when monetary union was created and when capital flow barriers were dropped towards what they refer to as “peripheral countries of Europe” (Portugal, Ireland, Italy, Greece and Spain), an economic phenomenon called “capital flow bonanza” was created. Capital was rushed into those countries which caused an economic boom in them over a very short period of time. What happened at the same time as the economic boom was that a “balloon” was created in the fields of construction and real-estate. “Rating agencies” had an especially important role in creation of the “balloon” since they were accused of partiality and bias in giving credit ratings. When “Lehman Brothers” collapsed in 2008 and when both financial and economic crises extended from the US to Europe, those “balloons” began exploding and the capital, which was frightened, simply ran away from those countries. A similar scenario had already been seen in Mexico in 1994.

Another important aspect of the problem is extremely high private debt of citizens. After the occurrence of recession and economic crisis, people started losing jobs, they were no longer able to repay loans and over-indebtedness was evident. Commercial banks started weakening and their solvency automatically became doubted, so the state was forced either to assume debts or to recapitalize banks. That is when an increased growth of debts of eurozone member states begins, which can very easily be tracked in official statistics. This line of argument gains ground compared to the first one, if we see what the money used to be spent on before the beginning of the crisis. According to statistics, it is evident that a lot more money was spent on capital investments than on personal spending, i.e. social benefits. Crisis solving was also made more difficult for the countries because they were not able to set discount rates on their own. The responsibility is also on the European Central Bank who did not immediately clearly state that endangered countries, especially Greece, were going to get help.



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There is a third perspective of the problem as well since eurozone member states have different models of economic development. Some of them had an increase of personal incomes and low domestic demand and their economy is export-oriented, while other economies relied on high domestic demand, which was funded by increase of debts. At the same time, countries were not able to influence nominal interest rates in order to adapt them to their own economic model

and that is how incompatibility occurred. Moreover, economies of those countries which relied on high domestic consumption were based on services rather than production, so that is why they were the first to be affected at the start of recession. This can clearly be noticed if we compare Germany and Spain over the last ten years.

By comparing these three perceptions, we conclude that they are not mutually exclusive, so that the “capital flow bonanza” effect, along with an irresponsible behaviour of some countries, nature of their economies and inability to influence interest rates in order to adapt them to their economies is of cumulative nature and that, when this crisis is in question, we have multiple causes rather than a single one.

In our opinion, it is possible to identify three acute problems of eurozone. The first one is precipitous *indebtedness of countries*, the second one is *lack of competitiveness* and the third one concerns mistakes *in the structure of European financial institutions* which came into the spotlight during the crisis, primarily through inability of providing a true response to the problems.

There are several proposals for solution of the first problem. European Commission has established the *European Financial Stability Facility* (EFSF) in May 2010 as a fund of around 440 billion Euros for crediting endangered countries, as well as the *European Financial Stabilisation Mechanism* (EFSM) containing funds of around 60 billion euro for loans. The money was provided from budgets of eurozone member countries, budget of the EU and, most of all, from the IMF. These two programs are going to be superseded by the *European Stability Mechanism* (ESM) in July 2012. A downside of these mechanisms is that they cover a part of incurred debts but they do not address the causes of the problem.

The second option is issuing Eurobonds as replacements for national bonds. Investors would buy them and, in that way invest money for a certain period of time, with a certain interest rate. The crucial thing with Eurobonds is that the European Union guarantees for them, or, at least, the eurozone does. The downside is the same as for the previous mechanisms since Eurobonds only delay the solution of the problem because they would be, at the time of their maturity and with an assumed return of 4-5%, a burden too heavy for economies which are already weak and stagnant. In other words, no reforms have been put into practice and the levelling of risk which is performed through levelling of interest rates on Eurobonds can cause the opposite effect.

The third option acts as a corrective to the critics of the second one and implies greater activity of European Central Bank (ECB) which would act as the “final source” of money and which would in that way calm the market by assuring creditors that money is always going to be available for bond payout. European Central Bank has many options, such as cash transfers to banks, buying securities issued by troubled countries, money issuing, lowering reference rates and others. We can notice that the first problem is directly related to “system errors”, most of which are of political nature.

A specific problem is the lack of competitiveness of eurozone countries. Lack of competitiveness is a consequence of rigid legislature in the field of labour market (also of too expensive and too broad regulation, as well as high taxes) which is especially reflected in non-proportional growth of the cost of work in “peripheral countries” compared to the best developed countries of eurozone and compared to economic growth. A direct consequence of high cost of work, i.e. lack of competitiveness is the capital that flees to other countries thus making economic recovery more difficult. The “peripheral countries” used to solve this problem by devaluating their domestic currency and thus reducing the cost of work. With the introduction of euro, everything changed and the only thing left for member countries of eurozone was to create a more flexible framework of labour market laws in order for eurozone to become closer to an “optimal currency area” with free transfer of workers. An interesting fact is that political decisions are also crucial in case of the second problem.

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The third problem is probably the most important one, and it refers to system errors. We are only going to talk about fiscal disunity here as the problem whose solution lays in fiscal union and which has exceptional political implications for future development of eurozone and the Union. Fiscal union implies the existence of a single institution in charge of collecting income into the national treasury and in charge of the way that money is spent. Fiscal policy measures could change tax rates, start public works and also activate automatic stabilizers of the system. The ways in which a fiscal union would help eurozone are numerous and they refer to higher coherence of economic policies, possibility of better retribution, risk sharing and initiation of preventive anti-crisis measures. That could precisely mean that we would no longer have to wait for Germany to decide whether to help Greece who has a public debt problem, but funds would be directed in due time.

At the same time, fiscal indiscipline and violation of rules of the game in eurozone would not be allowed to Greece and similar countries. The first step towards a fiscal union was made at the end of January 2012 by signing of the Fiscal Pact. The proposed contract provides that fiscal deficits of signing countries of this treaty cannot be higher than 0.5 percent of GDP (that is the primary deficit which incorporates all expenses of a country except debt servicing, while the limit remains at 3% with debt servicing included). That refers to the so-called structural balance which should, according to the existing rules of stability and growth pact, be balanced or in surplus, except in an environment of economic recession. What is a structural balance? To put it simply, since it is not actually a simple indicator, this phrase is used to denote a situation in which public revenues and expenses should be balanced when economic growth is at the level of its potential. *Political implications of a fiscal union would probably tend towards deeper integration in the direction of further confederalization of the European Union.*

It is clear, thus, that there are mechanisms to make the response to eurozone crisis stronger. These mechanisms would be more effective if the European Union was based on an institutional system which provides a strongpoint for taking action from a single centre. We have to point out that both solutions and problems should be seen as cumulative and that, as there are several causes, the solutions have to be multifaceted as well. We think that in this crisis, as in the previous ones, there is a chance for deeper integration of Europe. The experience of European integration suggests exactly that, especially in the light of big crises of uniting European countries after World War II.

2. Previous crises

The European Community was created on weak foundations, which became visible in the decades that followed, through many crises and changes in the way institutions acted and decisions were made. While differences were being overcome, new countries were accessing the Community and institutional backbone was becoming stronger, some weaknesses that this entity had become obvious. History of the European Union was marked by numerous crises and this paper is going to describe only those whose intensity was similar to intensity of the current crisis in the European Union. Those are: (1) failed project of European Defence Community; (2) The "Empty Chair Crisis"; (3) economic crisis of the seventies; (4) British budget issue; (5) crisis of the European monetary system in the nineties.

(1) European Defence Community (EDC) was a plan which was presented in 1950 by René Pleven, French Prime Minister at that time. The goal was to form pan-European defence forces and it was the alternative to Germany's accession to NATO. The plan was supposed to include West Germany, France, Italy and the Benelux countries. The treaty was signed on May 27, 1952, but it never came into effect. French parliament did not ratify the document because the DeGaullists thought that it was a blow to French sovereignty and an attempt of remilitarization of Germany. Other members of the French parliament were also not in favour of France's accession due to various reasons. When failure was made official, member states of the European

Community tried to formulate a cooperative system of foreign policy in the so-called *Fouchet Plan*, the idea of which came from De Gaulle. After another failure, European foreign policy was finally established in the institution of *European Political Cooperation* (EPC, 1970). That was the precursor of *Common Foreign and Security Policy* (CFSP).

Failure of an ambitious plan such as EDC was probably the first significant blow for euro-optimists and euro-integration in general. It showed some flaws inherent in post-war Europe but also in Europe in general. Failure of those who advocated for creation of the European Defence Community did not, however, prevent activities on further integration. The Treaty of Rome was signed in the same decade, and it is often referred to as the core of European integration which set the path of firmer bond between European countries, primarily in the fields of economics and economy. The idea of European Community as a supranational international organization was developed right along the lines of the bonding character predicted by the Treaty establishing the European Economic Community. Less than a decade from signing of the Treaty of Rome, European Court of Justice recognized the principle of supranationality as the key feature of the project we refer to as unification of Europe.

(2) *"The Empty Chair Crisis"* was caused by a series of reasons. De Gaulle's resistance to deepening of integration was certainly one of them, but a lot more important reason is that France was the country which had most benefit from the budget of Common Agricultural Policy (CAP) during the sixties. As much as 25% of France's population depended on agriculture. French president, Charles De Gaulle was unsatisfied with the proposition of the Commission for creating a new system of funding of CAP, where this budget would become independent from member countries. Walter Hallstein's commission suggested that revenues from various duties paid by farmers in the EC accumulate into a common budget of the European Community. At the same time, the Commission also suggested an increase of authority of the European Parliament and that budget issues are voted for in the Council according to the principle of qualified majority. These changes would lead to an increase of supranationality in the EC.

As the first direct presidential elections in France were scheduled for December 1965, Hallstein expected De Gaulle to look for a quick compromise in order to appease farmers' voices. However, as the negotiations on Common Agricultural Policy were coming to their end, French government stopped looking for a compromise and withdrew their representatives from Brussels and then boycotted all meetings on policies of the European Community. When permanent French representatives withdrew from Brussels, their assistants remained there in order to perform the most necessary activities. French diplomats boycotted meetings on development of new policies, such as the one on fiscal policy, but they were present in those committees which dealt with the existing policies.

De Gaulle considered that he would reach his own goals by withdrawing from Brussels, such as depriving the Commission of its unique power of making proposals, stopping the switch to majority voting and firing the current Commission. What is most important of all, France requested that each member state was given the right of veto (on decisions which were supposed to be made by majority of votes) in case if the decision endangered "vital national interests", where the country itself would determine what its vital interest is. This boycott was ended after six months by an agreement which fulfilled only a small part of demands made by De Gaulle and the French Government. It was also agreed that the Council was to appear along with the Commission in foreign policy of the European Community and the media. The *Luxembourg Compromise* was reached on a meeting held in Luxembourg in 1966, where six member countries decided that, when it comes to vital national interests of a member country that country can request decisions in the Council to be made by consensus instead of qualified majority. However, this solution was not included in the founding treaties of the EC.

Consequently, De Gaulle "sacrificed" Hallstein by forcing him to resign from the position of chairman of the Commission. The French President emphasized the following: "CAP is where it is supposed to be. Hallstein and his Commission are gone. Supranationality failed. France remains a sovereign country." Had the "empty chair policy" gone on, or had France withdrawn from the EC, existence of the European Community might have been brought into question, but chances

for that were minimal. Membership in the Economic Community and a common agricultural policy suited farmers, as the largest interest group in France, which they showed by voting against De Gaulle in the presidential elections.

All this has not prevented representatives of these countries to act in a way of directing the integration process towards strengthening of bonds between member countries at the same time when a severe crisis was taking place. That was achieved by The Merger Treaty, which created a unique system of institutions for all three communities which had been created during the 1950s.

(3) *Occurrence of the, so-called, Eurosclerosis during the 1970s all the way to mid-1980s was seen in the stagnation of the processes of integration and formation of a common market. The reasons which are usually listed as the ones causing the Eurosclerosis period are numerous. Some of them are related to effects of enlargement which happened in 1973 and the need of adaptation to this stage of integration; others refer to turmoil in world trade caused by significant changes in European monetary system and to the economic recession which first happened after the first "oil shock" in 1973 and then after the second one in 1978. The problems coincided to a great extent with the disappearance of Bretton Woods system of exchange rates during the seventies. In the EEC there were some notable discrepancies between representatives of certain countries, since each of the countries had different views of priorities among inflation, employment and budget policy.*

Occurrence of the, so-called, Eurosclerosis during the 1970s all the way to mid-1980s was seen in the stagnation of the processes of integration.

Prices of raw materials rose abruptly during the seventies, and the high growth rate trend of the post-war period was over. What followed was the oil crisis of 1973. It began when the Arab members of OPEC, together with Egypt, Syria and Tunisia proclaimed an oil embargo, because the US supported Israel in the Yom Kippur war. It lasted until March 1974. This embargo did not influence all European countries in the same way. Among nine members of the European Economic Community (EEC), the Netherlands faced a complete embargo, the United Kingdom and France suffered no significant consequences (having refused to allow the US to use their airfields and embargoed arms), whilst the other six faced only partial cutbacks. The members of the EEC had been unable to agree on a common policy during the beginning of the war, but they finally managed to do it on November 6 when they gave support to the Franco-British strategy and the embargo was lifted from the EEC.

The effects of oil crisis in the seventies on economic growth caused its deterioration, high unemployment rate and high inflation rates. As a consequence of various analyses and models of solving economic problems, there was such a big discrepancy that free trade was under a significant degree of risk. The key to exiting the crisis was the founding of the *European Monetary System* in 1979. It was founded in order to reactivate the area of monetary stability. At the beginning and during the second oil crisis (also in 1979), the industrialized world realized that the struggle against inflation requires a higher degree of political engagement. It proved that common and coordinated acting is the easiest and the best way to overcome crises.

(4) *British budget issue* was a problem the European Community was facing from 1979 to 1984. During the 1970s, budget of the EC was rapidly increasing, especially after UK's accession in 1973. From that year to 1979, when Margaret Thatcher became the Prime Minister, budget increased from 4,000 million to 14,000 million ECU. However, it was clear that West Germany and Great Britain paid much more money into the budget of the community than what they received back. In case of Britain, the difference was around 1,400 million ECU in 1979. This discrepancy was a result of the way in which budget was funded but also of the way in which money was spent. Three quarters of money from the budget of the EC was spent on Common Agricultural Policy, where Great Britain was given a very small portion since its agricultural activity was lower and not that efficient.

As early as 1979, Margaret Thatcher presented her proposal of reducing Great Britain's input

by one billion pounds to the European Council in Brussels. The Council responded by an offer of reduction by 350 million, which Thatcher easily refused. European representatives were shocked. This meeting in Brussels was only the beginning which set the tone of future relations between Great Britain and Europe during the era of Margaret Thatcher. Crucial talks took place on May 29 and 30, 1981. That is when a proposal which was in favour of Great Britain was accepted after an 18-hour discussion, but it was not a systematic solution.

The discussion was continued in 1983 at the meeting in Stuttgart which was the most intense one. The Germans presented an unrealistic solution for Great Britain. The Irish left the meeting right away, Margaret Thatcher was deeply disappointed and Jacques Chirac requested exclusion of Great Britain from the EC. The meeting ended with heavy accusations on both sides. Exclusion of Great Britain was certainly not a realistic option, but at that time the issue of *two-speed Europe* emerged for the first time, which is significant for our research. The solution was not reached until the Fontainebleau meeting in 1984, after nineteen hours of negotiations. However, this whole crisis brought Great Britain into a position of being perceived as a factor of antagonism in the European Community, and by the end of this decade the Single European Act was signed, which further deepened cooperation between member countries.

(5) In the beginning of 1990's the European Union was facing an economic crisis of an institutional nature which conditioned further development of its economic unification. It is the crisis of the European Monetary System which was established in 1979 with the goal of connecting European currencies and providing predictability of trends of their relations in order to set the stage for introduction of a common currency. The EMS introduced the *Exchange rate mechanism* which fixed currency parities at +/-2.25% compared to the European Currency Unit (ECU). Parity adjustments were frequent during early 1980s, but as early as 1985 stability returned and a will for tighter economic integration showed up. Before that, West Germany had already taken the main role in the European Monetary System, and the German mark was the *de facto* crucial currency of the system.

In 1992 there was a crisis due to the aforementioned economic recession and unification of West and East Germany. A significant quantity of money was transferred from West to East Germany due to a notable difference in economic development. Currencies in West and East Germany were, in spite of the reality, equalized in a 1:1 ratio. All that led to an inflation which was immediately stopped by a rapid increase of referent interest rate. Such development of the situation led to a deterioration in economies of other countries of the EU, because they refrained from performing corrective monetary policy activities. Precisely, they did not want to increase their interest rates because it would make loans more expensive and it would down the growth of their economies. Their currencies started devaluating rapidly due to being exchanged for German marks on a large scale and because investors were leaving for Germany.

In Britain there was speculative selling of currency which forced Great Britain to withdraw from the EMS because it was not able to keep its currency above the agreed standard. That day is called "The Black Wednesday". Italy, Spain and Portugal withdrew as well. Speculative attacks on the French franc during 1993 led to the so-called Brussels Compromise which established a new rule on the scope of fluctuation of 15%. Soon after that, a common currency was introduced and the European Monetary Union was founded. During the same period, the Treaty on European Union was agreed upon, and it established a new structure of organization, while areas of cooperation were expanded to foreign and security policy, criminal issues and the judiciary.

It is obvious that the process of European integration has faced numerous obstacles in the period from 1950 until now. "The Empty Chair Crisis", for example, was so big that it threatened to break down the achieved level of integration. The project, however, was not stopped. What is more, each new treaty which revised a previous one brought new areas of cooperation and new fields for application of the supranationality principle. *The history of the process of integration of European countries after World War II testifies that deepening of integration was always the response to heavy crises.* Changes of institutional structure and decision-making mechanisms have, if we observe changes of basic treaties, in these six decades always led to tighter integration. There is not a single treaty which served to slow down integration or set it back to a domination of the

intergovernmental decision-making principle. The outcome of such process which has been going on is the Treaty of Lisbon. So, before listing and explaining changes which should be made to the Treaty of Lisbon, we find it important to explain how the European Union is defined by this Treaty.

3. A view of the European Union from the perspective of The Treaty of Lisbon

Throughout the history of treaties which changed and improved the process of European integration, it is possible to notice regularities which imply that European integration always went further and deeper from one treaty to the next one. Periods of great crises which had been going on resulted in solutions made on the basis of a principle of tighter integration. This fact says enough about commitment of member countries to European integration and the belief that the European Community (European Union nowadays) is the best solution for economic and political prosperity of European countries.

In support of that we have the fact that no treaty had, at the same time, been an intangible solution, i.e. the last stop in the development of European integration. Treaties were regularly followed by declarations which served to protect interests of member countries, especially those who advocated for deeper integration and who set the stage for new intergovernmental conferences whose purpose was to change treaties and thus give responses to significant economic and political issues which could be foreseen. Premises for making of a confederal Europe were developed on that path, and they were additionally established by the Lisbon Treaty. The European Union was kept at the level of a supranational organization by this treaty, but with a realistic ground for the next change of treaty to lead to establishment of a confederal, or perhaps even a federal country.

The Treaty of Lisbon was put into effect on December 1, 2009 and it represents a common title for two treaties: Treaty on European Union and Treaty on the Functioning of the European Union. According to Article 1 of the Treaty on European Union, the European Community ceased to exist and the three-pillar structure was abandoned. The European Union was established instead, as a unique and coherent community based mostly on the supranational principle of acting and decision-making.

The Treaty of Lisbon provides expansion of effect of the communitarian decision-making model (making decisions by a qualified majority in the Council) in most policies. The field where transfer of sovereignty (decision-making authority) to the institutions of the European Union is strictly avoided is common foreign policy and security policy, especially establishment of a defence community. The strength of the intergovernmental method in these fields is portrayed by the fact that the European Parliament and the Court of Justice of the European Union are almost completely excluded from making decisions or giving opinions, or they are given minimal authority in a few cases. However, the establishment of the function of EU High Representative for Foreign Affairs and Security Policy and the European External Action Service, as well as renaming of Delegations of the Commission into Delegations of the European Union says enough (compared to previous attitudes) about a significant step towards a possible future supranational foreign and security policy.

Speaking about judicial and police cooperation in criminal matters, significant communitarization has been achieved so far. The intergovernmental decision-making model (unanimous making of decisions in the Council) has, however, been preserved for issues which refer to control of legitimacy and adequacy of police operations or use of police operations of one country on the

The Treaty of Lisbon provides expansion of effect of the communitarian decision-making model in most policies.

territory of another one without its explicit consent. What can be concluded is that the Treaty of Lisbon set supranationality and decision-making by qualified majority as rules and that there is an obligation of them being used in all fields except from the aforementioned two.

Deeper integration is also noticed in the more powerful role of the European Parliament, precisely it becoming equal with the Council through the instrument of co-decision-making which is becoming a regular legislative procedure. This procedure provides that the Parliament, as an institution where citizens are represented, is completely equal with the Council, the institution where governments of member states are represented in adoption of legal acts of the European Union. A more powerful role of the Parliament is, apart from the legislative one, reflected in budget matters and in the fact that the European Parliament elects the president of the European Commission. By entering these provisions into the Treaty of Lisbon, democratic deficit of the European Union was significantly reduced.

Another change introduced by the Treaty of Lisbon is the legal subjectivity of the European Union, precisely, the fact that the EU can appear as the subject of international law at the international scene. The Treaty of Lisbon sets the Charter of Fundamental Rights of the European Union as a part of primary law for the first time and makes it equal in legal force to the treaties.

It is obvious that the Treaty of Lisbon managed to bring order into what was not such a clear structure of the EU until then, and that the effects of inner coherence and external recognisability were achieved, which should confirm the strengthening of unity and deepening of EU integration. Even though sensitive issues, such as foreign and defence policy, are still in the domain of intergovernmental decision-making model and thus kept by member countries, a tendency of continuing activities on achievement of integration is noticeable in these fields as well, especially through the function of High Representative for Foreign Affairs and Security Policy and the change of title of Delegations of the Commission into Delegations of the European Union.

The Treaty of Lisbon also preserves a more profound national character of the European Union. The Euro crisis has, however, faced us with the possibility of reversal of integration. Before we suggest our vision of the future Europe, we think that it is important to consider scenarios of development of the European Union which are most frequently mentioned by the expert part of the public.

4. Possible scenarios of development of the European Union

It is clear that the European Union is facing great challenges at the moment. It is also certain that, after the crisis has ended, we are going to have a more or less altered structure of the European Union on the world scene. There are several possible directions in which these changes could go, and here we are going to try and consider the probability of facing (in the near future) one of those scenarios of future organization of the European Union. After an overview of potential scenarios, we are going to advocate for the one which is, according to our judgement and argumentation, the best and the most certain scenario of future look of the European Union.


We think that the scenario which would lead to *disintegration of the European Union* is completely impossible. Of course, one part of the European public, during these times of crisis and uncertainty, sees total reversal to sovereignty of countries as a desirable scenario, which would mean that fully autonomous decision-making is given back to the reins of member countries. Individual decision-making in each country would, in their opinion, necessarily be based on specific situations of each individual economy. Taking into account the advantages which countries have thanks to mechanisms offered by integration of European countries, resources and efforts put in by each member country into building of the Union, as well as the responsibility that each of them has for improvement of citizens' quality of life, it is clear that their best interest is to fully or partially commit themselves to integration and its preservation.

Due to consequences of the existing economic crisis which has the biggest effect on eurozone at the moment, a real scenario could possibly be the return of the Union to the *level of a common market*, as the only connection between European countries. Many consider that this was the original and the only intention of representatives of founding countries, and that it is the level which should be kept since this kind of integration requires a lot less energy to make compromises on various issues and gives the countries freedom of making decisions in numerous fields. In our opinion, this kind of cooperation would be at the level of the one in State Union of Serbia and Montenegro (2003-2006), where countries of the Union were almost completely independent of each other, but positive effects of economic policy were not at the expected and satisfactory level. This standpoint does not take into account a broader context, i.e. the image of today's world which has been, from the period of founding of unions during the 1950s, significantly changed and requires different responses and solutions from the ones given by the founders. Without any political integration there is the question of successful acting and influence of completely independent and only loosely connected European countries at the global level, which is characterized by re-grouping of forces that will inevitably lead to a future "world of regions".

Another option is *abandonment of the European Union by several countries*, while the rest of them would stay in the Union as it is now, with some possible insignificant changes in the principles of functioning of the system. In our opinion, the only country where there is a notable doubt regarding such possibility is Great Britain. The truth is that not all are equally optimistic when it comes to the issue of Great Britain remaining a member of the European Union. There is a point of view that by leaving the Union, this island country is not going to lose much, but, on the contrary, by turning to cooperation with its commonwealth friends it can set its position as the most superior partner and strengthen its position in today's world both in the economic and political sphere. By leaving the Union, London could direct its "soft power" (spreading of its values and culture) in a much better way. We see a complete breaking of ties between the European Union and Great Britain as an impossible scenario, most of all due to the fact that the economy of this island country is mostly oriented towards Europe. That is why it is essentially important for Great Britain to have as big influence as possible in Brussels. We think that current crisis in Brussels - London relations is a short-term one.

It is clear that a higher degree of integration in Europe can be achieved only between systems where there are no drastic disparities in economic development of parts of the system. That is not only true for systems which are similar by structure, but also for the ones similar by degree of development. The fact is that by analysing member states of the European Union, at the moment we see big disproportions in degree of development. Differences between countries, such as the ones between Romania and Germany, Finland and Bulgaria are big, and according to some, insurmountable. In case of full integration of such different systems, stability of the Union would be undermined to a great extent. That is why the concept of *multi-speed Europe* was brought to life as a response to this problem. The advantage of such project would be in less developed countries not slowing down the future development and deeper integration of the part of the continent which is ready for it, primarily thanks to the degree of economic development and orderliness of the system. We see the multi-speed development of the European Union as an unrealistic project, due to the fact that even minimal requirements for consent are not present in case of this proposal. We consider that such possible structure of the European Union being mentioned by President of the French Republic, Nicolas Sarkozy, is only a warning for those member countries that had not done enough regarding harmonization with European standards. We think that insisting on such project would mean destruction of the process of European integration from the inside, which would, to a great extent, annul previous effects of integration.

A large number of Euro-enthusiasts, such as representatives of the German party of "Greens" or former European leaders like Gerhard Schroeder, Felipe González and Guy Verhofstadt see *complete integration of the continent into a single federal country* as a desirable direction of development.



We think that the scenario which would lead to disintegration of the European Union is completely impossible.

The main argument of this tendency is that it is the only way of preserving the eurozone and even European integration itself. A federation, according to its definition, is a form of polity where member countries transfer a part of their sovereignty to a single centre of decision-making thus denying themselves absolute sovereignty on their territory. However, comparative experience of different political systems shows that there are different forms and concepts of federations. The question is which kind of federation, from this point of view, has a tendency towards being realized on the European continent?

5. The Future of Europe – Recommendations

We think that the European Union will certainly follow the path of deeper integration. The history of Europe over the last 60 years has shown that each new crisis inevitably led to a process of “deepening” of European integration. Sixty years of development comprise an experience of strengthening political bonds on the basis of economic incentives. We think that the economic crisis which the EU is going through at the moment and which proved to be a great inspiration both for Eurosceptics and Euro-optimists brings a possible encouragement for strengthening of bonds between countries and citizens of the European Union. A complete integration in the form of a federal country is, however, a thing that is not going to happen in the near future because European countries are still not ready to give up their authorities in the most important areas of decision-making, the authorities which they had won painstakingly and over a long period of time.

Thus, we think that the most likely scenario which will happen in the near future is the creation of a specific form of a stable confederation. That specific form would be the level of “a more integrated confederation” with certain prerogatives of federation, where transfer of authorities of national countries to Brussels would remain only in a limited scope of fields of decision-making. The European Union has almost reached that level nowadays. That is why we agree with the statements that, apart from the economic and political union, a fiscal union is going to be created in the near future and the role of European foreign policy is going to be strengthened.

In that kind of alliance countries would be subjected to a strict control. We think that such development is going to happen because of the wish of leading European economies to increase control in the area of European economic trends and thus prevent occurrences similar to those from 2011. We see future reduction of number of fields where decisions are made by general consensus as one more form of exhibiting deeper integration of the European Union. In the field of security cooperation, for now, we do not see the possibility for creating common European armed forces and articulation of a common security policy, i.e. raising the Union from the level of a “military ant” to the level of a “military giant” or a “military dwarf”.

The basic unanswered question, which is inevitably going to be dealt with in the next treaty, is the establishment of a single political union. The space which exists between the success of the European Union as the leading world economic power and insufficient success of the European Union as a politically relevant and influential participant on the international scene is still waiting to be filled. This issue can be resolved only by communitarization of a common foreign and security policy, i.e. by forming of a single policy at the level of the entire European Union which all member countries would have to obey and which would provide adequate, unique and recognizable action in its relations with other countries and international organizations. The fact that this step was made in spite of reluctance of countries to give up their own sovereignty when it comes to establishment of European political cooperation and then a common foreign and security policy, says enough about economic and political union being inseparable processes. We think that the Treaty of Lisbon has left an open space for common foreign and security policy to become a single foreign and security policy.

These changes should also be followed by provisions referring to defence of the European Union, given the inevitability of posing this question when it comes to establishment of a single foreign policy. We think that it should be based on the principle of founding of a common

army which would consist of resources contributed by all member countries. This statement is also supported by the fact that the Treaty of Lisbon set the foundations of common defence by the provision which states that if one of member countries is under attack or endangered in any other way, other member countries must do everything in their power to help. The Treaty of Lisbon also introduces a provision that establishment of a common defence is possible and that the decision about it has to be made by the European Council.

Speaking about internal issues, it has already been said that what used to be the third pillar of the European Community is still waiting to be communitarized. We expect that sensitive issues, such as a common police force and maintenance of public peace and order at the level of the European Union will remain matters of split authority between bodies of the EU and member countries in the next change of treaty, but where the division of responsibilities is going to be based on the principle of decentralization. Decisions made at the level of the European Union are going to be legally binding for all countries, they are going to be subject to control by Court of Justice of the EU and they are going to be made in a regular legislative procedure, by qualified majority.

We also think that member countries will have a space left by the treaty and secondary legislation where they will be able to act freely for the reason of respecting legal traditions and the system, but they will not be able to transgress the assigned authority and go beyond the boundaries of communitarian law. We expect the police to be organized on the principle of the police in the United States, where EUROPOL would become the federal police which would supervise, provide help and control work of state police forces, but it would not have the authority to enforce general police authorities at the level of the European Union. European Union would be obliged to control adequacy and legitimacy of operations and state police forces should not be allowed to cross state boundaries except in cases when they are invited as reinforcement by another member country and EUROPOL.

We also think that the Council, as the “home of countries” in the legislative procedure, should be, to the greatest extent possible, deprived of the right of veto and the principle of unanimity after most policies are communitarized. This move is going to imply the fact that the European Parliament, as the “home of citizens” is going to participate as co-decision-maker in making decisions along with the Council, and also that the regular legislative procedure will become the only procedure for adoption of legislative acts.

Along with renaming of the title and establishment of state symbols, these changes should put a more stable, confederal Europe on its feet.

Decisions made at the level of the European Union are going to be legally binding for all countries, they are going to be subject to control by Court of Justice of the EU

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