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# INTRODUCTION

The European Union must govern and it would be useful if it governed well. It is easy to specify the indicators of good governance - these are transparency, legitimacy, accountability, efficiency and coherency. It is not easy to get all of these qualities in a rather heterogeneous group of 27 countries that are only slowly developing a common European identity.

Governance and identity influence each other. Bad governance is a threat to identity (assuming that identity can be obtained or lost) and governing a group of countries with a common identity is much easier than governing a group of countries with different, and maybe competing, identities.

Identity is a state of mind. This state of mind can be obtained if people share common experiences. Some of the common experiences can be created through governance - if all people use euros, it is a very strong common experience. If some people are denied access to some common experience - i.e. the possibility to work in other EU countries - it can endanger their "European" state of mind.

In this book, some of the challenges and opportunities for European governance are discussed. Those challenges and opportunities are tied either to the bi-directional link of governance-identity or to the indicators of good governance named above. In the last decade, the main source-processes of those challenges and opportunities have been the Eastern enlargement of the EU and the deepening of the integration of the monetary policy in the Eurozone. It is understandable that such complicated processes may be evaluated differently - what is a threat for some is a challenge and opportunity for others. Such different evaluations are clearly identifiable in different chapters of this book, the attitude of some of the authors is "more positive," other ones are "more critical."

The first chapter is quite critical: it shows the sharp discrepancy between what the Central and Eastern European citizens have expected from the EU and what they can get. The insistence on implementing *acquis communautaire*, the barriers to the free movement of labour and slow phasing-in of agricultural support are not only threats to the forming European identity in new member countries, it is also quite easy to interpret these as unfair barriers and this is a final move before the legitimacy of EU governance is called into question. The possible future imbalance of power in EU institutions and the burden of regulations on the common market may endanger not only the legitimacy but the transparency of EU governance as well. Low transparency is a fertile soil for corruption - and corruption has been a broadly accepted practice in the Southern and Eastern Europe - low transparency surely is the road to hell. Even worse is the example that the politicians in the EU demonstrate by covering up irregularities - their loyalty to institutions is sometimes higher that their loyalty to values. Accountability vanishes and with it the basic difference between a democracy and a dictatorship. The current debate regarding the "EU Constitution - EU Treaty" gives a lot of possibilities to discuss the EU democracy deficit farther. Another threat to EU governance is the EU's falling behind in innovations when compared with the USA and some Asian countries. Innovations are the motor of the capitalist economic system and if the EU fails to succeed, what impact could this have on the legitimacy of EU governance?

Another hot issue in recent discussions about the future design of EU governance is discussed in the second chapter: the distribution of decision-making power among EU Member States is analysed using the game theoretical approach. Usually only the distribution of voting weights in the Council of Ministers under a qualified majority voting rule is taken into account. In contrast, simplified models of consultation and co-decision procedures in the decision-making processes of European Union institutions are formulated here, reflecting fact that together with the Council of Ministers, the Commission and the European Parliament are also important actors in EU decision making. The main conclusion is that the distribution of voting power in the Council of Ministers and voting processes are only a bad proxy of national influence in European Union decision-making. With rare exceptions, decision-making is based on consultation and co-decision procedures involving both the Commission and the European Parliament. Legislative procedures change both the inter-institutional distribution of power (reducing the power of the Council) and the intra-institutional power in the Council (the relative power of Member States compared to Council voting without taking into account the Commission and the Parliament).

In the third chapter, the problem of the Presidency in the European Council and the Council of the EU is studied from different angles, especially with respect to the Czech presidency during the first half of 2009. For each Member State, the Presidency increases their participation in EU governance and it helps to realize for both the civil service and for the general public what membership in the EU really means and how it is possible to think in European dimensions without omitting national priorities. It is a perfect opportunity to strengthen the European identity in the presiding country.

The legitimacy of EU governance can be increased by success in the international arena. It is extremely important for EU foreign and security policy to take the strategic interests of the USA and to know how people in the USA perceive the role of the EU on the world scene into consideration. The main goal of the fourth chapter is to identify different "camps of viewpoints" on European political integration and its implications for American interests within the political and academic landscape of the United States. It unveils the background of the political thinking of the groups and identifies the factors considered to be the most influential in the formulation of the viewpoints. The chapter also shows which opinion is the most influential on the significance of European political integration for American interests, and therefore can be considered to be a driver of the official American policy towards the European integration process in the future.

EU governance is a service and politicians "sell" this service through public discourse on both the EU and the member countries (MCs) level. Even if the EU governance was coherent between the EU and a MC level, there might be a gap between the MC politicians and "common citizens." For new MCs, it had been very important to perform public discourse on the merits of joining the EU even in the pre-accession period - with the aim to increase both the sense of European identity among citizens and EU governance legitimacy. Internal political weakness in Slovakia and decreasing political motivation in the Czech Republic were main obstacles for marketing the EU in public discourse, and the impact it had on the public opinion could be a warning for politicians in candidate EU countries against listening to the nationalist and populist vote - this is the fifth chapter's main message .

In the sixth chapter, the comparative discourse analysis - in comparison with the previous chapter - shifts one level below. It explores the main features and limits of conceptual thinking about the EU and the European integration process of the two key political parties in the Czech Republic: the right-of-centre Civic Democrats and the left-of-centre Social Democrats. The aim of the analysis is, firstly, to identify and confront the key conceptual ideas and prevailing shared meanings adhered to by the two parties, and where traceable, to outline their possible development over time, and to identify possible "inner" alternatives to currently dominating conceptual ideas as indicators of possible future shifts in both actors' positions. Secondly, the comparative aspect of the analysis seeks to establish the scope for a possible cross-party, "national" consensus in relation to questions of the future strategic direction of the European integration process and the main likely conflict lines between the parties. This analysis sheds light on the way actors think about European integration and on the values, requirements and expectations they project in the EU, it offers an interpretative framework which enables a fuller understanding of European policy and the ammelioration of EU governance.

Some of the countries that will have to be integrated into the EU are quite different from the "European standard." In Bosna-Herzsegovina, Albania and the southern part of Serbia, a complicated mix of ethnicities and religions exists with clan principles playing an important role. To relay some sense of problems EU governance can meet there, the seventh chapter describes the process of the "Europeanisation" of Kyrgyzstan's political and media systems. Many of the features described deviate from standards from the European point of view, but EU governance will be pushed to find solutions in analogical situations.

About one half of EU MCs will change to the euro without unnecessary delays. There are different ways of steering this process, and inflation targeting may be an important part. The eighth chapter focuses on the first ten years of the Czech inflation-targeting regime experience. This regime was introduced at the turn of 1998 after the currency turmoil in May 1997. Its main goal was to provide a new nominal anchor to the Czech economy and stabilise inflation expectations. Under inflation targeting, monetary policy has been facing several challenges, which have contributed to periods of substantial inflation target undershooting and economic slack. These periods were partly related to two episodes of a sharp exchange rate appreciation. In spite of the missed targets, though, the regime has been successful at anchoring inflation expectations in the economy, thus achieving one of its main policy goals. This goal is perfectly coherent with the basic goal of EU monetary policy - price stabilisation.

The ninth chapter touches on the basic problem of European competitiveness, lagging behind in innovations in comparison with the USA and Japan. One could speculate that the European Union strongly resembles a patient who is sufficiently informed about his disease and is prepared to undergo the treatment, but the therapy is either not helpful or the patient refuses to follow the doctor's recommendations. All principle steps and measures to improve the alarming state of the EU R&D and innovation effort are known or have been already tested. The problem facing Europe is that its alarming situation and its lagging behind has continued for too long, in spite of the fact that the EU, its institutions and Member Country representatives are altogether well aware of the serious situation and its implication for the future of

Europe. Their response to date, however, was more of a kind of rhetorical proclamation (to be exemplified on the fate of the Lisbon strategy and the highest priority awarded to R&D), without relevant and adequate steps taken. For the nearest and for the more remote future of the EU an even more radical turnover in R&D and the innovation effort is an absolute necessity, if the program of European integration should not lose much of its attractiveness and legitimacy.

The tenth chapter presents a game theoretic analysis of the problem of signalling in the context of entry into an industry. As opposed to the majority of the literature on the topic, the situation of asymmetric information where the private information belongs to the industry entrant is considered. The capacity decision of the entrant - as a signal of his strength - is modelled. It is shown that in the Stackelberg model of market entry for some values of the underlying parameters, the entrant fully utilises his capacity while, for other parameter values, he builds excess capacity. The model may be empirically relevant for an analysis of the entry of a new supplier to the existing supply chain in the European common market. It may clarify a strategy that a European firm could use when entering a foreign market. It may give other dimensions to the European competition policy.

The eleventh - closing - chapter describes Raymond Aron's attitude towards European integration, explains its various aspects and its development over time, and reflects on the particular ways and reasons why Aron is one of the major foreign authors to whom Czech Euro-realists refer. Governance is, after all, achieved by politicians and if we understand the politicians' intellectual sources we can understand the way they govern as well.

**It must be stressed that the authors of single chapters are only expressing their own opinions and these opinions are not necessarily shared by all contributors.**

I am aware that "the tree of life is green" and that it is impossible to cover - in any book - all the challenges and opportunities that the EU meets. I hope I have gathered a balanced and interesting mix here that could help readers get some orientation within the multi-faceted EU reality and its governance.

Tomáš Cahlík January 2008
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# 1. CENTRAL EUROPE AND THE EU: PAST AND FUTURE

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## Introduction

When the Central European nations emerged from the long night of socialism they sought military security through NATO and a reinforcement of their drive towards a corruption-free democracy and a competitive and prosperous market-based economy through joining the EU. They wanted the opposite of what they had known during the corrupt, undemocratic, state-planned period of Soviet domination. During the latter part of the pre-accession period, collaboration between the Central Europeans and the EU and its existing constituent countries may well have been effective in the achievement of these common ideals and objectives.[2]

The actual accession was unfair and asymmetrical. The Central Europeans had to accept unfair terms imposed on weaker and vulnerable partners.[3] Because of the size and proximity of the European Union's market, they had very little choice but to join, whereas there was considerable opposition to their joining from 'old' members, who thought that an expansion taking in several poorer countries would disturb their existing pattern of comfortable privileges. The unfairness was to be expected given the ungenerous nature of the Association Agreements (Europe Agreements) concluded in 1991 and 1993 between the European Economic Community (EEC) and the core Central European countries and the conflicts to which they gave rise.[4]

Now, three years on, it is necessary to ask whether further progress towards the fundamental goals of achieving prosperity and eliminating corruption through the establishment of open democracy and competitive markets can still be effectively pursued within the European Union. Alternatively, have the Central Europeans entered a fundamentally undemocratic European Union, where corruption is tolerated, and where competition, innovation and economic progress are faltering? It is a question that, of course, should be asked in every member country, but it is one that has a particular importance and even poignancy for the Central European countries whose past was bleaker and whose hopes are correspondingly greater than for the 'old' members.

## 1.1. The Unfair Accession

The terms of accession were loaded against the Central European countries in three ways:

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[2] Grabbe (2006), Mannin (1999), Pridham (2005), Vachudova (2005).
[3] Gillingham (2006).
[4] Lavigne (2000: 98-99).

1) The acquis communautaire and the Common Agricultural Policy (CAP) had been designed and developed in the material interests of the earlier members, and particularly of powerful producer lobbies and to satisfy the desires of a central bureaucratic elite to exercise control. They were not negotiable. They do not necessarily suit the nations of Central Europe.[5]

2) The free movement of labour is supposed to be a central principle of the EU, but the existing members were allowed to bar the entry of Central European workers until 2011. The Central Europeans were not granted the free mobility of labour that the original Treaty of Rome 1957 had seen as an "essential element of European citizenship" and as "a fundamental right, the most important right under community law for individuals."[6] All Europeans have equal rights but until 2011 some have more rights than others. To add insult to injury some old members have permitted and even encouraged immigration from outside Europe. Since 2004 there has been more movement of labour into the EU from outside than between the constituent countries.[7]

3) In 2004, Central Europe ended up without its fair share of the CAP and structural or regional funds that directly and indirectly subsidised and protected agriculturalists; payments will not become equal until 2013.

One supposed justification of the agricultural funds and the structural or regional funds is that they are there to assist groups who have low incomes because of where they live or the sector they work in. Yet the Central European nations are far poorer than the established ones. Some of their regions to the east are the poorest of all and some parts of their agricultural sectors are most in need of modernisation. If the principle of neediness applies, whether in relation to income or level of development, why was funding not diverted to them on their accession? That this did not happen shows that the principle is a sham:. On 27th September 2006, at a time when the old Member States took 90 percent of the EU's agricultural spending with over 20 percent going to a very wealthy France, the European Commissioner Mariann Fischer Boel was still claiming in relation to the CAP that "the European model of agriculture embodies a core set of values."[8] Are unfairness and greed core EU "values"? When speaking of the EU, Central Europeans would be well advised not to use the language of values but rather the language of power.

Initially the EU wanted the Central European farmers to get zero direct payments. One curious justification given for withholding such funding was that it would halt or at least slow down the making of urgent and necessary structural changes in Central European agriculture.[9] Yet this point applies with even greater force to agriculture in the EU's Mediterranean countries that are hopelessly addicted to EU subsidies. Surely by now those existing members who have been in receipt of EU aid over a long period of time should have developed to the point where they do not need it. If they have not so developed, should we not conclude that the money was wasted?

By 2013 the CAP, once described by The Economist as "the single most idiotic system of economic mismanagement that the rich Western countries have ever

[5] Gillingham (2006).
[6] Saunders (2006).
[7] Saunders (2006).
[8] Fletcher (2006).
[9] Jacoby (2004).

devised" [10], may well have to be scrapped due to cumulative pressures from other countries and trading blocs; the latter are also well aware that EU systems of income support and regional or structural funds are a form of disguised protectionism.

## 1.2. The Future Imbalance of Power

With their accession in 2004 the situation of the Central European countries changed. Before entering the EU they had been supplicants forced to join on terms laid down by others, by a mixture of the arbitrary decisions of EU bureaucracy and the material interests of its more powerful and querulous existing members. Now, as full members they are entitled to press for the kind of Europe they want, which may well be neither the one that it had been intended they should want nor the one that suits the earlier members.

The asymmetry in power remains. It is likely that in the future decisions will be made by simple majority voting in the EU, with the votes weighted according to population, in which case the core countries France, Germany and Italy will control 43 percent of the votes as against only 5.6 percent for the three peripheral Central European countries — the Czech Republic, Hungary and Slovakia.[11] The best predictor of whether more powerful nations will treat their smaller and weaker neighbours fairly is to ask, "How did they behave in the past?" The loaded politicking of the pre-accession period should lead Central Europeans to have doubts about the future, particularly in those countries proposing to enter a Eurozone in crisis and about to become politicised in the interests of the larger members.

### What is the future: Competitive markets or more regulation? Open democracy or hidden corruption? Innovation or decline?

The Central European countries, having been preached at when seeking entry over the virtues of free markets, democratic institutions and the need to eliminate corruption and cronyism, are now in a position to point to the shortcomings of the EU itself. In particular they can question the undemocratic nature of EU decision making, which is designed to avoid ever having to submit contentious matters to the will of the people[12], the less than open markets of some of the existing members and the corruption that prevails at many levels. They can now demand the kind of reforms that were in times past demanded of them.

### Competition and regulation

One downside of joining the EU for the Central European countries was having forced on them the *acquis communautaire*, an enormous body of externally imposed

[10] cited in Jacoby (2004).
[11] Loužek (2006).
[12] Klaus (2006, 2006A).

regulations, the whole of which had to be implemented regardless of whether they fitted local conditions. Given that it had originally emerged from the interactions of a distant bureaucracy and politicians and pressure groups of 'old' member countries, whose experiences and situation will have been very different from those of the Central European countries, it is very unlikely that 'one size will fit all' Also much of the *acquis* does not further the more general aims the Central European countries had when seeking to join. Many of the regulations restrict rather than facilitate the development of a free market. Also these are the ones most likely to be enforced and most likely to be extended in the future. By contrast, measures to promote free market goals such as ensuring the free movement of services (as distinct from manufactures) such as financial services, or the buying of assets in so-called 'sensitive' areas such as energy, utilities, transport or banking by nationals of another EU country have stalled, not only because of continued protectionism quite contrary to the aim of having a free trade area but because of the self-interest of national bureaucracies who want to go on controlling and regulating entire sectors of their economies.[13] In particular, restrictive states often either completely own or have a considerable shareholding in national energy companies (gas, oil, electricity) that enjoy local monopolies and generate income both for the state[14] and for corrupt politicians.[15] They are keen to buy parallel assets in other EC countries but will not allow freedom of entry into their own markets.[16] France, Germany, Italy and Spain wish to retain restrictions and barriers to trade in these sectors and so the EC is tackling this problem with all the haste of an asthmatic and arthritic tortoise. Hence we may end up in the worst of all possible worlds where the EC issues ever more regulations of its own but is unable to overcome restrictive regulations at a national level.

If the Central European countries are committed to a market economy then they must now treat the *acquis communautaire* not as a *fait accompli*, as something fixed, but as a set of arbitrary regulations that in principle can be repealed and reversed. The EC is over-regulated and many of the regulations are there as a disguised form of protection of particular sectors in particular countries, sectors with a tradition of over-regulation that can only survive if everyone else has to shoulder the same burden. Indeed it may be a heavier burden for a poorer rival whose costs of enforcement are higher. The EC is not a level playing field but a cunningly constructed golf course where only some took part in the placement of the bunkers and not everyone knows where they are.

The Czech Republic, in 18th place on the Index of Economic Freedom, now has a freer economy than France, way down the list in 26th place, and both Hungary and Slovakia have also overtaken France.[17] But what if there is pressure from the EC to drag them down to the French level in order to reduce their competitive position vis-à-vis France, for example, by harmonising taxes on business or investors? The French President, Nicholas Sárközy, who was at one time reputed to be a liberal market reformer, has already insisted on removing the EU's open-ended commitment to the

[13] Aftalion (1999).
[14] Stagnaro (2006).
[15] Decouty and Floch-Priget (2001), Deviers-Jancour (2005).
[16] Stagnaro (2006), Vasconcelos (2007).
[17] Index of Economic Freedom (2007).

'free market' specified in Article 3 of the Treaty of Nice[18] and wishes to make competition policy subordinate to his muscular industrial policy, which in practice means that he is seeking the continued protection and promotion of French controlled cartels. Rather, what is generally needed in Europe and what would particularly benefit the Central European nations is the opposite of this self-interested harmonisation, namely tax and regulatory competition.[19]

## The Burden of EU Regulations for Central Europe

According to Guenther Verheugen, the EU Enterprise Commissioner, the burden of European regulations has grown to 600 billion Euros or 5.8 percent of the EU's GDP.[20] There is no sign of the drift to an ever more tightly regulated Europe being reversed. The adverse consequences of European regulations were inadvertently acknowledged by the British Chancellor of the Exchequer, now British Prime Minister, Gordon Brown in November 2005 when he said: *"For some time I have been concerned about…the gold plating of European regulations where in the process of translation into our own UK laws we end up with additional and unnecessary burdens."*[21]

When he spoke of gold plating the then Chancellor was referring to the tendency of British civil servants to interpret and apply European regulations in a precise and rigorous way and to implement them speedily. But if the nature of the regulations is such that rigour, precision and celerity in their enforcement produce greater burdens rather than greater benefits, it follows that this is what Europeans regulations necessarily are for the regulated — a burden and a cost. The Central European countries would be well advised to adopt a policy of lead plating that would enable these rules imposed from the outside to be implemented slowly and vaguely so as to achieve the minimal compliance necessary to avoid external penalties.

Many of the regulations may in a purely nominal sense have a worthwhile purpose (though many do not), but those who formulate them, by virtue of their very training, which is often merely legal or administrative rather than commercial and quantitative, and their restricted and self-interested outlook, do not and cannot wish to envisage how much enforcement will cost: It often greatly exceeds any possible benefit.

Even in the apparently uncontroversial area of health and safety, new regulations adopted under the irrational 'precautionary principle' may well result in loss of life and well-being because the cost of enforcement diverts resources away from activities more important for the sustaining of life and health, such as medical care, improved diet, better housing or even merely by reducing levels of productivity and thus income and health, or by causing unemployment to rise, a key cause of depression and suicide.[22] Everything has an opportunity cost. Whatever the working time directives may decree, there is no such thing as a free lunch-break.

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[18] Laughland (2007A).
[19] Aftalion (1999), Gabb (2004).
[20] Stewart-Brown (2007).
[21] Saunders and Rainwater (2006).
[22] Keeney (1990), Neal and Davies (1998), Wildavsky (1995).

Let me consider a particular example: the European rules about the maximum acceptable quantities of agricultural chemicals in drinking water that are set at an almost homeopathic level, close to the limits of the measuring instruments. The limits do not coincide with the WHO guidelines, are far lower than in comparable countries such as Australia, Canada or Japan, and there is no medical justification for them.[23] They are a product of the obsession of the harmonising bureaucratic mind with purity and uniformity. When these, or very similar, regulations on drinking water were about to be imposed on the Czech Republic as part of the *acquis*, it was estimated that the cost of complying with them would be $3 billion.[24] No one disputes that the cost of cleaning up a Czech environment polluted and damaged by the ravages of a socialist economy was and is high,[25] perhaps as much as 5 percent of the Czech GNP, but within that clean-up the priorities can only be decided by the Czechs. Only they have the local knowledge necessary to make informed choices and in a democracy it is their preferences that should take precedence. It is illicit to argue that EU regulations of very dubious technical accuracy should prevail merely because the Central European countries have signed up to the *acquis communautaire*.

The key question that must be asked is, "Why does the EU try to resolve issues bureaucratically that are better left to the market place?" Bureaucrats are not rational and disinterested actors and the rules they create are both inflexible and prone to corruption. Harmonisation and Europeanisation are of value, if and only if, they open up markets and strengthen democracy. They are only a means to these ends. If they tend in the opposite direction, they should be undermined and abandoned.

## Corruption

One of the claims made for the benign and beneficial impact of the EU on the Central European countries in the pre-accession period is that it enabled them to reduce levels of corruption in their own countries, partly through exhortation and pressure, and partly through providing advice on administrative reform and indeed relevant training. This may well be true,[26] though the main credit must, of course go to the local peoples who desired and nurtured reform. We can see a similar attempt being made today in relation to the next entrants Bulgaria and Romania who have been told they must meet crucial benchmarks on crime and corruption and that there will be continued post-accession monitoring to ensure that progress is made.[27]

Can we therefore assume that the EU itself and the older Member States are the models of probity and exemplars of honesty that the Central and Eastern European nations and elites should seek to emulate? Are they — in this respect — a burning and a shining light to all these places after the gloom of the socialist era? Unfortunately not, as has recently been pointed out by the Bulgarian Minister of the Interior, Roumen Petkov: who has accused the EU of unfairness and double standards in

[23] European Crop Protection Association (1993), Neal and Davies (1998).
[24] Francis (1999: 178).
[25] Carter (2000), Davies (1991), Gabb (2004).
[26] *Corruption and the EU accession process* 2006.
[27] *Bulgaria Unhappy* 2007, *Corruption and the EU accession process* 2006, *EU Observer* 16th February 2007 B92 News.

insisting on the Bulgarians eliminating corruption in their country, while they allow it to flourish in 'old' Mediterranean Europe,[28] particularly in Greece and Southern Italy. It is notable in this context that there is no law in Spain against bribery in the private sector (or at least was none in October 2006). Bribery in relation to corporations seems to have been an accepted practice in Spanish law. Civil laws relating to competition could, in theory, be used to annul contracts won via bribery, but in practice no case had ever been brought to court.[29]

Members of the European Council signed the Criminal Law Convention on Bribery in 1999, but even by 2006 it had still not been ratified in France, Greece and Germany nor of course in Spain,[30] though Bulgaria and Romania have been forced to ratify. In June 2007 the European Commissioner for Justice, Freedom and Security, Franco Frattini, was still complaining that most EU members (all except two) had failed to implement a framework decision to combat corruption in the private sector, which in theory had to be done by 2005[31]. It has not been done because curbing corruption is not an EU priority and many of the other commissioners did and do not take it seriously at all. Corruption, it would seem, is something to be combated only in the new Member States; it is worth noting that no such probes about corruption were made and no conditions were attached when the three Mediterranean countries, Spain, Portugal and Greece, first joined the EU. The Bulgarians have a point when they complain that the EU has been selectively assiduous in its pursuit of corruption, though it is somewhat ironic that they should perceive having to clean up their own country as an unrewarding and oppressive requirement.

Very broadly, the old countries of the EU can be divided into two groups when it comes to corruption.[32] There are the honest northern countries and the corrupt Mediterranean countries — Greece, Spain, Italy and especially southern Italy and to an extent France — that are thoroughly, perhaps incorrigibly, corrupt. In Greece it is part of everyday life. You do not need to sit the driving test, since you can easily buy a driving licence by giving a *fakelo* (bribe) to a corrupt official without having to demonstrate any competence behind the wheel whatsoever. It is hardly surprising that the incidence of deaths through motor accidents per million people in Greece is three times as high as in the Netherlands.[33] It makes complete nonsense of the attempt to harmonise first the nature of the driving test and now the training of the examiners of the driving test.[34] A far better method would have been to have mutual recognition of a diversity of tests between countries where it is known that the local test works reasonably well as an instrument for the furtherance of road safety. To go beyond this is in two senses irrational and indeed these two forms of irrationality underlie the very concept and practice of harmonisation and should lead us to reject it. First, if the same end, namely road safety, can be attained just as well by simpler means, then why incur the extra costs of local reorganisation in countries that are willing to have mutual recognition. Second, the attainment of equivalent formal legal-rational procedures

[28] Petkov reported in *Bulgaria Unhappy* Feb 2007.
[29] Maung (2006).
[30] Maung (2006).
[31] Sang (2007).
[32] Transparency International 2006, see also Evans-Pritchard (2004A).
[33] Eurostat *News Release* 125/2006 19th September 2006.
[34] Paterson (2007).

does not guarantee real equivalence, since it does not allow for local cultural differences that are more important and that considerably shape the kind of procedures that are appropriate in a particular country. Harmonisation is neither a necessary nor a sufficient means of attaining the desired mutual European goal of road safety. Indeed, its attainment distracts our attention from other more important questions such as whether or not the driving test is fairly or corruptly administered, or the 'culture' of driving attitudes. What is important is whether drivers habitually drive aggressively or with mutual consideration, not what is measured by a driving test. How can you harmonise cultural attitudes or indeed median national personalities?

Here is one basic reason why EC harmonisation cannot work: The incidence of corruption and perceptions of corruption differ too much between countries. Regulations will never be enforced in the same way in honest Europe and in corrupt Mediterranean Europe, so what meaning can harmonisation have? It is particularly a problem in relation to EU expenditures in the more corrupt countries. The accuracy of income support payments to farmers now has to be monitored by means of aerial photography. In the past money has disappeared to subsidise tobacco farms that did not even exist. Given the health hazards associated with tobacco it may well be that less harm was done than by paying the money to actual tobacco growers who, despite decades of EU subsidies, seem unable to adapt to growing other crops.

No doubt if I were to put these points to the EU Commissioners they would claim that all the blame lies with the Member States who are lax in investigating the corrupt use of EC funds and would argue that what is needed is even greater centralised powers, so that they can conduct their own anti-corruption investigations in individual countries at their own discretion.

I can only reply to these imperial sons of the Romans: *Quis custodiet ipsos custodes?* Who is to guard those who guard the EC's finances? Every year perhaps 10 percent of the budget goes missing, 5 billion euros per annum, five percent as fraud and five percent misappropriated. The auditors cannot say with any real degree of assurance where 90 percent of the money went, which is why they inevitably refuse to sign off the accounts.[35] Random checks reveal significant levels of fraud to which the EU tries to riposte that you cannot generalise from a small sample! The auditors refuse to pass the accounts year after year and accountants, seconded by national governments to the auditors, say that the accounts are badly kept; yet without a decent accounting system that tells you where the money is going how is it possible to run any kind of effective administrative body?

It is not just that funds disappear at the southern peripheries of Europe. It is also that the southerners come to Brussels and bring their culture of corruption with them. It is no accident that the most recent charges of bribery and corruption over the construction of EC buildings in Albania have involved Italian nationals. There is corruption at the centre and there are even reports of systematic abuse, nepotism and of wrongdoing being ignored within the Court of Auditors itself.

What is profoundly shocking is the way in which irregularities are covered up. When honourable whistle-blowers such as Paul van Buitenen[36] or Marta Andreason, Dorte Schmidt-Brown or Robert McCoy provide revelations of corruption, the

[35] Evans-Pritchard (2004A).
[36] 2000 see also *Het rapport van Paul van Buitenen* 2007.

Commission then takes stern action not against the fraudsters but against the whistle-blowers, who are sacked, suspended without pay, put on half pay or given compulsory sick leave and eventually tire and quit. They are even smeared;[37] when Sir Paul van Buitenen, the EU's Dutch auditor, wrote to a member of the European Parliament saying that his Christian principles required him to reveal the high levels of corruption that existed, he was reviled as a religious fanatic.[38] Despite all the concealment, scandals do get revealed, notably that of 1999, when Jacques Santer's entire Commission resigned.[39] Between a billion and two billion euros worth of taxpayers money had disappeared somewhere in the Mediterranean, the countries not the sea.[40] Mme Cresson, a Commissioner and former Prime Minister to the notoriously corrupt French President Mitterand, was found to have employed her dentist, who also lived in her house and was her astrologer, as a special adviser to the EC and to carry out a well-funded research project on AIDS. No doubt she had excellent teeth and a good horoscope, but was that a recommendation? All those who resigned or were dismissed for fraud at this time got substantial pay-offs. Cresson got 500,000 euros.[41] The penalties for being a whistle-blower are clearly far greater than for being found out in fraud, nepotism or mismanagement. What is most alarming is the inability and unwillingness of personally honest Commissioners to police such behaviour or to expose it. On the contrary they rush to scapegoat the persons who exposed the corruption and even to induce the Belgian police to arrest them; the said police held for questioning and seized the files of the journalist Hans-Martin Tillack of *Der Stern* who was investigating EU corruption, claiming that he possessed leaked documents from the Court of Auditors.[42]

The pattern is a depressing one and must be familiar to those who experienced the socialist period in Eastern Europe. Loyalty to an arbitrary institution, whether the Commission or the Party, maintaining secrecy and avoiding scrutiny and scandal are more important to the insiders than any commitment to such democratic values as accountability, openness, transparency, honesty. The motives are the same: a mixture of ideology and a wish to retain great privilege. The ideology is Europeism and the privileges lie in the very high levels of lightly taxed pay and the very generous allowances, expenses, and pensions that EU officials enjoy, as indeed do MEPs. For the officials there is total job security, provided you do not question the questionable[43] or deviate from the party line.

## Democracy

The failure to tackle corruption is hardly surprising since the commissioners are accountable to no one. There is no proper separation of powers and no definable limits to the commissioners' powers. Legislation that has been vetoed by a Member State

[37] Gillingham (2006).
[38] Helm (1999B).
[39] Helm (1999B).
[40] Helm (1999).
[41] Helm 1999D.
[42] Evans-Pritchard (2004).
[43] Gillingham (2006).

can be brought in anyway by a decision of the European Court of Justice.[44] The people are ensnared by EU regulations, but the regulators are unregulated. At the top there are no certain rules, only creative accountancy and creative bending of the laws.

When the European Parliament was outraged at the corruption in the time of Jacques Santer, it was working on the basis of information leaked to its members by Buitenen, not as a result of its own scrutiny or that of a judiciary. It did not have the courage to vote for the censure and dismissal of the Santer Commissioners.[45] Yet, if a parliament will not act in this way as the representative of its voters and taxpayers, how much democracy is there in Europe? Each time there is a scandal, there is a cosmetic change in the ineffective bodies for investigating fraud, which are then given new acronyms, and this is followed by the rhetoric of reform. Some time later it happens all over again, as with the Eurostat scandal. There are no checks and balances on the Commission: it has a culture of secrecy and attempts to scare off investigative journalists. Is this the democracy that the Central Europeans aspired to when they escaped from socialism?

Rather, what we see is contempt for democracy. It is the other side of the unwillingness to accept the results of popular referenda, where the people of a country reject an EU treaty or most recently a constitution with a high poll and after a strong debate, indeed a referendum loaded towards acceptance because the EU and its supporters provide money and propaganda on a scale no opposition can match. Yet when the Danes and the Irish voted 'No' to ever closer union, they were each told to hold the referendum all over again until they came up with an answer acceptable to the European leadership. When the proposed constitution was recently rejected in France and the Netherlands, it was not concluded that the people had spoken and that their will must prevail, but rather that they were 'wrong' to do so or that their votes, despite the referendum question being entirely clear, did not mean what they said.[46] The 'treaties' up for negotiation in 2007 were simply a dishonest way of quietly smuggling in the very constitution that was rejected, thus once again showing contempt for the voters.

What this indicates is a very wide gap between a European political class that exercises power and the national electorates. When the politicians from a particular country go to Europe to negotiate they forget the wishes of their own electorate, except for certain small powerful or vociferous sectional interests, and they seek to appease other European politicians and the EU apparatchiks with whom they have to deal regularly on a face-to-face basis.[47] They are hopeful that at election time other local issues will decide their fate and they are reluctant to be the awkward ones who stall a European agreement. Thus a gap has opened up between a 'them,' heads of governments and the European establishment working together and a 'we,' the public, the voters, the taxpayers who are rarely consulted and indeed, when they are, their clearly expressed views are disregarded. It is at this point that democracy fails.[48] The politicians and the people have to come to live in two different worlds, the very antithesis of democracy.

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[44] Stone Sweet (2000).
[45] Helm (1999B).
[46] Brodský (2006), Stevenson (2007).
[47] Klaus (2006).
[48] Laughland (2007).

## 1.3. The Economic Failure of the European Union

When the Central Europeans joined the EU they hoped they were entering a rich man's club that was dynamic and prospering and that they would benefit. Indeed they have benefited, superficially at least, as enhanced exports to the EC countries and reasonably rapid growth in Central Europe since accession seemed to have confirmed this.

But how secure is the economic future of the EC? Recent years have seen lower growth and persistent double-digit unemployment in the core countries of France, Germany, and Italy.[49] Within the Eurozone, only Germany generates a substantial surplus through its exports. Nearly all the others run deficits because their goods are uncompetitive. Their wages and costs are rising at home but they are trapped in the euro and cannot devalue it to become competitive on prices with simple manufactured items from China or South-East Asia. If the Central European countries joined the euro or if their tax and other fiscal policies were decided by the EU, they would suffer the same fate. Their advantage at present lies in low costs when calculated in euros and their favourable investment conditions. The great threat to the nations of Central Europe will come with forced harmonisation, such as being made to join the euro on unfavourable terms or the insistence on having uniform business taxes throughout the EU to prevent competition between tax regimes. Would the Central European economies prosper if deprived of the right to attract foreign investment by having conditions more favourable to investors than those in the richer EU countries and of the possibility of keeping export prices low through control of the exchange rate?

The EU is backward looking, fearful of the future, and over-anxious about risk and change. Its obsolete agricultural policy together with sporadic protectionism against basic manufactured goods from Asia is a backward looking attempt to forever preserve forms of production that are already not viable. The way out is to shift to more sophisticated, science-based industries, but here the EU actually gets in the way. The Lisbon Strategy announced in 2000 that it aimed to make the EU "the most dynamic and competitive knowledge-based economy in the world" by 2010, through an emphasis on innovation, research and development. By 2004, at the time of the Kok report, it was clear that there was no chance whatsoever of this target being met and the situation is no better today.[50] Do I still hear someone in the EU boasting "We shall catch up and overtake the USA"?

Indeed Europe is becoming less competitive over time. The EU's use at Lisbon of targets such as total R&D expenditure, the number of science and technology graduates, and the degree of consolidation of research as opposed to fragmentation and duplication both to measure and to promote progress in innovation is not only inappropriate but distracts attention away from the real problem. The real problem is the waning of the European *Unternehmergeist*, the entrepreneur-spirit, in a cautious, timid, precautionary European Union. Innovation occurs through a spontaneous economic process of creative destruction, not as a result of EU exhortations and plans. In truth the European Union fears being dynamic and competitive because this would disturb harmony and harmonisation. Europe's continued failure to halt the steady

[49] Mach (2006).
[50] Lisbon Agenda (2004), Growth and Jobs (2007).

onset of the 'European disease' is shown by the far greater number of patents registered in the United States than in the EU[51] and the far greater proportion of research and development (as well as the absolute quantity) carried out by private corporations in that country. Only three European companies are to be found among the top 10 investors in R&D, a list dominated by American corporations. Corporate investment in research is growing far faster outside the EU than within.[52]

Behind this wilful backwardness lies the absurd 'precautionary principle,' the idea that a new product or method of production has to be proven to be safe and that no risks, even small ones, should be taken; a corollary of this is that approval of a product can be withheld even if there is not much scientific evidence to justify any ban. Under the Research, Evaluation and Authorization of Chemicals (REACH) programme, the precautionary principle is now to be applied retrospectively to widely used chemicals and indeed even to herbal medicines and vitamin supplements. The costs of applying these regulations will be large, of the order of 5 billion euros,[53] and the gains are small and uncertain given that the chemicals and supplements have been available for a long time and epidemiological research has never indicated any serious problems.[54] More to our present purposes, new chemicals and materials are an advanced knowledge-based sector within the EU countries that enable Europe to compete with Asian countries in the future in a way that reliance on basic textiles, clothing, simple manufactures can not and never again will. Already the time taken to bring a new chemical to market is far greater in the EU than in the USA.[55] Introducing ever more 'precautions' will lengthen this gap. It will also lead the EU's chemical industries to move their operations elsewhere, will discourage foreign investors and will lead to major disputes in the World Trade Organization. It is all part of a general EU distrust and fear of new technologies, a certain recipe for economic decline.

One clear example of a technophobic European resistance to innovate has been the EU's long lasting irrational opposition to and obstruction of the planting of genetically modified (GM) crops or even to the use of genetically modified organisms in industrial processes.[56] Now the EU and some of the constituent countries are reluctantly relaxing their rules but it is too late: the Americans have a commanding lead in the biotech business, in medicine and manufacturing as well as agriculture, just as they long have had and continue to have in information technology.[57] What is more, other countries such as Australia, Canada and China are seizing the opportunities that Europe missed. Even Romania took a more progressive view than the EU. What is the EU now going to do about agricultural produce from Romania?

[51] Urban (2007).
[52] Luypaert (2007).
[53] Gillingham (2006).
[54] Neal and Davies (1998).
[55] Gillingham (2006).
[56] Miller (1997).
[57] Gillingham (2006).

## Conclusion

When the leaders of the EU congratulate themselves on an 'ever-closer' union and speak of Europe as an 'empire' or a new 'pole' in world affairs, it is like twenty or more failing companies who proudly merge into one large company, which then goes bankrupt anyway. As I have indicated the EU has very little democratic political legitimacy, because it neither behaves in ways that acknowledge that the people merely lend power to their rulers, nor accepts the people's verdicts in referenda, nor enjoys the kinds of solidarities that nations can. National politicians prop it up mainly because it gives them the opportunity to prance on a bigger stage, to be received at the imperial court.[58] Such legitimacy as the EU enjoys among the people is that of a technocracy, but such a legitimation depends utterly on a continued display of competence manifested in prosperity and innovation. This has now been called into doubt.

There are two main morals to this story for Central Europeans. The first is the hopes of the Central European countries that joining the EU would mean an escape from the lack of democracy, the absence of free markets and the prevalence of corruption of the socialist era are not going to be fully realised. The European Commission is a castle of apparatchiks whose ideal is not democracy but a bureaucratic 'harmony' controlled by them in collusion with a few privileged political leaders from the individual nations. The EU's commitment to the free market and competition is faltering and we may well see it collapse. Because there is no enthusiasm for democracy or for markets, the essence of an open society, there is also no real concern to do much about corruption and no drive to innovate. The EU mind is closing.

Second, for the core countries of the EU the twenty-first century has turned out to be a time of economic stagnation. If the Central European countries were to integrate their economies or their policies more closely with those of 'old' Europe, they too might stagnate. The future looks ever worse because of the failure to seize the technologies of tomorrow with sufficient speed and because of the serious demographic problems in such large countries as Germany, Italy and Spain that have very low birth rates indeed. The Central European countries have hitched their wagons to an EU train that they thought was going to progress at a good speed. But it is slowing down and may well come to a stop. The EU has yet to learn that neither boastful words, nor pulling down the blinds to avoid seeing problems will get the train going again.

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[58] Klaus (2006).

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# 2. INTER-INSTITUTIONAL AND INTRA-INSTITUTIONAL INFLUENCE IN EUROPEAN UNION DECISION MAKING

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## Introduction

The distribution of decisional power among Member States of the EU remains a hot issue in recent discussions about the future design of European Union decision making and the revision of the unsuccessful proposal of the Constitutional Treaty. The attention of most theoretical and empirical studies is focused on the problem of the distribution of voting weights in the Council of Ministers under different variants of the qualified majority voting rule. Also, political rhetoric (with a strong populist flavour) usually ignores other dimensions of EU decision making. In contrast to that, in this chapter we try to formulate and analyse simplified models of consultation and co-decision procedures in the decision-making of European Union institutions, reflecting the fact that besides the Council of Ministers the Commission and European Parliament are also the actors that have to be taken into account in EU power games.

Literature on the past, present and future of the qualified majority rule is quite extensive and there is no space for a complete review. The most comprehensive rigorous discussion of the state of the art, power-based indices methodology of evaluation of a priori voting power, with deep insight into the controversial problems, is provided in Baldwin and Widgrén (2004). Analyses of the Nice-based qualified majority, see e.g. Felsenthal and Machover (2004), Plechanovová (2003) and Turnovec (2001, 2002), and the Constitutional Treaty qualified by the majority proposal in Felsenthal and Machover (2007). The lack of transparency and absence of sound theoretical justification of negotiation results about decision-making formulas on the top European level (and the legitimacy of power indices methodology in this field) is discussed in Hosli and Machover (2004). Alternative proposals based on the so-called square root rule (Penrose (1946), Felsenthal and Machover (1998)) are analysed in Felsenthal and Maschover (2007), and Słomczyński and Życzkowski (2006, 2007).

The inter-institutional distribution of power (among the Commission, Council and European Parliament) in the decision-making procedures of the EU (the consultation procedure, cooperation procedure and co-decision procedure) has been analysed in Widgrén (1996), Laruelle and Widgrén (1997) and Napel and Widgrén (2004). While in the first paper (Widgrén (1996)) the traditional committee model is developed for the consultation procedure (the consultation procedure as a committee of new Member States plus the Commission with a composite voting rule), other models are formulated in terms of the three unitary actors' (Commission, Council and Parliament) extensive form games, without the breaking down of the Council into

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Member States and the Parliament into party factions. Traditional power indices attempt to disaggregate the modelling of consultation, cooperation procedure and co-decision procedure, allowing the expression of both inter-institutional and intra-institutional influence, as presented in Turnovec (2004). In this chapter we extend these streams of models, defining national influence as the influence of Member States and political influence as the influence of political parties in three basic decision making procedures.

In the first part of this chapter we provide a short overview of the methodology used, define committee systems as logical combinations of simple weighted voting committees suitable for the modelling of complex voting procedures, and comment on the power indices used for the evaluation of voting procedures. The second part formulates models of different versions of the qualified majority in the Council of Ministers voting: Nice rule (status quo), the draft of the Constitutional Treaty rule (the version adopted by the Council of the EU in June 2007) and a proposal of "Jagellonian compromise," based on the implementation of the "square root rule." Simplified models of consultation and co-decision procedures, developed on the basis of ideas from Widgrén (1996) and Turnovec (2004), is analysed in the third part. The fourth part brings empirical evidence regarding the structural effects of legislative procedures based on the results calculated from data about the EU-15.

## 2.1. Voting Games, Committee Systems and the Calculus of Power

In this part we define committee systems as the logical combinations of simple weighted committees and summarise two major power measures, used in the evaluation of its members' influence.

### Voting games

Let N be a finite set of players and v be a function defined over the set $2^N$ of all subsets of N such that $v(S) \geq 0$ for all $S \subseteq N$, $v(\varnothing) = 0$, $v(S_1 \cup S_2) \geq v(S_1) + v(S_2)$ for any two disjoint subsets $S_1$ and $S_2$ of N (the so-called characteristic function). The couple [N, v] is called a cooperative game in a characteristic function form. If the characteristic function v can attain only two values 0 and 1, we refer to [N, v] as a simple game. If $v(S) + v(N\backslash S) \leq 1$ for any subset $S \subseteq N$, the simple game [N, v] is called a simple voting game.

The interpretation of the simple voting game: there is a set N of voters. Any subset S of N is a coalition of voters that are voting "yes" and all voters from complementary coalition N\S are voting "no." Characteristic function v defines a voting rule: if v(S) = 1, then the coalition S is winning, if v(S) = 0, then the coalition S is losing. To guarantee the intuitively logical consistence of the voting rule we require $v(S) + v(N\backslash S) \leq 1$: two complementary coalitions cannot be winning at the same time.

Let G = [N, v] and H = [M, u] be two simple voting games. For games G and H, union and intersection operations can be defined (Burgin and Shapley (2001)):

The union $G \cup H$ of two games G and H is the game $[N \cup M, f]$ with the characteristic function defined by $f(S) = \max \{v(S), u(S)\}$.

The intersection G ∩ H of two games G and H is the game [N∪M, f] with the characteristic function defined by f(S) = min {v(S), u(S)}.

There is an alternative model usually used for the analysis of voting. Let N be a set of members of a committee and **w** = ($w_1$, $w_2$, …, $w_n$) be a nonnegative vector of weights (e.g. votes or shares) of committee members. The voting rule is defined by quota q, satisfying

$$\frac{1}{2}\sum_{i\in N} w_i < q \le \sum_{i\in N} w_i$$

(quota q represents the minimal total weight of a coalition to be a winning one). The triple [N, q, **w**] we call a simple weighted committee.

Let W(N, v) and W(N, q, **w**) be set of all winning coalitions in the simple voting game and the simple weighted committee respectively. We say that the simple voting game [N, v] and the simple weighted committee [N, q, **w**] are equivalent, if W(N, v) = W(N, q, **w**).

**Lemma 1** For any simple weighted committee [N, q, **w**] there exists an equivalent simple voting game [N, v].

**Proof**. Let [N, q, w] be a simple weighted committee, then [N, v] the characteristic function

$$v(S) = \begin{cases} 0 & if \quad \sum_{i\in S} w_i < q \\ 1 & if \quad \sum_{i\in S} w_i \ge q \end{cases}$$

is the equivalent simple voting game.

**Remark 1.** Not any simple voting game is an equivalent representation of a simple weighted committee. For example, let N = {1, 2, 3, 4}, v(1)=1, v(1,2)=1, v(1 ,3) = 1, v(1,4) = 1, v(1,2,3)=1, v(1,2,4) = 1, v(1,2,3,4) = 1, v(2,3,4)=1 and v(S)=0 for all other coalitions S⊆N. In this case no equivalent simple weighted committee exists. In this case we have a set of 9 winning coalitions W = {(1), (1,2), (1,3), (1,4), (1,2,3), (1,2,4), (1,3,4), (2,3,4), (1,2,3,4)} and a set of 8 losing coalitions L = {(2), (3), (4), (2,3), (2,4), (3,4)}. It is easy to verify that the linear inequality system

$$\sum_{i\in S} w_i - q \ge 0 \quad for \; \forall S \in W$$

$$\sum_{i\in S} w_i - q < 0 \quad for \; \forall S \in L$$

has no non-negative solution.

**Committee systems**

Let us generalise the model of a simple weighted committee in the following way: Let [N, $q_1$, $\mathbf{w}_1$] and [N, $q_2$, $\mathbf{w}_2$] be a pair of simple weighted committees with the same members i = 1, 2, …, n. Then $w_{ij}$ (j = 1, 2) is the weight of member i in committee j and $q_j$ is the quota in committee j. We assume that the same member votes identically in both

committees. As in simple voting games we can define the operation of the intersection and union of two simple weighted committees.

Let $C_1 = [N, q_1, \mathbf{w}_1]$ and $C_2 = [N, q_2, \mathbf{w}_2]$ be two simple weighted committees. The union of two committees $C_1$ and $C_2$ is the committee $C_1 \cup C_2 = [N, q_1 \wedge q_2, \mathbf{w}_1, \mathbf{w}_2]$ with the following composite voting rule: a proposal to be passed has to obtain votes representing at least the total weight $q_1$ in committee $C_1$ **or** at least the total weight $q_2$ in committee $C_2$. The set of all winning coalitions in $C_1 \cup C_2$ is equal to the union of the set of all winning coalitions in $C_1$ and the set of all winning coalitions in $C_2$.

The intersection of two committees $C_1$ and $C_2$ is the committee $C_1 \cap C_2 = [N, q_1 \vee q_2, \mathbf{w}_1, \mathbf{w}_2]$ with the following composite voting rule: a proposal to be passed has to obtain votes representing at least the total weight $q_1$ in committee $C_1$ **and** at least the total weight $q_2$ in committee $C_2$. The set of all winning coalitions in $C_1 \cap C_2$ is equal to the intersection of the set of all winning coalitions in $C_1$ and set of all winning coalitions in $C_2$.

Using union and intersection operations we can construct a logical combination of the simple weighted committee. For example, $[N, (q_1 \vee q_2) \wedge q_3, \mathbf{w}_1, \mathbf{w}_2, \mathbf{w}_3]$ is a logical combination of three simple weighted committees $[N, q_1, \mathbf{w}_1]$, $[N, q_2, \mathbf{w}_2]$, $[N, q_3, \mathbf{w}_3]$ with the following composite voting rule: a proposal to be passed has to obtain either at least $q_1$ weights in committee $[N, q_1, \mathbf{w}_1]$ and at least $q_2$ weights in committee $[N, q_2, \mathbf{w}_2]$, or at least $q_3$ weights in committee $[N, q_3, \mathbf{w}_3]$. The logical combinations of simple weighted committees are called committee systems.

**Lemma 2.** For any simple voting game [N, v] there exists an equivalent committee system (a logical combination of simple voting committees).

**Remark 2.** Let us consider the simple voting game [N, v] from Remark 1: N = {1, 2, 3, 4}, v(1)=1, v(1,2)=1, v(1,3) = 1, v(1,4) = 1, v(1,2,3)=1, v(1,2,4) = 1, v(1,2,3,4) = 1, v(2,3,4)=1 and v(S)=0 for all other coalitions $S \subseteq N$, which has no equivalent simple weighted committee representation. It is easy to see, that there exists a committee system

$$[N, q_1, \mathbf{w}_1] \cup [N, q_2, \mathbf{w}_2] = [N, q_1 \wedge q_2, \mathbf{w}_1, \mathbf{w}_2]$$

such that

$$[N, q_1, w_{11}, w_{21}, w_{31}, w_{41}],\ w_{11} \geq q_1$$

$$[N, q_2, w_{12}, w_{22}, w_{32}, w_{42}],\ q_2 < w_{22}+w_{32}+w_{42}$$

with the same sets of winning and losing coalitions as [N, v].

## The calculus of power

Simple voting games and committee systems are applicable to political science, as they provide models of behaviour in elections and legislatures. They are used for analysis of the voting power of their members.

Voting power analysis seeks an answer to the following question: Given a simple voting game or an equivalent committee system, what is an influence of its members over the outcome of voting? The voting power of a member i is a probability that i will be decisive in the sense that such a situation appears in which she would be able to reverse the outcome of voting by reversing her vote. To define a particular power measure means to identify some qualitative property (decisiveness) whose presence or

absence in the voting process can be established and quantified.[60] Generally there are two such properties related to committee members' positions in voting, which are being used as a starting point for the quantification of voting power: the swing position and the pivotal position of committee members.

Let $S$ be a winning coalition in a simple voting game [N, v]. A member $i \in S$ has a swing in coalition $S$ if v(S) = 1 and v(S\{i}) = 0. Assuming all coalitions are equally likely, it makes sense to evaluate the a priori voting power of each member of the committee by their probability to have a swing. This probability is measured by the absolute Penrose-Banzhaf power index

$$\Pi_i^{PB}(N,v) = \frac{s_i}{2^{n-1}}$$

(where $s_i$ is the number of swings of the member i and $2^{n-1}$ is the number of coalitions with i as a member). To compare the relative power of different members of the committee, the relative form of the Penrose-Banzhaf power index is used:

$$\pi_i^{PB}(N,v) = \frac{s_i}{\sum_{k \in N} s_k}$$

Let the numbers $1,2,...,n$ be the fixed names of committee members and $(i_1, i_2, ..., i_n)$ be a permutation of the members of the committee, and let us assume that member $k$ is in a position $r$ in this permutation, i.e. $k = i_r$. A member k of the committee is in a pivotal situation (has a pivot) with respect to a permutation $(i_1, i_2, ..., i_n)$, if $v(i_1,i_2,\ldots,i_{r-1}) = 0$ and $v(i_1, \ldots,i_{r-1},i_r) = 1$. Implies $v(i_{r+1},i_{r+2},\ldots,i_n) = 0$ and $v(i_r,i_{r+1},\ldots,i_n) = 1$. Hence, in this case the outcome of voting will be identical with the vote of member $k=i_r$, "yes" if she votes "yes" and "no" if she votes "no." Assume that a strict ordering of members in a given permutation expresses an intensity of their support (preferences) for a particular issue in the sense that: if a member $i_s$ precedes in this permutation a member $i_t$, then support by $i_s$ for the particular proposal to be decided is stronger than support by $i_t$. One can expect that the group supporting the proposal will be formed in the order of the positions of members in the given permutation. If it is so, then the member $k$ will be in the situation when the group composed from preceding members in the given permutation still does not have enough of votes to pass the proposal, and a group of members place behind her in the permutation doesn't have enough votes to block the proposal. The group that will manage her support will win. The member in a pivotal situation has a decisive influence on the final outcome. Assuming many voting acts and all possible preference orderings are equally likely, and under a complete veil of ignorance about other aspects of individual members' preferences, it makes sense to evaluate an a priori voting power of each committee member as a probability of being in a pivotal situation. This probability is measured by the SS-power index:

$$\Pi_i^{SS}(N,v) = \frac{p_i}{n!}$$

[60] e.g. Nurmi (1997).

( $p_i$ is the number of pivotal positions of the committee member $i$, and $n!$ is the number of permutations of the committee members, i.e., the number of different orderings of $n$ elements). From

$$\sum_{i=1}^{n} p_i = n!$$

it follows that

$$\pi_i^{SS}(N,v) = \frac{p_i}{\sum_{k \in N} p_k} = \Pi_i^{SS}(N,v)$$

(i.e. relative SS-power index is equal to absolute one).

**Lemma 3.** Let [N, v] and [N, u] be two simple voting games, then for the Penrose-Banzhaf and the Shapley-Shubik power indices it holds:

$$\Pi([N,v] \cup [N,u]) = \Pi(N,v) + \Pi(N,u) - \Pi([N,v] \cap [N,u])$$

## 2.2. Council of Ministers: a Qualified Majority Problem

Most of the analyses of EU decision making are focused on voting in the Council. Also, in political discussions, the problem of influence in Council voting is presented as the crucial one, as the cornerstone of national influence in EU decision making. Let us shortly summarise the state of our discussion on this issue.

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**Status quo, the Nice rule**

Through the Nice Treaty, a qualified majority in Council voting in the EU is reached if the following three conditions are met:

a) if a minimum of 255 votes is cast in favour of the proposal, out of a total of 345 votes;
b) a majority of Member States approve the proposal;[61]
c) the votes in favour represent at least 62% of the total population of the Union.

Each Member State has a fixed number of votes. The number of votes allocated to each country is roughly determined by its population, but is progressively weighted in favour of less populated countries:

| | |
|---|---|
| Germany, France, Italy, United Kingdom | 29 |
| Spain, Poland | 27 |
| Romania | 14 |
| Netherlands | 13 |
| Belgium, Czech Republic, Greece, Hungary, Portugal | 12 |
| Austria, Bulgaria, Sweden | 10 |
| Denmark, Ireland, Lithuania, Slovakia, Finland | 7 |

[61] In some cases (when the Council is not acting on a proposal of the Commission) a two-thirds majority is required.

| | |
|---|---|
| Cyprus, Estonia, Latvia, Luxembourg, Slovenia | 4 |
| Malta | 3 |

Let us consider three simple weighted committees:

$$C_1 = [N, q, \mathbf{v}]$$
$$C_2 = [N, r, \mathbf{p}]$$
$$C_3 = [N, c, \mathbf{e}]$$

where q = 345, and **v** is the vector of Member States votes (see above), r = 62 and **p** is the vector of Member States shares of population (in %), c = n/2+1 and **e** is a summation vector (one state one vote), N is the set of Member States (n = 27). The Nice-qualified majority rule can be modelled as committee system generated by the intersection of $C_1$, $C_2$, and $C_3$:

$$C_{QMN} = C_1 \cap C_2 \cap C_3 = [N, q \vee r \vee c, \mathbf{v}, \mathbf{p}, \mathbf{e}]$$

**Controversial future: Constitutional Treaty project**

If the new Treaty establishing a constitution for the European Union comes into force, the qualified majority rule will be simplified. In this case, for passing a proposal in the Council, a "double majority" of at least 55% of the Member States[62] that represent at least 65% of the population of the Union is required. In addition, a proposal backed by n-3 Member States is always adopted, even if they do not represent 65% of population.

Let us again consider three simple weighted committees:

$$C_1 = [N, r, \mathbf{p}]$$
$$C_2 = [N, c_1, \mathbf{e}]$$
$$C_3 = [N, c_2, \mathbf{e}]$$

where r = 55%, and **p** is the vector of Member States shares of population (in %), $c_1$ = int(55(n/100) + 1), $c_2$ = n-3 and **e** is a summation vector (one state one vote), N is the set of Member States (n = 27). For n = 27, c1 = 15 and c2 = 24. The Constitution-qualified majority rule can be modelled as a committee system generated by the intersection of $C_1$and $C_2$, and union of $(C_1 \cap C_2)$ and $C_3$:

$$C_{QMC} = (C_1 \cap C_2) \cup C_3 = [N, (r \vee c_1) \wedge c_2, \mathbf{p}, \mathbf{e}, \mathbf{e}], c_2 > c_1$$

**The fairness and square-ness story**

In the late summer of 2004 the following draft of the open letter of European scientists to the governments of EU Member States was distributed in the European academic community:

> *In the last few years there has been an intense discussion on the voting procedure in the Council of Ministers of the European Union. With 25 Member States (and two more in the*

[62] When the Council is not acting on a proposal of the Commission, a majority of 72% of Member States is required.

*near future) it is not a simple task to make reliable judgements on the implications of the various voting systems that have been suggested.*

*We the undersigned wish to draw the attention of EU Governments to the fact that scientific methods can be used and need to be used to analyse, understand and design complex voting systems. In particular:*

*1) From a scientific point of view there are obvious drawbacks to the systems of voting in the European Council discussed so far. The experts on voting theory agree that the Treaty of Nice gives too much power to a number of countries while others obtain less power than appropriate. On the other hand, the draft European Constitution assigns too much power to the biggest and the smallest states in a systematic way, while the middle size countries do not get their due share of influence (see the tables attached). Moreover, the Nice system will be extremely ineffective due to its high quotas.*
*2) The 'compromises' proposed recently to change the quota in the draft Constitution either to 65% of the population and 55% of the states or to 55% of the population and 55% of the states make the situation for several countries even worse than in the draft Constitution. As can be shown by mathematical analysis, it is not the quotas that are mainly at fault, but rather the system of proposed weights.*
*3) The basic democratic principle that the vote of any citizen of a Member State ought to be worth as much as for any other Member State is strongly violated both in the voting system of the Treaty of Nice and in the rules given in the draft Constitution. It can be proved rigorously that this principle is fulfilled if the influence of each country in the Council is proportional to the square root of its population. This is known as 'Penrose's Square Root Law.' Such a system may be complemented by a simple majority of states.*
*4) A voting system that obeys the Square Root Law, i.e., which gives equal power to all citizens, is easily implemented. It is representative, objective, transparent, and effective. Such a system was proposed by Swedish diplomats already in 2000, and recently endorsed in a number of scientific articles.*

*We urge our politicians to take into consideration the contribution of the scientific community to this issue. We are highly concerned that any system implemented without due regard to the scientific analysis of voting power may become a major drawback to a democratic development in the European Union.*

The open letter was originally signed by a group of nine distinguished scientists from six EU countries, calling themselves "Scientists for a democratic Europe," was later co-signed by 38 other colleagues, and was then submitted to the governments of Member States and to the Commission.[63] In this chapter we want to explore the letter's statements and clarify the reservations of those who declined an invitation to join the group.

The background idea of the so-called square root rule is the following concept of "fairness": If the European Union is a union of citizens, then it is fair when each citizen (independently on her national affiliation) exercise the same influence over the

[63] The letter (including added tables) and list of its signatories see e.g. at the following web address: <http://www.esi2.us.es/~mbilbao/pdffiles/letter.pdf>

Union's issues.[64] Let us have n countries, i = 1, 2, …, n with population $p_1, p_2, \ldots, p_n$. Consider a randomly selected "yes–no" issue and suppose that member nations decide their approval or disapproval by referendum. For simplicity, assume the number of voters participating in the referendum is equal to the number of the population, and the quota (number of votes required to approve the proposal) is equal $m_i < p_i$. We can assume a simple majority quota

$$m_i = \mathrm{int}\left(\frac{1}{2}p_i + 1\right) \approx \frac{1}{2}p_i$$

(the least integer greater than pi/2). Then the number of cases in which the average citizen of country i will have a swing (the outcome of the national referendum will be identical with her vote) is

$$\frac{m_i}{p_i}\binom{p_i}{m_i} = \frac{m_i}{p_i}\frac{p_i!}{(p_i - m_i)!m_i!} \approx \frac{1}{2}\frac{p_i!}{\left(\left(\frac{p_i}{2}\right)!\right)^2}$$

and the probability to have a swing is

$$\mathrm{P}_i(p_i) = \frac{m_i}{2^{p_i - 1}p_i}\frac{p_i!}{(p_i - m_i)!m_i!} \approx \frac{1}{2^{p_i}}\frac{p_i!}{\left(\left(\frac{p_i}{2}\right)!\right)^2}$$

(the power of a citizen of i, an absolute Penrose-Banzhaf index). From $P_i(p_i,m_i)$ formula it follows that the less the population, the higher is the Penrose-Banzhaf power of an average citizen (assuming a simple majority quota). Using Stirling's formula[65]

$$n! \approx \frac{n^n}{e^n}\sqrt{2\pi n}$$

for sufficiently large $p_i$ we obtain the approximation

$$\mathrm{P}_i(p_i) \approx \sqrt{\frac{2}{\pi p_i}}$$

(proof see Laruelle and Widgren, 1998). The larger size of the population in country i, the smaller is the individual citizen's Penrose-Banzhaf power in referendum-type country voting. If the country's representatives in the Council of Ministers are voting on each issue according to the results of a national referenda and $\Pi_i$ is the Penrose-Banzhaf power of the country I, the Council then

$$\Pi_i P_i(p_i) = \Pi_i\sqrt{\frac{2}{\pi p_i}}$$

is the i-th country average citizen's (indirect) power in the Council of Ministers decision making. To guarantee the equal indirect power of citizens of different countries in the Council, it must hold

$$\Pi_i\sqrt{\frac{2}{\pi p_i}} = const$$

[64] Laruelle and Widgren, (1998).
[65] Felsenthal and Machover (1998).

for all i. It holds if $\Pi_i = \alpha\sqrt{p_i}$, i.e. if the voting power of Member States is proportional to the square root of the population.

There is still one problem to be solved: What allocation of voting weights among Member States leads to the proportionality of power to the square root of the population? Supporters of the square root rule are proposing the allocation of the weights in the Council proportionally to the square of population, assuming that in committees with large number of members the distribution of weights is a good proxy of voting power. But, a priori voting power seldom reflects the distribution of voting weights. If [N, q, **w**] is a simple weighted committee and **Π**[N, q, w] is a vector of the power indices of its members, then usually **Π**[N, q, **w**] ≠ α**w.**

Berg and Holler (1986) provide the following property of simple weighted committees: Let [N, Q, **w**] be a family of committees with the same weights **w** and a set of different quotas $Q = \{q_1, q_2, \ldots, q_m\}$ such that $0{,}5 < q_k \leq 1$, φ is a probability distribution over Q where $\varphi_k$ is a probability with which a random mechanism selects the quota $q_k$ and $\Pi_{ik}(q_k, \mathbf{w})$ will be a power index in the committee [N, $q_k$, **w**] with a quota $q_k \in Q$. Then

$$\overline{\Pi}_i(N, Q, \mathbf{w}) = \sum_{k:q_k \in Q} \Pi_{ik}(N, q_k, \mathbf{w})\varphi_k$$

is an expected power of the member i in the randomised committee [N, Q(φ), **w**]. For any vector of weights there exists a finite set Q and a probability distribution φ such that

$$\overline{\Pi}_i(N, Q(\varphi), \mathbf{w}) = \sum_{q_k \in Q} \Pi_{ik}(N, q_k, \mathbf{w})\varphi_k = \alpha w_i$$

The randomised voting rule Q(φ) leads to strictly proportional power.

If the weights of Member States in the Council are proportional to the square roots of the population and an appropriate randomised voting rule leading to strictly proportional power is implemented, then we obtain the equal indirect voting power of citizens of different states in the Council. But, the practical implementation of the randomised voting rule with a quota changing in an unpredictable fashion, whatever mathematical justification it has, does not look very realistic. Then the problem remains: Using fixed quotas, what allocation of weights will generate the equal power of citizens?

Being aware of this problem, Słomczyński and Życzkowski (2006) formulated the following minimisation problem: Minimise the sum of square residuals between the normalised Penrose-Banzhaf power indices and voting weights defined as proportional to the square roots of the population according to the quota q

$$\sigma^2(q) = \sum_{i \in N} \left( \pi_i(n, q, \sqrt{\mathbf{p}}) - \frac{\sqrt{p_i}}{\sum_{k \in N} \sqrt{p_k}} \right)^2$$

for $q \in (0, 1]$. They used a heuristic and found the approximation of optimal quota $q \approx 61.4\%$ for the EU of 27 Member States. So, the final proposal, known as the "Jagellonian Compromise," reads as follows: "*The voting weight of each Member State is allocated proportionally to the square of its population, the decision of the*

*Council being taken if the sum of weights exceeds a (certain) quota,*"[66] setting the quota equal to 61.4% of the sum of the square roots of the population in the EU Member States.

In our notations, the square-root qualified majority can be formalised as follows: Let us consider two simple weighted committees:

$$C_{QMS} = [N, r, \sqrt{\mathbf{p}}]$$

where r = 61.4%, and $\sqrt{\mathbf{p}}$ is the vector of Member States squares of population (in %).

2.4 OCOV and OCOV blend

$$C_{QMS} = (C_1 \cap C_2) = [N, (r \vee c), \sqrt{\mathbf{p}}, \mathbf{e}]$$

where r = 61.4%, and $\sqrt{\mathbf{p}}$ is the vector of Member States' squares of population (in %), c = int(50(n/100) + 1)), **e** is the summation vector (one state one vote), N is the set of Member States (n = 27). For n = 27, c = 14.

## 2.3. The Commission, Council of Ministers and the European Parliament: Consultation and Co-decision Procedures

Let:

N be the set of decision of Members States (i = 1, 2, …, n),

N+1 be the set of actors in the consultation procedure (Member States plus the Commission),

M be the set of factions in the European Parliament (European political parties),

$v_i$ be the number of votes assigned to a Member State i,

$s_j$ be the number of seats of a European political party j,

**v** be the number of vector Member State votes in the Council (vote weights, as defined in Nice),

**p** be the vector of shares of the Member States' population,

$\sqrt{\mathbf{p}}$ be the vector of the square roots of population shares (population weights),

**e** be the summation vector (one state — one vote weights),

**s** be the vector of "weights" (numbers of seats) of political parties in the European Parliament**,**

q be the votes quota in the Council (the minimum number of votes required to pass a proposal),

c be the Member States quota in the Council (minimum number of Member States required to pass a proposal),

r be a population quota in the Council (the countries supporting the proposal must represent at least r% of the total population of the Member States supporting the proposal),

t be a quota in the European Parliament (minimum number of the members of the EP required to pass a proposal).

[66] Słomczyński and Życzkowski (2006).

If $\mathbf{x} \in R_n$, then

$\mathbf{x}^{-k} \in R_{n+k}$ denotes left zero extension of x (first k components are equal to zero),

$\mathbf{x}^{+k} \in R_{n+k}$ denotes right zero extension of x (last k components are equal to zero),

$\mathbf{e}_{(n,j)} \in R_n$ denotes the n-dimensional unit vector with jth component equal to 1, all other components equal 0.

**Consultation procedure**

We assume that voting in the Commission is not influenced by the citizenship of Commissioners and by their ideological preferences; the Commission is deciding as a collective body and the results of its voting are not known.

The European Commission sends its proposal to both the Council of Ministers and the European Parliament, but it is the Council that officially consults the Parliament and other bodies. However, the Council is not bound by Parliament's position, so the Parliament cannot change the proposal or prevent its adoption. Then the Council either approves the proposal by a qualified majority or rejects it by a blocking minority, or amends it by unanimity. Depending on the version of the qualified majority in the Council, we have three models of consultation procedures:

a) The Nice version of the consultation procedure

From the committee system for a qualified majority $C_{QMN} = [N, q \vee r \vee c, \mathbf{v}, \mathbf{p}, \mathbf{e}]$ we obtain the following model of the consultation procedure:

$$C_{CNPN} = [N+1, ((q \vee r \vee c) \vee 1) \wedge n, \mathbf{v}^{(+1)}, \mathbf{p}^{(+1)}, \mathbf{e}^{(+1)}, \mathbf{e}_{(n+1,n+1)}, \mathbf{e}^{(+1)}]$$

The proposal is accepted if it is supported by the Commission and approved by a Nice-qualified majority in the Council (not less than q = 345 votes, at least r = 62% of population, and at least c = 14 Member States), or changed if it has unanimity support of all n Member States in the Council, even if the change is not supported by the Commission.

b) The Constitution version of the consultation procedure

$$C_{CNPC} = [N+1, ((r \vee c_1) \wedge c_2) \vee 1) \wedge n, \mathbf{p}^{(+1)}, \mathbf{e}^{(+1)}, ), \mathbf{e}^{(+1)}, \mathbf{e}_{(n+1,n+1)}, \mathbf{e}^{(+1)}]$$

The proposal is accepted if the Commission supports it and it is approved by a Constitution-qualified majority in the Council (at least r = 65% of population and at least $c_1$ = 55% of Member States, or at least 24 Member States even without a population quota, or changed if it has unanimity support, even if the change is not supported by the Commission).

c) The square root version of the consultation procedure

$$C_{CNPS} = [N+1, (r \vee 1) \wedge n, \sqrt{\mathbf{p}}^{(+1)}, \mathbf{e}_{(n+1,n+1)}, \mathbf{e}^{(+1)}]$$

The proposal is accepted if it is supported by the Commission and approved by a square-root qualified majority in the Council (at least r = 61.4% of square root population weights, or changed if it has unanimity support, even if the change is not supported by the Commission).

d) A blend of square root and a country's version of the consultation procedure

$$C_{CNPB} = [N+1, (r \vee c \vee 1) \wedge n, \sqrt{\mathbf{p}}^{(+1)}, \mathbf{e}^{(+1)}, \mathbf{e}_{(n+1,n+1)}, \mathbf{e}^{(+1)}]$$

The proposal is accepted if it is supported by the Commission, a blended square root and countries' qualified majority in the Council (at least r = 61.4% of square root population weights, at least 14 Member States) or changed if it has unanimity support, even if the change is not supported by the Commission.

**Co-decision procedure**

The co-decision procedure was introduced in 1992 (Maastricht) and modified in 1997 (Amsterdam).

A new legislative proposal is drafted by the Commission and submitted to the Council and the Parliament.

In the first reading, the Council adopts it by a qualified majority "common position," including amendments, and the EP approves its position by simple majority including amendments. If the two institutions have agreed on the same amendments after the first reading, the proposal becomes law.

Otherwise there is a second reading in each institution, where each considers the other's amendments. If the institutions are unable to reach an agreement after a second reading, a conciliation committee is set up with an equal number of members of Parliament and the Council. The committee attempts to negotiate a compromised text that must be approved by both institutions.

Both Parliament and the Council have the power to reject a proposal either in a second reading or following conciliation, causing the proposal to fall. The Commission may also withdraw its proposal in any time.

The European Parliament of the EU-27 has 785 members in 8 political groups (European political parties):

| | |
|---|---|
| European People's Party-European Democrats (EPP-ED) | 277 seats |
| Group of the Party of European Socialists (PES) | 218 seats |
| Alliance of Liberals and Democrats for Europe (ALDE) | 105 seats |
| Union for Europe of the Nations (UEN) | 44 seats |
| European Greens — European Free Alliance (Greens-EFA) | 42 seats |
| European United Left — Nordic Green Left (GUE-NGL) | 41 seats |
| Independence and Democracy (IND/DEM) | 23 seats |
| Identity, Tradition, Sovereignty (ITS) | 21 seats |
| Non Attached (NI) | 14 seats |

National representation in the EP is roughly proportional to the population. The voting quota in the EP is 393 votes (simple majority).

We assume that the European Parliament represents the interests of citizens and acts on the basis of the ideological principles expressed by European political parties. Voting in the Parliament is in no way correlated to voting in the Council.

a) The Nice version of a co-decision procedure

From the committee system for a qualified majority $C_{QMN} = [N, q \vee r \vee c, \mathbf{v}, \mathbf{p}, \mathbf{e}]$ we obtain the following model of the co-decision procedure:

$$C_{CDPN} = [N+M+1, ((q \vee r \vee c) \vee 1) \vee t, \mathbf{v}^{(m+1)}, \mathbf{p}^{(m+1)}, \mathbf{e}^{(m+1)}, \mathbf{e}_{(n+m+1,n+1)}, \mathbf{s}^{(-n-1)}]$$

The proposal is accepted if it is supported by the Commission, approved by a Nice-qualified majority in the Council (more than q = 345 votes, at least r = 62% of population and at least c = 14 Member States), and by a required majority in the European Parliament (t = 393).

b) The Constitution version of a co-decision procedure

$$C_{CDPC} = [N+M+1, ((r \vee c_1) \wedge c_2) \vee 1) \vee t, \mathbf{p}^{(m+1)}, \mathbf{e}^{(m+1)}, ), \mathbf{e}^{(m+1)}, \mathbf{e}_{(n+m+1,n+1)}, \mathbf{s}^{(-n-1)}]$$

The proposal is accepted if the Commission supports it and is approved by a Constitution-qualified majority in the Council (at least r = 65% of population and at least $c_1$ = 55% of Member States, or at least 24 Member States, even without population quota), and by the required majority in the European Parliament (t = 393).

c) The square root version of a co-decision procedure

$$C_{CDPS} = [N+1, (r \vee 1) \vee t, \sqrt{\mathbf{p}}^{(m+1)}, \mathbf{e}_{(n+m+1,n+1)}, \mathbf{s}^{(-n-1)}]$$

The proposal is accepted if the Commission supports it and is approved by a square-root qualified majority in the Council (at least r = 61.4% of the square root of population weights), and by the required majority in the European Parliament (t = 393).

d) The blend of the square root and country's version of a co-decision procedure

$$C_{CDPB} = [N+1, (r \vee c \vee 1) \vee t, \sqrt{\mathbf{p}}^{(m+1)}, \mathbf{e}^{(+1)}, \mathbf{e}_{(n+m+1,n+1)}, \mathbf{s}^{(-n-1)}]$$

The proposal is accepted if the Commission supports it, with the blended square root and country's qualified majority in the Council (at least r = 61.4% of square root population weights, at least 14 Member States), and by the required majority in the European Parliament (t = 393).

## 2.4. Empirical Findings

An analysis of the distribution of power in a co-decision procedure for the EU-27 has not been completed yet, but to provide at least a partial picture of the structural properties of the decision-making rules we provide some relevant information for the EU-15 before the Nice Treaty was implemented (2003).

**Table 2-1:** Distribution of national, political and institutional influence in the EU-15 (in %) before the Nice Treaty was implemented (Shapley-Shubik power index used)

| | Weights | Voting in the Council (QM) | Voting in the Parliament | Consultation proc. | Co-decision proc. |
|---|---|---|---|---|---|
| Commission | | | | 24.81 | 30.55 |
| Council | | 100 | | 75.19 | 51.05 |
| Parliament | | | 100 | | 18.40 |
| | | 100 | 100 | 100 | 100 |
| Council | 87 | | | | |
| D,F,I,UK | 10 | 11.66 | | 8.51 | 6.14 |
| E | 8 | 9.55 | | 7.04 | 4.56 |
| B,EL,NL,P | 5 | 5.52 | | 4.18 | 2.80 |
| A,S | 4 | 4.54 | | 3.52 | 2.41 |
| FIN,IRL,DK | 3 | 3.53 | | 2.84 | 1.58 |
| L | 2 | 2.06 | | 1.83 | 1.17 |
| Parliament | 626 | | | | |
| PES | 181 | | 19.45 | | 4.00 |
| EPP | 232 | | 39.56 | | 7.43 |
| UFE | 30 | | 6.35 | | 1.05 |
| ELDR | 52 | | 10.87 | | 1.90 |
| EUL/NGL | 42 | | 8.25 | | 1.42 |
| GGEP | 46 | | 9.33 | | 1.61 |
| IEN | 16 | | 2.66 | | 0.43 |
| IND | 19 | | 2.66 | | 0.43 |
| NA | 8 | | 0.87 | | 0.13 |

**Source:** Own calculations, Turnovec F. (2004)

*Abbreviations of Member States: D Germany, F France, I Italy, UK United Kingdom, E Spain, B Belgium, EL Greece, NL Netherlands, P Portugal, A Austria, S Sweden, FIN Finland, IRL Ireland, DK Denmark, L Luxembourg

**Abbreviations of political groups in the European Parliament: PES Party of European Socialists, EPP European Peoples Party, UFE Union for Europe, ELDR European Liberal, Democratic and Reform Party, EUL/NGL European United Left — Nordic Green Left, GGEP Green Group in the European Parliament, IEN Independent Europe of Nations, IND Independents, NA Not affiliated.

The qualified majority required at that time was at least 62 votes in the Council of Ministers (for Member States weights see column "weights," Council section in Table 2-1). A simple majority in the European Parliament (electoral term 1994-2004) required at least 314 votes out of 626, and ideologically motivated voting is assumed (the distribution of seats among 9 factions of the European Parliament see the column "weights," Parliament section of Table 2-1). The rules of consultation and co-decision procedures were (except for the definition of a qualified majority) the same as described in section 2-3.

The results of the evaluation demonstrate the growing influence of the European Parliament and European political parties in European Union governance processes as a result of the implementation of co-decision procedures. In the co-decision procedure the influence of big European political parties can be compared to the influence of big Member States, so the political or ideological dimension of European Union decision making becomes measurably more important than in earlier stages of EU development. The influence of Member States is procedurally dependent and differs from their internal influence in the Council of Ministers not only by size, but also by structure. In Table 2-2 we provide a structural comparison of the distribution of power in the Council in its internal Council voting, consultation procedures and co-decision procedures.

**Table 2-2:** Structural effects of legislative procedures

| | (1) | | | (2) | | | (3) | |
|---|---|---|---|---|---|---|---|---|
| | Power of countries | | | Power of groups of countries | | | Structure of power by groups | |
| Group of countries | CQM | CNP | CDP | CQM | CNP | CDP | CNP | CDP |
| D,F,I,UK | 11,66 | 8,51 | 6,14 | 46,64 | 34,04 | 24,56 | 45,27198 | 48,1097 |
| E | 9,55 | 7,04 | 4,56 | 9,55 | 7,04 | 4,56 | 9,362947 | 8,932419 |
| B,EL,NL,P | 5,52 | 4,18 | 2,8 | 22,08 | 16,72 | 11,2 | 22,237 | 21,93928 |
| A,S | 4,54 | 3,52 | 2,41 | 9,08 | 7,04 | 4,82 | 9,362947 | 9,441724 |
| FIN,IRL,DK | 3,53 | 2,84 | 1,58 | 10,59 | 8,52 | 4,74 | 11,33129 | 9,285015 |
| L | 2,06 | 1,83 | 1,17 | 2,06 | 1,83 | 1,17 | 2,433834 | 2,291871 |
| | 36,86 | 27,92 | 18,66 | 100 | 75,19 | 51,05 | 100 | 100 |

**Source:** Own calculations

In segment (1) of Table 2-2 we provide individual Member States with an internal power in the qualified majority voting in the Council (CQM), in the consultation procedure (CNP) and in the co-decision procedure (CDP). Segment 2 expresses the total power of the group in its corresponding voting (individual power multiplied by number of states in each group). Segment 3 provides the structure of power of the groups (the percentage share of group power on the total power of the corresponding procedure). The structure of Member State power in the CNP and CDP should be compared to the CQM in section 2, giving the structure of Member States power in internal Council voting, that is usually taking power in the Union as a proxy of Member States. We can see that legislative procedures change the structure of Member States' power. While consultation procedure decreases the relative power of the group of the big four countries (F, F, I, UK) and Spain (E) and increases the relative power of four groups of smaller states, co-decision procedures increase the relative power of the big four, group A, S and

L, and decreases the relative power of E, B, EL, NL, P, FIN, IRL and DK. Structural changes are not negligible. For example, compared to internal power voting, Spain is losing in the co-decision procedure at 0.62% in its share of power.

## Conclusion

The distribution of voting power in the Council of Ministers is a bad proxy of national influence in European Union decision making. With rare exceptions, decision making is based on consultation and co-decision procedures involving the Commission and/or European Parliament.

In Table 2-3 we provide data about the use of consultation and co-decision procedures in legislative acts decided by European Union institutions.

**Table 2-3:** Number of legislative proposals under consultation and co-decision procedures 2000-2006.

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|
| CNP | 150 | 140 | 118 | 152 | 121 | 132 | 126 |
| CDP | 94 | 84 | 140 | 117 | 73 | 88 | 112 |

**Source:** PreLex database (http://ec.europa.eu/prelex/rech_simple.cfm?CL=en).

The consultation and co-decision procedure can be modelled as a simple voting game and power indices methodology can be used. If one wants to measure national influence on the basis of the influence in the Council, then inter-institutional influence has to be taken into account. In consultation procedures, the Council shares the power with the Commission (about 75:25). Consultation and co-decision procedures can be modelled as simple voting games and power indices methodology can be used. If one wants to measure national influence on the basis of the influence in the Council, then inter-institutional influence has to be taken into account. In consultation procedures, the Council shares the power with the Commission (about 90:10). In co-decision procedures the Council shares the power with the Commission and the Parliament (about 50:30:20). Both consultation and co-decision procedures change the structure of power in the Council. European political parties are important actors in EU decision making. To evaluate different proposals of qualified majority rules, one has to consider its effects on Member States' power in legislative procedures. National influence in EU decision making should be measured as the weighted average of the power in legislative procedures with weights given by the frequency of the use of these procedures.

The utilised methodology of power indices has its critics. What exactly power indices are measuring is controversial, see e.g. the arguments of Garrett and Tsebelis (1999) about ignoring preferences, and the response of Holler and Widgrén (1999), but they are of general interest to political science because they may measure the players' ability to get what they want. Admittedly, a significant share of decisions under the EU decision-making procedures is taken without recourse to a formal vote. But it may well be the case that the outcome of the negotiation is conditioned by the possibility that a vote could be taken, and that an a priori evaluation of voting power

matters. Moreover, analyses of the institutional design of decision making could benefit from the power indices methodology.[67] Continuing research and the deeper understanding of power indices methodology reflects an actual demand for the amendment of traditional legal and political analysis of institutional problems by quantitative approaches and arguments.

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[67] Holler and Owen (2001), Lane and Berg (1999).

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# 3. AN INTRODUCTION TO THE STUDY OF THE CZECH PRESIDENCY IN THE EUROPEAN COUNCIL AND THE COUNCIL OF THE EUROPEAN UNION

Lenka Rovná[68]

## Introduction

The target of this chapter aims to outline an introduction to some aspects of the debate about the role of the presidency in the European Council and the Council of the European Union, to show its opportunities and limits, to provide general information about the presidency in the EU and to concentrate on the Czech presidency in the first half of 2009. This chapter will mention the specifics of the work of the Troika, which is three countries sharing the common presidency and also the consequences of the adoption of the Reform Treaty on the Presidency. The literature dealing with the presidency mainly concentrates on institutional questions or empirical research, and the more theoretical approach from the comparative perspective is towards the end.[69] We can handle the topic from different angles:

- Institutional, polity orientated;
- Procedural, policy orientated;
- Theoretical, etc.

The chapter tackles the outlines for all three and tries to present some proposals for further research.

It suggests that when studying the role of the presidency in the EU architecture along with the decision and policy making process, it is possible to apply not only two *grand theories* of European integration studies, but also other theories of European studies, comparative politics and international relations. This chapter makes a brief overview of these issues and suggests some of the suitable theories for the process' appreciation. The task of this chapter is to show that the problem of the presidency has many sides and can be studied from different angles. It is obvious that due to the Reform Treaty, the presidency will undergo a substantial change that will form the role of the presidency in the years to come and will represent a rewarding topic for further research.

## 3.1. What is the Presidency for?

When we were attending the conference regarding the Future of the European Union and the preservation of the rotating presidency in the EU,with government representative Ambassador Jan Kohout, two moments especially come to mind.[70] An

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[69] Elgstrom (2003).
[70] Rovná (2004).

experience transmitted by our European colleagues from two smaller and newer Member States of the EU, Austria and Finland, was the following: For a new and not large Member State, having the EU Presidency represents a chance to introduce the country on the European and world stage, place the nation in the limelight and draw exceptional attention to it. Our European colleagues were pointing out that, in fact, it was during the presidency when both the civil service as well as the general public realised what membership in the EU really means and how it is possible to think in European dimensions without omitting national priorities. This process, called *socialisation* by political scientists, *socialisation*is an irreplaceable experience. The Czech Republic will get its 15 minutes soon.

## What does the presiding country do?

During its six months presidency, the country manages the work of the Council and especially:

- Calls and manages formal and informal meetings on ministerial and official levels, suggests the agenda for all meetings of the Council as well as the points submitted by the Commission or Member States for the approval;[71]
- fills the role of chairperson for all meetings held at all levels of the Council's hierarchy, and according to the information provided by the Czech Permanent Representation this will apply to 254 working committees;
- Hosts one or more summits, also provides informal meetings for individual ministers in the presiding country;
- Acts as the speaker of the Council inside as well as outside the EU, represents the EU in international organizations and during the meetings with non-Member States of the EU;
- Functions as a main contact point for the Commission, the European Parliament, the Committee for the Regions and the European Economic and Social Committee;
- Manages the Common Foreign and Security Policy in close coordination with the High Representative;
- Guarantees that all legislative duties of the Council are fulfilled;
- Organises and manages all meetings on the ministerial or prime ministerial level in the Permanent Representatives Committee (COREPER) where the presiding country helps to reach a consensus with the help of, the Secretariat of the Council and the Commission;
- When fulfilling all these duties the presiding country is cooperating closely with the Commission.[72]

The presiding country is thus an external representative of the EU, embodies in fact the famous *Mr. Who* and is the internal representative *vis-à-vis* other institutions of the EU, manages the Council, and is most of all the mediator brokering consensus and the leader who sets up the EU agenda's priorities .[73]

[71] Hix (2005).
[72] Peterson (2002).
[73] Dočkal, Fiala, Kaniok, Pitrová (2006).

When reviewing the tasks of the presidency the question is what is the possibility of pursuing the national interests of the presiding country and how to assure the balance between promoting national and European interests at the same time. The limited opportunity for the protection and promotion of national interests represents a certain "imprint" that the presiding country provides and that must be prepared long before the launch of the presidency and is embodied in the priorities of the presidency. These priorities must be settled and pre-negotiated with the countries presiding before and after the particular country, other Member States and also European institutions. The presidency itself, then, must be neutral and protect the interests of the EU as such, as well as functioning as the mediator of the interests of the individual Member States.[74] Several authors quote the case of France in the second half of 2000 as an example of a not very successful presidency: France was pushing through institutional reform, which was more advantageous for the big EU states .[75]

The certain limits for the priority-setting powers of the presidency also brings the necessity for the continuation of the European integration process and the compatibility of priorities with a long-term perspective of the EU's development , respect for previously established topics or seeking answers to the actual problems that occur during the term. Each presiding country consults with EU institutions in preparation of its priorities usually one year in advance, taking into account the themes that may be urgent for that period, and paying special attention to actual events in the EU. For instance, during the Czech presidency elections to the European Parliament will be held and the preparation of a new Commission and a High Commissioner will be on the agenda. Many tasks from the previous presidency usually require finalisation and that is why the coordination with Member States is needed.

According to the Reform Treaty, a joint presidency of the three countries will be settled. This institution in fact has been already applied. The first unofficial three countries that are coordinating more closely are Germany, Portugal and Slovenia; the second Troika will be formed by France, the Czech Republic and Sweden. As already stated, priorities for the presidency have to be coordinated with other Member States and European institutions. For example, the priorities for the French presidency during the second half of 2008 were already being discussed in the summer of 2007 by the French President, Nicholas Sárközy, with the President of the European Commission, Manuel Barroso,.[76] Officially, the priorities are declared at the Council as well as in the European Parliament at the beginning of the term. This relationship with the European Parliament plays a pivotal role. At the Parliament, the presiding country represents the whole Council, informs the EP about its agenda and at the end of the term reviews how the agenda was fulfilled, on a regular basis informs the Parliament about the development of the Council's work of, and ministers from the presiding country are participating at interpellations in the EP and explains the Council's position. The presiding country is also responsible for negotiations with the

[74] Peterson and Shackleton (2002).
[75] Lequesne (2001).
[76] [online]<http://www.lefigaro.fr/english/20070830.WWW000000430_barroso_i_welcome_sarkozy_s_commitment_to_europe_.html> uploaded November 18, 2007.

EP about legislative questions. It can be easily summarised that the EP represents the mirror of the Presidency's success or failure.[77]

Another important role played by the presiding country in cooperation with the European Commission and most of all with the High Representative for Common Foreign and Security Policy is maintaining relations with third countries. On the basis of the common position of all Member States it defends the opinions of the EU in international organisations such as the United Nations or OSCE; it presents the EU's positions at international conferences and similar forums.[78] The necessity to preserve the continuity of the EU's policies and preventing the entrance of new topics without finalising the previous agenda was what led to the conclusion of implementing a permanent presidency.

A substantial change can be expected after the adoption of the Reform Treaty. The new perception and the division of the two presidencies (the Presidency of the European Council and the Presidency of the Council of the European Union) represent the outcome of an increased leadership demand for a stronger external leader and strengthening the role of the EU in the world. Internally, at the level of the Council of the EU, the experience of a rotating presidency will be utilised. It is obvious that the shape of the new position of a permanent President of European Council will be tailored by a new personality, as well as an internal and external situation.[79] According to the Draft Treaty, amending the Treaty on the European Union and the Treaty establishing the European Community the European Council adopted at the informal summit of the Heads of States and Governments in Lisbon October 18–19, 2007 [80] shall elect its president by a qualified majority vote for a term of two and half years that is renewable twice. The president of the European Council according to Article 9b, point 6 shall:

- Chair and drive forward its work;
- Ensure the preparation and continuity of the work of European Council in cooperation with the President of the European Commission;
- Facilitate cohesion and consensus within the European Council;
- Present a report to the European Parliament after each meeting of the European Council;
- Externally represent the European Union on the issues of Common Foreign and Security Policy.[81]

According to the Article 9c, point 9 the presidency of the Council of the European Union, other than Foreign Affairs, shall be held by Member State representatives on the basis of an equal rotation (article 201 b (b) of the Treaty of the

[77] Corbett, Jacobs and Shackelton (2003).
[78] [online] <http://www.mzv.cz/wwwo/default.asp?id=40898> uploaded, September 5, 2007.
[79] Blavoukos, Bourantonis and Pagoulatos (2007).
[80] [online] <http://www.eu2007.pt/UE/vEN/Reunioes_Eventos/ChefesEstado/IMHSG.html> uploaded October 18, 2007.
[81] Draft Treaty amending the Treaty on European Union and the Treaty establishing the European Community, IGC, 5 Oct 2007, CIG 1/1/07, REV1, 12 of 152. [online] <http://www.consilium.europa.eu/uedocs/cmsUpload/cg00001re01en.pdf> uploaded November 11, 2007.

Functioning of the EU, what will soon be the title of the reformed Treaty of the EC).[82] The division of the presidency into a permanent official body with "a face" and a rotating presidency providing more of the technical and coordination support of the day to day functioning of the EU will support the communitarian method. The presiding countries of the Troika will be more absorbed with practical questions and with limited possibilities in order to promote the one-sided interest of their own country, something that was easier when the whole EU was conducted by one country. The President of the European Council will also have to act as a European actor. He or she, I assume, will be quite cautious to wear the hat of his/her country of origin. Thus, the visibility of individual countries that they enjoyed during the presidency will be weakened. I see a negative side of this as the process of *socialisation* is more anonymous and involves the civil service more than the rest of society.[83] This very much depends on how the Lisbon Treaty is going to be implemented into practice. The positive side I see is the stronger professionalism of the position of the President of the European Council, and in the media age it will give the EU a face and thus strengthen the role of the EU, especially externally. This opinion is, of course, not broadly shared.[84]

The Czech presidency, if the Lisbon Treaty is ratified, will be the last organised presidency according to the present rules. Setting priorities is one set of tasks related to the presidency. The other task represents the organisational, logistic, security, technical and financial provisions. The presidency can be coordinated either from the Member State or from the Permanent Representation in Brussels. The first scenario is not used very often as it is not flexible enough and is very demanding for communication. The Czech presidency considers the second scenario. For more than a year, a group of diplomats at the Czech Permanent Representation have worked on the preparation for the presidency, mapping the time table of activities, preparing the survey of the Committees and Councils the Czech Republic is going to chair. The situation is even more demanding because each meeting must be dispatched by two members, one representing the Council and the other one representing the presiding Member State who expresses the interests of the Member State. The chairperson plays the role of a negotiator and mediator, seeking consensus. In some exceptional cases,

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[82] The EC **Treaty** will be called **Treaty** on the **Functioning of the European Union** (TFEU). [online] <www.svez.gov.si/en/highlights/**treaty**_on_the_**functioning**_of_the_**eu**/ > uploaded October 18, 2007).

[83] Germany January–June 2007, Portugal July–December 2007, Slovenia January–June 2008, France July–December 2008, Czech Republic January–June 2009, Sweden July–December 2009, Spain January–June 2010
Belgium July–December 2010, Hungary January–June 2011, Poland July–December 2011, Denmark January–June 2012, Cyprus July–December 2012, Ireland January–June 2013, Lithuania July–December 2013, Greece January–June 2014, Italy July–December 2014, Latvia January–June 2015, Luxembourg July–December 2015
Netherlands January–June 2016, Slovakia July–December 2016, United Kingdom July–December 2017, Estonia January–June 2018, Bulgaria July–December 2018, Austria January–June 2019, Romania July–December 2019
Finland January–June 2020
Official Journal of the European Union L 1/11, COUNCIL DECISION of 1 January 2007 determining the order in which the office of President of the Council shall be held. [online] <www.eur-**l**ex.europa.eu/**L**exUriServ/**L**exUriServ.do?uri=OJ:**L**:2007:001:0011:0012:EN:PDF> uploaded October 18, 2007.

[84] Gros and Micossi (2007).

he is representing both and he has to claim which hat he is wearing at the given moment. That is why the Permanent Representation in Brussels asked for the widening of its staff and employing 120 additional diplomats. According to their information they expect 110 people to come to Brussels by the end of 2008.[85] The Czech representation in Brussels also rented the neighbouring building of Rue Caroly at Throne 60. The diplomats and civil servants as well as the Czech Embassy in Belgium, Czech Tourism, Czech Centre, Czech Trade, CEBRE, and the House of Regions enabled the regional representation to move into the new building.[86] The regions are going to be involved in the presidency as well, and it will give them a chance to attract some attention and help citizens improve communication of EU matters.[87] The ministries will enlarge and hire an additional 480 civil servants; at every ministry a resort coordinator for the presidency was appointed.[88] The presidency coordinates and organises a great number of conferences around the world and approximately 150 gatherings that are mostly on the ministerial level in the presiding country. The country must provide the content, information for participants and the mass media, security questions and a full background of conference halls.

The presidency is thus a very high political priority of every country; political and organisational matters occupy the political elites as well as civil servants. After the creation of a new Czech coalition government of the Civic Democratic Party (ODS), Christian Democratic Union,— Czech Peoples Party (KDU-ČSL) and the Green party in 2007, changes in the coordination of Czech European policy occurred. The position of the Vice Prime Minister for European Affairs was assigned to the former Minister of Foreign Affairs, Alexander Vondra. The Vice Prime Minister for European Integration took over the position of Secretary of State for the preparation of the Czech presidency in the European Council and the Council of the EU as well as part of the coordination activities in the Committee for European Union.[89] After that the political coordination of the Czech activities in the EU are taking place in the triangle between the Prime Minister, Vice Prime Minister and the Minister of Foreign Affairs.[90] The Department for the Czech presidency in the EU is chaired by the Deputy to the Vice Prime Minister, PhDr.Jana Hendrichová, who is responsible for the management of three units. The Unit of Communication realises the public and media relations stragey along with the presentation of the Czech presidency, cooperating with the mass media and updating the website. The Logistics and Organisation Unit is responsible for the timetable of activities, the preparation of sessions of ministers as well as negotiations on a lower level. The Budget and

[85] Interview at the Permanent Representation of the Czech Republic in Brussels, August 27, 2007.

[86] Finišuje rekonstrukce "Českého domu" v Bruselu. Vzniká silná česká adresa s galerií, velvyslanectvím, kraji a agenturami [The Reconstruction of the "Czech House" is finalised, a strong Czech address with a gallery, the Embassy, regions and agencies have been established]. [online] <http://www.mzv.cz/wwwo/default.asp?id=41033> uploaded September 5, 2007.

[87] MZV a kraje budou spolupracovat během předsednictví [The Ministry of Foreign Affairs and the regions will cooperate]. [online] <http://www.mzv.cz/wwo/default.asp?id=43962> uploaded September 5, 2007.

[88] Předsednictví ČR v Radě EU, Euroskop.

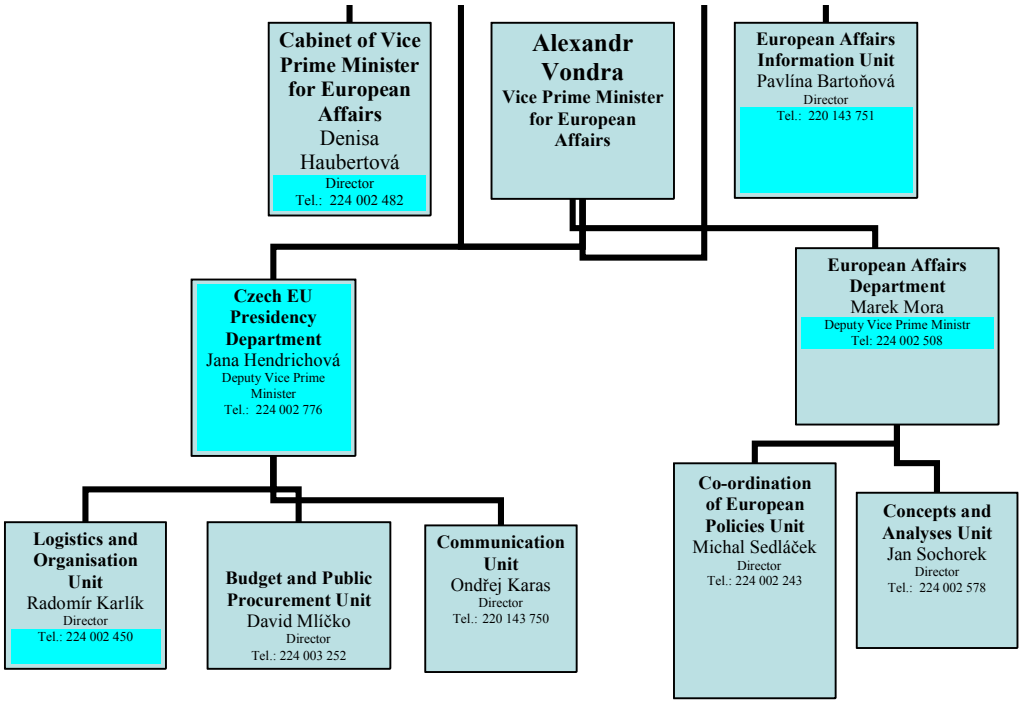
[89] The establishment of the position of a Secretary of State for the presidency had a short life under the first minority government of Mirek Topolánek. The Secretary of State Zděnek Hrubý resigned after the creation of the Vice Prime Minister for European Affairs position under the second coalition government of M. Topolánek.

[90] Weiss and Šlosarčík (2007).

Financial Procurement Unit is responsible for the budget of activities organised in the Czech Republic and selected ventures abroad, and also for the organisation of tenders for the providers of congressional services.

The Deputy to the Vice Prime Minister, Marek Mora, chairs the Section for European affairs, which is involved in the analysis and coordination of the presidency's preparation. This Section is divided into the Department of Communication of European Policies and the Department of Concepts and Analyses. The Vice Prime Minister is also responsible for the Department[91]:

**Office of Vice Prime Minister for European Affairs**




## 3.2. Procedural, Policy Oriented Aspects

Having in mind the time table of EU matters, we can expect that during the Czech presidency quite crucial questions regarding European integration, including the reform of the budget as well as the reform of the Common Agriculture Policy, will be discussed along with the question of the limitation of the free movement of people from the countries in Central and Eastern Europe. The crisis summit regarding the ratification process of the Reform Treaty also cannot be excluded. The elections to the EP will be held in June 2009 and the preparations of the elections of the Commission President , members of the Commission and High Representative will be in respect to the results of the elections to the EP.[92] Close cooperation regarding priorities with the other two partners, France and Sweden, are desirable. Regarding the French positions,

[91] Předsednictví ČR v Radě EU, Euroskop.

[92] Předsednictví ČR v Radě EU, Euroskop.

President Nicholas Sárközy said in his speech at the Paris meeting of ambassadors at the end of August 2007 that the European Union is an absolute priority for France and he noted that the main topics for the French presidency in 2008 will be these topics:

- Energy;
- Environment;
- Immigration.

The President also concentrated on the question of the deepening of the Common Foreign and Security Policy.[93] At the same meeting, the Secretary of State for European Affairs, Jean-Pierre Jouyet, introduced other key areas for the French presidency: growth and employment, strengthening dialogue with the European Central Bank, and he stressed the necessity to strengthen the role of the EU in the world, the improvement of relations with neighbours and most of all with Russia. the Balkan states and the Mediterranean. Jouyet also noted that European research has to be supported by the European Technological Institute and the project Galileo.[94]

Several topics included in the French presidency were also considered by the following Czech presidency. The Czech Republic started the preparations well in advance as the decision was made by the Czech Government from February 8, 2006 and March 29, 2006.[95] Special attention was devoted to the Presidency also in the changed structure of the creation and implementation of European politics and the establishment of the post of the Vice Prime Minister for European affairs, who is also responsible for the preparations of the Presidency. According to the Czech Government's document prepared by the Czech EU Presidency Department's Communication Unit the motto of the Czech presidency is going to be "*Europe without barriers.*" This motto is going to pass through all selected topics. The most important priorities of the Czech presidency that have been settled are:

- Competitiveness;
- Four freedoms;
- Liberal trade policy.

Other topics stress:

- Safe and sustainable energy;
- The revision of the budget and the reform of Common Agriculture Policy;
- Transatlantic relations, Western Balkans, Eastern Europe;
- Further development of the space of freedom, security and law;
- Institutions and their reform, the elections of the President of the Commission and the High Commissioner for Common Foreign and Security Policy.[96]

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[93] [online] <http://www.euractiv.fr/la-france-et-lue/dossier/presidence-francaise-ue-2008-enquete-attentes-parties-prenantes> uploaded October 18, 2007.

[94] France Outlines EU Presidency priorities. [online] <www.EurActiv.com> uploaded September 1, 2007.

[95] [online] <http://www.mzv.cz/wwwo/default.asp?/id=40898> uploaded September 5, 2007.

[96] Evropa bez bariér, Východiska k prioritám předsednictví České republiky v Radě EU v prvním pololetí 2009 [Europe Without Barriers, internal material of the Czech Presidency]. [online] <www.**eu**roskop.cz/58065/clanek/**czech**-**presidency**-of-the-council-of-the-**eu**ropean-union/> uploaded October 19,2007, <www.**czech**embassy.org/wwwo/default.asp?id=46775&ido=13925&idj=2&amb=3> uploaded October 19, 2007.

**How can we measure the success of the Presidency?**

According to Lucia Quaglia and Edward Moxon-Browne, a good presidency can be measured according to the fulfilment of these roles:

1) Business manager;
2) Mediator;
3) Political leader;
4) Point of reference internally and externally.[97]

The actual situation of the ratification of the Lisbon Treaty and the reform of EU institutions could influence the Czech presidency. If the position of the permanent President of the European Council is introduced during the first half of 2009, the Czech presidency could be "overshadowed" by this venture and the possible value added or spilled over could be weakened. On the other hand, if Czech officials play an important role as a mediator of such an important consensus then Czech "shares" could go up.

## 3.3. The Presidency as a Research Topic

The Czech presidency, as well as other presidencies, represents interesting material for research. As was quoted at the beginning of the chapter, the theoretical background of the presidencies is not heavily studied and the question thus arises of which theories of European integration studies, comparative politics or international relations are suitable for such a task. I would like to put forward some thoughts on how useful and which aspects of selected theories could be used for researching the Czech presidency. First of all I want to draft the two *grand theories*, neo-functionalism and intergovernmentalism. When concentrating on a neo-functionalist theory[98] and the application of a possible "spill over" of the integration to other fields, I suggest studying, for instance, the influence of the presidency from the segment of the civil service that is usually involved in the "EU business" into other parts of other public sectors included in the presidency. Their inclusion into the process of multilevel communication and awareness of their role in the formulation process of European policy from the bottom to the top could lead to the process of *socialisation* and political "spill over." Neo-functionalism helps to conceptualise the communitarian method.[99]

At the centre of intergovernmental theories[100] the nation state and the negotiation process are placed, aiming to create a consensus in the EU that is considered as an added value of intergovernmental diplomacy based on liberal theories of the formation of national interests as the model of institutional choice, stressing the role of international institutions guaranteeing assurances for the Member State.[101] This aspect can be interesting in following the role of the Czech Republic that

[97] Quaglia and Moxon-Browne (2006).
[98] Rosamond (2000).
[99] Wallace, Wallace and Pollack (2005: 16).
[100] Moravcsik (1998).
[101] Wallace, Wallace and Pollack (2005: 18).

simultaneously wears two hats: the European, when playing the role of the mediator of the common position on the one hand, and the national on the other.

The theory of rational choice could be applied, for example, to the research of individual actors selecting or creating different institutions to protect their interests. This attitude seems complementary with the liberal intergovernmental theory. The theory of "path dependence" can be applied for an explanation of the Czech presidency in the context of other presidencies (Pierson), especially the previous French presidency.[102] The constructivist approach could help to study not only the former rules of the functioning of the presidency, but also the informal norms that are constructing the actors and form their preferences (Thomas Christiansen, Antje Wiener).[103] We are thus operating between the theories of international relations and the theory of comparative politics, which anticipate that the EU can be studied as a polity or a political system.[104] I also suggest the usage of the theory of multilevel governance for the analysis of the Czech presidency and the formation of policies and the positions of individual Member States on different levels. The theory of multilevel governance can be used in its different approaches: rational, comparative and positivist together with the theory of negotiation (*bargaining versus deliberation*). The use of the theory of multilevel governance and the theory of networks can help to understand the involvement of other actors besides the government at all levels, as well as the mechanism of negotiation of the positions of the Member States.[105]

## Conclusion

The presidency has many sides to be followed. It represents not only an irreplaceable experience that cannot only be an exhausting exercise for the civil service, but a chance for the general public to be involved in the processes in Europe. The fact that the Presidency in the European Council and the Council of the EU will split into two institutions and a permanent president will be introduced will represent interesting material for research. The presidency also represents a big opportunity for the implementation and usage of the different theories of three social sciences: European integration studies, political science and international relations, for the better understanding of a multifaceted process involving multiple actors in their multilayer communication with each other.

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[102] Pierson ( 2000: 251-267).
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# 4. WASHINGTON AND EUROPEAN POLITICAL INTEGRATION: WHO WANTS A SINGLE PHONE NUMBER IN EUROPE?

Pavel Přikryl[106]

## Introduction

The post-Cold War era gave the American debate on European political integration a new dimension. Several things had gone: the security threat from the Soviet Union and Europe's direct security dependence on the United States, as well as Europe's strategic importance for Washington. This was the end of a time when the Atlantic Alliance was crucial, whereas now both sides of the Atlantic were free to choose whether to pursue the Alliance any further or not.[107]

In the meantime, the Europeans had made considerable progress in their attempts at political and security integration. The best examples are the Second Pillar of the European Union and the developing of a common defence and security policy launched in the late 1990s, including the first attempts at the EU's own armed forces. The United States were, for the first time, confronted with a potential way of developing a vision that they had promoted — at least in their rhetoric — during the Cold War, a vision of a stronger and more independent Europe.[108]

This framework, and the current development in global security relationships — affected by the newly defined security risks both in terms of their nature and geographical distribution — channel the ongoing debate on the importance of European political integration in American political and academic discourse. It is far from easy to identify coherent groups in terms of what they think about the importance and impact of the European political and security integration on American interests. But prior to any generalisation, it is necessary to identify the primary axis of the debate that make up — and will continue to do so — the attitude towards European political integration. One of them is how people perceive the role of Europe for America's strategic interests, the other one being how people perceive the importance of European integration for fulfilling these interests.[109]

## 4.1. Is Europe Relevant to the United States?

Whereas in the Cold War, Europe was the primary focus of the United States' foreign policies, a number of scholars and politicians suggest a gradual decline of American interest in Europe from the 1990s and — in particular – after September 11, 2001. During the 1990s the US withdrew most of their armed forces from

[106] Charles University in Prague, Faculty of Social Sciences; pavel.prikryl@amo.cz
[107] Lame de Espinoza (2005: 31).
[108] Khol (2002: 65).
[109] Lindberg (2005).

Europe[110] and the Department of State replaced the training of European experts with that of Chinese and Middle-East experts.[111] However, the historian Geir Lundestad rightly highlights the fact that there has actually been very little change in the United States' role in Europe since the end of the Cold War. Americans had to be there in the reunification of Germany, in the war conflicts in the former Yugoslavia, and in the expansion of the North Atlantic Alliance.[112]

So what do Americans currently think about the strategic importance of the European region for American interests? Kurt Volker, Principal Deputy Assistant Secretary for European and Eurasian Affairs, thinks that most Americans think Europe is currently of no interest: *"Those who share this opinion say that the global strategic discussions are not about Europe, but about what happens in Iraq, Iran, Israel, Palestine, about extremism, terrorism, and spread of weapons of mass destruction. And they also say that Europe is — of its own accord — not part of this debate. Europe is not willing to engage globally… and rejects military force as the last resort to back up diplomacy."* [113]

Daniel Hamilton, who was Kurt Volker's predecessor under Bill Clinton's administration and is currently the Director of the Center for Transatlantic Relationships at John Hopkins University, says most of the current members of the US Congress think that, *"Europe is fixed, we are done,"* and that *"most of the agenda focuses on how — and if — we are to work together with Europe outside Europe."* [114]

Another fact to prove this is that few American politicians and scholars follow what happens inside Europe. In the Senate, the examples are some members of the Foreign Relations Committee, particularly senators Joseph R. Biden (D), Richard Lugar (R) and Chuck Hagel (R), and others outside the Committee such as John McCain (R), Joseph Lieberman (N), or Gordon Smith (R). In the House of Representatives, about a dozen out of 435 congressmen actively follow the issue.[115] In the major academic think tanks such as the Brookings Institution, the American Enterprise Institute, the Heritage Foundation, the CATO Institute, or the RAND Corporation have experts on European affairs, but there has been a clear shift towards non-European affairs.

The basic reasons for the shift from Europe in political and academic discourse are, briefly, twofold. First, Europe's security and stability — which are still considered crucial for the strategic interests of the United States — are currently not at risk. The continent is exposed to no major external threat like it was during the Cold War, and simultaneously, the transient period of the 1990s saw — with significant help from the US — a successful integration of Central and Eastern

[110] Kane (2004).
[111] Rudolf Perina, former Senior Deputy Assistant Secretary of State for European and Canadian Affairs, interview by the author.
[112] Lundestad (2003: 249).
[113] Kurt Volker, Principal Deputy Assistant Secretary for European and Eurasian Affairs, interview by the author.
[114] Daniel Hamilton, former Deputy Assistant Secretary of State for European Affairs, interview by the author.
[115] Antony J. Blinken, Senior Foreign Policy Adviser to Senate Foreign Relations Committee chairman Sen. Joseph Biden, interview by the author.

European countries into the continent and the security stabilisation of the regions around the European Union, especially the Balkans.[116] At the same time, new security risks have appeared in other regions, and this is where the US is now channelling its attention and resources.

Second, Europe has not enough resources and will to be a military partner of the United States in the world. American security policy considers this fact as the most serious obstacle, and all politicians and scholars share this opinion. The insufficient military capacities were most evident in the 1990s when the Balkans crisis was being tackled, but Europe's current military capacities do not enjoy too much positive recognition. NATO Supreme Allied Commander, Europe (SACEUR) General James Jones told the US Congress in March 2004 that only 3 to 4 percent of European forces are *"expeditionary deployable,"*[117] whereas conservative observers think Europe is rather an obstacle in this respect.[118] Apart from the limited capabilities, there is not much will in Europe to participate in regions and conflicts that the US takes for crucial for their (and European) security. The attempt of the Bush Administration to turn NATO to the fight against terrorism and the spread of weapons of mass destruction, the centre being in the Middle East, has led to a series of crises in transatlantic security relations. While most Europeans recognise the same threats and understand the need to strengthen the capacities to fight them, several key countries reject the fashion and nature of the American foreign and security policies after September 11, 2001, and alliance policies based on "the coalitions of the willing."[119] As one of the senior representatives of the US administration noted, Europe has not yet adapted to the current conditions and has not grasped any new image of security, one that would not focus on the region, but one that would tackle security risks globally.[120]

Although the American political and academic elite mostly think of Europe as a strategically stable continent and express some disappointment about Europe's insufficient engagement in international security, Europe is still considered far from "irrelevant."[121] John C. Hulsman of the Heritage Foundation is sceptical about Europe's military capabilities and the importance of European integration, but still gives a list of facts crucial for the United States concerning their cooperation with Europe: *"Investments into the US and vice-versa; NATO and the multilateral political coordination of different opinions behind closed doors; France and the UK are still first rate military powers; and there is niche military capability among other European countries like the Netherlands, Norway, or the Czech Republic."*[122]

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[116] Frances G. Burwell, Director, Program on Transatlantic Relations, The Atlantic Council of the United States, interview by the author.

[117] Quoted in: Archick and Gallis (2004: 5).

[118] An evaluation of the conservative approach by Rudolf Perina, interview by the author.

[119] Archick and Gallis (2004: 10-11).

[120] A senior member of the US administration, interview by the author of this chapter at the National Security Council, April 18, 2006, Washington, DC.

[121] Neoconservative Richard Perle is a prominent supporter of "Europe's irrelevance." For example: *"Europe has no moral courage or will to face unpleasant facts. Be it the impact of globalisation on the European economies, fight against terrorism, or the will to make sacrifices in places with genocide, Europe has become apathetic and lacks realism…"*; the interview quoted in: Perle (2006).

[122] John C. Hulsman, Senior Research Fellow at the Margaret Thatcher Center for Freedom, Heritage Foundation, interview by the author.

There is a relative consensus that some issues of international security necessitate cooperation with Europe and call for a transatlantic alliance. Four reasons seem to be most mentioned.

First, the United States thinks Europe should be able to safeguard security and stability inside the continent and in close regions so that the US could turn their efforts and resources to other security issues. Europe's stability is absolutely crucial for the United States' security interests, and therefore the entire political spectrum appreciates the policy of expanding the zone of stability and peace that goes hand in hand with the motivation to reform things and reduce conflicts as new countries are expected to join the EU and NATO. Also, the former Assistant Secretary of State Elizabeth Jones highlights the crucial role of the European Neighborhood Policy.[123]

Second, Europe has the means and abilities to fulfil some of its security missions even outside its region. The diplomatic initiatives of the three big European countries (United Kingdom, France and Germany) to halt Tehran's nuclear ambitions are seen by all across the political spectrum as genuinely positive for the United States' security interests.[124] Another positive thing is the military mission of the European Allies in Afghanistan, although some criticise the insufficient readiness of the armed forces and the lack of will to invest necessary political capital as the military actions involve potential losses of life.[125]

Third, a number of American politicians and scholars admit that some security issues need to be tackled globally, i.e. in coordination with Europe, and that there is a general consensus on how to do this.[126] The liberal parts of the political spectrum, in particular, emphasise some global issues that involve security, such as the promotion of democracy, the fight against global poverty, HIV/AIDS and other pandemics, or global warming.[127] But again, some American politicians will say that "hard security" calls for cooperation with Europe. *"The issues of the 21st century must be tackled by shared efforts — be it radical fundamentalism, the spread of weapons of mass destruction, international crime — as they ignore frontiers between countries and cannot be solved only with military action,"* says Anthony J. Blinken, Senior Foreign Policy Adviser to Senator Joseph Biden.[128]

Fourth, the United States needs to be recognised by the international community as well as its own people if they are to carry out their foreign policies effectively. The first George W. Bush Administration brought a radical change towards unilateral policies. Most observers, however, think that even the current administration has learned a lesson from the historic experience of the failed Iraqi campaign, and has recognised the fact that all actions need to be legitimised by the international community, with particular emphasis on European partners. *"There is*

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[123] Elizabeth Jones, former Assistant Secretary of State for Europe and Eurasia, interview by the author.
[124] Paul Gallis, Congressional Research Service, interview by the author.
[125] E.g. debates at the Brookings Institution, *Are We Winning the War on Terrorism? A Report from Afghanistan*; also in: Gordon (2006).
[126] *A Compact Between the United States and Europe,* February 17, 2005, a document signed by leading American and European experts and politicians.
[127] E.g. Charles A. Kupchan, Professor of International Relations, Georgetown University, Senior Fellow and Director of Europe Studies at the Council on Foreign Relations, interview by the author; or Julianne Smith, Deputy Director International Security Program, Center for Strategic and International Studies, interview by the author.
[128] Antony J. Blinken, Senior Foreign Policy Adviser to Senate Foreign Relations Committee Chairman Sen. Joseph Biden, interview by the author.

*recognition by many people that you need allies to do these broader shaping things… Working with Europeans in the future is the requirement,"* says former U.S. Ambassador to NATO Robert E. Hunter.[129] Thomas E. McNamara, former Special Assistant to the President for National Security and currently Program Manager for the Information Sharing Environment, says the need for a wider support of political action is also based on the nature of current security risks: *"We're back in a war of ideologies. The global war against terrorism will look more like the Cold War. There will be isolated military confrontations, but the clash of ideologies is the main thing."*[130] Kurt Volker takes a similar stance when highlighting the role of shared values between both sides of the Atlantic: *"I think most of these [strategic] issues are basically intellectual issues based upon values… The only way to meet our strategic agenda is to cooperate with Europe…"*[131]

## 4.2. Is the Internal Structure of Europe Relevant to the United States?

There is no question that the United States intends to use their policies to influence the direction of European political integration. Therefore, the US considers the internal structure of Europe, and the role of the EU in security issues to be crucial for their strategic interests. One example of such real political action was the attitude the United States adopted to the otherwise favoured initiatives towards strengthening Europe's military capabilities under the European Security and Defence Policy (ESDP). The Americans have always insisted that any European action concerning security and defence be in harmony with NATO in terms of military capacities and their coordination. That is why the US Secretary of State Madeleine Albright spoke in 1998 about the "three Ds" that the US requires in order to support European ambitions: no decoupling from NATO, no duplication of efforts and resources, and no discrimination against non-EU allies.[132]

Such real political action and statements seem to contradict what Washington thinks about the ability to influence the process of European integration. *"For the United States the European integration is a strategic issue, but if people should think that the US intends to channel the process in either direction… the effect would be quite contrary,"* says Gary Schmitt, security expert of the American Enterprise Institute.[133] Anthony Blinken takes the same stance: *"The United States is not an EU-Member State… We have to be careful and avoid engaging in things that we are interested in but that we are not part of."* At the same time he admits that where there is strong strategic interest, such as Turkey's potential EU accession, Washington attempts to influence the process. *"When in 1999 the EU made the*

[129] Robert Hunter, former U.S. Ambassador to NATO, interview by the author.
[130] Thomas E. McNamara, Program Manager for the Information Sharing Environment, former Senior Advisor to the Deputy Secretary of State, former Special Assistant to the President for National Security, interviews by the author of this chapter.
[131] Kurt Volker, Principal Deputy Assistant Secretary for European and Eurasian Affairs, interview by the author.
[132] Cf. McNamara (2007).
[133] Gary J. Schmitt, Resident Scholar and Program Director on Advanced Strategic Studies, American Enterprise Institute, interview by the author.

*initial offer, Turkey was reluctant to accept it because it did not like the conditions. Clinton talked to Ecevit over the phone and persuaded him to accept."*[134]

The attitude towards the internal institutional structure of the European Union is different. For instance, the United States seems to not have attempted to influence the negotiation and the outputs of the Convention on the future of Europe, and most observers and politicians share the opinion about the potential EU Foreign Secretary, permanent presidency of the European Council, and the structured cooperation in ESDP: *"It's up to the Europeans to make their choice."*[135] Even Henry Kissinger takes a similar stance: *"The more common identity there is in the European Union, the more inevitable the change of the current transatlantic relations. That's the way it is, and the United States have to put up with it."*[136]

An important thing that affects the way that Americans see European political integration is the real added value of the results of that process. The issue is perceived differently by active diplomats and lawmakers, on the one hand, and academic scholars on the other. Diplomats emphasise the fact that American foreign policies are able to adapt to whichever current organisation structure of Europe and will work wherever there is power and the ability to make decisions.[137] Likewise, Congress is focused more on particular hot issues concerning international security and is not interested in how Europe will be institutionalised in five or ten years. *"The United States have no clear vision of how the European Union should look like they had back during the Cold War,"* says Rexon Ryu, adviser to Senator Chuck Hagel.[138] Unless the direction of the European integration affects American interests too much, and if it can be even positive for them, then American politicians have no reason to look into the details of European institutions.

The State Department, Department of Defense and Congress seem to be oriented at current political action concerning particular international issues, whereas the academic think tanks and institutions take long-term interest in the internal structure of Europe and focus on the harmony between the direction and motivation of European integration and the United States' long-term strategic interests. Naturally, there are different opinions on this. Conservative observers say that the post-Cold War European political integration is driven by the effort to set up a counterbalance to American power, that it restricts the United States' ability to take independent action, and that international decision making about security issues is inefficient.[139] Some realists appreciate the growth in international activity and the strengthening of the role of Europe, i.e. potential side effects of European integration; others welcome the sharing of costs for security and stability of both Europe and the nearby regions.[140] Liberals emphasise the importance of the "second pillar" of the transatlantic alliance for setting the common global agenda and solving

[134] Antony J. Blinken, Senior Foreign Policy Adviser to Senate Foreign Relations Committee chairman Sen. Joseph Biden, interview by the author.
[135] Karen Donfried, Executive Vice President, German Marshall Fund of the United States, former Policy Planning Staff, Office of the Secretary of State, interview by the author.
[136] Kissinger (2002: 44).
[137] Elizabeth Jones, former Assistant Secretary of State for Europe and Eurasia, interview by the author.
[138] Rexon, Ryu, advisor to the Senator Chuck Hagel (R), interview by the author.
[139] E.g. Joshua Muravchik, Resident Scholar American Enterprise Institute, interview by the author.
[140] Christopher A. Preble, Director of Foreign Policy Studies, CATO Institute, interview by the author.

the common security issues.[141] However, the one shared opinion is that the way the European Union operates on the international stage will always affect the United States' strategic interests.

But do Americans think that the European Union is capable of being one single actor in international relations? Most observers are rather sceptical about this. *"I can hardly imagine that they can come up with a common policy on the issue of war, such as the one in Iraq,"* says Karen Donfried. "*In economic policies it was mainly Germany that must have given up its sovereignty. In foreign and security policies, it would have to be France and the United Kingdom."*[142] Conservatives have so far viewed the integration process as rather negative: *"Why should the United States believe in something that not even the people of Europe believe in? ... The EU does nothing, ... defence and foreign policies are carried out by individual nation states only."*[143]

In spite of this, some roles of the EU in foreign and security policies are generally — and even by sceptics — seen as important and worth discussing. There are three areas: EU enlargement and Neighbourhood Policy, the setting-up of armed forces under the ESDP, and cooperation in fighting against terrorism, or "Transatlantic Homeland Security."

All across the political spectrum agree that the role of European integration has a positive impact on the stability of the continent and nearby regions. *"EU enlargement is the best policy since the reconciliation between Germany and France, ...although there are political and geographical limits to it,"* says John C. Hulsman.[144] The same opinions prevail about the role of the European Union in the wider region. In the past, the main issue was the accession of Central and Eastern European countries, whereas currently the main concern is how the accession of the Balkans and Turkey will affect the process of reforms that need to be undertaken. In the case of Turkey, it is also about maintaining the pro-Western orientation of the country. But the EU may potentially play a role in the Caucasian region, too. *"What we need in Georgia is the EU, not NATO, and it should encourage the country's entrance onto the European markets, investments, resources from the structural funds, and visas."*[145]

What sparks more of the controversy in the United States is the setting-up of armed forces under the ESDP. On the one hand, the Department of Defense in particular welcomed the initiative that may boost Europe's military capabilities and may lead to lower costs for the United States concerning security on the continent and in other missions. On the other, the US State Department, in particular, voiced some concern that independent security policy might lead to Europe leaving the North-Atlantic Alliance and taking a new direction of foreign policies contrary to the United States' interests. This fact was what made the United States' attitude

[141] Asmus (2005: 93 – 102).

[142] Karen Donfried, Executive Vice President, German Marshall Fund of the United States, former Policy Planning Staff, Office of the Secretary of State, interview by the author.

[143] Bruce Jackson, President of the Project on Transitional Democracies, Board of Directors of the Project for the New American Century, interview by the author.

[144] John C. Hulsman, Senior Research Fellow at the Margaret Thatcher Center for Freedom, Heritage Foundation, interview by the author.

[145] Bruce Jackson, President of the Project on Transitional Democracies, Board of Directors of the Project for the New American Century, interview by the author.

towards the ESDP somewhat ambiguous. *"[America] would like Europe to carry more burden, to send more troops around the world, but would not be happy with Europe that asks for more influence, because that would threaten the American dominance,"* says Charles A. Kupchan.[146]

The initial American concern about Europe's initiatives in common defence and security policies had been cleared away through talks and effective measures (e.g. the completion of Berlin Plus, setting up EU's planning unit in NATO, inviting a NATO liaison officer to the EU General Staff), whereas now — several years after the St. Malo Summit and the announcement of the European Headline Goal in Helsinki — some American observers voice their disappointment over the results of the initiative. *"None of the arguments that Mr. Blair and Mr. Chirac presented to us to support the ESDP's potential positive influence for military capabilities have turned out to be realistic,"* says former Deputy Assistant Secretary of Defense for NATO and European policy.[147] Others fear that even if new military units are made, they might only siphon off the NATO units.[148]

The third area relevant for the security role of the EU is the fight against terrorism, or the cooperation between the United States and the European Union in the Transatlantic "homeland security."[149] The direct links and common initiatives aimed at sharing information and preventive protection have already been established between the United States and the European Union. Homeland security is also an area where the United States tries to influence the internal European institutional evolution with a view to adapting it to American security interests. For instance, after September 11, 2001, Washington encouraged the set-up of the EUROJUST and the introduction of a "European Arrest Warrant."[150] Also, in June 2003, the United States and Europe (or the EU) signed an agreement on the extradition of offenders and an agreement on mutual legal assistance which *inter alia* proposes joint investigation teams and allows access to bank accounts in the whole of the European Union and United States.[151] Despite Europe's initial opposition, the following year saw an agreement on Container Security Initiative.[152]

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[146] Charles A. Kupchan, Professor of International Relations Georgetown University, Senior Fellow and Director of Europe Studies at the Council on Foreign Relations, interview by the author.

[147] Ian J. Brzezinski, former Deputy Assistant Secretary of Defense for NATO and European policy, interview by the author.

[148] Gary J. Schmitt, Resident Scholar and Program Director on Advanced Strategic Studies, American Enterprise Institute, interview by the author.

[149] For a more general outline, cf.: Brimmer (2006).

[150] Daniel Hamilton, former Deputy Assistant Secretary of State for European Affairs, interview by the author.

[151] Cf. European Union Fact Sheet.

[152] The agreement is available at: <http://209.85.129.104/search?q=cache:RBxp5t14cOkJ:eur-lex.europa.eu/LexUriServ/LexUriServ.do%3Furi%3DOJ:L:2004:304:0034:0037:EN:PDF+container+security+US+EU&hl=cs&ct=clnk&cd=1&gl=cz> downloaded on August 14, 2007.

## 4.3. Is it Good to Have a Single Phone Number in Europe?[153]

It is evident from the above that the United States still think Europe is crucial for their strategic interests and that most observers consider the direction of the EU's security and political integration and the "sentiment" that goes with it to be an important factor of the American security interests. But there are different points for whether or not the ongoing integration of Europe is positive for American interests. In general, they are threefold: "definitely yes", "yes, but", and "definitely not." It is interesting to note — and more about that comes later in this chapter — that these groups do not fall into the traditional "opinion streams" about the performance of US foreign policy, nor can they be generalised to an adherence to either major political party.

### *"Definitely yes"*

One example of this is definitely the group of those in favour of the ongoing European political integration. There are at least two areas of rather contradictory arguments for why Europe's political unification should be profitable for the United States. One area rejects the notion that the transatlantic partnership might collapse, and says the cooperation between Washington and Europe might become more efficient if there is common EU foreign policy *under* the transatlantic alliance. *"The United States wants Europe to be a strong political power… And it would be much easier to talk directly to Brussels,"* says Elizabeth Jones.[154] The fact is that both sides of the Atlantic share their interests and values and reject the notion of Europe being made into a counterbalance of power against the United States. *"For a decade I keep betting 20 dollars that no one can come up with a scenario in which all Europeans in ESDP have a single opinion against that of the United States,"* says former U.S. Ambassador to NATO Robert Hunter.[155] Therefore if Europe strengthens its power and independence, it would probably carry out the same agenda as the United States. In addition, the sharing of costs involved in such an agenda would be possible, and both sides would be in harmony. *"When the United States and the EU cooperate, they have the ability to set the global agenda,"* says Ronald Asmus.[156]

Although based on the notion of sharing the costs, the other area of arguments takes a different direction. If Europe becomes independent, Washington might reduce its military presence in Europe. Senator Kay Bailey Hutchison suggests,

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[153] I cannot help sharing a story with you given to me by former Deputy Assistant Secretary of State Daniel Hamilton. When visiting Brussels, Mr Hamilton was taken by Javier Solana to a telephone in the EU emergency centre — which was being built at the time — and was told to put down a number as "*the* phone number you always wanted." When talking to Commissioner Chris Patten later that day, Mr Hamilton was proud to have *the* number, but the Commissioner got angry, and took Mr Hamilton to the telephone in his office, saying, "Not that one, but this is *the* number you want." Daniel Hamilton, former Deputy Assistant Secretary of State for European Affairs, interview by the author.

[154] Elizabeth Jones, former Assistant Secretary of State for Europe and Eurasia, interview by the author.

[155] Robert Hunter, former U.S. Ambassador to NATO, interview by the author.

[156] Asmus (2005: 99).

*"Europe is the leader on the European continent supported by the United States, whereas the United States is the leader in the world supported by Europe and other allies."*[157] But some observers go even further than that. Former Assistant Secretary of Defence Lawrence Korb says the United States should encourage the development of common foreign and security policy without seeing it as a threat to NATO. *"NATO is not that critical… For how long do you want Americans in Europe? We should put a sunset provision on NATO. Say, 2015. In the meantime, Europeans have to figure out how to do it."*[158] But the unified Europe is, says Mr. Korb, an equivalent world power with its own interests. And if its interests coincide with those of the United States, why not co-operate on their promotion? What's more, some American scholars think it would even be profitable if the unified Europe should balance the power of the United States: *"I do not believe in American unipolarity. I do not believe it is good for the United States or for the world, and therefore I am always looking in the classical realist framework of balancing for independent poles to emerge. And I would much rather see such a pole emerge in Europe — which is based on liberal democratic values —than in China or Russia, based on something completely different."*[159]

In other words, the group of "definitely yes" involves different arguments, but there is a common point to all of them, i.e. that Europe will be no serious threat to American strategic interests — either because it will automatically become one of the pillars of the transatlantic alliance led by the United States, or because Europe will follow an independent foreign policy that will not, however, clash with the United States' interests.

### *"Yes, but"*

Most American representatives would give a "conditional approval" as for the benefit of European political integration for the United States' strategic interests. And this opinion reflects the real attitude that Washington takes towards the integration process which reflects the limited, albeit influential, tools that the United States possess in this respect. In other words, those who say "yes, but" think that European security integration should be a tool for strengthening Europe's capabilities while *"slowing down any movement by the Europeans towards more autonomous direction."*[160]

The "yes, but" attitude expects that Europe's political and security integration will be profitable for the United States only if the process is confined to the traditional transatlantic partnership and if it poses no threat to Washington's dominant position in the field of security. This goal can mainly be achieved if the North Atlantic Alliance continues to be the primary guarantor of European security

[157] Quoted in: Gedmin (1999).

[158] Lawrence J. Korb, Senior Fellow at the Centre for American Progress and Senior Adviser to the Center for Defense Information, former Assistant Secretary of Defence, interview by the author, cf. Korb (1999: 45 – 50).

[159] Christopher A. Preble, Director of Foreign Policy Studies, CATO Institute, interview by the author.

[160] Gordon Adams, Director Security Policy Studies Program at the Elliott School of International Affairs, George Washington University, former Associate Director, Office of Management and Budget, Executive Office of the President, interview by the author.

and the tool for promoting further global security interests. Kurt Volker says, *"If the EU aims to counterbalance America globally, we are not interested. But if Europe… is a strong partner of the United States…it is exactly what we want."*[161] So the main benefit is Europe's stronger capacity for cooperating with the United States internationally, and the legitimacy that Europe may provide for American foreign policy actions. *"We can maximise our power by cooperating with other countries and alliances. The first one we're going to turn to is Europe, and therefore it is in the US interest to have a strong Europe, which is bale to act,"* says Antony Blinken.[162]

The second "but" is the concern about the results of the integration process in terms of the efficiency of cooperation with the US: about the influence on the real military and other capabilities, and on the decision-making process. *"We do not really care if Europe is integrated or not, but what is effective [cooperation] for us,"* says advisor to senator Hagel.[163] Establishing empty institutions without new power, using the limited resources to duplicate American systems, and reducing European policies to the region and adapting it to the "lowest common denominator" are the main concerns of the United States.[164]

### *"Definitely not"*

The major points made by American politicians and scholars against the ongoing European integration are based on the concern that the project of unification is motivated by the effort to build a counterbalance to the United States' dominant position in the world. Some quotations of European representatives illustrate this. In June 2001, Goran Persson, the Prime Minister of Sweden — which held the EU presidency at the time — said at a press conference, *"The EU is one of the few institutions that can be developed to become a counterbalance to the US' world dominance."*[165] A year later, former French president Valéry Giscard d'Estaing took a similar stance in his opening speech as president of the Convention on the Future of Europe: *"If we succeed, in 25 or 50 years' time… Europe's role in the world will change. It will be respected and listened to, not only as the economic power it already is, but as a political power which will talk on equal terms to the greatest powers on our planet…."*[166]

So the most important concern for the opponents of European political integration is the potential threat to the US' dominance of power and to the relative freedom of foreign policy actions. *"The United States definitely wants to keep their dominance and to remain the most powerful country in the world… The question is whether we're going to do it like Harry Truman, or the way that George W. Bush is doing it right now,"* says Thomas McNamara. One of the conservative scholars says

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[161] Kurt Volker, Principal Deputy Assistant Secretary for European and Eurasian Affairs, interview by the author.
[162] Antony J. Blinken, Senior Foreign Policy Adviser to Senate Foreign Relations Committee chairman Sen. Joseph Biden, interview by the author.
[163] Joseph Lai, advisor to Senator Chuck Hagel (R), interview by the author.
[164] Khol (2002: 70).
[165] Quoted in: *Bush's Europe tour hit by protests,* CNN.com/WORLD.
[166] D´Estaing, Valéry, Opening speech of the Convention on the Future of Europe.

that the United States are keen to *"maintain Pax Americana"* and that one of the ways to do it is to build *"a coalition of the willing…who will help us maintain Pax Americana."*[167] The American opponents see European political integration as contradictory to that goal. The unified voice of Europe is more likely to prevent the United States from gaining approval and support for their foreign policy actions.

One of the leading neoconservatives Irwin Stelzer says that when the Americans had encouraged European integration and had asked for "a single telephone number," they had not asked for the telephone to be picked up by a French politician and the most frequent answer to be *"non."*[168] In this respect, the opponents of European political integration favour multiple-points of entry in order to achieve American strategic interests, i.e. according to them it is more effective to communicate with independent states rather than a unified Europe.[169] This corresponds to the well-known statement by the Defense Secretary, Donald Rumsfeld that *"The mission must determine the coalition, not vice versa"* as this approach better suits the implementation of American foreign policy goals.[170] *"If the Common Foreign and Security Policy was real and everyone had the right of veto — what would I get in Iraq? No help … And are the Europeans likely to reach agreement? No, so this is how I lose half of my allies that I can always get,"* says John C. Hulsman.[171]

According to some observers, the events and conditions that hamper the coordination of foreign policies between the US and Europe are already there, brought about by the ongoing European integration. If the European Union reaches an internal compromise on a foreign policy issue and Europe opens negotiation with the United States, the position of the "European clique" cannot be modified without a new round of complicated negotiation inside the EU.[172] Moreover, European foreign and security policy may in this respect become a "function" of the European process where agriculture and other internal policies will be tackled to the detriment of foreign policy as part of internal European negotiation.[173] Also, Joshua Muravchic fears that it is virtually impossible for the EU to reach a compromise on crucial international issues, and the EU bodies will be paralysed and unable to take any action.[174]

In other words, the opponents of European integration include a mixture of representatives of the American elites — from conservatives to neoconservatives — with a unilateralist way of thinking. What they share is that the process might reduce the real cooperation between the United States and Europe (fewer allies and military capabilities) and endanger the freedom of decisions and actions involved in the implementation of American interests as a new concentration of power may appear

[167] Donelly (2006).
[168] Stelzer (2001: 36).
[169] Ian J. Brzezinski, former Deputy Assistant Secretary of Defense for NATO and European Policy, interview by the author.
[170] Rumsfeld (2002).
[171] John C. Hulsman, Senior Research Fellow at the Margaret Thatcher Center for Freedom, Heritage Foundation, interview by the author.
[172] Rudolf Perina, former Senior Deputy Assistant Secretary of State for European and Canadian Affairs, interview by the author.
[173] Robin Niblett, Executive Vice President and Director Europe Program, Center for Strategic and International Studies, interview by the author.
[174] Joshua Muravchik, Resident Scholar American Enterprise Institute, interview by the author.

in Europe. One way to halt this wrong effect is to slow down the process of European political integration, the observers suggest.

## 4.4. European Political Integration: Political and Academic Groups

In other words, Europe and its structure are very relevant for American interests and there are different opinions as to what extent the European political integration corresponds to these interests. But in order to decide which of the opinions is currently the most crucial for the definition of real American policy towards the process of European integration, it is necessary to decide whether there is a single opinion inside the traditional groups, i.e. the two major political parties as well as inside the traditional academic "camps."

### *Political background*

Paul Gallis, of the Congressional Research Service, says there is no clear division between Republicans and Democrats on what effect European integration has for the American interests. *"More Democrats tend to support the European Union as a strong and decisive partner, but the middle of the spectrum has very diverse opinions."*[175] In general, the conservative part of the Republican Party understands how important it is to keep Europe stable and supports the notion of the EU as a good, albeit not completely independent, partner. By contrast, the left wing of the political spectrum believes in a strong European Union.

Even Anthony Blinken says party preference does not matter in the attitude towards the European integration, although it would probably be the Democrats who think the United States would benefit from European integration. Also, Anthony Blinken says there are some members of the Republican Party who confine foreign policy to one single concept, that of military power, and since the US clearly dominate the world in this sense, these people tend to be against any alliance.[176] This approach has been exemplified in the US rejection of European military help during the 2002 Afghanistan invasion .

Therefore, the supporters of the ongoing integration (although they say "yes, but") include some influential Republicans such as Richard Lugar, or Chuck Hagel, but it is certain that most of the opponents to European political integration belong in some way to the right wing of the political spectrum. By contrast, the groups that say "yes, but" and "definitely yes" tend to be more diversified along political lines.

[175] Paul Gallis, Congressional Research Service, interview by the author.
[176] Antony J. Blinken, Senior Foreign Policy Adviser to Senate Foreign Relations Committee Chairman Sen. Joseph Biden, interview by the author.

### *Streams of opinion regarding foreign policy*

Identifying clear opinion lines on European political integration in traditional "camps" based on the theories of international relations is as difficult as identifying clear divisions based on the adherence to either political party. Just to start with, putting individual experts into different camps may stir up controversy.

Joshua Muravchik, who calls himself a neoconservative, says you would hardly find one common opinion on European political integration among the traditional camps; opinions centre on more specific issues such as the enlargement of NATO or the EU.[177] Taking a similar stance, Bruce Jackson also says there is a clear line of "internationalists" on both sides of the political spectrum. *"There is not much difference between conservative moralists (neoconservative) and democratic internationalists…."*[178]

Nevertheless, the different camps do have something in common as any opinion on a specific issue is influenced by what people think about the general aims of the United States in the international system and the ways to achieve them.[179] And since in the United States foreign policy is heavily influenced by what is proposed by academic think-tanks, it is worth giving it a try.

The chart below shows the prevalent opinion on the specific issue regarding the advantages of European political integration for American strategic interests according to four camps of approach to American foreign policy:

| | Would the US benefit from Europe's stronger military capacities? | Would the US benefit from the EU as a single actor? | Would the US benefit from an "independent" Europe? |
|---|---|---|---|
| Liberal internationalists | Yes | Yes | No |
| Pragmatic (traditional) realists | Yes | Yes | Yes |
| Conservative (realpolitik) realists | Yes | No | No |
| Idealistic interventionalists (neoconservatives) | Yes | No | No |

Basically all camps would agree that Europe should generally strengthen its military capabilities. Most "conservative realists" and almost all "neoconservatives" are sceptical about the potential unification of Europe into one single body acting internationally, whereas "liberal internationalists" see a unified Europe as an efficient way to organise the Atlantic partnership. "Pragmatic realists" have a very

[177] Joshua Muravchik, Resident Scholar American Enterprise Institute, interview by the author.
[178] Bruce Jackson, President of the Project on Transitional Democracies, Board of Directors of the Project for the New American Century, interview by the author.
[179] As Timothy Garton Ash once said, *"While in Europe there is a split in the thinking about America, in America there is a split in the debate about America itself."* Ash (2005).

solitary opinion, saying the United States might benefit if Europe defines its own direction of foreign policy, independently of Washington. All other groups expect the United States to retain its dominance in the mutual relations, although opinions differ on how to achieve this.

Liberal internationalists cannot be really seen as a perfectly coherent group but they include experts in think tanks like the Brookings Institution or the Center for American Progress. There are a number of people with liberal thinking who follow "Wilson's ideals," i.e. multilateral co-operation as the best way to achieve world peace, based on the universal nature of liberal-democratic traditions. But which of the liberal internationalists are interested in the United States' foreign policy towards Europe? For example, Ronald Asmus of the German Marshall Fund, or Philip Gordon of the Brookings Institution. Both seem to support Europe's further political integration into a body that will be a strong partner for the United States and will take over more responsibility for the world. Asmus does not share the concern of some of the conservative observers who fear Europe might become a counterbalance to the United States. *"The ghost of De Gaulle must be chased out ... and the political Union must be turned into the United States' strategic partner."*[180] In other words, Asmus says the United States should support the further integration of Europe, as *"political will and leadership will not happen in NATO alone. If it is going to happen, it will increasingly have to occur in and through the European Union, only then being coordinated with Washington."*[181] Nevertheless, both experts see the North Atlantic Alliance as the most important instrument of security relations between the United States and Europe. Philip Gordon says Europeans should continue to consider NATO as *"the first choice in security issues"* and that *"a direct link must be built between NATO and the EU."*[182] So although liberal internationalists may well be thought to be the supporters of the European political integration, it is important to realise that a unified Europe is not expected by them in order to pursue a completely independent foreign policy: It will always be coordinated within the transatlantic framework under the leadership of the United States.

Pragmatic realists recruit from both sides of the political spectrum and their views on European integration are based on the idea that the change in the nature of the international system after the Cold War should translate into a change in the United States' policy towards Europe. For example, Christopher Layne says, *"The threat from the Soviet Union held together the alliance and legitimised the American hegemony in Europe… The United States should now accept Europe as a new centre of power in international politics."*[183] Pragmatic realists represent the only stream of opinion that welcomes the idea of Europe pursuing a completely independent direction of foreign policy. They think it would allow a more efficient sharing of security-related costs, without fearing that Europe might become a counterbalance to the United States. *"I am willing to accept the risk that Europe might become a genuine centre of power, because I think the chances are very low that it might develop into true rivalry. In 95 to 97 percent, the two sides will be in*

[180] Asmus ( 2005: 101).
[181] Asmus and Holbrooke (2006).
[182] Gordon (2000).
[183] Layne (2001).

*agreement over security risks,"* says Christopher Preble of the CATO Institute.[184] Lawrence Korb of the Centre for American Progress takes a similar stance: *"We really should encourage common foreign and security policy in the EU... Europe should be independent. Some actions may be taken together, others may not."*[185]

Conservative realists, though developing the same initial idea as the preceding group, do not think the unification of Europe into one single body would benefit the strategic interests of the United States. The representatives of this stream of opinion, concentrated in conservative think tanks such as the Heritage Foundation or the Claremont Institute, are — in general — in favour of Europe strengthening its military capabilities and its role in the world, but are sceptical about European political integration being a tool to achieve those goals. First, they are concerned about the inefficiency of the arrangement, and second, they fear that a single body might compromise the United States' freedom to take action in foreign policy. These experts and practitioners, such as John Hulsman or Ian Brzezinski, would prefer to co-operate with Europe on an individual basis with those European states that have enough capability and decision-making power to take foreign-policy actions.[186]

Neoconservatives, concentrated mainly at the American Enterprise Institute, Hudson Institute, or in the Project for a New American Century, are undoubtedly most sceptical about the benefits that European political integration might have for American interests. Some are convinced that Europe as such is doomed to be useless because of its limited military capabilities and its lack of will to take active action in the world (e.g. Richard Perle is an important personality with this view, saying that *"Messrs Chirac and Blair must be dreaming if they say the EU is ready to take action on its continent,"*[187] or that *"Europe's lack of capabilities makes it unwilling to take any action."*[188]). Yet, a number of neoconservatives still think Europe is strategically important[189] and its unification might therefore be dangerous for the United States' interests as Europe — as a counterbalance — may restrict Washington's freedom to take international action when meeting its goals. The prominent neoconservative William Kristol says, *"No politician of high esteem can say we believe in a unified Europe and we shall therefore support it. That would not be responsible."*[190]

What is important about neoconservatives in this respect is the stress on maintaining the United States' power dominance, which may well be compromised if European integration goes in a certain direction. This idea is far from new, however. As early as March 1992, the New York Times published a secret memorandum by Paul Wolfowitz, the then-Assistant to the Secretary of Defence

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[184] Christopher A. Preble, Director of Foreign Policy Studies, Cato Institute, interview by the author.
[185] Lawrence J. Korb, Senior Fellow at the Centre for American Progress and Senior Adviser to the Center for Defense Information, former Assistant Secretary of Defense, interview by the author.
[186] John C. Hulsman, Senior Research Fellow at the Margaret Thatcher Centre for Freedom, Heritage Foundation, interview by the author; Ian J. Brzezinski, former Deputy Assistant Secretary of Defense for NATO and European policy, interview by the author.
[187] Perle (2001).
[188] Patten and Perle (2003).
[189] E.g. Gary J. Schmitt, Resident Scholar and Program Director on Advanced Strategic Studies, American Enterprise Institute, interview by the author.
[190] Quoted in: Baker (2003).

Dick Cheney: According to the document, the main goal of the United States' security agenda is to *"prevent re-emergence of a new rival"* by preventing *"any hostile power from dominating a region whose resources would, under consolidated control, be sufficient to generate global power,"* such as Europe. The memorandum says the United States therefore have to keep their leading position and persuade all their potential competitors that it would be useless to try to gain more power.[191] Other neoconservatives share this view: *"The American hegemony is the only reliable defence against a breakdown of peace and international order,"* say William Kristol and Robert Kagan.[192]

In other words, European political integration does not fit in with the neoconservative idea of the United States being absolutely free when achieving their morally-founded foreign policy goals globally, as the integration process might reduce the number of allies that might join the actions; also the U.S. actions might be blocked through bodies such as the UN or through public diplomacy, or it might result in a new power counterbalance in direct opposition to American dominance.

## Conclusion

This analysis suggests that there is great deal of variation in the way the United States perceives European political integration; however, there is at least one common point. That is the link between the results of the integration process and the United States' ability to pursue their foreign policy goals, or — in other words — to pursue their own security strategies. Therefore, the U.S. policy towards European political integration must be seen as part of a wider concept of the United States' role in the world and of the way the European allies and their hierarchy fit into this concept.[193] Naturally, different parts of the political spectrum and the different "camps" of political thinking have different views on this general strategy, and therefore there is no agreement on the specific issue: that of how beneficial Europe's political and security integration would be for American interests.

But the difference in the perception of European political integration disappears on the most general level. The attitude of most groups to the integration process, perhaps with the exception of some "pragmatic realists," may well be described as conditional approval. The idea is that the nature and results of Europe's integration will not be contrary to the maintenance of the US' leadership in transatlantic security; also, this view expects Washington will have to face no counterbalance that would compromise its freedom to take foreign policy action globally. If these conditions are met, the United States will encourage a stronger Europe both in terms of military power and foreign policy activities. The "yes" or "no" of the opinion groups is based on how much they believe that European political integration is really going that way. Even neoconservatives would probably not be against a strong Europe that is always ready to co-operate with the United States.

[191] *The New York Times* (March 8, 1992: 14).
[192] Quoted in: Haass (1997: 53).
[193] Sloan (2005: 185).

Is it possible to foresee the way Americans will change their attitudes to the European political integration? It is, if the United States' long-term interests in Europe are taken into consideration. Daniel Hamilton points to that: *"Europe which is not dominated by a hostile power; Europe which is open to American ideas, products, services and influence; Europe which is able to take care of its own security; Europe which is a partner for the United States in the promotion of their goals globally…."*[194]

In brief, unless European political integration pursues the model of a "power counterbalance," and if it, at the same time, gives Europe more capacities for foreign-policy activities, the United States will encourage the process. If the integration goes against the idea of preventing the continent from being dominated by an enemy (which even the European Union might well become), the United States will stand up to it. Therefore, it is less relevant whether the Democrats or Republicans occupy the White House because the influential groups on both sides of the political spectrum agree on this issue. The United States cannot be currently expected to take an active policy towards European political integration. A stronger political reaction can be expected from Washington only if the "sentiment" of the process is seen as the attempt at power counterbalance to the United States.

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# 5. THE EUROPEAN UNION IN THE CZECH AND SLOVAK PRE-ACCESSION PUBLIC DISCOURSES

Tereza Novotna[195]

## Introduction

On May 1, 2004 10 countries of Central-Eastern and South-Eastern Europe joined the European Union — eight post-communist states and two Mediterranean, among them the Czech and Slovak Republics. Nowadays it seems that the 'Eastern enlargement' of the EU was almost inevitable. If we consider only countries of the former Soviet bloc, the process of accession was marked by their effort to accept and implement a tremendous amount of European legislation and to execute other EU requirements, accompanied by domestic democratisation and economic transition. In this respect, both the Czech and Slovak Republics are typical cases. Their starting point was nearly the same and both the Czech and Slovak Republics joined the EU at the same time; it means that they simultaneously managed to fulfil the necessary political, legal, and economic prerequisites demanded by the opposite side. In that sense, there is actually no difference in the resulting entry to the EU between the two countries.

To find a difference in their common success, we have to look elsewhere. It will be argued that the obstacles on the 'way back to Europe' were not a formal and administrative *acquis* implementation, but poor public discourses on the merits of joining the EU caused by either internal political weakness or decreasing political motivation. Slovakia, with its initial incorporation into the so-called second wave of candidate countries due to its unacceptable inner political situation in the mid-1990s, and with subsequent extreme enthusiasm about EU accession, is the best illustration of the former obstacle. The Czech Republic, with its initial sense of 'exceptionalism' that turned into a nationalistic-populist rhetoric of political parties' leaders and eventually mounted into relatively low level of "yes-votes" in the closing referendum, is an exemplar for the latter.

The chapter is divided as follows: The first part summarises discursive institutionalism as a theoretical framework of reference that is used throughout the chapter. The second part gives a perspective on the preliminary stages of the eastern enlargement of the EU and the public discourse on joining the EU in Czechoslovakia after 1989. The third part examines shifts in public discourses in both the Czech and Slovak Republics in the years before the accession.

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## 5.1. Discursive Institutionalism: The New Way of Looking at the European Integration Processes

Besides 'classical theories' of European integration, such as federalism (supranationalism), intergovernmentalism, and neo-functionalism, institutionalism belongs among the most progressive streams of political thinking about the European integration processes. After all, the EU is all about the interplay of various European and national institutions. In its original version, institutionalism consists of three subdivisions: rational choice, historical, and sociological institutionalism. All of them, however, contain a few deficiencies. Similarly to intergovernmentalism and game theories, rational choice institutionalism assumes that the preferences of political actors are more or less fixed, which is not always true in the real world. Historical institutionalism, on the other hand, looks for reasons why European integration proceeds in a certain way even though there might be another, more rational, option. According to historical institutionalism, the European integration process ends up in a 'path dependency' and locking-in within institutional structures: Once you invent an institution or policy-making approach, it is not easy to find other ways of handling the issues. Yet, the strength of self-reinforcing historical paths doesn't provide much space for political change. Not only do history and institutions matter, but so do culture, mentality, and identity. This is a stance that sociological institutionalism takes up. Sociological institutionalism attempts to solve the static nature of historical institutionalism by stressing a broader culture-based context in which European integration evolves. The nation states aren't the only political actors and we have to seek out other social carriers as well.

Nevertheless, neither are cultural norms all-defining: In order to change institutions, you always need to bring in new ideas through the public discourse. This is a point of departure that V. A. Schmidt[196] most recently came up with, inspired primarily by J. Habermas. Schmidt's[197] discursive institutionalism, as the fourth category among institutionalist theories, argues that discourse "Encompasses not only the substantive content of ideas but also the interactive processes by which ideas are conveyed. Discourse, in other words, refers not just to what is said (ideas) but also to who said what to whom, where, when, how, and why (discursive interactions)."[198]
At the discursive level[199], these discursive interactions can be then split into two groups:— among policy actors, coordinative discourse, and between policy actors and the public, communicative discourse. The coordinative discourse helps to coordinate agreement among policy actors on policy ideas, while the communicative discourse presents policies to the public and communicates its responses to government policies.

[196] Schmidt (2006), Schmidt (2008).
[197] Schmidt (2008:2).
[198] Schmidt (2008: 2) continues in her definition of discourse: It is "not just about 'text' (what is said) but also about context (where it was said when, how, and why); and it is not only about structure (what is said or where it was said how) but also about agency (who said what to whom)."
[199] At the ideational level, discursive institutionalism distinguishes three levels of generality (policies/policy solutions), programs, and philosophies and two types of content (cognitive and normative ideas), see Schmidt (2008: 3-4). This ideational level is, however, insignificant for further research on the Czech and Slovak accession to the EU and, therefore, won't be discussed.

In general, 'simple polities'[200], such as the UK and France, tend to have a more elaborate communicative discourse, whereas in 'compound polities,' such as Germany and Italy, the coordinative discourse is more intricate.

The situation gets even more complex when a polity cannot be clearly classified as either simple or compound and when its public discourse is not settled yet but is undergoing a thorny development. The Czech and Slovak Republics during their EU pre-accession period are cases in point. Neither of them can be categorised as purely simple, particularly due to their electoral and political party systems. Moreover, public discourses on joining the EU have substantially shifted several times in both countries since the early 1990s until 2004. This chapter, therefore, takes discursive institutionalism as its theoretical framework of reference and points out moments in the recent political history of the Czech and Slovak Republics when a development in coordinative discourse led to a shift in communicative discourse, and vice versa, resulting in a political change. It also shows that public discourse on the EU matters not only once the countries are 'in' the club but also, and perhaps even more so, when they are on the way to the EU.

## 5.2. Political Preconditions of the EU's Eastern Enlargement

When, in 1989, the Soviet bloc collapsed and post-communist regimes in Central and Eastern Europe (CEE) embarked on the path to democracy and free market economies, it became apparent that for political, economic, and security reasons it was necessary for the European Communities to consider further enlargement to the East. Nevertheless, EU members were cautious in their decision-making. It had taken them about four years before they, in 1993, agreed at the European Council summit in Copenhagen that, "the associated countries in Central and Eastern Europe that so desire shall become members of the European Union." At the same time, the summit defined three groups of membership criteria, which are known as the "Copenhagen criteria":

1) *Democratic*: stability of institutions guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities;
2) *Economic*: the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the European Union;
3) *Legislative*: the ability to take on the obligations of membership including adherence to the aims of political, economic and monetary union.

In December 1995, the European Council summit in Madrid added the fourth condition:

4) *administrative*: the creation of the conditions for a candidate's integration through the adjustment of its administrative structures.

The meeting of criteria became a condition *sine qua non* of the enlargement, which is the situation referred to in the literature as the "principle of conditionality" where "one partner has leverage over another through their ability to withhold a

[200] Simple polities are prevalently unitary, statist, and majoritarian states, in contrast to compound polities, which tend to be federal or regional, corporatist, and proportional, Schmidt (2006).

desired benefit, in this case, EU membership."[201] In practice, it resulted in changing domestic policies and institutions among the CEE candidate states in order to bring them into line with EU requirements.

### Political preconditions of the Czech and Slovak accession to the EU

At the beginning of the 1990s, Czechoslovakia was perceived by EU Member States as one of the most progressive candidates. At the domestic front a sense of Czechoslovak 'exceptionalism' in the coordinative discourse among policy actors prevailed: It was anticipated that the democratic and economic reforms would not encounter any serious obstructions. Therefore, the conclusion of the so-called Association Agreement ("The European Agreement on Association of the Czech and Slovak Federative Republic to the European Community") in December 1991 was seen as a great triumph, moreover when Czechoslovakia was among the first countries to undersign it, it seemed to be evidence of the primacy of Czechoslovakia within the group of candidate countries. In particular, the Minister of Finance and later Czech Prime Minister Václav Klaus spoke about the "Central European tiger" and his rhetoric reinforced the sense of Czechoslovak exceptionalism in the communicative discourse between policy-makers and the public. Since the collapse of communism, the Czechoslovak public coordinative and communicative discourses (and later Czech discourses) thus considered joining the EU as something unavoidable and logical, for it would be truly absurd for EU members to reject such a studious and gifted pupil. Even though the imminent economic difficulties (which some predicted already at the start of the decade and culminated at the end of the 1990s) cooled down the early Czechoslovak (or rather Czech) optimism; the self-evidence of their accession was a sustained feature of the national public discourse until its realisation.

## 5.3. The Shifts in Public Discourses

### Internal developments in the Czech and Slovak Republics in the 1990s

Since the split of Czechoslovakia, a shift in both coordinative and communicative discourses occurred and the Czech Republic became the prime heir of the former Czechoslovak enthusiastic spirit. The Czech Republic underwent a successful economic transformation (although there remained large state-owned banks and industry companies to be privatised along with problems with 'tunnelling'); the internal political situation was stable. Statistical data[202] from the mid-1990s seems to justify the self-confidence of the Czech people as well as the politicians: the private sector grew to 65 percent of the GDP in 1994 (the best result of all candidate countries), the FDI amounted to 2.9 percent of GDP in 1995 (the third best result after Hungary and Estonia), and the Czech Republic scored 0.85 on the liberalization index (ranging from 0 to 1) of the World Bank in 1995 (the best result, tied with Hungary).

[201] Glenn (2003: 216).
[202] World Bank (2002).

The Slovak outcomes were less impressive, though better than in most other CEE countries. Nonetheless, the Slovak 'lagging behind' was not so serious that Slovakia could not catch up and even surpass its 'older brother.'

However difficult the economic situation might have been, it was not a concern to the Slovak public, particularly right after the Slovak independence. What mattered most was the 'regained' national sovereignty and the possibility to finally realise the Slovak 'right to self-determination.' In this period of heightened nationalism, the endeavours to become a member of a supranational collectivity such as the EU had to play second fiddle. If Slovak politicians mentioned EU accession in their communicative discourse, they talked about their pleasure when Slovakia would have its own 'star' on the European flag, nonsense in itself anyway. The Slovak public perceived any issue pertaining to joining the EU (and NATO) as secondary and of minor importance, especially since the shade of the former Czechoslovak feeling of its unavoidability covertly endured in Slovakia as well. The national leader who (together with V. Klaus) 'divorced' Czechoslovakia and brought the Slovak Republic to existence (and who, therefore, enjoyed immense public popularity) was Vladimir Mečiar, the Prime Minister and head of the Movement for Democratic Slovakia — *Hnutie za demokratické Slovensko* (HZDS). His party had won all the parliamentary elections[203] since independence and became a driving force in the Slovak 'national way' to democracy and prosperity. The 'reign' of V. Mečiar (1993-98) is, however, ambiguous; it is ranked somewhere between a kind of populism and semi-authoritarianism. In foreign affairs discourse, Mečiar's government maintained EU and NATO accession as a state priority; nevertheless, it has been accused of an Eastward-looking orientation in policy, particularly in regard to foreign trade.[204] Eventually, on June 27, 1995 Prime Minister V. Mečiar submitted the application of the Slovak Republic for EU membership at the European Council summit in Cannes, while Czech Prime Minister V. Klaus applied for EU membership six months later, on January 23, 1996 at the summit in Rome.

Despite the Slovak official pro-EU public discourse, the most striking problem became the deteriorating domestic political situation. The dissatisfaction with Slovak progress was reflected in several EU documents: the EU demarches from December 1994 and November 1995, the Presidency declaration from March 1998, and, finally, the "Resolution on the Need to Respect Human and Democratic Rights in the Slovak Republic" adopted by the European Parliament on November 16, 1995 (and repeated in December 1996). After enumerating grievances against the Slovak Republic (e.g. attempts to deprive democratically elected representatives from opposition parties of their seats in parliament, political intrusion into police investigation and media), the November *EP Resolution (4)* concludes: "*The European Parliament points out to the Government of the Slovak Republic that if it continues to follow policies which show insufficient respect for democracy, human and minority rights and the rule of law, it will be necessary for the European Union to reconsider its programmes of assistance and cooperation under the Europe Agreement which might have to be suspended.*"

[203] In 1994 HZDS received almost 35 percent, in 1998 27 percent, and in 2002 19.5 percent of votes. Nevertheless, in the last 2006 elections, HZDS together with the People's Party sank to the fifth position with 8.79 percent.

[204] Nello (2002: 296).

This was not an admonition of an immature youngster, but a sign of anger threatening practical consequences in the foreseeable future. Unfortunately, Mečiar's government found the demarches and resolutions as nothing more than EU interference in Slovak internal matters,[205] while the opposition and president warned of the Slovak Republic's pending isolation.[206] The split between the coordinative and communicative discourses began to accelerate.

On July 16, 1997 the European Commission published the strategic document "Agenda 2000: For a Stronger and a Wider Union." In its introduction, the Commission announced that at the request of the Council, the Commission worked up "Opinions on Applications for Membership" of 10 candidate countries. In its opinion, the Commission took into account answers to the Commission's questionnaires submitted by candidate countries a year before, evaluations on progress toward the realisation of the Copenhagen requirements, and reports and resolutions of the European Parliament and other governmental and non-governmental institutions. It came as no surprise that the Commission maintained that even though a number of countries needed to move forward in the practical application of democracy and protection of minorities, there was only a single candidate state — Slovakia — that did not meet the political criteria adopted by the Copenhagen Council summit. In the detailed "Opinion on Slovakia's Application for Membership of the European Union", C. Summary and Conclusion, the Commission explains that: "*The government does not sufficiently respect the powers devolved by the constitution to other bodies… the use made by the government of the police and the secret services is worrying… Despite recommendations made by the European Union in a number of demarches and declarations, there has been no noticeable improvement*."

The Opinion concludes: "*Slovakia does not fulfil in a satisfying manner the political conditions… because of the instability of Slovakia's institutions, their lack of rootedness in political life and the shortcomings in the functioning of its democracy. This situation is so much regrettable since Slovakia could satisfy the economic criteria in the medium term and is firmly committed to take on the* acquis."

For comparison, let us quote from an analogous "Opinion on the Czech Republic's Application for Membership": "*The Czech Republic's political institutions function properly and in conditions of stability… There are no major problems over respect for fundamental rights… the Czech Republic can be regarded as a functioning market economy… further administrative reforms will be indispensable if the Czech Republic is to have the structures to apply and enforce the* acquis *fully.*"

The Commission eventually suggested that Hungary, Poland, Estonia, the Czech Republic, and Slovenia could, in a mid-term perspective, meet all the criteria for membership, and accession negotiations should be open with them. The European Council at the summit in Luxembourg in December 1997 followed this recommendation and initiated negotiations with five candidates; Slovakia was excluded from this 'first wave' and incorporated into the 'second wave.' As E.

[205] A press spokesman for HZDS even reacted by saying: "Concerning the European Parliament resolution to Slovakia, HZDS reminds you of a recent story, when the leaders of Nazi Germany first sent countries demarches, and then occupied them with tanks." Not surprisingly, HZDS representatives distanced themselves from the spokesman's remarks, calling them his own personal opinions and not the official HZDS party standpoint.

[206] Slivkova (1999: 8).

Slivkova noted, "Slovakia missed the most suitable moment for starting negotiations."[207] The gap between the Slovak coordinative and communicative discourse reached its maximum depth.

**The true prospects of EU accession**

On March 31, 1998 the EU opened accession negotiations with six 'first wave' countries (Cyprus was added) and the period of the 'screening' (i.e. comparing the candidate's legislation with that of the EU) was launched. The Czech Republic, meanwhile, experienced several changes: an economic downturn and corruption affairs that led to the collapse of the right-wing cabinet of V. Klaus, subsequent exceptional elections, and an advance of the opposing Social Democrats to power. A major shift in the 'European' communicative public discourse followed one in the coordinative discourse of V. Klaus' Civic Democrats — *Občanská demokratická strana* (ODS). Once the political party that enthusiastically presided over the transformation and applied for EU membership, ODS was becoming more pessimistic about the Republic's prospects (blaming, of course, governing Social Democrats) and more Eurosceptical (resembling, sometimes rather tragicomically, British conservatives). The new atmosphere within the party and its coordinative discourse can be illustrated in a few quotations from the "Czech Eurorealist Manifesto,"[208] the small work of three intellectuals, one of whom (Jan Zahradil) is now a member of the European Parliament. Although the Manifesto sets out two strategic priorities — integration into the EU and NATO — it sees EU membership as the "most extensive modern voluntary hand-over of part of our sovereignty to a 'supranational' level," and the EMU as a political project (which has to be preceded by a referendum); the negotiation process is seen as a tactic which transformed the EU's enlargement into a competition by which the EU manages to rearrange the candidate queue according to its opportune needs; and the requirement to implement the entire *acquis* is an "*anti-dumping measure that quickly liquidates even the rest of the comparative advantages that the Central-Eastern European economies so far possessed,"* and which *"is not so much about meeting declared 'high' standards, but is mainly a protectionist weapon defending the European market before the external competition*."

Before serving his term in the 'underdeveloped' European Parliament, Jan Zahradil, the MEP author of the Manifesto, issued a proclamation announcing, "*Because of the non-existence of the 'European' public and 'European' voters, the European Parliament can never become a developed parliament"* As a consequence, the Manifesto insists that the Czech Republic has two vital interests: participation in EU decision-making processes and involvement in the single market, not as an inferior and secondary, but full-fledged member. At the same time, the Czech Republic should be attached to the intergovernmental model that is not "*projected from desks of European political and bureaucratic elites*" and in which, by keeping the veto right, national identity "*is not reduced to a sort of negligible cultural-folklore*

[207]Slivkova (1999: 13).

[208]The document can be found at the Civic Democratic Party (ODS) web page. <http://www.ods.cz/knihovna/dokument.php?ID=11> as of December 15, 2004.

*element.*" If the Czech Republic does not reach these prerequisites for its entry, the Manifesto offers two viable alternatives, either a bilateral solution "*based on the Swiss model*" or closer economic ties with the United States and the North American continent, for "*in the globalised trade exchange, geographical distance loses its significance*" (joining the US as a Central European fifty-first state was not suggested though). This lengthy citation from one party's programmatic paper expresses the mood that tended to rule over about half of Czech society. The communicative discourse between politicians and the public was a puzzling mixture of the continuing exceptionalism with unfounded fears and doubts about the 'European socialist superstate,' mix of a theoretical knowledge with demagogy and populism. In addition, the other, Eurooptimist half, seasoned increasingly nationalistic discussions with glorifications of the EU and immoderate expectations from its membership. Besides this, the former front-runner had difficulties keeping up with other 'first wavers' and this necessarily affected the overall atmosphere in Czech society and its relationship with the outside world, particularly the EU.

On the other side of the border, the situation started to look much rosier. Although the EU demarches did not have a desirable outcome, the incorporation of Slovakia among the "*Luxembourg rejects but Helsinki invitees"*[209] produced a wake-up call[210] and major shift, firstly, in the coordinative and, immediately, in the communicative discourse. The public began to realise that with such a domestic policy it could soon belong to the 'Wild East.' The intensifying excesses of Mečiar's government (e.g. with respect to the Hungarian and Roma population or electoral rule[211]) led to reverse consequences — a unified resistance.

Before the elections in 1998, the fragmented opposition sufficiently coordinated its public discourse and integrated itself into one party block. The change in the communicative discourse between policy actors and the public followed the suit. With a remarkable 84 percent turnout, V. Mečiar and his coalition were removed from power. The new cabinet's leader and head of the second strongest party, Mikuláš Dzurinda, went on his first official visit to Brussels and embarked on the path to democracy stabilisation, protection of national minorities (e.g. by a minority language law adopted in July 1999), and economic recovery. The European Union showed its appreciation for the Slovak progress repeatedly in 1999 and 2000: "*Slovakia continues to meet the political criteria for accession which the last report had recognized, for the first time, as having been fulfilled. Slovakia has further advanced in the consolidation of its democratic system and in the normal functioning of its institutions.*" ("2002 Regular Report on Slovakia's Progress Towards the Accession," November 2002)

Slovakia also improved its economic shape. The successful development was completed in December 1999 when, at the Helsinki European Council summit, EU Member States accepted Slovakia as a candidate for EU membership and on February 15, 2000 the official negotiations on the Slovak accession began in Brussels. Even though (or perhaps because) Slovakia was two years behind, it became one of the most industrious newcomers. The passionate atmosphere of the early nineties

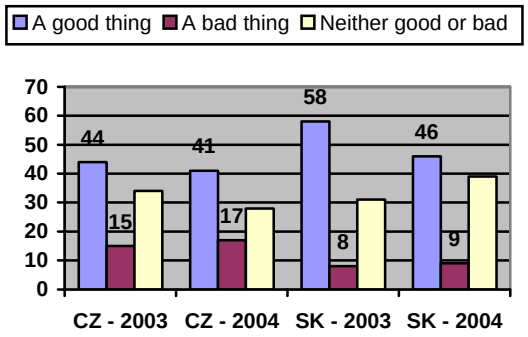
[209] Haughton and Malová (2007:18).
[210] The Slovak disappointment was accentuated by the decision on the first NATO enlargement, again with a Slovak absence.
[211] see Haughton (2001), Toma and Kovac (2001).

switched two parts of former Czechoslovakia and the shift in the public discourses occurred once again.

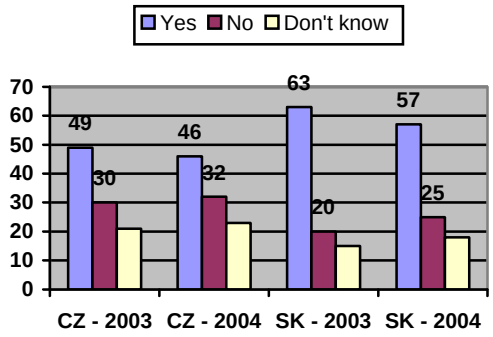
**All's well that ends well**

After Helsinki, everything went along smoothly. Both countries focused on chapter negotiations: the Czech Republic had the advantage of an earlier start and could conclude one-third of the chapters by the end of 1999. The Slovak Republic offered a 'package deal' and finished its first third in eight months by October 2000 (which is another sign of Slovak renewed eagerness, but also of a lesser bargaining competency). Finally, in December 12–13, 2002 at the European Council summit in (symbolic) Copenhagen, candidate countries officially finished accession negotiations and the European Council decided on the accession of the Czech and Slovak Republics. Since the integration of new members is subject to the assent procedure, the European Parliament approved the enlargement on April 9, 2003. Another precondition was the ratification of the Treaty of Accession by April 30, 2004. Before it could happen, all the candidate countries (except Cyprus) chose to hold membership referenda. If we look at the Eurobarometr results from Spring 2003 and Autumn 2004, the situation was worrying. Both the Czech Republic and Slovakia showed declining support for their membership, though Slovak support was considerably higher (or at least closer to 50 percent) than the Czech support.

*Generally speaking, do you think that your country's EU membership is…?*




*Taking everything into consideration, will your country get advantages from EU?*




How come the Czech Republic, the country that has been reckoned to be the leading candidate state, is less in favour than other countries? Why is Slovakia, which managed to do well enough to get out of its political curse, not as eager as it was before? The Slovak case is easier to explain: Even though Slovakia was fighting for its membership since 1998, the nearly unanimous voice of the opposition's coordinative discourse lasted shortly and, with time, dissolved. Moreover, HZDS and its leader V. Mečiar did not discredit itself, but further operated on the Slovak political scene, saying that: "*The national interest of the Slovak Republic is to guarantee its sovereignty, territorial integrity, inviolableness of borders, security, and*

*economic prosperity. To do so, we had to achieve a full-fledged membership in the EU and NATO.*"[212]

How similar those words are to the statements from the Eurorealist Manifesto. As G. Delsoldato put it: 'Populist national parties basing their political message on the defence of the predominant national identity tend to be critical of the modalities of EU accession though supporting it in principle.'[213] At the time of Czech accession to the EU, the position of the ODS was that joining the EU was "*our strategic goal for economic and political reasons,"* but any further development toward federalisation *"would lead to the significant reduction, or even elimination, of state sovereignty… and, therefore, is in contradiction with our national interests, and, being so, is for us unacceptable."*[214] An identical (or even more Eurosceptical) discourse led the new president of the Czech Republic, V. Klaus who, since his election in 2003, had been enjoying popularity in public polls. It was no wonder that in such a state of the coordinative discourse among political leaders only 77.3 percent of votes were in favour of the membership, which is relatively little in contrast to 92.46 percent positive votes in Slovakia.[215] Therefore, the shift in the communicative discourse between politicians and the public followed the change in the coordinative discourse among political leaders, this time on the Czech side.

## Conclusion

The experience of both republics is telling: even if economic integration is successful and European legislation is implemented, what matters in the end is the political motivation of the public to become an EU member. Although it is important how many chapters are concluded and how much money countries get and pay, the self-evidence of the accession can change overnight if the communicative discourse on merits joining the EU is led by leaders who, rather than realistically explaining the pros and cons of the membership, are playing on the nationalist and populist note. In any case, the Treaty of Accession entered into force on May 1, 2004 and the Czech and Slovak Republics joined the European Union, which shows that, despite all the obstacles and difficulties, the 'inevitable' can eventually materialise.

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[212] See official web page of the HZDS, www.hzds.sk.
[213] Delsoldato (2002: 283).
[214] Zahradil (2004).
[215] The referendum in Slovakia took place on May 16–17, 2003, whereas in the Czech Republic on June 15–16, 2003 (V4 group: Hungary, Slovakia, Poland, Czech Republic). The turnout in Slovakia was 52.15 percent (i.e. only 2.15 percent above the required 50 percent level), in the Czech Republic 55.21 percent (50 percent participation not binding).

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# 6. THE ATTITUDE OF KEY CZECH POLITICAL PARTIES TOWARDS EUROPEAN INTEGRATION — COMPARATIVE DISCOURSE ANALYSIS

Jan Váška[216]

## Introduction

Discourse analysis does not rank among the classic mainstream theoretical and methodological approaches of European Integration Studies.[217] The "linguistic turn" as it found its way from humanities and other social sciences into International Relations theory (hand in hand with the "post-positivist debate"[218]) has nevertheless also translated into a growing interest in the capacity of linguistic approaches to contribute to the understanding of European integration.[219] Within the emerging European Studies research community in the Czech Republic, linguistic approaches have so far tended to mainly focus on the analysis of metaphors.[220]

For researchers pertaining to both strands of social constructivist approaches to International Relations theory, linguistic and liberal, as well as for authors leaning further towards the reflectivist pole of IR theory, discourse looms as a central area of investigation. This follows from the social constructivist conception of discourse as constitutive of intersubjective meanings, norms, rules and identities and hence as means of the shaping and re-shaping of social reality.

This chapter particularly builds upon the notion of the structural function of discourse, which is here conceived to constitute an ideational structure with both an enabling and constraining effect on agency.[221]

The present chapter is attempting to fill a gap in present research *acquis* in the area of attitudes of the Czech Republic to European integration by employing a comparative discourse-analytical framework to explore the main features and limits of conceptual thinking about the European Union and the European integration process of its two key party-political actors: the right-of-centre Civic Democrats (Občanská demokratická strana, ODS) and the left-of-centre Social Democrats (Česká strana sociálně demokratická, ČSSD). These two parties were chosen not only because they broadly represent two main lines of Czech thought about European integration affairs (essentially pro-integrationist and pro-communitarian in the case of the ČSSD, and pro-intergovernmental and realist-to-sceptic in the case of the ODS). More importantly, these are the two political parties that have been competing, and unless

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[217] Cf. for example the lack of discussion about linguistic approaches in Rosamond (2000).

[218] For an excellent introductory discussion of the post-positivist debate in International Relations theory see Vasquez (1995: 217-240).

[219] See the Special Issue of *Journal of European Public Policy*, Vol. 6(4), 1999; Waever (2003); or Diez ( 2001: 5-38).

[220] See for example Drulák (2006: 499-531), Drulák and Königová (2006).

[221] For an introductory discussion of the social constructivist conception of the structure-agency relationship see Adler (2002: 104-106), and of course the seminal volume Hollis and Smith (1991).

the dynamic of the Czech political system fundamentally changes, they are bound to compete for a decisive role in the formulation of Czech policy vis-à-vis the EU.

The aim of the analysis is, firstly, to identify and confront the key conceptual ideas and prevailing shared meanings adhered to by the two parties, and where traceable, to outline their possible development over time and to identify possible "inner" alternatives to currently dominating conceptual ideas as indicators of possible future shifts in both actors' positions. Secondly, the comparative aspect of the analysis seeks to establish the scope for possible cross-party, "national" consensus in relation to questions of the future strategic direction of the European integration process and the likely main conflict lines between the parties.

This chapter engages the level of conceptual, strategic thinking about European integration and largely abstracts away from the day-to-day "business" of European integration policies and politics. Its theoretical and methodological approach admittedly has rather limited possibilities to explicate particular political events in the "field." Nevertheless, its capacity to shed light on the way actors think about European integration and on the values, requirements and expectations they project in the EU, in our opinion offers a valuable, if complementary interpretative framework which enables a fuller understanding of European policy.

This chapter is mainly an empirical piece of text, therefore it does not indulge in theoretical discussion beyond a very brief outline in the introduction and an indispensable note on the conception of the discourse it builds on. In the first part, the methodological framework is briefly introduced. The second — empirical part of the chapter is structured into four comparative subparts, each discussing a particular category of statements. I only focus here on some of the statement categories I have analysed: These are categories to which both parties' speakers relate the most frequently and thus attach the highest discursive importance. The selected categories also, and this leads us to the conclusions of the analysis, appear to best illustrate the size of the gulf that in most aspects exists on the level of conceptual thinking about European integration, between the two largest political parties in the Czech Republic.

## 6.1. Theoretical and Methodological Approach

To introduce very briefly the concept of discourse that this chapter builds on, it is conceived as a system of significations, i.e. meanings, rules, norms and values in relation to the concepts examined,[222] rather than a mere sum of spoken and written statements, with a layered structure.[223] A plurality of competing discourses (often rooted in common governing statements, in Waever's terminology) can exist within particular "discursive spaces" delimited by national or language boundaries.[224] The comparison of competing discourses within a national context and in relation to a particular concept (European integration) is thus possible. Among existing research, this chapter is particularly indebted to Jachtenfuchs's work on "polity types" and the

[222] Larsen (1997: 32); see also Milliken (1999: 229-31).

[223] Waever (2002: 20-45). The principal advantage of the layered conception rests in its ability to account for various degrees of change in discourse within its overall continuity.

[224] This conception of discourse is developed in Larsen (1997: 11-33). Larsen accepts the existence of trans-national discourses, they are however much "thinner" as compared to national discourses.

role of constitutional ideas in shaping political parties' attitudes towards European integration.[225]

Political parties are conceived in this chapter as unitary actors with a single discourse. The analysis does not "descend" to the level of individual politicians and their singular sets of principal ideas. Conversely, analysed texts are taken as representations of the party discourse at a given time regardless of the identity of the speaker. The plurality of statements is therefore of interest not as an indicator of potential differences between individual politicians but as a reflection of the plurality of ideas within the party discourse. All texts were selected in a way that they can be assumed to represent the "official mind" of their parties. Admittedly, the concrete aim and audience/readership of individual texts come in as an intervening factor. Its effects are, however, relevant on the level of individual texts; when aggregated, it is these nuances that make it possible to more fully explore the party discourses. And it is the overlaps and recurring statements that reflect the parties' key conceptual ideas.

## Methodology

For each party approximately 10 key texts were selected with the ambition to evenly cover the period from the opening of the "Debate on the future of Europe" in December 2000 until the German EU Council presidency in January–June 2007, which oversaw the re-launch of the debate about the new EU Constitutional/Reform treaty.[226] These select texts (listed at the end of this article) include speeches and articles by the parties' top-ranked representatives (party leaders and foreign/European affairs spokesmen) and, as a complement, election programmes.

The text analysis was based upon a standardised "grid" which enabled its identification and evaluation, by means of a combination of qualitative and quantitative perspective, selected categories of predicate statements, both positive and normative. When approaching the limits, as constituted in discourse, of actors' thinking about European integration, negative statements are particularly valuable. The categories of statements analysed include the questions of the purpose and goals of European integration, the continuity of the integration process, the nature of the EU as a polity, the *finalité* of European polity-making, the main tasks for the future and so forth. Particular attention was paid to adjectives used by the actors in their European integration-related discourse.

For both political parties, prevailing conceptual ideas were thus identified, along with second-order ideas and possible alternatives, for each category of statements (or discursive "mini-formations"). Next, a comparison was carried out of the parties' prevailing conceptual ideas in each statement category, with three possible patterns

[225] Jachtenfuchs, Diez, Jung (1998: 409-45); Jachtenfuchs (2002).

[226] In general, the number of texts analysed proved insufficient to warrant a more nuanced insight into the impact of key events during this period (seen from a new Member State's perspective, e.g. of the launch of the European Convention in February 2002, Copenhagen summit and the conclusion of the accession negotiations in December 2002, the 2003 referenda on EU membership, EU accession on 1 May 2004, the failure of the Constitutional Treaty ratification process in spring 2005, the coming of the ODS into government in 2006, re/launch of the debate about the revision of EU founding treaties in spring 2007) upon the actors' key ideas and priority issues. A remarkable lack of relevant texts for some periods of the overall time span should however be also noted.

envisaged: *Consensus* (actors share the same conceptual ideas and priorities), *Divergence* (actors' key conceptual ideas are different but not in direct opposition), and *Polarisation* (actors' key conceptual ideas are in direct opposition). The final assessment was then done on the basis of these partial comparisons.

In this article, I will focus on four categories of statements, one positive (1) and three normative (2–4)[227]:

1) reflection on the past — successes and failures of European integration until the present;
2) continuity of the integration process;
3) the future identity of the EU and its preferred nature as a polity;
4) the future character of the EU (what it should be *like*) and the main tasks it should fulfil.

## 6.2. Empirical Findings: ČSSD, ODS and Their Conceptual Ideas about Euroepan Integration

### Reflection of the past

This category consists of positive statements relating to perceived achievements and failures of the European integration process until the present. The difference in the overall disposition of the two parties towards European integration, and their differing appreciation of the EU, are manifest here. Whereas for the ČSSD, the ratio of approving statements to those with negative connotations is over 2 to 1; for the ODS, perceived failures and drawbacks prevail over achievements by approximately 3 to 1 in terms of both the number of statements and the number of texts in which these statements appear.

*ČSSD*

Statements with positive connotations often relate to one central idea: the EU has successfully fulfilled its main goals, *peace* and *prosperity* (then *freedom* and *stability*). The emphasis the ČSSD puts on the political and economic dimensions of integration is balanced. Critical statements are on the whole marginal, with just two (related) ideas recalled more than once: the democratic deficit of the EU and a sense of alienation from EU institutions on the part of citizens.

*ODS*

As noted above, statements with negative connotations clearly predominate. The ODS rates the creation of the *single market* as the main success of the integration process, followed by the provision of stability, peace and economic growth. On the whole, the economic perspective prevails over political one.

Critical views of the European Union are articulated in next to all ODS texts. The list of perceived failures of the European integration process is vast, partly reflecting

[227] Of course even evaluating positive statements (category 1) may be also read as normative in that the evaluation is based upon normative ideas.

the liberal programme of the party. Five ideas loom especially large, and form the gist of the ambivalent attitude of the ODS towards the EU:

- inequality of Member States (often articulated as a criticism of transition periods in the area of the free movement of labour);
- lack of democratic legitimacy and accountability;
- excessive bureaucracy, regulation and protectionism;
- excessive ambitions (e.g. in the area of Common Foreign and Security Policy);
- systemic deficiencies of the European socio-economic model.

*Adjectives*

The extent of the difference between the two parties' reflection of past achievements and failures of European integration is well documented by the analysis of adjectives used in this category of statements. In ČSSD text, adjectives with negative connotations are entirely missing. On the other hand, most ODS texts contain negative or semantically critical adjectives, which mostly refer to two conceptual ideas

- lack of legitimity (democratically unaccountable, untransparent, artificially accelerated…);
- overregulation and inefficiency (unnecessary, nonsensical, cumbersome, ineffective…).

*Conclusion*

It may be concluded that in the reflection of the past record of European integration, while important elements of Consensus among the ČSSD and the ODS have been identified, the pattern of Divergence prevails. This category of statements does not lay the ground for any significant Polarisation between the two parties.

**Continuity of European integration**

The normative question of the continuity or discontinuity of the integration process is important for the ČSSD and crucial as a discursive theme for the ODS. Whereas the ČSSD advocates *continuity* of the past and future direction of European integration, most ODS texts contain clearly articulated demands for revision and *discontinuity*.

*ČSSD*

The dominant current in leading the Social Democrats' thinking advocates the continuation of and continuity in European integration in both its dimensions, deepening and widening. A number of ČSSD texts (especially those published after the failure of the Constitutional Treaty ratification process) urge against a reversal of existing integration trends and against the return to a "Europe of nation states." On the other hand, some of the older texts also contain (on the whole rather marginal) statements pointing to a need to revise the Community *acquis* and to find a new approach to European integration through the bigger involvement of EU citizens.

*ODS*

The dominant conceptualisation of the ODS portrays the European Union as either at a *crossroads*, or in a *cul-de-sac*. Both metaphorical images are similar in that they imply a discontinuity of the integration process; each situation nevertheless poses a different requirement. The *cul-de-sac* image is more radical as it only leaves one real option, reversal of the current degree of integration (and return, as the ODS discourse puts it, to the "democratic roots" of European co-operation, typically before Maastricht). The less radical *crossroads* image equally urges against continuity in present integration trends, it however implies the need to "turn in the right direction" rather than to reverse European integration altogether. Both variants of the discontinuity idea share a distinct opposition against the further deepening of European integration, and they refuse its conceptualisation as a one-way process.

A minority, less "hostile" alternative can be identified within the ODS discourse which signals a conditional support for an evolutionary, gradual continuation of the integration process.

*Conclusion*

Normative ideas about the continuity of the European integration process form an area where Polarisation is the dominant pattern. At the same time, elements of Consensus were also identified.

**Identity of the European Union**

This "discursive mini-field" comprises normative questions of the identity of the European Union and its future political organisation, including statements about EU *finalité*. These issues have a paramount discursive importance attached, especially on the part of the ODS. A complementary comparison of the parties' conceptions of the EU international actorness is also instructive.

*ČSSD*

The most frequent motive in this category of statements is a consistent opposition to the idea of a formalised "multi-speed" or "hard-core" Europe. Whereas some texts support the extension of the *communitarian* method, others advocate the preservation of the current integration model based on a combination of communitarian and intergovernmental elements. These distinctions are, however, not attached with a particular importance and only appear in older ČSSD texts (mainly in the "white tower" Convention period).

Later texts, under the apparent influence of concerns caused by the failure of the Constitutional Treaty ratification process, express the commitment not to allow any disintegration of the political union (by means of the creation of a free trade area or an "Organisation of European States")

Despite the ČSSD reputation as a federalist-leaning party, the texts analysed are marked out by a nearly complete absence of explicit support for the idea of the federalisation of the EU.

*ODS*

The Civic Democrats' thoughts about the future identity of the European Union as a political entity converges around a broadly shared concept, which includes a strong opposition to the ideas of EU federalisation and (or) the creation of the "United States of Europe." Instead, many ODS texts emphasise the *intergovernmental* principle of European co-operation.[228] The pervasive key term is *flexibility*: the ODS argues for a flexible organisation of the EU, and later texts bring to the fore the idea of a two-way flexibility in the transfer of competences (i.e. the re-nationalisation option). Like the ČSSD, the ODS refuses the idea of a formalised "multi-speed" European Union, and promotes instead (in sharp contrast to the pro-communitarian Social Democrats) the concept of "Europe à la carte."

Apart from flexibility and the intergovernmental approach, three motives loom large in the ODS discourse on the organising principles of the European Union:

- equality of Member States, both along the big/small and the old/new divide;
- emphasis on nation states and their political institutions as sources of the Union's legitimity;
- emphasis on liberal values (freedom, deregulation, removal of barriers, competition among Member States).

*European Union as an international actor*

The question of the identity of the European Union refers not only to its organisation as polity ("internal" dimension) but also to the nature of its international actorness ("external" dimension). Whereas several ČSSD texts refer to the conceptual idea of *the EU as a key global political and economic actor*, the ODS explicitly refuses the notions of a "European superpower" or "fortress Europe." Instead, it adopt the concept of a *zone of closely co-operating European states* that forms a part of a larger, politically and economically interconnected Atlantic area.

*Conclusion*

The comparative analysis of the two parties' conceptual ideas about the future identity of the European Union shows a mixed picture of the Polarisation, Divergence and Consensus patterns. Ranked arguably in this order, neither of them can, however, be concluded to have gained dominance.

## Expectations from the European Union

This category of normative statements introduces us to the realm of expectations the actors have from the future European Union. This sub-chapter focuses on adjectives used in the "what the EU should be *like*" statements and on priority tasks the parties assign to the EU ("what the Union should especially do"). It is remarkable that the ODS discourse is partly negative: for adjectives, some 15 to 20 percent of statements are negative (what the EU should *not* be like), for priority tasks, approximately 15 percent of statements are negative (what the EU should *not* do). This may be interpreted as an effect of the, on the whole, defensive position of the

[228] The ODS discourse prefers the term *co-operation* over *integration*.

ODS towards the overall integration trend in the period analysed. On the other hand, the ČSSD discourse is free from negative statements, presumably due to the party having been generally in line with the actual development of the European integration process. This category of statements is the least general of the four categories analysed, with the "priority tasks" statements especially being more interconnected with the actual developments "in the field."

*Adjectives*

**ČSSD**

The most often repeated adjective in ČSSD discourse is *strong*, followed by three larger semantic groups: 1) *united*, *unified* and *integrated*; 2) *economically competitive* and *dynamic*; 3) *socially just* and *cohesive*.

**ODS**

As noted, between 15 and 20 percent of statements are negative. Four semantic groups can be identified as central to the ODS discourse: 1) *operational* and *effective*; 2) *economic* and *unbureaucratic*; 3) *open* and *liberal*; 4) *flexible*.

*Priority tasks*

**ČSSD**

The top three priorities for the European Union in ČSSD discourse are 1) the capability to face the challenges of *globalisation*; 2) especially in the period before the Czech accession in the EU, *enlargement*; 3) *internal democratisation.*

**ODS**

Again as noted, approximately 15 percent of statements in ODS texts are negative. The top three priorities assigned to the EU are then 1) to *ensure equality of all Member States*; 2) the completion of the *single market* and *liberalisation*; 3) reform of the *Common Agricultural Policy*.

*Conclusion*

In the "discursive mini-field" of the actors' expectations from the future European Union, Divergence between ČSSD and ODS discourses is the prevalent pattern. There are also significant elements of Consensus, whereas Polarisation is on the whole rather marginal in this category of statements.

Summing up the results of comparative analysis in the four segments of the European integration-related discourses of the ČSSD and the ODS, a mixed picture arises. In all selected categories of statement, significant elements of consensus can be identified, yet in none of them is Consensus the dominant pattern. In two statement categories, Reflection on the past and Expectations of the EU, the pattern of Divergence prevails; in the other two, Continuity of European integration and Identity of the EU, the pattern of Polarisation looms the largest.[229] With the puzzle completed

[229] This does not mean, however, that on the level of practical politics the pattern of Polarisation should always prevail in these areas, especially when the discourses "grow out" from shared governing statements. It is the latter two "discursive mini-fields" that reflect the substance of what might be called the constitutional question of the European Union, and yet as recent developments have

and all four partial comparisons aggregated, the ČSSD and the ODS discourses about European integration can be concluded to follow all three patterns envisaged at the same time (though probably in this order): Divergence, Consensus, and Polarisation.

Both parties' European discourse has remained, over the period analysed, relatively stable in the sense that no fundamental shift of overall attitude towards European integration has been identified. Ideas on which individual texts were emphasised nevertheless changed to some extent as actors were reflecting the evolution of the integration process. Two landmark events that most influenced the European integration-related discourse in the Czech Republic appear to have been the EU accession in 2004 (the beginning of an insider perspective) and the failure of the Constitutional Treaty ratification process in 2005 (which transformed some of the "discursive mini-field" and brought about new hopes and concerns). An opening remains in this context with regards to the impact of a longer-term government role and shared responsibility for the strategic decisions of the EU on the ODS. The new Reform Treaty is likely to become its first and paramount test case.

The findings of the comparative analysis of predicate statements, as outlined in this short chapter, are also backed up by a complementary analysis of ***metaphorical statements*** used by the actors in the same set of texts.[230] Individual metaphorical statements are seen as expressions of conceptual metaphors that shape, through their structural role, an actors' "way of thinking" about social reality. In short, conceptual metaphors represent a sort of ideational framework, structuring the way actors relate to individual social phenomena and in our case European integration. They also imply "soft" boundaries of what is "conceivable" and what is already "beyond conceivability."

There are three basic conceptual metaphors in relation to European integration: "The EU is Motion," "The EU is a Container" and "The EU is Equilibrium."[231] Conceptual metaphors may include several distinct concepts, such as "The EU is a building" or "The EU is an organism" for container, or "The EU is a battlefield" for equilibrium. The analysis of metaphorical statements reveals a significant difference between the "topographies" of the conceptual metaphors of the two parties. Whereas the ODS "landscape" of conceptual metaphors is pluralistic without any dominant concept (the most frequent one is "The EU is Motion"), the ČSSD tends to conceive the European Union as an organism (a secondary-to-tertiary concept for the ODS), i.e. in the same metaphoric categories as people think about *national states*.

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shown, both parties were able (arguably not very far from the *status quo*) to support the new EU Reform Treaty.

[230] For details about this discourse-analytical method as well as the classification of conceptual metaphors used in the discourse about European integration see e.g. Drulák (2006). This approach emphasises the ontological, structural function of metaphors (in contrast to merely cognitive): through their constraining effect on actors' thinking, they influence their behaviour and thus the constitution of social reality itself. For the distinction between rhetorical, cognitive and discurse-analytical conceptions of metaphors see e.g. Hülsse (2003), esp. table p. 43.

[231] Drulák (2006: 510-15).

## Conclusion

As the observation of empirical Czech policy towards European integration affairs suggests, the ČSSD and the ODS do of course take very similar or even identical positions in a number of situations, especially when the issue at stake is not readily open to ideologically or politically motivated conflict. This includes cases when the issue at play is conceived by the actors as an interest of the Czech Republic as a Member State, either strategic or symbolic (e.g. removal of restrictions on free movement of labour, EU enlargement, or membership in the Schengen area), or material (e.g. the 2007-2013 financial perspective and simplification of access to funding from EU structural funds). Most importantly then, both parties share an underlying commitment to full membership of the European Union (as it seemed at the time of writing, under the terms of the new Reform Treaty) as a cornerstone of Czech foreign policy.[232]

This chapter however addresses, by means of a comparative discourse analysis, the level of the actors' long-term, conceptual thinking about European integration. On this level, the two largest Czech political parties, the ČSSD and the ODS share only limited common ground, covering issues like the refusal of the formalised multi-speed European Union model, support for further EU enlargement, or the Union's international role in projecting stability onto neighbouring regions. In most other issues the two parties' ideational universes, as reflected in their discourse, tend to markedly diverge, and in certain aspects clear polarisation prevails. It may be predicted, therefore, that in the years to come, European integration and its evolution (though, with high probability, *not* the question of Czech EU membership itself) will remain a potentially significant dividing line between the ČSSD and the ODS. The cross-party, "national" Czech position in fundamental questions of future EU development may and will be achieved on a case by case basis, but, as the analysis of the two parties' conceptual thinking suggests, it can by no means be expected to become a rule of Czech European policy.

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# 7. "EUROPEANISATION" OF KYRGYZSTAN'S POLITICAL AND MEDIA SYSTEMS

Tatiana Iskanderova [233]

## Introduction

Europeanisation is contested as an academic concept. The large number of definitions being considered in studies of Member countries[234] and candidate and non-Member States[235] is evidence of a vibrant debate in this emerging academic field. However, extensive empirical application presents the danger of 'conceptual stretching.'[236]

Radaelli's[237] defines Europeanisation as a dynamic process, in the context of eastward enlargement (Europeanisation East), which deals with the diffusion and institutionalisation at home of the EU's formal rules, policy principles, shared beliefs and norms. The process of the *construction* of the regional policy and of the understanding of good and participatory governance is also underway at the EU level, since the widening has gone hand in hand with deepening in EU history.[238]

In the case of Kyrgyzstan this notion should be recognised in the most common understanding of Europeanisation: "*The bulk of the literature speaks of Europeanisation when something in national political systems is affected by something European*."[239] Changes due to EU influence take place on two different levels: institutional adaptation and the adaptation of policies and policy processes.

In this chapter we would like to represent the problematic of Europeanisation by means of analyses of some aspects of its formation, political operation and media system in Kyrgyzstan. We will focus our attention on the following spheres of socio-political life of Kyrgyzstan:

1) *Influence of Europeanisation on the process of the formation of a legislative body (Jogorku Kenesh), judicial government and democratic constitution*
   After the collapse of the Soviet Union, the country's pro-reform leader, Askar Akaev, a scientist and former president of the republic's Academy of Sciences, quickly established an impressive record of encouraging political and economic liberalisation. Kyrgyzstan's legal system is based on the continental legal system and Kyrgyzstan's constitution was adopted in 1993. The constitution recognises the separation of powers among three branches of government: an accountable executive, a deliberative legislative, and the independent judiciary.

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[234] Dyson (2000), Green Cowles et al. (2001), Featherstone and Radaelli (2003), Héritier et al. (2001).
[235] Featherstone and Kazamias (2001); Grabbe (2003); Kux and Sverdrup (2000); Schimmelfennig and Sedelmeier (2005).
[236] Sartori (1970).
[237] Radealli (2003: 30).
[238] Nugent (1992).
[239] Vink (2001:63).

2) *Influence of Europeanisation on the process of the formation of the independent mass media.*
   The media landscape in Kyrgyzstan has significantly changed, starting from the very moment the country obtained sovereign status. Kyrgyzstan's Law on Mass Media, which was adopted in 1992, was, to a great extent, oriented toward the liberalist Atlantic model of journalism. Despite a number of "threats of limiting activities" that are contained in the law, vagueness of implementation mechanisms and the ambiguity of its wording allowed media outlets to develop relatively freely during that period.

## 7.1. Some Background

In the 1990s Kyrgyzstan carries public administration reforms in three ways:

1) *New public management* — According to the Anglo-Saxon model, starting in the early 1990s a number of Central Asian countries (Kazakhstan, Kyrgyzstan, Uzbekistan ) began implementing wide-ranging reform programmes that provided both the model and the experience that could be applied in developing countries. Some analysts saw the enthusiastic dissemination of this model for developing countries as a new attempt to colonise development administration with a standardised, Western approach to public administration reform.
2) *Structural adjustment reforms* — In the beginning of the 1990s, public administration reform efforts in developing countries, supported by international financial institutions, focused on reducing overall costs of the government, mainly through the privatisation of state-owned enterprises and the reduction of the wage bill to bring government spending down to sustainable levels and to free up resources for other uses that were more beneficial to the overall economy. However, most of public sector reforms have met with considerable resistance (in many countries the public sector is the principal source of formal employment), and their implementation has rarely been successful.
3) *Transition from central planning to market economy and from single party systems to multiparty democracies* — The collapse of the Soviet Union has persuaded governments of previously socialist countries to transform their economies to adhere more to market principles often linked to political reforms. In the 1990s, a large number of economies in Central Asian countries began this transition. It implied a reorientation of the public administration system.

The Republic of Kyrgyzstan was an early leader in the post-communist transition. The Kyrgyz government liberalised most prices, established the national currency, began privatisation and financial sector reform, and introduced the legal and regulatory framework for open trade with its neighbours. Non-tariff barriers were removed and export taxes were eliminated on all goods between 1994 and 1997. In December 1998, the Kyrgyz Republic became the first former communist country to qualify to enter into the World Trade Organization.

The Kyrgyz constitution has provisions to ensure checks and balances, competitive elections, and judicial independence. The judiciary consists of the Constitutional Court (to decide issues of constitutional import), the Supreme Court, and the Arbitration court to resolve commercial disputes; there is also a system of lower courts. The constitution was amended in February 1996 by the popular referendum that substantially expanded the power of the president.

The Kyrgyzstan government has sought to limit the size of the public sector to enable greater opportunities for the growth of private industry and services. Accordingly, the government has sought to reduce total government revenue as a percentage of the GDP.

After the 1998 economic crisis, poor industrial performance contributed to a shortfall in tax revenue. Yet during the economic crisis, total government expenditures were higher than anticipated during recent years due to the increased costs of social protection programs.

International financial institutions urged the Kyrgyzstan government to maintain a tight monetary policy, reduce government spending, and increase revenue collection. Yet the Kyrgyzstan government was reluctant to adopt these politically unpopular measures.

**Political parties of Kyrgyzstan**

Over two dozen parties were legally registered in the 1990s, though all of them are small and some are inactive. Fewer than one half of legislators claimed a party affiliation. Pro-Akayev parties included the Birimdik (Unity) Party, and the Adilet (Justice) Party, formed by writer Chingiz Aitmatov in October 1999. The main "constructive opposition" party was the People's Party. Among the other parties, the Communist Party (PCK; headed by Masaliyev) called for reunification with Russia; The Erkin (Free) Kyrgyzstan Progressive Democratic Party called for elevating the rights of ethnic Kyrgyz; the Democratic Movement called for democratic socialism; Erkin Kyrgyzstan, Asaba, the Social Democratic Party, Unity, the Democratic Movement, My Country, and others decided to form a bloc to contest the legislative elections in July of 1999; and finally The Dignity Party, headed by Felix Kulov (the former vice president, security minister, and Bishkek mayor) was formed in August 1999. The electoral code forbade parties from taking part in the February 2000 legislative races unless they were more than one year old, eliminating eight new parties. The Central Electoral Commission in late 1999 also declared the People's, Citizens of Bishkek, Labor-Popular, and the People of Manas Parties disqualified because of technicalities in taking part in the race. Religious parties were banned. Regional interests were important in the political process and the Kyrgyz leadership reportedly favours the interests of the Chu region.

## 7.2. Europeanisation of the Kyrgyz Political System

Kyrgyzstan plays a special role in Central Asia since it is the only republic in the region where one of the so-called Color (Tulip) Revolutions has triumphed. This

refers to the March 2005 events that brought down the government and brought in a new political elite. This is why Kyrgyzstan is the focus of growing attention not only among researchers, but also the leadership of neighbouring republics that suppose the trends that emerged in Kyrgyzstan could be repeated in other states of the region.

In this context, it is important to look at the evolution of Kyrgyzstan's political system, which is directly connected to the evolution of the republic's statehood in the post-Soviet period. Kyrgyzstan, with its clannish society, multiethnic makeup and unravelling economy, has traditionally been considered the most "liberal" of the Central Asian autocracies. Most researchers believe that this was in large part due to the personal image of President Askar Akayev, the former president of the republic's Academy of Sciences, who rose above the democratic wave and was, at the outset of his political career, strongly supported by the republic's *intelligentsia,* or intellectuals. Kyrgyzstan was one of the first FSU countries to adopt a democratic constitution, introduce its own currency, and institutionalise private property. In October 1990, a kind of parliamentary republic was established: The president was elected by the parliament and answered directly to it. Nevertheless, in the wake of the collapse of the Soviet Union, Akayev reaffirmed his presidential powers in uncontested elections on October 12, 1991.

Akayev actively exploited his favourable popular image, although it was increasingly contradictory to reality as his presidential powers expanded, while parliament's shrank. By that time, on many occasions Akayev reviewed and amended the country's constitution. At the same time, he replaced state and government officials on all levels with a loyal bureaucratic corps, drawn primarily from subservient clans. To strengthen his personal authority, Akayev tapped Russian experience, initiating  a parliament reform, , making it bicameral in 1994. Originally, the powers of the two houses were not separated, which weakened the legislature that was unable (for the aforementioned reasons) to consolidate its positions and stand up to the executive branch. To do that, the two houses first had to come to an agreement.

In 1996, in the wake of yet another legislative reform, the president obtained the power to confirm the composition of the government and appoint cabinet members without parliamentary approval, subjected only to "consultation" with the prime minister. Furthermore, only the chief of state could call a referendum to amend the constitution and appoint the heads of local administrations. In 1996, the parliament also lost the right hold the government accountable as a whole or as individual members, whereas the president acquired the power to dismiss the government at any moment.

In December 1995, Akayev initiated early presidential elections, winning with 71.65 percent of the vote. Some experts believe that Akayev called early elections to demoralise the opposition, which had little time to prepare. It shows, among other things, that even then the opposition, although divided, was strong enough to worry the ruling establishment.

In 1998, Akayev initiated yet another referendum, which slashed deputies' immunity and reduced the parliament's powers. In particular, the parliament could only pass laws cutting revenues or increasing spending with the government's approval. So, the model of governance in Kyrgyzstan evolved from a parliamentary to presidential republic. While formally not being the head of government, the president

nevertheless secured enormous powers to control the government's formation and activities.

Step by step, as he strengthened his positions, Askar Akayev formed a typical Central Asian political regime, namely the monopoly of political power by the chief of the state with a purely nominal separation of powers between the various branches of government. As mentioned above, Kyrgyzstan's "democratic flair" was based on Akayev's personal image, not the characteristics of the republic's political system. It was graphically demonstrated by the 1995 parliamentary election, which showed that despite the apparently European (with some "Asian qualifications") electoral law, the republic had, in effect, a micro-managed electoral system.

Although a number of opposition parties and blocs were allowed to run, under the election law a candidate was automatically elected if the other candidate refused to run for the election in the first round or he was denied registration for the second round. As a result, many opposition candidates who led in the first round lost in the second amid gross violations of election law or were simply barred from the race. A good case in point is Felix Kulov, a high-profile opposition figure who later was the country's prime minister. Just like a number of other opposition candidates, Felix Kulov was arrested immediately after the elections and charged with criminal offences. Several electoral blocs were barred from the race under various pretexts. So despite relatively democratic laws, in reality the opposition was suppressed by purely administrative methods and kept out of the new parliament.

Furthermore, the opposition was divided, which was in large part also due to the clan system. Each clan fought for its own political representation, while the general level of public discontent with the Akayev regime was not as yet high enough to force clans and opposition blocs if not to unite then at least to synchronise their protest actions, as was the case during the 2005 "Tulip Revolution." As a result of the 2000 election, President Akayev's supporters acquired a firm majority in both houses of the Kyrgyz Parliament — *Jorgorku Kenesh*. The opposition claimed that the ballot had been rigged, while Felix Kulov, the leading opposition figure, despite his defeat in parliamentary elections, announced that he was going to run for the presidency. Having become the leading opposition figure, Kulov posed a real threat to the incumbent regime. He was subsequently arrested on charges of abuse of office as the national security minister and was jailed.

In the run-up to the presidential elections (which Akayev won with 74.47 percent of the vote), opposition forces, including Kulov, pooled their efforts. That became the first step toward systemic (Do you mean systematic???) resistance to Akayev's political regime. The opposition remained fragmented since clannishness prevailed over the striving for consolidation, but opposition movements understood the urgency of concerted efforts if only to ensure the survival of their own political clans. Meanwhile, the arrests of opposition figures provoked mass protests in some parts of Kyrgyzstan. Even though that was a clear indication of growing public disenchantment, it was driven essentially by the clannish perception of reality with representatives of one clan protesting the persecution of their candidates by another clan. It was still a long way to a revolutionary mood, but the first local symptoms were there all right.

At the same time, opposition forces were increasingly consolidating. An important landmark in that consolidation was the 2003 referendum that Akayev

initiated to secure another presidential term in office; the constitution at that time prevented him from doing that. Shortly before the referendum, opposition forces held a national roundtable, demanding the redistribution of powers between the president and parliament. Akayev had to make concessions and hence the new draft.

The constitution was put to a referendum. As a result, Akayev cleared the way to a new term in office for himself, but also ended up with a new parliament, which became unicameral, comprised of 75 individually elected deputies. Elections by party lists were abolished. Under the new constitution, the parliament acquired substantial new powers, specifically to confirm cabinet members and give a vote of no confidence in the government, based on the prime minister's annual performance report.

On his part, the president retained his "exclusive" privilege to call a referendum, dismiss the government, issue decrees having the force of law, dissolve parliament, etc. By that time, Askar Akayev's support base was shrinking more and more. The regime finally acquired the form of a "family rule": The main state and government positions, including control over the key economic sectors, were distributed between representatives of pro-regime clans. As the "family" influence expanded, the balance of clans and ethnic groups, which had taken so many years to build, was disturbed; the core of the ruling elite was constituted by Talas and Chui-kemin clans.

Other clans, especially in the south, were certain they had gotten a raw deal. Discontent came to a head in the 2005 parliamentary election: its results caused mass protests that came to be known in the media as the "Tulip Revolution." Protesters besieged or seized local government buildings, demanding a recount. Eventually, the situation was out of Akayev's control: the opposition's demands were granted and a new parliamentary election was called in which Akayev was unable to run since he had fled to Russia.

The following are the key factors of those events:

- The republic's socio-economic situation;
- Strong discontent within the clans that failed to secure real political clout;
- Growing public expectation of change, provoked by "color revolutions" in Georgia and the Ukraine.

The ruling authorities could have let off steam by allowing at least a certain number of opposition candidates into parliament. But those parliamentary elections were extremely sensitive for the Akayev regime since they were about succession. Recognising the crucial importance of the 2005 parliamentary elections for the country's future, the leading opposition blocs decided to pool their efforts. In particular, they signed a memorandum on cooperation for standing up to the ruling establishment. That opposition alliance included such figures as Kurmanbek Bakiyev (leader of the People's Movement of Kyrgyzstan, an association of 10 parties, including the Communist Party), Roza Otunbayeva (the Ata-Zhurt, or Homeland, public-political movement), and others. Felix Kulov was in prison at that time. These opposition figures subsequently became the country's new leaders.

That opposition alliance, however, was rather tentative since there was no real coordination of efforts with each party fighting for its own political survival. Administrative arbitrariness in ballot counting provoked the well-known events that came to be known as the "Tulip Revolution." It had several underlying causes that are so important they deserve recapping.

The principal cause was the aforementioned clannish organisation of Kyrgyz society, which is still not sufficiently reflected in the country's political structure. It played a two-pronged role in the Revolution.

Firstly, 20 large clans, which were left out in the cold under the Akayev regime, were extremely unhappy and antagonistic. They felt that their interests had been trampled upon, while their representatives saw no opportunities for career advancement within a system where the key positions in the political and economic spheres were controlled by other clans. The disturbance of the balance of clans — i.e., the purportedly just system — provoked mass discontent.

Secondly, as mentioned above, since tribal/familial bonds in Kyrgyzstan are extremely strong, an injustice committed against one person (e.g., a candidate) is perceived as an injustice committed against an entire clan. So wherever opposition candidates were robbed of what they saw as their legitimate victory there were mass protests, spontaneous public rallies, road blockades, seizures of administrative buildings, and other disturbances.

Finally, there were the political implications of the republic's socio-economic situation. Kyrgyzstan is not only the poorest among the post-Soviet republics in Central Asia, but in the past decade, its population has been growing rapidly with its young people migrating from rural to urban areas.

As a result of internal migration, "poverty belts" appeared around the main cities — primarily Bishkek — and spontaneous settlements of migrants from heavily overpopulated rural areas looking for jobs overwhelmed urban centres. The collapse of the Soviet Union and the exodus of ethnic Russians left the country with a moribund industry in a state of permanent economic crisis. The cities could not provide jobs to rural migrants, and according to some sources, the number of such migrants was put at 500,000.

Consider: about 10 percent of the country's population, mainly young people, lived in compact settlements near administrative centres and had no jobs or stable sources of income. Needless to say, these "poverty belts" provided excellent revolutionary material for mass disturbances.

The regime had, with its own hands, created a critical mass that — subject to certain external impacts — could be mobilised into action. The only question was who would kick-start it, and in what direction.

The revolutionary mass of 10 percent of the country's population is critical for any state. For modern Kyrgyzstan, which is built on the clannish/tribal principle, it is especially critical. The criminal circles, which were active participants in the "Tulip Revolution," also used in-country instability to their advantage.

Considering the extensive involvement of the drugs mafia in recent events in Kyrgyzstan, it could even be called a "poppy revolution": In a bid to weaken the government's control over its activity, the mafia sought ways to influence the change of power. Today Kyrgyzstan actually presents a perfect alternative to Tajikistan in terms of drug trafficking, although currently it does not compare with the latter in scale.

Of course, the scope of criminal circles' participation in recent events is a debatable issue, especially as there is no — and can hardly be — direct evidence; however, the fact of their involvement is indisputable. There is proof in that youth groups that took part in the events were very well organised and armed. Given the

poor organisation of political groups in the country, these armed groups stood out as the vanguard of the drugs mafia and other criminals. The high degree of discipline and organisation of criminal circles made them serious competitors to the government structures. This was confirmed by the revolts in Kyrgyz prisons and the scandalous murders of Kyrgyz politicians following the "poppy revolution"; the murders clearly resembled the shootouts between criminal groups that now challenge the centres of political and economic power in the country.

## 7.3. Influence of Europeanisation on the Process of the Formation of an Independent Mass Media

Up to 1988 the government completely controlled the media. Perestroika and glasnost brought democratic changes in the condition and status of the mass media in society. An incredible rise of journalism started in the entire Soviet region. This process was accompanied by the appearance of new subjects in the field of politics, for example, science, having gained relative autonomy, and then became a topic in the field of politics (this process predetermined the rise of scientific publications). People in Kyrgyzstan at that time had great hopes for positive changes. This was the peak period of fame for journalism.

A broad hierarchical network of print media was available, from the central level to the lowest rayon level (districts), which unified journalists of the Soviet breed who were capable of serving the party and were not accustomed to professional freedom. There existed a multi-decade tradition in the relations between the media and government, where the government communicated with the media in a monologue style.

The media landscape in Kyrgyzstan had significantly changed, starting from the very moment the country obtained its sovereign status. But rapid media growth in terms of figures during the post-perestroika period did not guarantee media stability or longevity. A large number of media outlets terminated their existence after only a brief period of operations.

The period of 1990-2001 was quite unequal and heterogeneous for the media. It included several mutually related and conditioned, but different, phases of Kyrgyz journalism activity. On the whole, up to the second half of the 1990s, the processes taking place in Russian journalism directly predetermined the information processes in Kyrgyzstan. Even today the phenomena and events in Russia in the information field influence Kyrgyzstan's experiences to a large extent. As researchers and journalism analysts point out, Kyrgyzstan, as well as Kazakhstan, mostly reflects the Russian model in the information field, which is characterised by the broad privatisation of the media and pluralism in the political sphere.

### The declaration and institutionalisation of freedom of speech

Kyrgyzstan's Law on Mass Media, which was adopted in 1992 was, to a great extent, oriented toward the liberalist Atlantic model of journalism. Despite a number of "threats of limiting activities" that are contained in the law, the vagueness of

implementation mechanisms and the ambiguity of wording allowed the media outlets to develop relatively freely during that period. A very important precondition during that period was the fact that there were still enough material resources left over from the Soviet period — for example, a supply of paper — and the editorial portfolios were full of material now allowed for publication that had previously been written only "under the table." The media structures started to organise from the beginning, and access to the profession and functioning in it started to change their rules; in many ways the demographic structures of the profession were modified. Shifts in the social positions of journalists started to take shape and from real socialist journalism a democratic tradition started to develop. However, democratic pluralism was not present in all political spheres: After the 1991 coup a new phase started (which in principle continues now) — the pendulum moved to the other side and communist media outlets were practically ousted. For quite a long period of time the atmosphere in most media outlets of the country was of a transitional character.

The "renewed" press was an alternative to the stagnant press only in terms of external attributes and conscientious intentions, but was not radically different in essence. The media was going through a striking metamorphosis: from the recent communist stereotypes— to anti-stereotypes of democratic colouring, i.e. in essence only evaluation baselines changed while the same political and ideological clichés of Soviet journalism were reproduced— no matter how hard the journalists tried to deviate from them. On the whole, the first wave of the new media that appeared during this time was represented mostly by politicised newspapers (Res Publica, Aalam, Manas-Ata, Muras, Maidan, Erkin Too, Ene Til and others). Riding on the wave of discrediting everything Soviet and communist, a campaign for media self-identification started. For the first time journalists had an opportunity to be directly involved in everything relating to the functioning of their media. A certain denationalisation of the information sphere started. The very indicative of this period was, at the beginning of 1991, the experience of the "peaceful divorce" of "Komsomolets Kirgizii" with its founder, the Central Committee of the Lenin Young Communist League of Kirgizia (Kzrgzystan), when the founder did not care about the newspaper and when the highest party and youth committee (komsomol) were going through a disorienting experience coupled with uncertainty and tried to save or acquire at least some valuables from the enterprise. Here there was no space or time for newspaper management to think about their influence on the people.

**The turning point in mass media relations with the government and its own roles and functions**

Shock therapy brought many media outlets to the edge of closure. In the political sphere, the first thunderstorm for the media roared and the first heavy showers fell with the official demand by the president in his speech at the first congress of judges in August 1994 to shut down the newspaper *Svobodnye Gory* — and the obedient implementation of this order by the end of the year. During the same period the newspaper *Politika* appeared and was quickly shut down. The editor of *Politika* was the former Minister of Education, Chinara Jakypova, who runs the IWPR (what does this acronym stand for??) office in Bishkek today. Very likely, at that time it was

already clear for the country's leadership that democracy meant the dispersal of power, the creation of many various centres of decision-making, and was something that inevitably made the power itself unstable. The more there were bright individual stars on the team, the more likely there was a violation of the status quo and subsequent changes in the power structures.

In the struggle for real political power, the President's force deviated from a proper democratic image. It was in this historical period when the governance of the country and politics separated entirely and as a result of a quiet "revolution," the country turned from a parliamentary into a presidential one. Having mobilised his governor's forces, the president, with the help of the intrigues of regional authorities, then also sabotaged the parliament's initiative from inside. The non-consolidated character of the parliament headed by deputies incapable of organising and directing the political process, predetermined the outcome — parliament was dissolved.

It was the beginning of the era of cooperation with the representatives of Akaev's "team" in the form of his press secretaries. This period demonstrated how changeable the moods and intentions of the power holders really were. The feeling of power instability was enforced by personnel movements at the political Olympus. Gradually, power stopped being perceived as a universal equivalent, and this is why the emphasis on the semantics of "freedom" with journalists shifted towards the notion of "ownership." Journalists grew to understand that the obtained political freedoms meant nothing when there existed economic non-freedom. During that period, discussions on the role of journalism in society and the state developed frequently, as well as those on the degree of interested support of the media by the state.

The Law on Mass Media, adopted in 1992, gave a powerful impetus for the process of the commercialisation of mass communications. The economic preconditions for this were created by the permissive and favourable legislation existing at that time — mass media did not pay 20 percent VAT (value added tax), and the profit tax was at 15 percent. Many media outlets and newspapers appeared with a purely advertising character, while others covered crime and erotica. The total number of media outlets grew constantly.

On the one hand, during this period there were very few real limits and zones closed for criticism and the government tried not to react to "bytes" coming from the media. Freedom of expression turned into the freedom of empty talking, without the hope of being listened to or heard. Furthermore, not only journalists acquired the opportunity to write about what they wanted, but the government also acquired the opportunity not to read the media publications, and even if they read them, then they could choose not to respond.

It is not by chance in this period that a discussion on the effectiveness of the media started in the journalistic professional environment. In this discussion, the journalists split into two camps: One stated that the main task of journalists was to highlight a problem, attract public attention to it, and the task of the government was to resolve the problem. The representatives of the second camp believed that journalism should not only uncover the problems of society, but also actively seek their solution. The same moods were developing with readers as well — as previously if some official had been "given a going over" by a newspaper he would be fired the next day. Now, no matter how much they wrote about bribery and the misuse of power, there was no point:— they were all safe in their seats anyway. Comments like

these were just one of many made by readers during that time. On the other hand, the Kyrgyz government had extremely effective mechanisms for "curbing" the media:— subsidies. These subsidies took various forms: For example, the government media was provided with direct monetary subsidies necessary to cover operational expenses or targeted means to cover printing costs, salaries and honoraria to journalists and other employees. Non-state media loyal to the government was given "presents" for anniversaries and holidays that, in terms of amounts, were comparable to significant monetary subsidies.

It was during this period that President Akaev paid more and more attention to the media, since the flow of foreign investments came with the image of a democratic Kyrgyzstan and a progressive, liberal president — the guarantor of irreversible democratic changes. He regularly met with journalists, both in private and at press conferences, on all urgent problems of the country, obviously demonstrating the desire to make these processes transparent. These simple methods turned out to be safe — many journalists and media outlets became very loyal as a result of President Akaev's strategy . Thanks to the strategy's success, the image of the head of the state in some media outlets was very positive — smart, honest and open, a president of principle and democratic spirit.

The era of competition in the newly establishing information market, the fight for resources — printing, information resources, and the pluralisation of media positions — all these factors did not consolidate, but on the contrary alienated the journalistic corps. It was not by chance that at the beginning of this repressive time in state policy towards the media, different Kyrgyz editors perceived and identified different periods of time. For example, for Zamira Sydykova this period is dated the middle of 1993–1994, while for Viktor Zapolski— the period began only by 1996, despite the fact that two years earlier *Politika*, a supplement to the *Delo Nomer* newspaper, was shut down. To implement this repressive policy, various methods were used to separate journalists and different scenarios were developed to set various media to fight amongst themselves. For example, thanks to such a policy of the disintegration of the journalistic environment over many years, malicious enemies were formed.

Such irreconcilable political opponents were the early pro-presidential *Asaba* and the opposing *Res Publica*, presidential *Kyrgyz Tuusu* and *Asaba*, State TV under Director Karypkulov and late *Asaba*.

## The historical development and current situation of the mass media in Kyrgyzstan

During the period at the beginning of sovereignty, the press and the power elite tried to build partnership and constructive opposition relations under the flag of the ideal principles of democracy. The lower layer — the population — was actively using the media, believing in their power as a mechanism for feedback and fed the media illusions about their power abilities (as the fourth state). At that time the media was surrounded by a special environment — the intelligentsia that became the vanguard of perestroika and democratisation were coming out from narrow kitchens, took its ideas and considerations out of the underground handwritten journals and became actively involved in legal information systems. Many of the intelligentsia

came to the new joint stock and private media. Non-professionals started to become seriously involved in journalism and brought into the sphere with them not only the spirit of citizenry, (which partly explains the surprisingly large growth in politicised media), but also a stable spirit of commerce. This had been the domain of party ideology since the birth of Kyrgyzstan.

It paved the way for a short era of stars, revelations and disclosures, an era of remarkable cooperation between the media and audiences. It was also the period in which the struggle for spheres of informational influence started, when many media outlets changed their status, defined and redefined their role in the information market and tried to capture and shape available advertising niches.

With this wave of the denationalisation and commercialisation of the information sphere, journalism was flooded with various "alien" types of pulp, or yellow journalism. Most of the newly appearing media was based on the exploitation of destructive interests in criminality, pornography, and erotica. Together with yellow journalism itself, the stereotype of the professional consciousness that was very actively indoctrinated into the mass consciousness was that the public is always interested in murder with bloody details, depraved and low passions, and drama with broken hearts.

The reality of such a construction was confirmed by an increase in the number of media with such topics and the stability or growth in circulation of many of them. During the post-perestroika time there appeared the phenomenon of soap operas, mostly Latin American dramas, on local TV.

The researchers of Russian journalism, talking about such "preferences" of readers and viewers, believed that such a taste and structure of consumption was characteristic for the whole former Soviet Union. The decades of lifeless virtual information and the production of "inhuman" themes when the television broadcasts or newspaper pages contained mostly happy citizens of the Soviet country, and reported great achievements and victorious prospects, plus the subsequent collapse of this system, bored all those living in post-soviet societies. However, it seems that the roots of this "phenomenon" goes deeper and may be explained with the help of the "Maslow pyramid," the performing of various functions in thisdynamic , such as compensation, the overcoming of fear, etc. But not everyone was able to write and live in a "free mode." For the largest part of the rayon and city newspapers, this period was in itself the beginning of the end as the historical window of opportunity for free self-definition and self-identification in life and death turned out to be quite small.

During the period, the seeds of new democratic virtuality were planted. Prior to the dissolution of the legendary first Parliament in 1994, politics "spilled over" into the media, and particularly television. The people could watch live broadcasts of parliamentary sessions where decisions on the most urgent and important issues of current life in the country were made. It was the era of the emergence of public politicians, the birth of stars of political discussions such as Akimaliev, Akmatov, Baijiev, Usubaliev, Idinov, Sherimkulov, Amatov, Tekebaev and Masaliev. For the first time, politicians in Kyrgyzstan had become clear and transparent. The parliament, having swallowed its independence and power, started to rule the country seriously, and the media began to think of themselves as opponents and disclosers of power. Even during the conflict between the parliament and President Akaev over the

"gold case," and others that became notorious "red folder" issues, television broadcasted the president's explanations virtually unedited. The country was facing a situation where the parliament could initiate the impeachment of the president. Full transparency of politics seemed to have been achieved and democratic freedoms irreversible.

**The opposition of government to mass media after 1999**

The relatively favourable and peaceful era for the media finally ended in 1999. By that time it had become clear that the positive news coming from third countries was uninteresting in principle, i.e. the international community would not be ready for a long time to provide significant financial support for positive relations between the government and the media in Kyrgyzstan.

Together with the advance payment for the democratic image, the government's tolerance of media attacks had dried up as well.

Logically, a new phase had started. The media had been cut off from the higher power and many journalists, either having fallen into a rush of disclosures and criticism or having become loyal in fear of prosecution, stopped writing and reporting about the real world in which the people, their audiences, lived and about their needs and demands. It is interesting, that the president's team, understanding and valuing the high educational and propaganda potential of the media, tried to use the media for their own purposes and resorted to old methods. It is obvious that a non-critical, toothless media is doomed to die, and the audiences responded in the same manner that they had responded to the authorities:— with distrust and loss of interest. In such a situation the media becomes self-referent, or self-influential and reputable only for itself. The population withdraws to their own living rooms, having been only fragmentally and for a short period of time integrated into the national community thanks to Latin American soap operas and the life dramas of all sorts of Marias, Josés and Pedros. The power holders, of course, would not dare to cut all the media connections that are reached by the people , because no governance system is capable of functioning without input data from the outside environment. That was why they helped the media to create a "virtual freedom of opposition" to the power, having targeted the arrows of criticism and firing them at journalists in parliament, which subsequently lost practically all its power. They have obtained a remarkable virtual democracy, where the Parliament, dejure, ensuring all legislative environments in the country, was constantly under attack from the press and television. Besides, the "critical level" authorised by the leaders was in the interests of the president and those who surround him. Whenever the parliamentarians stopped playing the roles given to them, loyal journalists were let loose on them .

The media that did not want to become politically loyal set new goals and developed a new game strategy: international organisations provided a lot more money for an image of the media being prosecuted by the government. Opportunities appeared to become famous in the world community not thanks to a high degree of professionalism, but due to the "brave fight" for democracy and professional principles. The media started to vigorously create the virtual reality of fighting for democratic achievements.

Nevertheless, the period of total opposition between the government and the media was short-lived. Too great was the media potential in conducting political PR-strategies and forming the necessary public opinion through the start of virtual war between various positions and persons.

The Kyrgyz government undoubtedly added this media potential to its arsenal and started preparatory work. Thus, after 1996 the media was equalised with industrial enterprises through heavy taxation: they had to pay a value added tax of 20 percent, a 30 percent profit tax and other direct and indirect taxes of 8 percent.

Besides that, a new wave of court cases, hearings and prosecutions of journalists swept the country. The government started to advance along the entire front with the purpose of curbing the media.

For example, in 1999 the media basically "jailed" the former deputy, the director of Kara-Balta mining enterprise T. Kazakbaev. They were regularly criticising and harassing Deputies Tekebaev and Masaliev and in 2001 the media was involved in the harassment of Deputy Tashtanvekov and Deputy Omurkulov. Particularly active in this were "Vecherny Bishkek" and KOORT.

Non-governmental media quickly realised the dangers of the current situation. The threat of losing their media business forced the owners to change their political orientation. Thus, following the last presidential election the television and radio company *Pyramid*, became surprisingly loyal to the existing government and tried not to be "defiled by connections with the opposition." In response to statements by NDI and OSCE (What do the acronyms stand for?) delegations, which pointed out the insufficient coverage of candidates competing with Akaev, the TRK *Pyramid* President Biynazarov explained: "*There were objective reasons, one of which was the lack of technical, material and human resources for the coverage of the campaign of each candidate. At the same time, the candidates themselves, despite our numerous requests, offered us no video materials or information on their meetings with the electorate."*

Their refusal to air the ads of presidential candidates is explained by the fact that during the election campaign some candidates actively used improper information techniques of propaganda that contained unethical and sometimes illegal materials.

The decision of the de-registration of 16 new media outlets seems very important for the relations between the media and the government . According to Rina Prizhvoit, a journalist from one of the deregistered newspapers *Moya Stolitsa* ("My capital city"), this decision was predetermined by the government's desire not to give media outlets, "dangerous in terms of expected information policy," any chance to influencing the masses. If the re-registration of existing media continues until October 1, 2007, only then will the documents of new media be considered for registration, and it is obvious that these media outlets will not be able to "participate" in the discussion of the issue of prolonging the president's term of office up to seven years. It is suspected that in the fall there will be a referendum on this issue. Someone is greatly interested in holding back the media outlets that are capable of influencing public opinion.

## Conclusion

From the above we can conclude that since gaining its independence Kyrgyzstan had made progress, through Europeanisation, on the road to liberalisation and democratisation, at both national and local level with regards to:

1) An impressive record of encouraging political and economic liberalisation was quickly established.
2) A legal system, which was based on the continental legal system, was created.
3) A democratic constitution, which recognised the separation of powers among three branches of government, an accountable executive, a deliberative legislative, and an independent judiciary, was adopted.
4) The political system was changed from single-party systems to a multi-party democracy etc.

However, a number of negative aspects remained for a number of reasons such as:

1) *Strong dependence of Kyrgyzstan on its totalitarian past.*
   While formally not being the head of government, the former president of Kyrgyzstan nevertheless secured enormous powers to control the government's formation and activities. Former Kyrgyzstan President Askar Akayev formed a typical Central Asian political regime, namely a monopoly of political power by the chief of state. The separation of powers between the various branches of government became a purely nominal.
2) *Specific ethnic mix of Kyrgyzstan.*
   Being, just like the majority of former USSR republics (except the Baltic countries), a rather artificial state entity, Kyrgyzstan was so organised from the start that it comprised a large and compact ethnic Uzbek minority whose positions were especially strong in the South of the country. The "Russian factor," traditional for all post-Soviet states, is also present in the republic.
3) *Clannishness of Kyrgyz political system (tribalism).*
   In spite of liberalisation and democratisation, the clan principle plays a substantial role in Kyrgyzstan's political organisation. Once a person has secured an important political or administrative position with access to certain resources, he strives to bring in representatives of his own clan on whom he can rely. For its part, a clan is interested in having representatives in various administrative positions, seeing this as a method to maintain control over essential resources, strengthen itself or simply ensure its survival.

To resolve the above-mentioned problems and stabilise the situation, the new leadership's ability in the republic could only come through in the constitutional reform process. It refers, above all, to a redistribution of powers between the president, government, and parliament.

One of the possible scenarios for future political development according to the famous Kyrgyz political analyst Zainiddin Kurmanov is the following: "*The system of checks and balances could be fully restored in Kyrgyzstan. The spheres of influence should be equally divided between the main clans, taking into account the interests of ethnic minorities, primarily Uzbeks and Russians. This distribution of spheres of*

*influence should be built on a long-term institutional basis. This scenario envisions the elimination of fundamental sources of tension in the Kyrgyz community".* [240]

With this scenario, Kyrgyzstan will be gradually advancing toward a parliamentary republic as the most effective form of harmonising the basic interests.

Concerning the Europeanisation of the Kyrgyz media system, Kyrgyzstan made a few serious steps toward its liberalisation. Such as:

1) *Adoption of Kyrgyzstan's Law on Mass Media*.
   Kyrgyzstan's Law on Mass Media, which was adopted in 1992, was to a great extent oriented toward the liberalist Atlantic model of journalism. This law defines the general legal, economic and social framework for the media and regulates relations between media outlets and state authorities, public organisations and citizens. This Law was considered to be one of the most liberal in the post-Soviet countries.
2) *Amendment to the constitution of the article that guarantees freedom of press.*
   One of the main laws providing the basis for media activity in the Kyrgyz Republic is the constitution adopted in 1993. It guarantees freedom of speech, and affirms that every citizen has the right "to free expression and the dissemination of ideas and opinions, to freely create in the literary, artistic, scientific and technical field, to freedom of press and dissemination of information."
3) *Privatisation and commercialisation of the information sphere.*
   In 2000, 415 print media were registered in Kyrgyzstan, of which 96 percent were newspapers. Of 75 registered broadcasting outlets, there were only 7 television stations and 12 radio companies that broadcast regularly; 111 are owned by the state, while the rest are owned by other entities.

Thanks to the above-mentioned laws, freedom of the press became a reality in the beginning of the 1990s with the independence of Kyrgyzstan after the fall of the Soviet Union. For the first time journalists had an opportunity to be directly involved in everything relating to the functioning of their media.

However, a good legal basis does not necessarily provide for the full and competent implementation of these laws. Kyrgyzstan has a legal framework but it is not utilised. The mass media laws are frequently violated, first of all, by those who approved them and who, in the performance of their duties, must control their application.

Mass media are able to change the current situation shaped only if they liberate themselves. They should be braver in finding drawbacks and announcing an never-ending war against the negative phenomena of their society. Only the creation of an atmosphere of constructive criticism on the basis of the exact observance of laws can instigate officials for exposure and start promoting an open society.

[240] Kurmanov, Z. (2006), *Election, Parties and Parliament of the Kyrgyz Republic: Threats to Democratic Security*. Bishkek.

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# 8. TEN YEARS OF CZECH INFLATION TARGETING: MISSED TARGETS AND ANCHORED EXPECTATIONS

Tomáš Holub[241]
Jaromír Hurník[242]

## Introduction

The Czech Republic introduced inflation targeting in late 1997, which became effective from January 1998, after currency turmoil, and enforced the switch from a pegged to a managed floating exchange rate. It was the first post-communist country to adopt the inflation-targeting regime. Moreover, it was among the first countries that adopted this regime as a strategy of disinflation, not just as a strategy of maintaining inflation at an already low level.

This chapter reviews the first 10 years of the functioning of this regime, evaluating its performance in terms of meeting the inflation targets, contributing to the stabilisation of the real economy and anchoring inflation expectations. The chapter starts with a description of the historical background in Part 1. Part 2 explains some challenges for inflation targeting in the Czech Republic. Part 3 describes the evolution of inflation targets. Part 4 focuses on the regime's performance. Part 5 provides an econometric analysis of inflation expectations' formation.

## 8.1. Historical Background

Czechoslovakia, as many other post-communist countries, chose a fixed exchange rate regime as its stabilisation strategy at the beginning of economic transition. In 1989–1990, the Czechoslovak crown was devalued by more than 110 percent, and was then pegged to a currency basket.[243] At the same time, the fixed exchange rate regime was combined with elements of money targeting with publicly announced targets for money supply growth. This strategy was designed to stabilise inflation after the price liberalisation shock of early 1991.[244]

This policy was successful initially. The price developments calmed down in mid 1991, and since then Czechoslovakia enjoyed modest inflation rates of about 10

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The authors thank Aleš Bulíř, Miroslav Hrnčíř and Petr Král for their useful comments. Any remaining errors and omissions are their own. The chapter presents the authors' own opinions, which may not correspond to the official views of the Czech National Bank.
[243] Initially, the basket was composed of five currencies of the major trading partners. Later on the basket was simplified to DEM (65percent) and USD (35percent).
[244] A detailed description of the monetary policy during the early phase of transition is presented in Bulíř (1993).

percent annually until 1997.[245] The exchange rate peg was maintained with no changes to its central parity till 1997, and survived even the split-up of Czechoslovakia in January 1993 (see Table 8-1).

**Table 8-1:** Key macroeconomic indicators before inflation targeting (in %).

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 |
|---|---|---|---|---|---|---|---|---|
| GDP growth (in %) | 0.0 | -11.6 | -0.5 | 0.1 | 2.2 | 5.9 | 4.0 | -0.7 |
| Inflation (in %) | 9.7 | 56.6 | 11.1 | 20.8 | 10.0 | 9.1 | 8.8 | 8.5 |
| Nominal wage growth (in %) | 3.7 | 15.4 | 22.5 | 25.3 | 18.6 | 18.6 | 18.3 | 9.9 |
| Current account (in of GDP) | NA | NA | NA | 1.2 | -1.9 | -2.5 | -6.6 | -6.2 |
| M2 growth (end year, in %) | 0.1 | 27.3 | 20.3 | 19.8 | 20.7 | 20.3 | 9.1 | 10.8 |
| Discount rate (end year, in %) | 8.5 | 9.5 | 9.5 | 8.0 | 8.5 | 9.5 | 10.5 | 13.0 |
| CZK/DEM (average level) | 11.2 | 17.8 | 18.1 | 17.6 | 17.7 | 18.5 | 18.1 | 18.3 |
| CZK/USD (average level) | 18.0 | 29.5 | 28.3 | 29.2 | 28.8 | 26.5 | 27.2 | 31.7 |
| Deviation from parity* | - | 0.5 | 0.3 | -0.4 | -0.5 | -0.5 | -1.4 | 5.0 |

**Source:** Czech Statistical Office, Czech National Bank, own computations

**Average percentage deviation of exchange rate vis-à-vis the basket of currencies (65% DEM, 35% USD) from former central parity. Positive (negative) number means depreciation (appreciation)*

Nonetheless, with the ongoing liberalisation of the balance of payments, which was to a large extent finished by 1994–95, the fixed exchange rate and money targeting have gradually become an inconsistent policy mix. Liberalisation created favourable conditions for massive short-term capital inflows into the Czech economy in 1993–96. Under the fixed exchange rate regime, this caused a strong upward pressure on the money supply, the growth of which persistently exceeded both the nominal GDP growth and the ČNB's targets.[246]

The inflation and wage growth remained high, leading to a rapid real exchange rate appreciation. The domestic demand expanded at a fast rate, outpacing the slow improvements on the supply side affected by lagging structural reforms. The demand growth was also supported by a deteriorating cyclically-adjusted position of public budgets. These developments led to an economic overheating and a sharply growing current account deficit.[247]

To regain control over the monetary developments and domestic demand, the ČNB widened the exchange rate's fluctuation band to ±7.5 percent in February 1996, and raised its major interest rates and the minimum reserve requirements in mid

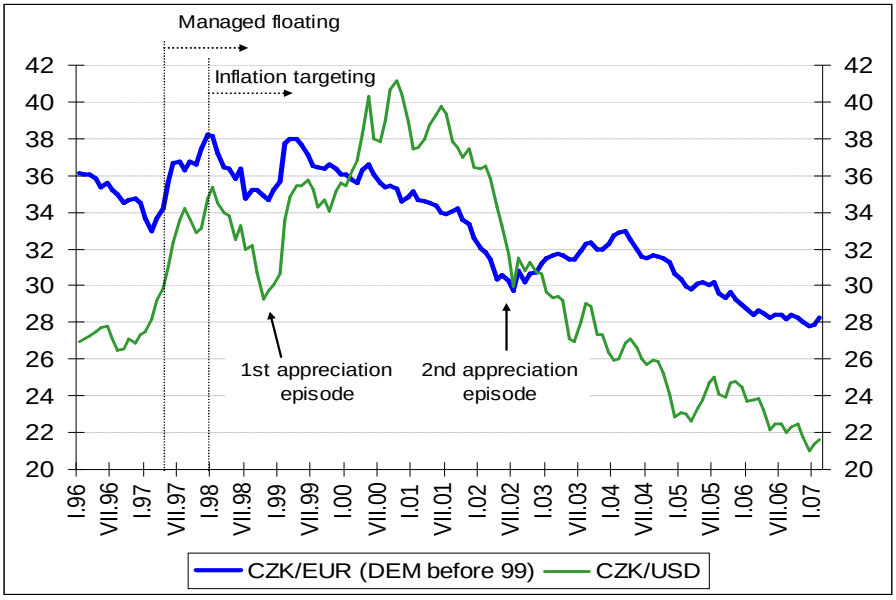
[245] An exception was the year 1993, when the VAT was introduced, pushing the inflation rate above 20 percent.

[246] see Hrnčíř and Šmídková (1998); Čihák and Holub (1998).

[247] According to current data, the deficit reached almost 8 percent of the GDP in mid 1997. The real-time data, however, showed an even higher current account deficit of about 10 percent of the GDP.

1996.[248] The monetary restrictions, however, had no positive impact on the current account in the short run, as they contributed to an exchange rate appreciation within the band (see Table 8-1 and Figure 8-1). Fiscal policy remained relatively loose in 1996. A fiscal tightening was implemented only in the spring of 1997, which was already too late to reverse the negative trends and win the confidence of investors, which was affected by the breakout of financial crises in Asia. This led to speculations against the crown and eventually to currency turmoil in May 1997.

**Figure 8-1:** Exchange rate (CZK/EUR and CZK/USD)



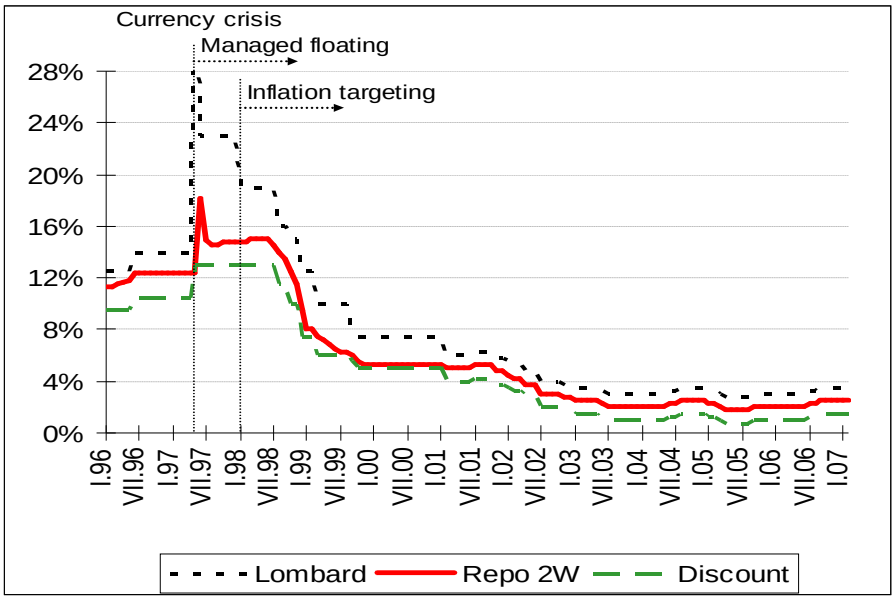

**Source:** Czech National Bank

The ČNB tried to resist the speculative attack by foreign exchange interventions with a radical increase in interest rates and some administrative measures.[249] In spite of that, it was eventually forced to introduce the managed floating of the Czech crown (CZK) on May 26, 1997. The exchange rate immediately depreciated by more than 10 percent (Figure 8-1). The interest rates were kept high throughout the rest of 1997 and the first half of 1998 (Figure 8-2).

[248] The monetary policy trade-off between controlling domestic demand and avoiding massive capital inflows faced by transition economies has been called the "Tošovský dilemma" by Lipsitz, et al. (2002), after the former Governor of the ČNB Josef Tošovský.

[249] During the crisis the ČNB lost roughly USD 1.5 billion of its foreign exchange reserves. A detailed description of the crisis is provided in Dědek (2000).

**Figure 8-2:** Monetary Policy Interest Rates




**Source:** Czech National Bank

Having lost the fixed exchange rate, the ČNB had to start looking for another nominal anchor. It needed to pin down inflation expectations and to restart the disinflationary process disturbed by the crisis. One possibility was to continue with money targeting. The uncertainty over the money demand stability, however, eventually led to the choice of inflation targeting as the new monetary policy regime.[250] This move was announced in December 1997 and became effective from January 1998.

## 8.2. Some Challenges

There has been growing evidence that emerging market inflation-targeting countries achieve less favourable outcomes in terms of inflation and output volatility than the industrial inflation targeters.[251] Besides possible stabilisation policy errors, one could attribute this difference to some challenges faced by these economies, including the challenges of disinflation. This needs to be considered when the performance of the inflation-targeting regime is assessed. This part of the chapter provides a brief discussion of the challenges faced by the Czech Republic.

First, the Czech Republic was the first post-communist country to adopt inflation targeting. It could thus not build on the experience of any other comparable economy.[252] Moreover, inflation targeting was designed as a disinflation strategy, not

[250] see Hrnčíř and Šmídková (1998).

[251] Fraga et al. (2003), Roger and Stone (2005), Mishkin and Schmidt-Hebbel (2006). This does not imply, however, that inflation targeting is not a good monetary policy regime for emerging market countries. Batini et al. (2005) provides evidence that inflation targeting leads to better outcomes than other monetary policy regimes in emerging markets. Mishkin and Schmidt-Hebbel come to somewhat less positive conclusions, but they use highly successful non-inflation targeters as a control group.

[252] At the same time, the regime had to be introduced in a short period of time (from May until December 1997).

just maintaining the previously achieved low inflation.[253] The regime was introduced in a destabilised economy after a period of overheating, currency crisis, depreciation of the exchange rate, and intensified price deregulations in January 1998. Those factors increased inflation temporarily and threatened to build into inflation expectations. The external environment was not very supportive either, as the Asian crisis of 1997 was followed by the Russian crisis in 1998.

Second, the Czech Republic has a high (albeit gradually declining) share of volatile items, such as food and regulated prices, in its consumption basket. A specific feature is a high share (at present roughly 17–18 percent; in the past even slightly more) of administered prices, which are sometimes adjusted in a discrete (and discretionary) manner. Their contribution to the headline inflation has fluctuated between -0.2 and 6.4 percentage points during the whole inflation-targeting period and between -0.2 and 2.6 percentage points during the headline inflation targeting period, when regulated prices had directly entered the targeted price index (see below). Moreover, changes in indirect taxes often linked to EU harmonisation have added between-0.2 and 0.8 percentage points to inflation in the inflation-targeting period (-0.1 to 0.8 percentage points during headline inflation targeting).[254] Finally, the weight of food, beverages and tobacco had moved between 24 and 32 percent (with a declining tendency), and their contribution to overall inflation has ranged between -1.5 and 2.9 percentage points (-1.1 to 1.1 in the later period). All these factors increase the volatility of headline inflation.[255]

Finally, the Czech Republic is a small and very open economy, making it potentially more vulnerable to exogenous shocks. The exports and imports of goods and services currently both exceed 70 percent of the GDP. The share of imported goods in the consumer basket is estimated at around 25 percent.[256] This implies a fairly strong transmission of exchange rate changes into the domestic economy and inflation. The long-run economic catch-up of the Czech economy has led to an equilibrium real exchange rate appreciation trend. The actual exchange rate has moved around this trend, influenced by the sharp volatility of foreign capital flows, gradual — but often not smooth — decline in the risk premium over time, etc.[257]

## 8.3. Evolution of the Targets

The Czech inflation-targeting regime has gone through some evolutionary changes in its design, reflecting a gradual accumulation of experience and changing economic conditions. Over time, the regime has been brought close to the best international practices,[258] which has helped to establish its credibility. The changes

[253] As shown empirically in Roger and Stone (2005) or Mishkin and Schmidt-Hebbel (2006), inflation targeting with declining targets seems to provide a weaker nominal anchor and is associated with more pronounced deviations of inflation from targets than stationary inflation targeting.

[254] In 2007–2008 the contribution of indirect taxes to inflation could well exceed 1 percentage point in both years due to tobacco excise tax harmonisation and planned changes to the VAT.

[255] It is fair to say, though, that the volatility of core inflation has also been relatively high during the inflation-targeting period (roughly 65–75 percent of the headline inflation volatility).

[256] see Coats et al. (2003).

[257] see Geršl and Holub (2006) for a discussion of the exchange rate issues.

[258] see e.g. Kotlán and Navrátil (2003).

have concerned public communication, co-operation with the government, forecasting techniques,[259] management of the exchange rate[260] and many other issues. The description of these changes, however, goes beyond the scope of this chapter. Therefore, we concentrate here on the aspect that is directly needed for the assessment of the regime's performance: the specification of inflation targets.[261]

To reflect the large and unpredictable impact of administrative measures on inflation, the inflation targets were initially specified using the concept of "net inflation." This was perceived as a compromise between the intention to use as wide a price index as possible and at the same time target the items that are not completely beyond the reach of monetary policy.[262] The net inflation index was derived from the overall CPI by excluding the regulated prices, the primary impact of indirect tax changes and the abolition of subsidies. On the other hand, net inflation did not exclude some other volatile items, such as food or gasoline prices. Even though these prices complicate reaching the targets, their exclusion from the targeted index would have made it too narrow, limiting its ability to anchor inflation expectations.

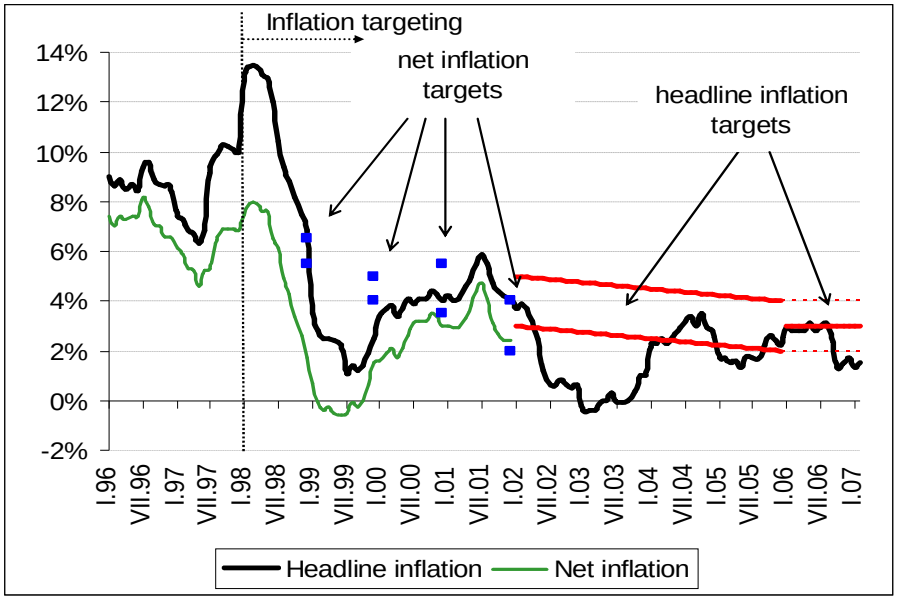
In December 1997, a medium-term target was set for December 2000 at 3.5–5.5 percent (compared to roughly 7 percent observed net inflation in late 1997). At the same time, a short-run indicative target was set for December 1998 (5.5-6.5 percent) to provide a stronger guidance for inflation expectations. The initial targets were thus set for year-ends only in terms of intervals (1 percentage point wide for one year and 2 percentage points wide for the three-year horizon, respectively). In December 1998, another short-run target was announced for December 1999 at 4.0–5.0 percent. In April 1999, the document ČNB Monetary Policy Strategy was adopted, which gave the ČNB's policy a longer term-orientation by defining an inflation target for December 2005 at 1–3 percent in terms of net inflation. At the same time, an explicit list of escape clauses from the inflation target fulfilment was defined.[263] The last net inflation target was set in April 2000 for December 2001 at 2.0–4.0 percent.

In April 2001, the new targets were defined in terms of headline inflation (CPI). This step was motivated by a clearer outlook for future price deregulations and their smaller extent compared to the past, as well as by the argument that headline inflation was better understood by the public. In turn, unexpectedly large (or small) price deregulations or changes in indirect taxes were added to the list of escape clauses. Defining the targets as a continuous range, starting at 3–5 percent in January 2002 and declining to 2–4 percent in December 2005, strengthened the regime's medium-terms focus. From there on, the inflation targets have been defined as flat (stationary) point targets with a tolerance band. In Mach 2004, the target was set at 3 percent (± 1

[259] see e.g. Coats et al. (2003).
[260] see Geršl and Holub (2006).
[261] All strategic documents of the Czech inflation-targeting regime, including announcements of inflation targets, are available in an electronic form at <http://www.cnb.cz/en/monetary_policy/strategic_documents/>
[262] see Hrnčíř and Šmídková (1998), Coats (2000).
[263] It included: a) substantial deviations of global prices of raw materials, energy sources and other commodities from the prediction; b) major deviations of the CZK's exchange rate that are not connected with domestic economic fundamentals and domestic monetary policy; c) marked changes in the conditions for agricultural production with an impact on agricultural producer prices; d) natural disasters or similar extraordinary events.

percent). Finally, the ČNB announced a new inflation target in March 2007 set at 2 percent (± 1 percent) and effective from January 2010.[264]

**Figure 8-3:** Year-on-year inflation — targets vs. actual




**Source:** Czech Statistical Office

The inflation targets are graphically illustrated in Figure 8-3. This figure also compares the targets with the actual net and headline inflation. An analysis of the performance of the Czech inflation-targeting regime in terms of achieving the announced inflation targets and other policy goals is provided in the next part.

## 8.4. Achievement of the Targets and Policy Goals

As can be seen in Figure 8-3, the ČNB undershot its targets for net inflation in all of the first three years from 1998 to 2000, even though in the last case it was by a small margin only. The net inflation target was met only in December 2001, i.e. just before the switch to headline inflation targets. Similarly, inflation has often been below the headline inflation targets since the beginning of 2002. In this period, it was below the target midpoint in 58 out of 62 months (i.e. 94 percent of the time), and below the lower (tolerance) bound of the target in 36 months (i.e. 58 percent of the time). Taking the whole inflation-targeting period (which requires to linearly extrapolate the year-end net inflation targets into individual months), inflation was on average below the targets by 1.9 percentage points (2.5 percentage points below the net inflation targets and 1.6 percentage points below the headline inflation targets) since December 1998.[265] [266] This ex post asymmetry in inflation targeting outcomes

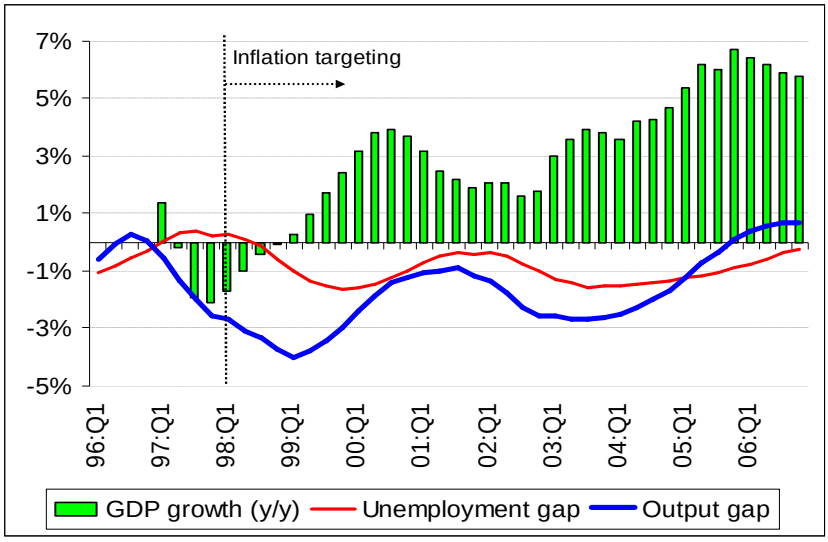
[264] The use of escape clauses was not emphasized so strongly in the last two cases, but an explicit ex ante escape clause on indirect tax changes remained in place.

[265] In Table 8-2 at the end of this section we also provide statistics on achieving the inflation targets in terms of headline inflation excluding the primary effects of indirect tax changes, reflecting the ex ante escape clause applied by the ČNB to this specific source of inflationary shocks (see part 3).

might have been partly unintended, reflecting some unexpected anti-inflationary factors (see below), but also partly reflecting the ultimate ambition of the inflation-targeting regime to achieve disinflation. Indeed, the credibility costs of inflation target overshooting would have probably been greater in the first years of inflation targeting than the costs of undershooting.

It is also relevant to look at the evolution of the business cycle under inflation targeting, as the regime has always been described as "flexible" with attention being paid to the stabilisation of the real economy. Figure 8-4 depicts the year-on-year GDP growth rate together with the ČNB's estimate of the output gap and unemployment gap from a multivariate Kalman filter.[267] As one can see, the economy has operated below its non-accelerating inflation potential for most of the inflation-targeting period. The estimated negative output gap averaged at -1.8 percent, the unemployment gap at -0.9 percent. Figure 8-4 also demonstrates that the business cycle has been quite pronounced since 1998.

**Figure 8-4: Business Cycle**




**Source:** Czech Statistical Office; estimates of Czech National Bank using a multivariate Kalman filter; quarterly GDP growth rates not available for 1996

The periods responsible for the infrequent reaching of policy targets under the inflation-targeting regime were 1998–99 and 2002–03, which were characterised by

[266] Roger and Stone (2005) report that inflation-targeting countries were on average outside the target ranges 43.5 percent of the time. In disinflation targeters, the frequency of deviations was higher (59.7 percent), and corresponded to the Czech experience. Unlike in the Czech case, though, the deviations were broadly balanced between inflation target undershooting and overshooting for the whole sample of countries, and biased towards target overshooting for disinflation targeters. The root mean square error of the deviation from the center of the target range was 2.2 percentage points for all countries, and 2.7 percentage points for countries with disinflation in progress, The root mean square error for the Czech Republic was slightly higher than these averages (see Table 8-2 below).

[267] see Beneš and N'Diaye (2003).This filter simultaneously estimates the output gap, exchange rate gap and interest rate gap. It is based on the key equations describing the monetary transmission mechanism in the core quarterly projection model of the ČNB (see Coats, et al., 2003). In particular, it takes into account the effect of monetary conditions on the output gap, and of the output gap on core inflation. The unemployment gap is derived from the output gap assuming a simple Okun law relationship with time lags.

inflation target undershooting and the widening of a negative output gap. On the other hand, the years 2000–01 and 2004–06 were periods of stabilising the economy close to the inflation targets and potential output. It is thus worth looking in more depth at the two less successful periods.

The years 1998–99 were still marked by the effect of macroeconomic imbalances that led to the currency turmoil of May 1997. The fiscal restrictions introduced in 1997 combined with the interest rates that were sharply increased during the currency crisis and kept high until mid 1998 (see Figure 8-2) contributed to the deepening economic recession during 1998 (Figure 8-4). An unexpected decline in food and oil prices during 1998–99 also played a role in the inflation target undershooting,[268] which might have been accepted by the ČNB in an opportunistic effort to achieve faster disinflation.

Another crucial factor that contributed to low inflation was an exchange rate appreciation, which took place during 1998 despite the crises in Russia and Latin America (see Figure 8-1). The CZK/DEM appreciated by about 8 percent in 1998, i.e. roughly to its pres-crisis level. This pushed the import prices in koruna terms into a decline in the second half of 1998 and the first half of 1999, bottoming at more than 10 percent year-on-year.

The overall monetary conditions, summing up the impact of interest and exchange rates, tightened substantially in the course of 1997 and 1998, and did not get much looser before the turn of 1999, when the exchange rate depreciated again. The ČNB tried to resist the exchange rate appreciation by foreign exchange interventions, but kept interest rates rather high until the second half of 1998.[269] The preference for high interest rates might be ex post explained by a concern that the exchange rate and capital flows could quickly reverse in the environment of Russian crisis. At the same time, the strength of the exchange rate pass-through and the speed of the disinflation process were clearly underestimated by most forecasters including the ČNB.[270]

The period from late 2001 till 2003 was also affected by both demand and supply-side shocks. These included a global economic slowdown, lower agricultural and raw commodity prices, delayed price deregulations and, most importantly, a sharp appreciation of the CZK's exchange rate. The appreciation started in late 2001 and peaked at about 10 percent year-on-year against the EUR in mid 2002 (see Figure 8-1). This pushed inflation sharply down, and through the tightening of monetary conditions it also contributed to the economic slowdown (Figures 8-3 and 8-4). It is thus evident that the exchange rate appreciation represents a common factor for both of the two less successful periods of Czech inflation targeting.

The main point of view from which one should assess the performance of inflation targeting framework is, however, the stabilisation of inflation expectations and not meeting the inflation targets. Reaching inflation targets is not a goal of the regime per se, but only a means of achieving the ultimate goal, i.e. anchored inflation

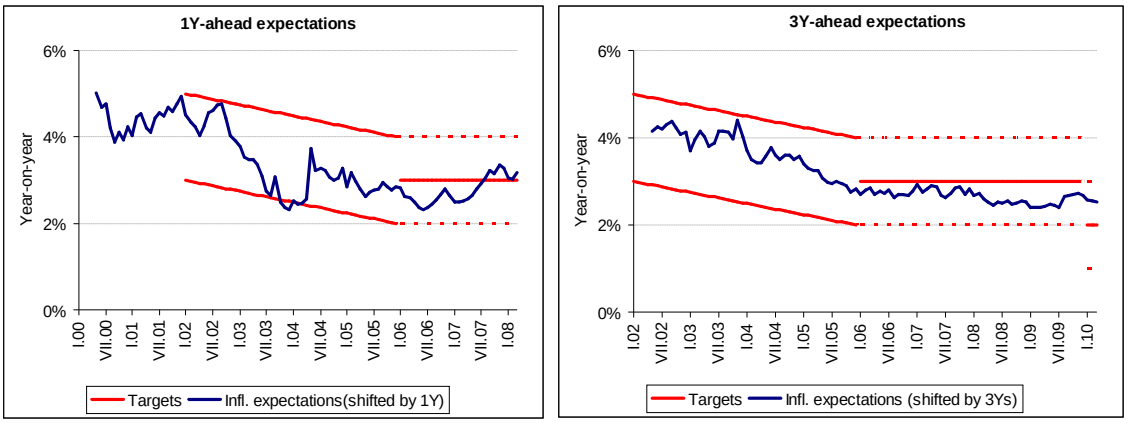
[268] see Tůma (2000).
[269] see Geršl and Holub (2006).
[270] Geršl and Holub (2006) show that in mid 1998 the ČNB's forecasts conditioned by the prevailing high interest rates were close to the inflation target. Čihák and Holub (1998) even predicted that net inflation would be at the upper edge of the ČNB's target in December 1998. The actual outcome was sharply below the target.

expectations. This was actually the key ambition when Czech inflation targeting was introduced in late 1997 (Part 1).

To assess the performance of the Czech inflation targeting in terms of anchoring expectations, we can use measured inflation expectations from the ČNB Inflation Expectations Survey[271] carried out among financial market analysts (on a monthly basis, starting from May 1999) and firms and households (on a quarterly basis, starting from the second quarter of 1999). This survey asks for quantitative inflation expectations one and three years ahead (for firms and households the three-years ahead expectations are available from the last quarter of 2002 only). Alternatively, one can use the qualitative inflation expectations indicators from the Business and Consumer Survey carried out among households by the European Commission.

The inflation expectations of financial market analysts have always been broadly in line with the ČNB's targets, which can be seen in Figure 8-5.[272] As one could expect, one-year-ahead expectations have been more volatile than three-year-ahead expectations, but, with a few exceptions, remained within the target band or the tolerance band around the targets. Three-year-ahead expectations, which are less affected by one-off shocks and should better reflect the credibility of the inflation targets, have always remained within the band. Interestingly, they have consistently moved below the 3 percent target in the more recent period, signalling that the frequent inflation target undershooting has partly built into analysts' expectations.[273]

**Figure 8-5**: Inflation expectations of financial market analysts




**Source**: Czech National Bank

**Inflation expectations were shifted one or three years into the future, i.e. they are not reported under the date of their measurement, but under the date to which they relate. This makes them comparable to the corresponding inflation targets set by the ČNB.*

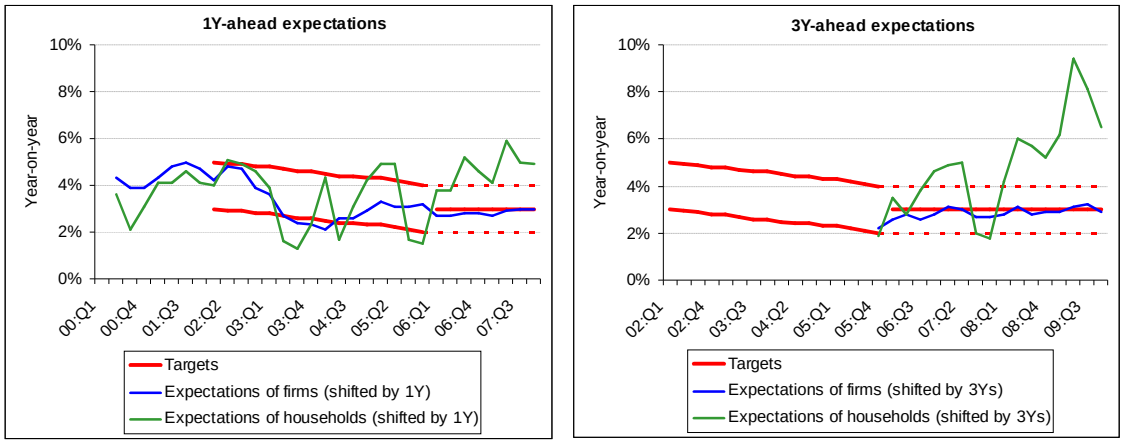
[271] The ČNB Inflation Expectations Survey is available on the ČNB web page, www.cnb.cz

[272] The results for analysts' expectations should be taken with caution, as these expectations are created by individuals with a relatively advanced economic education and knowledge of the current situation, and thus may not well represent economy-wide expectations. On the other hand, it could be argued that financial market expectations could be viewed as a benchmark for the rest of the economy, as financial market expectations are widely spread through publications of financial institutions and media.

[273] This was also taken into account by the ČNB when the new 2 percent target from January 2010 was announced.

The inflation expectations of firms have also been in line with the targets, and have behaved in a similar manner as analysts' expectations. The only noteworthy difference is the fact that firms' three-year-ahead expectations have recently been anchored close to the 3 percent target, not slightly below it as in the case of analysts. This can be seen in Figure 8-6. This figure also illustrates the expectations of households. Clearly, household expectations have been the most volatile, and for 6–8 recent quarters consistently been above the upper bound of the target's tolerance band. This contrasts sharply with analysts' and firms' expectations.

**Figure 8-6:** Inflation expectations of firms and households




**Source:** Czech National Bank

**Inflation expectations were shifted one or three years into the future (see Figure 8-5).*

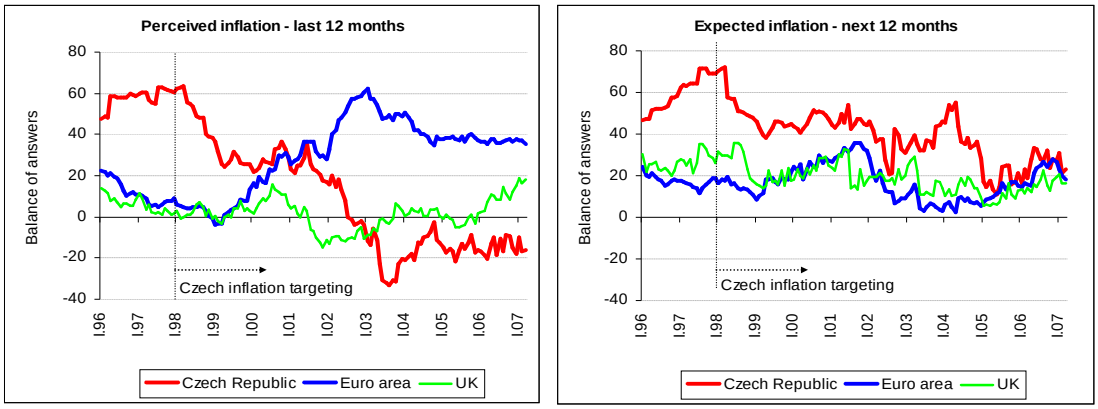
The high expectations reported by households also contrast with the ČNB's track record of inflation target undershooting and with the muted wage and consumption developments over the last two years, which suggest much lower "revealed" inflation expectations of households compared to the measured ones.[274] At the same time, the general difficulties in measuring households' inflation expectations and a few methodological changes carried out in the ČNB survey over time require caution in interpreting the data. It is thus useful to look at an alternative survey by the European Commission as well.

The survey of the European Commission suggests that the Czech household inflation perceptions and expectations have recently moved at relatively low levels (see Figure 8-7), i.e. that they have been anchored by the inflation targeting regime more strongly than the ČNB's own survey indicates. The Commission's survey is a qualitative one, and shows the balance of responses of those people who perceived higher and lower prices over the last twelve months, or who expect higher and lower price growth over the next twelve months. Therefore, it cannot be directly compared to the ČNB's inflation targets. As alternative benchmarks, we chose the survey responses for the euro area (a natural reference point in the EU) and United Kingdom (a successful inflation targeting country unaffected by the "euro syndrome"). As Figure 8-7 shows, the indicator of perceived past inflation has been lower in the

[274] In 2005-2006, the year-on-year growth of nominal unit labour costs reached less than 1 percent on average and household consumption growth lagged behind GDP growth by 2.4 percentage points on average.

Czech Republic than in the euro area and the United Kingdom since 2003. As regards household inflation expectations for the next twelve months, the Czech indicator has converged from above to the selected benchmarks, and has remained close to them since 2005.

**Figure 8-7:** Consumer survey — perceived and expected price developments




**Source:** European Commission

To sum up, there has been frequent inflation target undershooting under the Czech inflation-targeting regime. In the two periods when the undershooting was most pronounced, i.e. 1998–99 and 2002–03, there was also a relatively large negative output gap. While these outcomes were affected by some short-term and exogenous shocks, sharp exchange rate appreciation was a common feature of these two episodes. The two periods of exchange rate appreciation and inflation target undershooting may have been built into analysts' expectations, which have recently moved consistently below the 3 percent inflation target for the three-year-ahead horizon. In general, however, one can claim that the inflation-targeting regime has been fairly successful at anchoring inflation expectations at low levels consistent with the targets. As summarised in Table 8-2, analysts' and firms' expectations have on average been only marginally below the inflation targets, and their deviations from the targets have been substantially more stable than the deviation of the actual inflation from targets (measured both by standard error and root mean square error). The findings are less positive for households' expectations from the ČNB's survey, but the alternative survey by the European Commission provides a relatively favourable outcome for this group of economic agents, too.

**Table 8-2:** Achievement of inflation targets and anchoring expectations

| Deviations from targets* (in %) | No. of ** observations | Average deviation | Standard error | Root mean square error |
|---|---|---|---|---|
| Inflation, of which: | | | | |
| Net and Headline | 99 (M) | -1.9 | 1.7 | 2.6 |
| Net | 37 (M) | -2.5 | 2.1 | 3.3 |
| Headline | 62 (M) | -1.6 | 1.3 | 2.1 |
| Headline excl. taxes | 62 (M) | -1.8 | 1.2 | 2.1 |
| Expectations, of which: | | | | |
| Analysts, 1Y-ahead | 95 (M) | -0.3 | 0.5 | 0.6 |

| | | | | |
|---|---|---|---|---|
| Analysts, 3Ys-ahead | 95 (M) | -0.1 | 0.4 | 0.4 |
| Firms, 1Y-ahead | 31 (Q) | -0.3 | 0.7 | 0.7 |
| Firms, 3Ys-ahead | 17 (Q) | -0.2 | 0.2 | 0.3 |
| Households, 1Y-ahead | 31 (Q) | 0.1 | 1.4 | 1.6 |
| Households, 3Ys-ahead | 17 (Q) | 1.8 | 2.1 | 2.7 |

**Year-end net inflation targets had to be extrapolated into individual months and converted into approximate headline inflation targets to compare with expectations;*

*** (M) denotes monthly frequency of the data, (Q) stands for quarterly frequency.*

## 8.5. VAR Analysis of Inflation Expectations Formation

Given the narrative and graphical evidence presented in the previous part, one may reach a preliminary conclusion that the Czech inflation targeting regime has achieved one of its key initial goals, i.e. anchored inflation expectations. Of course, before such a conclusion is taken, it is useful to supplement the evidence by a more technical analysis of the data.

In this part we use time-series analysis in order to support the conclusions concerning the stability of inflation expectations. In particular we use a structural VAR model for analysing the effects of inflationary shocks on inflation expectations. We address the question: What happens to inflation expectations once the economy has been hit by an exogenous shock to a specific part of the consumption basket? The VAR methodology appears to be appropriate for this exercise, as it is suitable for analysing the impact of unexpected shocks on economic dynamics.

### The model

The model we use combines observed inflation with inflation expectations, several sources of inflationary shocks and monetary policy. The structure of the model is chosen to reveal the impact of inflationary shocks on inflation expectations given the expected response of monetary policy. At the same time it enables comparing the effect of inflationary shock on both inflation expectations and observed inflation.

The estimated system has the following representation:

$$Y_t = aY_{t-1} + \nu_t \qquad (1)$$

where $Y_t$ is the vector of endogenous variables, $\nu_t$ is the vector of residuals and $a$ is a matrix of coefficients describing the reduced form relationships among the endogenous variables. The vector of endogenous variables contains commodity price inflation ($\pi^{com}$), food price inflation ($\pi^{food}$), the change in nominal CZK/EUR exchange rate ($\Delta s_t$), headline inflation ($\pi$), inflation expectations ($\pi^{exp}$) and the nominal short-term interest rate ($i_t$):

$$Y_t = \left[\pi_t^{com}, \pi_t^{food}, \Delta s_t, \pi_t, \pi_t^{\exp} i_t\right] \qquad (2)$$

The commodity price inflation, food price inflation and the change of the nominal exchange rate are assumed to approximate the main sources of price shocks. The presence of headline inflation captures the influence of overall inflation on inflation expectations. The inflation expectations are the main point of interest and the

inclusion of nominal interest rates is expected to capture the monetary policy response.

For the use of any VAR model for a "shock and response" analysis the identification is always a critical issue. In this chapter, the inflationary shocks are identified from the estimated residuals $v_t$ using the standard recursiveness assumption (based on Choleski factorisation) with the variables ordered as in (2).[275] This ordering of the variables imposes an implicit assumption about what is observed by the economic agents at the time their expectations are formed, and about which variables respond contemporaneously to the inflationary shocks. The ordering in (2) implies that when the expectations are formed, the individuals take into account the shocks themselves and the overall inflation. At the same time, however, the individuals face past monetary policy decision only. Put differently, the individuals do observe the shocks but their information about the reaction of monetary policy is based on previous experience only. The monetary policy authority, however, is assumed to observe inflation expectations at the time they are formed. In addition, monetary policy actions are assumed to have no contemporaneous impact on inflation.

The above restrictions closely follow a canonical New Keynesian macro model and coincide with the standard rational expectations framework extended for price stickiness. One may argue that there exists a delay between the moment an inflationary shock occurs and the moment monetary policy decision is taken.[276] Consequently, the economic agents form their inflation expectations based on an expected policy reaction that is later either confirmed or not. In addition, the way inflation expectations are collected is designed to provide the information to the monetary policy authority before the monetary policy decision is made.[277]

**Estimation**

The VAR model is estimated for the inflation expectations of financial markets analysts, firms and households using the quarterly data sample from the ČNB's survey for the period from the second quarter of 1999 to the fourth quarter of 2006. Given this sample length, the results should, of course, be taken with certain caution. Although the inflation expectations of analysts are collected on a monthly basis, which would allow an estimation of a monthly VAR model, the households' and firms' inflation expectations are collected on a quarterly basis (see part 4). In order to get comparable results for analysts' inflation expectations, these are converted into the quarters using a simple averaging. The quarterly VAR model is then estimated for all three types of inflation expectations.

All the inflation expectations series used in this analysis are the one-year-ahead expectations. In part 4, it has been demonstrated that (with the exception of households) these expectations are more volatile than the three-year-ahead

[275] For detailed non-technical description of the necessary algebra, see Enders (2004).

[276] The decision not to change the policy stance is viewed as a full policy decision from this perspective.

[277] The inflation expectations we use for our analysis are known to the monetary policy authority when monetary policy decision is made. The latter of course says nothing about the quality of the inflation expectations survey, i.e. whether it approximates the actual expectations well.

expectations, and can be thus expected to respond more strongly to exogenous shocks. Their use in the analysis can therefore be viewed as a stringer test of expectations' anchoring under the inflation-targeting regime than if the three-year-ahead expectations were used. In addition, the time series of the firms' and households' three-year-ahead expectations is too short (see part 4) to allow a meaningful estimation of the model.

The data on the commodity price inflation, food price inflation, and headline inflation have the form of seasonally adjusted annualised quarterly changes. The change of the nominal exchange rate is the quarterly change of seasonally unadjusted levels. The three-month money market rate is used as a proxy for the policy rate and it stays in levels. Although the ČNB conducts monetary policy via the two-week interest rate, the correlation between two-week and three-month interest rates is quite strong and the use of the three-month interest rate thus does not represent any problem for the analysis.[278]

As we do not provide an explicit long-run analysis of the behaviour of the economy, we allow for an implicit cointegrating relationship in the data and, following the methodology used by Christiano, Eichenbaum and Evans (1999), we do not explicitly test for the data series' stationarity. Facing the relatively constrained data sample we use the lag of order two for the model that deals with analysts' inflation expectations and the lag of order one for the models that deal with firms' and households' inflation expectations. These choices of the lag order are supported by standard likelihood tests, i.e. by the Akaike, Schwarz and Hannah-Quinn criterions. The residual tests show that there is no significant serial correlation in the $v_t$ residuals for any of our models. Similarly, all three models pass the test of stability.

**Results**

As in Part 4, we start the discussion of our results with the financial market analysts' expectations. Figure 8-8 shows the effects of a one-standard deviation commodity prices, food prices, and exchange rate shocks on domestic prices and analysts' inflation expectation, respectively. The first column of Figure 8-8 deals with the commodity prices shock, the second with the food prices shock, and finally, the third one with the exchange rate shock.

While all the shocks are evaluated as statistically significant (in at least one period), the inflation expectations remain broadly stable after the shock has hit the economy. Although the expectations in most cases follow the direction of the shock, the responses are rather weak. The shock in food prices has the largest impact on analysts' inflation expectations, but its magnitude is still roughly five times lower compared to the response of headline inflation. The initial response of inflation expectations to the commodity price shock goes in the opposite direction than expected, and becomes insignificant in the subsequent quarters. The exchange rate shock seems to have a heavier impact than the commodity prices shock, going in the right direction and being statistically significant on the margin after one and four

[278] The ČNB itself uses three-month money market rates as a proxy for the monetary policy instrument in its core projection models. See Coats et al. (2003).

periods, but the evidence is still not as clear-cut as in the case of food prices. One may argue that the financial market takes the impact of exchange rate seriously only if the shock is viewed as more permanent, implying a lag between changes in the exchange rate and expectations.

The fact that only the response to the food prices shock seems to be statistically significant means that the shocks in food prices are probably viewed as a crucial determinant of overall inflation (or its deviations from the targeted level) by market analysts. The central bank may be viewed as being relatively unwilling to respond to food price shocks.

Figure 8-9 shows the results for the firms' inflation expectations. As in the previous case, firms' expectations are also significantly affected by food price shocks. Nevertheless, the impact of the exchange rate shock is also relatively strong. Surprisingly, the impact of commodity prices is insignificant, although one could expect the commodity prices to be important for firms' inflation expectations. The huge volatility of commodity prices may be the reason for this pattern.

Finally, Figure 8-10 depicts the results for the households' expectations. The story is somewhat ambiguous here. All the responses go in the right direction and their magnitudes are relatively high. Nonetheless, they are evaluated as insignificant, which may be caused by generally higher volatility of households' expectations. In any case, the households' inflation expectations seem to be less anchored than those of analysts and firms. This is in line with the findings of Part 4.

In general, the results lead to two conclusions. First, the magnitudes of responses seem to be relatively low in comparison to the actual inflationary impact of shocks. Second, there exist differences among the ways financial market analysts, firms and households change their expectations facing various inflationary shocks. This, however, does not automatically mean that the regime of inflation targeting does not stabilise inflation expectations. Mankiw and Wolfers (2003) found similar results for the US economy showing that inflation expectations differ for different groups of economic agents. They explain the differences by a sticky information model. Therefore, the criteria of whether inflation targeting does or does not bind inflation expectations to the target should be based on the responses' magnitude. As long as the responses remain relatively low, which has been the Czech case (perhaps with the exception of households' expectations), monetary policy is presumably viewed as playing a stabilising role. The results of the econometric analysis thus seem to be broadly in line with the conclusions from Part 4.

**Figure 8-8:** Response of analysts' inflation expectations to inflationary shocks

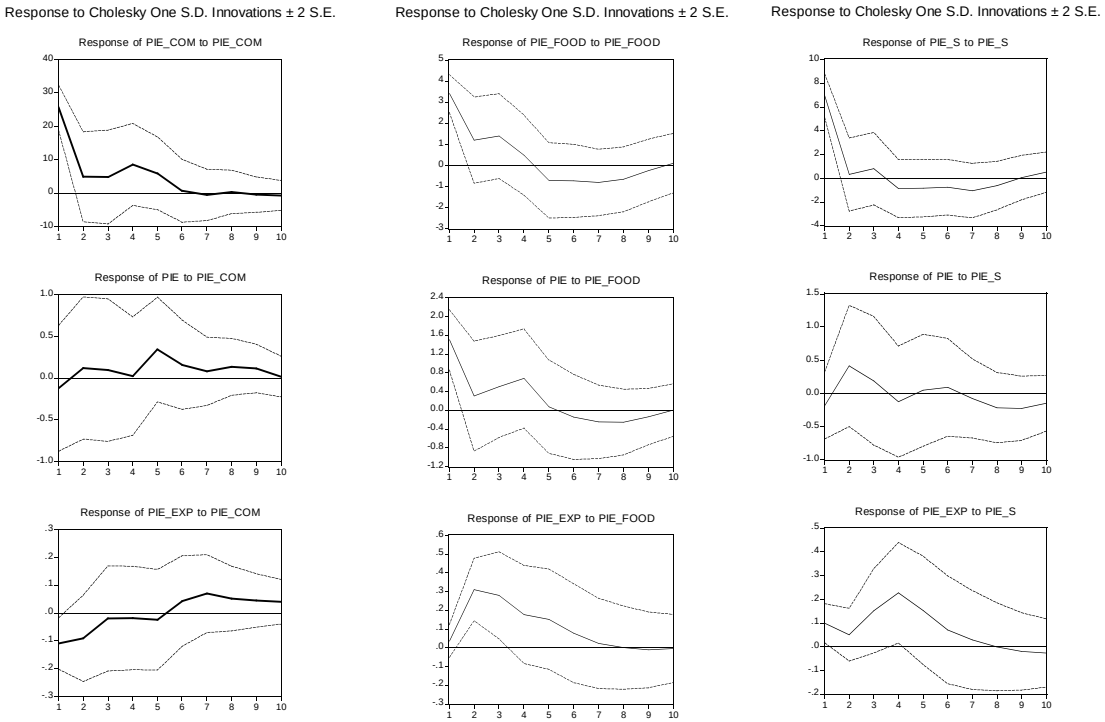



**Figure 8-9:** Response of firms' inflation expectations to inflationary shocks

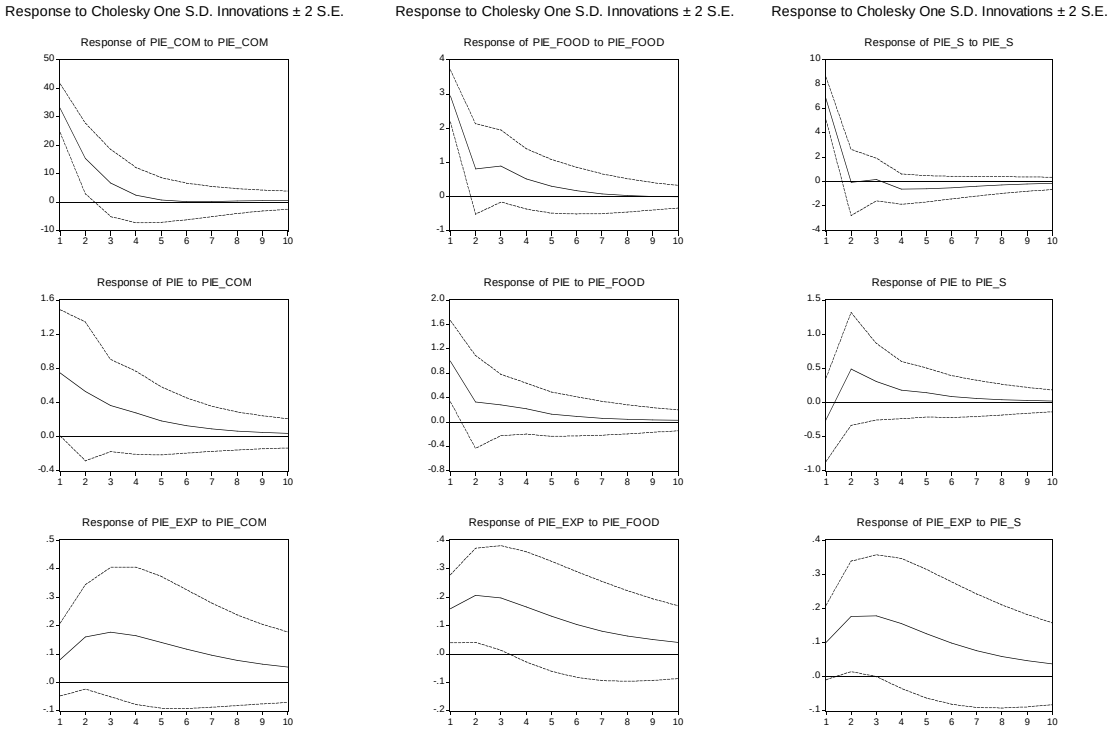
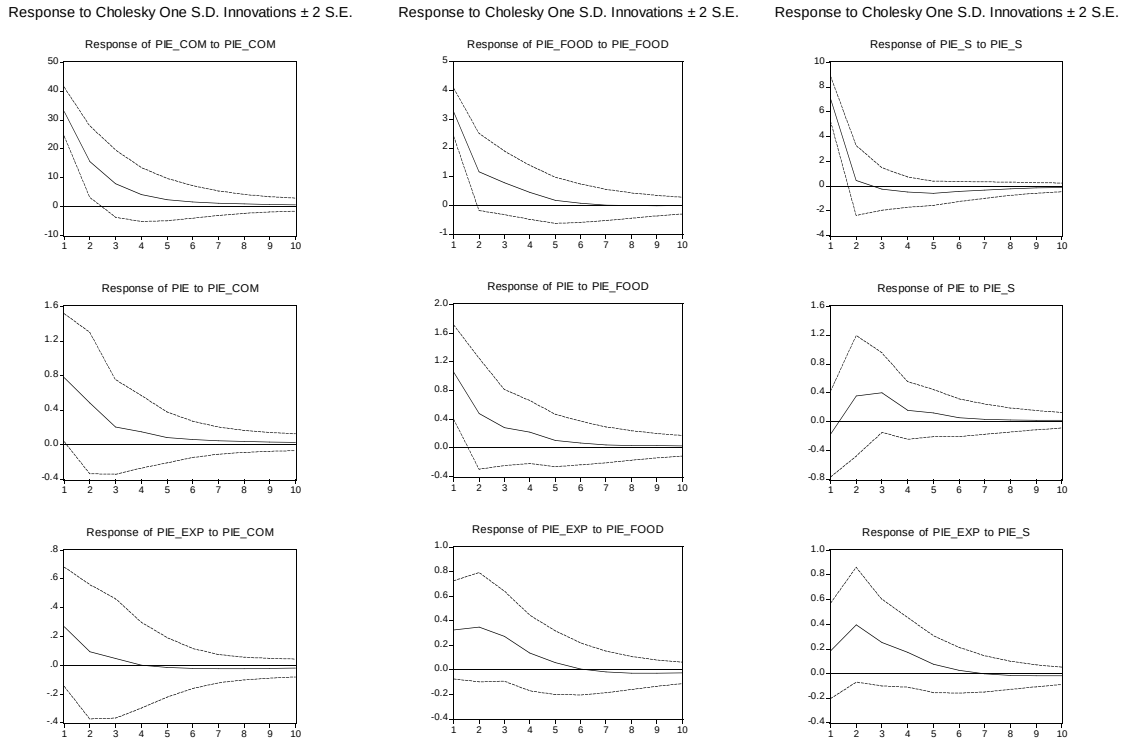


**Figure 8-10:** Response of households' inflation expectations to inflationary shocks




## Conclusion

This chapter focused on the first 10 years of experience with the Czech inflation-targeting regime. This regime was introduced at the turn of 1998 after currency turmoil and enforced the switch from a pegged exchange rate regime to managed floating in May 1997. Its main ambition was to provide a new nominal anchor for the Czech economy and stabilise inflation expectations after the acceleration of inflation in late 1997 and early 1998.

The situation in which the regime was introduced was quite challenging. This, in combination with some characteristics of the Czech economy, made the achievement of policy targets and goals more difficult in the initial years compared to some inflation targeters in advanced market economies. It also created the scope for a gradual evolution of the regimes' features, such as the specification of inflation targets, the use of the escape clauses, public communication, etc. At present, the regime has been aligned with the best international standards and has earned a substantial degree of credibility.

The credibility of the regime has been gained in spite of the relatively frequent inflation target undershooting, negative and volatile output gap for most of the inflation target period, and the challenges of substantial exchange rate fluctuations. The regime has been relatively successful at anchoring inflation expectations in the economy, as we have demonstrated using both a simple graphical and statistical analysis of expectations' surveys, as well as an econometric analysis of the expectations' responses to various economic shocks. By anchoring inflation

expectations the Czech inflation-targeting regime has achieved one of its main policy goals.

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# 9. WHY IS EUROPE UNDERPERFORMING IN R&D ACTIVITIES: ARE THERE WAYS OUT?

Luděk Urban[279]

## Introduction

There is no doubt that Europe is rightly called the birthplace of modern science that can be demonstrated not only on many remarkable achievements in the past, but also on the respectable standing in many branches of contemporary science as well. Europe is proud of the contributions of leading European researchers in medicine, the pharmaceutical industry, chemistry, power engineering, nuclear security, thermonuclear fusion, and biochemistry. Remarkable achievements are also acknowledged in civil aerospace and the telecommunication sector (mobile telephones). On the other hand, however, Europe cannot boast (with a few exceptions) scientific breakthroughs and impressive innovations in electronics, data processing or modern office equipment. Neither does Europe rank high in the automobile industry nor with scientific instruments. What is worrying about Europe is that it is lagging behind in research and innovation activities in those sectors that have a crucial importance for economic modernisation, for the transition into the information society and for identifying the adequate answers to ongoing globalisation trends. It is also generally known that Europe is not strong enough in the application of new ideas, the number of scientific researchers in internationally ranked universities , the number of Nobel Prize laureates or citations in scientific papers. The European ICT sector represents a lower share in the GDP compared with the US, which is also true with regards to investments in this sector.

It is truly a paradox that all these trends have occurred in spite of the fact that since the mid 1980s the European Union, contrary to the initial period of European integration, has developed and widened its activity to also include the research and development (R&D) effort. The activity launched was based on new chapters in EU primary law explicitly stating that it was aiming at "*strengthening the scientific and technological bases of Community industry and encouraging it to become competitive at international level.*" The European Community's institutions acquired formerly unknown powers and in the EU budget a new expenditure column appeared to facilitate financing R&D cooperation between EU Member States.[280]

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[280] The founding treaty establishing the EEC does not mention the promotion of research, except in the agricultural sector. The first articles on R&D activity were included in the Single European Act (1987) whose new chapter ( Research and Technological Development) and its articles were later transferred to the Maastricht Treaty and further rearranged in the Amsterdam Treaty. In the relevant articles the objectives of the new R&D policy are defined ("strengthening the scientific and technological bases of Community industry and encouraging it to become competitive at international level")as activities leading to reaching these specified objectives, the instruments to be used, methods of financing, the position of the Commission and a confirmed voting mechanism in the Council .

In trying to find reasons for this discrepancy one cannot pass over a few factors that have contributed to this state of affairs. First of all, remember that most analyses of the situation in the EU R&D sector primarily pay attention to research promotion at the EU level. In fact, however, the overwhelming part of R&D activity is carried out in Member countries, conducted following national priorities and programs and financed out of national resources, mostly national budgets. When comparing the volume of public outlays devoted to research and development in Member countries and at the EU level we arrive at a surprising picture: the share of European funds amounts to roughly 5 percent (reference is made to the 6th Framework program covering the 2002–2006 period). The outlays of EU multi-annual framework programs (mostly covering five-year periods), which represent the major instrument of the R&D cooperation of EU countries, can therefore be and in fact is only a small fraction of the total EU R&D expenditures and only a small addition to the national R&D programs that concentrate around 95 percent of public expenditures on research efforts in the EU.

Among European institutions it is primarily the European Parliament that is permanently pointing out to the general underinvestment in the EU R&D sector and infrastructure. The EU outlays devoted to R&D have hitherto represented less than 4 percent of the European budget and have mobilised less than one tenth of EU budget expenditures financing European agriculture.

A further important feature that follows from the preceding one is that European research activity is extremely fragmented, with overlapping national programs isolated from each other. Daniel Gross from the Brussels-based Centre for European Policy Studies was certainly right stating in 2006 that in fact 25 isolated national research systems existed in the EU.[281] In particular this feature is widely considered to be the major factor resulting in the underutilisation of available human resources and hinders the full use of the research potential that is at the disposal of EU countries. In the long-term perspective this particular feature represents a major handicap of the EU vis-à-vis the US and Japan. The Commission deserves credit for repeatedly pointing out to this shortcoming and to its unfortunate repercussions for the outcome and standing of European research. As early as in 1995 the Commission's Green Paper on innovation summarised the following disquieting weaknesses of the European R&D effort demonstrated on the position of the European industry: "*A lower degree of specialisation in both high-tech sectors and sectors with high growth rates, a lower presence in geographical markets which show strong development, productivity which is still inadequate, a research and development effort which remains disparate and fragmented, insufficient capacity to innovate, to launch new products and services, to market them rapidly on world markets and, finally, to react rapidly to changes in demand.*"[282]

Unfortunately, this situation did not change in subsequent years either. It was surprising news for readers to find the conclusion stated in the Commission's report from 2000 that after 15 years of the EU R&D policy launched in the mid 1980s, as a matter of fact no such policy existed at all and the technological gap vis-à-vis the US had deepened. The main finding was: National research systems and research

[281]Gros (2006).
[282]See: Peterson and Sharp (1998: 15).

promotion on the EU level are not properly interconnected and are, in fact, not integrated. The report added that all of this is in an unmaintainable contrast to the complex nature of the contemporary research with a high and increasing cost of its material equipment exceeding the financial resources of any individual EU country.

The European institutions, however, must be defended as at the turn of the new millennium all of them became well aware of the serious situation facing the EU. The term "alarming" has since then been generally used to describe the situation.[283] With launching the Lisbon strategy in 2000, the promotion of research and innovation has acquired high priority in all EU programs. In adopting legislative measures aiming at establishing the European Research Area (ERA) a kind of internal market for research was expected to be formed with the free movement of technology, ideas and an unrestrained mobility of researchers, with improved coordination of the EU, national and regional research policies. Later (2002) quantitative targets were set to increase European funding of research and innovation activities (with funding to reach the 3 percent level in the GDP of the country with the year 2010 being the deadline). Two thirds of the increased funding was to be financed from private sector sources. Neither the trends in the period following the year 2000, nor numerous initiatives taken by the Commission have contributed to narrowing the gap between the EU and its rivals in the R&D area. Many of the Commission reports had to admit that, in spite of the high priority R&D efforts had received in EU programs, the EU as a whole had not become more innovative. This statement can be repeatedly found not only in many Commission reports, but also in the analytical papers and contributions of independent institutions. One fact deserves to be mentioned: the innovation activity of the EU and the US was compared in a Commission report in 2003. Only in one case (the number of university students who graduated in science and engineering) was Europe at the top. This made the Commission conclude, "*none of the existing gaps between the EU and US will be eliminated before 2010.*" In the famous Wim Kok report from the end of 2004 in assessing the results of the first half of the Lisbon strategy, the statement was stressed that carrying on with the hitherto prevailing underestimation of R&D promotion in EU countries would be a "fundamental strategic error." In a further report from 2005 evaluating the outcomes of the EU innovation policy the conclusion is underlined that there are no signs of narrowing the gap between the EU and the US. And to quote the most recent finding from a Commission assessment in 2007 stated that R&D intensity in the EU as a whole has not improved and supposing that this trend continues and does not reverse, in the year 2010 this indicator might decline to the level reached the last time in the mid 1990s, which corresponds to a level below 1.80 percent of the EU GDP.[284]

One could speculate that the European Union strongly resembles a patient who is sufficiently informed about his disease and is prepared to undergo the treatment, but

[283] The report of the Commission from January 2000 ("Towards a European research area") explicitly states that the situation is very serious. In the final years of the 20th century mankind "entered a knowledge-based society. Economic and social development will depend essentially on knowledge in its different forms, on the production, acquisition and use of knowledge." And further it added "by creating new products, processes and markets research and technology provide one of the principal driving forces of economic growth, competitiveness and employment. They are the best way of modernising European companies, which Europe must do to improve its competitive position." Op.cit., p. 5.

[284] Key Figures 2007 on Science, Technology and Innovation (2007:2-3).

the therapy that is applied either is not helpful or the patient refuses to follow the doctor's recommendations.

We are not going to step in and to substitute the "doctors" since all principal steps and measures to be taken to improve the alarming state of the EU R&D and innovation effort are known or have already been tested. The problem facing Europe is that its alarming situation and its lagging behind continues too long, in spite of the fact that the EU, its institutions and Member countries' representatives are altogether well aware of the serious situation and its implication for the future of Europe. Their response to date, however, was more a kind of rhetorical proclamation (to be exemplified on the fate of the Lisbon strategy and the highest priority awarded to R&D), without relevant and adequate steps taken.[285] For the nearest and for the more remote future of the EU an even more radical turnover in R&D and innovation effort is an absolute necessity if the program of European integration should not lose much of its attractiveness and legitimacy.

## 9.1. Identifying the Weaknesses of the European Research Effort: Do Solutions Exist?

In what follows, an attempt is made to identify the major weak points of European research and innovation activities and to submit recommendations capable of bringing about a radical turnover in eliminating the lasting gap between Europe and its rivals. We are fully aware that most of our recommendations are not unknown to professional observers. The purpose of our attempt is to summarise the most essential findings on the subject dispersed throughout many sources not only of EU origin, and present our own ranking of them.

1) What Europe is viewing as its highest priority and what all stakeholders generally acknowledge is the urgently needed increase in research funding, both at the EU level and at the Member countries' level as well. Eliminating the gap in research intensity (the share of research funding in the GDP) is as an absolute necessity supported by all.[286] The position and the trends of Europe concerning the amount of research outlays and their share in the EU as a whole is alarming: the outlays show on the one hand an absolute

[285] In the report commissioned by the EU Commission at the end of 2005 and prepared by a group of experts chaired by the former Finish prime minister, Esko Aho, an interesting point has been put forward. The main barrier, according to the paper, that explains why Europe is not sufficiently innovative, consists in that there is "a large gap between the rhetoric of the political system that preaches the information society" but at present "budgetary and other priorities show little shift in preparing to engage with it." See: Aho Group Report: Creating an Innovative Europe (2006: 2).

[286] Advanced publications on the subject distinguish research intensity and research productivity in measuring the impact of investment in research. The research intensity of a country refers to the share of research outlays in its GDP. A share reaching 3 percent of the national GDP is generally considered to confirm a very high scientific and technological level of the country. The situation of the EU as a whole shows an increasing gap in the research intensity vis-à-vis the US (2.6 percent in 2004) and Japan (3.1 percent in the same year), the share of the EU as a whole being 1.9 percent . Apart from research intensity, research productivity is also analysed. This indicator refers to the efficiency of research expenditures and is usually measured by comparing the research outlays with the number of patent applications, particularly in high-tech sectors. Europe is lagging behind both in research intensity and research productivity.

increase, on the other, however, their share in the GDP is stagnating since the mid nineties (around 1.9 percent) and this trend continues to exist in the period after 2000 also. The gap in research intensity prevails in comparison to the USA and Japan, but also in comparison to South Korea.[287] Moreover, new emerging countries are rapidly catching up. If current trends persist, in terms of its R&D intensity it is expected that China will have caught up with the EU by 2009. There is a general consensus in the EU concerning the high priority of increasing research intensity and in this way to catch up with the main competitors. Some EU Member countries have proved that this target is within reach: Finland and Sweden. The goal of reaching a 3 percent level in research intensity of the EU countries (target set in Barcelona, 2002) in the period to 2010 is, in principle, correct. There are certain barriers on this path, however, and the goal cannot be viewed only in quantitative terms. Increasing the research intensity to the 3 percent level is no guarantee that Europe will immediately become more innovative. The Barcelona target should be understood as a kind of a benchmark that has to be supplemented by other criteria. Among them, research productivity, monitored primarily by the number of patents registered in high-tech sectors, is fundamental. A further problem consists in the following: to date it is generally admitted that reaching the Barcelona target in 2010 is highly unlikely for the EU as whole. The EU Commission's calculations indicate that the target could be reached only under the condition that research expenditures would show an annual increase by 6.5 percent in the period up to 2010, which is highly improbable. If all Member States reach this objective, the overall EU R&D intensity could be increased to the level of around, at the most, 2.6 percent in 2010.

2) Private investments in research constitute a further problematic area and Europe not only suffers from low research intensity. In research expenditure structures the contribution from the business enterprise sector for the financing of R&D in Europe is much lower compared to that of the EU's main competitors. In 2004 the business sector in Japan and South Korea financed 75 percent, in the US 64 percent, whereas in the EU the private sector contributions to total R&D expenditures amounted only to 55 percent. Despite much policy attention, private sector contributions to the financing of R&D in the EU has not increased over the past 10 years, in fact, since 2000 its share has even declined. In its reports the Commission repeatedly points out that more than 85 percent of the R&D intensity gap between the EU-27 and its main rivals is caused by differences in private enterprise sector contributions to the financing of R&D. In other words: Europe fails in its efforts to motivate the private sector to participate in financing R&D. To become more competitive, Europe has to find ways to make the research sector more attractive for private investors, in all sectors and in all branches. This finding was also incorporated in the Barcelona targets, emphasising that

[287] "R&D intensity in the EU-27 remains at a lower level than in most of the other major world economies such as the US, Japan and South Korea. In these countries, and in spite of some minor, short-term fluctuations, the trend over the past decade has been much more positive, outpacing Europe in R&D intensity growth," states the latest EU Commission analysis on R&D. See: Key Figures 2007 on Science, Technology and Innovation (2007: 3).

it is not enough for research outlays to reach the 3 percent level of the GDP in 2010. At the same time, the share of R&D expenditure funded by the business sector has to increase so as to represent two-thirds of the total by 2010. It has to be stressed, however, that the ways to encourage private investors to be more inclined to R&D investments are in general known to EU institutions and to Member countries' governments. In general terms this implies to forming and maintaining an environment that is conducive to R&D investment and innovation. It can be said that almost all workable instruments have been identified in the EU and most of them also put into practice and tested. Among them the following deserve attention: the simplification of regulatory standards, fiscal measures including indirect aid within the Community rules on state aid, the promotion of R&D activities in the sector of small and medium enterprises, support for start-up companies, stronger protection of intellectual property (patent protection through Community patents),[288] sufficient supply of risk capital, new forms of cooperation between enterprises and universities etc. Some of these measures can be addressed at the EU level (new rules for state aid in the R&D effort, the hopeful breakthrough in finding consensus in Community patent legislation), others provide room for Member countries' activities (fiscal measures). It cannot be denied, however, that progress in many crucial areas is extremely slow, which is evident from the fact that the weaknesses mentioned have been known for many years (demonstrated by the prolonged discussion about the Community patent, by the sluggish advance in reforming the rules of state aid for R&D activities). No wonder the Commission recommendations on these subjects are again and again to be found in its reports without any remarkable progress. The price paid by Europe for this failure is high: a stagnating share of the private sector in financing R&D.

3) A radical turnaround in EU research productivity will not set in unless Europe succeeds in eliminating fragmentation, overlapping of national research programs producing waste and underutilisation of available human resources. Also, this weakness of the EU research effort has been well known for years. The multiannual framework research programs introduced as early as 1984 and have been practised since then (the current Seventh Framework program covers the period 2007-2013) were a kind of response to this handicap. Without underestimating their contribution one important (already mentioned) feature must be recalled: these long-term research programs have at their disposal only some 5 percent of public R&D funding in Europe. These quantitative limits form a certain barrier for these outlays to have a deeper impact on the final effects. Neither can the current Seventh Framework program, considering the amount of resources at its disposal, be expected to bring about a radical overhaul. This also applies to the new financial perspective adopted for the 2007-2013 period again considering its

[288] The costs of patenting in the entire EU internal market are extremely high due to the need of multiple translations and up to 25 annual renewal fees. All these costs weigh heavily on medium-sized and large business, by far the most research oriented. See: Pelkmans (2006: 308).

expenditure structure. Therefore, initiatives of the Commission aiming at reducing the fragmentation of the European research scene are welcome . A certain breakthrough can be seen in forming European technological initiatives, the idea of which was, for the first time, presented by the Commission in 2005. The idea behind it consists in mobilising "a critical mass" of national and European public and private resources, bringing together private companies, research institutions, the financial world and regulatory authorities at the European level to define a common research agenda. In this way, the national borders contributing to the fragmentation and duplication of the European research effort would be minimised and conditions for a scientific breakthrough established. It is certainly a promising prospect for the first time included and experienced in the current Seventh Framework research program. Another remarkable feature of this concept is that it opens room for initiative steps taken by the stakeholders without interfering in the process and without "organising" research activities from above. European technological initiatives formed on a voluntary basis are aimed at defining medium and long term targets stretching from basic research to the development of new products and services, tested on the market, with a strong impact on the competitiveness of the European economy. The financing of the first two initiatives is divided between business enterprises (50 percent), Member countries (roughly one third) and the rest is covered from the European budget. In 2005, six research agendas with strategic importance for the EU were identified, two of which have been started in 2007, both for a seven years period. The two research areas covered are: 1) embedded computer systems and 2) innovative medicine. The outcome of these initiatives is difficult to assess at this moment.

4) Europe suffers not only from inadequate investment in the research area: Another weakness appears in the lacking supply of scientific personnel. In this respect, too, Europe is lagging behind its competitors and quite visibly so. Per 1000 employed persons there were 4 or 5 researchers in Europe (2003) compared with 9 researchers in the US and 10 in Japan. Research personnel in Europe is to be found primarily at universities (37 percent), more than in the US and Japan. In these two countries researchers are associated primarily with the enterprise sector (between 70 to 80 percent), in Europe only around 50 percent. Should Europe come closer to the Barcelona target in 2010 (3 percent of the GDP for research promotion), then according to the Commission calculation some 700,000 new researchers would be needed (also taking into account the retirement age of many present researchers). It is true that the number of students graduating in science and engineering from European universities is higher than in the US or in Japan and that more PhD students are trained in Europe. Scientific careers in Europe, however, are less attractive than elsewhere. More attractive perspectives are offered in other sectors than science. Even more attractive outlooks are linked with working opportunities in the US, not only because they are more rewarding, but due to more advanced science facilities and greater mobility within the US. Thus, Europe is facing not only

the risk of losing research personnel, but at the same time the risk of a "brain drain" of the best qualified researchers to the US and the failure to attract the best researchers to Europe. The Commission report issued in the spring 2007 describes the situation quite precisely: The "brain drain" from the EU to the US is estimated at between 80,000 to 100,000 persons, which does not pose any special problem compared to the overall number of researchers in Europe. It continues stating, however, that the international mobility of researchers of this kind would be "*desired if we could expect that most people from this group will finally return back to the EU. Most of them, however, resist returning due to inadequately attractive perspectives in research and further career chances.*"[289] Unresolved remains the issue of the low level of researchers' mobility within EU Member States as well. According to Eurostat figures, 5.7 percent of persons active in the EU research system in 2005 were citizens of another country, but only half of them were citizens of an EU Member country. The share of foreign researchers in major EU countries is higher: it amounts to 7.2 percent in the UK, 6.4 percent in Germany and 4.1 percent in France. Two important steps were taken by the Commission in 2005 to make the Union more attractive for researchers from other countries: a European Charter for Researchers and a special Code of Conduct for their Recruitment were adopted. The second document provides foreign researchers with the same rights and obligations as those enjoyed by EU citizens. As stated in the Eurostat report, the Commission initiative has not so far brought about any perceivable results. One of the EU Member States attractive enough for researchers from other countries (including non-EU countries) is the UK. It is not uncommon that research teams in the UK are composed mostly of persons coming from foreign countries. As for other Member States the intensive mobility of researchers from other countries is more the exception than the rule.

5) It took a rather long time for Europe to find out that its lagging behind main competitors is placed not only in research and innovation activities: For many it was a surprise to learn that Europe is facing a challenge in the education system also, in its potential to adapt to the rapid development of knowledge and in its flexibility. The open discussion launched focused primarily on the level of European universities and was supported by much data concerning the world rankings of universities. It was a shock for many in Europe to find that European universities cannot be considered as reliable suppliers of knowledge in new sectors of the economy, and that they are isolated from the urgent needs of the sectors that request this knowledge. That they are almost completely cut off from the needs of those sectors that apply both for the traditional industry sectors and for the service sector as

[289] Facts and Figures of the European Research Area (2007). According to J. Pelkmans , "Shortcomings of the EU research system in this respect have much to do with 1) a lack of investment in research and higher education, 2) a lack of competition and challenge in research a 3) a crippling fragmentation and waste in sticking to (many) national traditions in determining policies, structures and incentives, with the European dimension as a marginal afterthought," see: Pelkmans (2006: 306-307).

well. There is a paradox in the position of Europe: it is the major world producer of scientific knowledge well ahead of both the US and Japan. European superiority disappears, however, when the scientific output is referred to the total number of residents, to the individual researcher or to the total amount of public research expenditures. The EU standing shows a less favourable picture if the number of citations in scientific journals in practically all branches of science is compared and if the total number of the most quoted publications is monitored. European universities are less represented in the group of leading world institutions providing higher education: in the group of 25 universities with the highest number of citations all of them are located in the US. In the group of 76 universities, with a citation score higher than 1.5, 88 percent of them are based in the US and only 8 (11 percent) are based in one of the EU countries. To this important finding made by the Commission this one must be added: the scientific output of European universities is, as usual, focused on traditional science branches (chemistry, astronomy, physics). The contributions of American scientists are concerned primarily with new branches of sciences.

The EU summit held in October 2005 at Hampton Court deserves credit for turning the attention of European leaders to the situation of European universities and for the urgent call for their radical modernisation. In subsequent communication (June 2006) the point was emphasised by the Commission that it would support the proposal for universities to become autonomous entities: for their transition into cooperation with the business sector. The communication was presented with the aim to inspire top representatives of the European educational system without presenting proposals of legislative steps to be taken. The opposite was true for the proposal to establish a European Technological Institute (ETI), supposed to become a respectable rival for leading American universities. This new university institution was expected to initiate a new stage in the development of the European higher education system, as it would not be tied to many outdated traditions of European universities. The new approach, new experience of the ETI was also expected to facilitate the transformation of the higher educational system in Europe.[290] There is, so far, no consensus and no final answer to the question of whether this particular institution can be considered to be the beginning of the turnover to the new role played by

[290] The idea of establishing an entirely new European Technology Institute capable of being comparable to similar American and Japanese institutions in terms of its professional level and scientific output was for the first time presented in the program of the new Commission headed by J. Barroso. The Institute was supposed to attract the best specialists from all over the world, to attract students from all continents and to arrange that "knowledge will become key to growth." Following this intention the Institute was assigned the role of becoming the main instrument of the "knowledge triangle": education, research, and innovation. In the education area the Institute was assumed to provide Master's and PhD students with top-level knowledge. In the research area in the Institute both basic and applied research would be carried out expecting that it would result in marketable innovations. In the area of innovations the Institute would be oriented to have close and firm linkage to the enterprise sector responding persistently to its needs. Supposing that the proposal would be supported by European institutions, the ETI should start its activity in the academic year 2009-2010. Financing would be covered from public and private sources.

European universities in the information society. For this new function to emerge a long-term process must be gone through.

6) The attempt to find the key link that will have a crucial impact for the turnover to the higher productivity of the European research system has generally arrived at the conclusion that its final criterion are innovations, their "production," their transfer and, in particular, their marketing and their appreciation by the market. In this respect the outcome of the European research promotion is by no means absolutely unsatisfying. The comparisons of the innovation activities in the US and in the EU repeatedly presented by the Commission are worrying, but convincing. They confirm that Europe is not sufficiently innovative as it is not successful in creating an innovation-friendly environment. At the same time the Commission did its best to exhaustively summarise in its reports all the components of this environment. It is true that for a long time the initiatives, how to improve the situation either recommended or launched, had one shortcoming: it focused their attention almost entirely on the supply side. The idea was held for a long time that a specific form of State support, preferential fiscal treatment, specific program of support for SME etc. would themselves be sufficient enough for innovations to find their way into the market. This way of thinking was mostly unconfirmed by what happened in reality, as can be found in the reports monitoring trends in innovation activities in the US and EU. A certain shift in the approach of how to bring about a turnover to massive innovation activity in the EU can be observed, however, in the last period. This new approach is creditable primarily to a very influential and innovative report commissioned by the Commission and presented by a group of experts chaired by the former Finnish Prime Minister Esko Aho.[291] Based on the recommendations of this report focusing on what should be done in Europe to eliminate the innovation gap, the Commission arrived at several important conclusions: First of all, Europe must become innovative in all directions and in all areas. Expressed in more specific terms: to become more innovative in education, research, the transfer of knowledge, the entrepreneurial spirit and in the financial arena as well. A further important recommendation is concerned with the role that will be played by the EU: it has not only to motivate the "production" of innovations, but at the same time it has to take care that attractive markets are opened for them. An original concept was presented: the concept of "lead markets." This idea has nothing to do with the outdated social engineering approach associated with interference into the market functioning, or with a "picking the winners" approach, nor with introducing specific technologies under favourable conditions. The idea of "lead markets" should not copy the famous policy of supporting "national champions." It is expected to open markets that are "friendly" to innovations. For a society to become "innovation-friendly" this necessitates establishing a system that, on the one side, permanently "produces" and "offers" new ideas and new solutions and that, on the other side, is "hungry" for innovations and continually maintains

[291] Aho Group Report: Creating an Innovative Europe (2006).

a high demand for them. The new initiative already accepted by the Commission should open new markets for innovative commodities and services and their marketing in "promising markets." The concept is based on the assumption that promising markets can be identified. Public institutions are in the position to encourage innovation activities by doing away with barriers that, up to recently, had an impeding effect. This can be achieved by setting new standards, through introducing new qualifications in public procurement, and by promoting research activities. New initiatives could be launched for example in the construction sector (by setting standards requiring lower energy intensity), in the energy sector (with the same aim), by legislative steps calling for a higher share of alternative energy sources, in the environment protection (higher standards for clean water, in recycling waste, in bioindustry sectors). The Commission identified quite many promising new markets capable of increasing demand for innovations and at the same time improving the quality of life: e-Health, Pharmaceuticals, Energy, Environment, Transport and Logistics, Security, Digital Content, Defence Sector, and Space. A new and desirable feature of this approach is that it boosts a new demand for innovations with a positive outcome for the quality of life in areas like environment, transport, energy, public health, etc. Innovation activity becomes attractive for private investors and for their demand for new technologies. This approach appears to become a new chapter in the promotion of research and innovation by combining the supply and demand-oriented policy. It is certainly true that it will take some time for this concept to be tested. The Commission has been asked to present first proposals of "promising markets" in 2007, so that in the following year this new approach will begin to be tested.

## Conclusion

The rightful feeling of anxiety with regard to the outcome of the European research and innovation policy should not overshadow the achievements and success of the research effort in a small group of EU Member countries and in selected sectors. This applies in particular to two Scandinavian countries (Finland and Sweden), who have not only caught up with the US, but in fact are ahead of the US in a number of important R&D indicators: in the share of research outlays in GDP (research intensity), in the relative number of researchers (per 1000 employed persons), and in the frequency of registered patents in high-tech sectors (research productivity). Finland, for many years, ranks at the top of the charts presented by international organisations (OECD, World Economic Forum) being number one regarding the outcome of its innovation policy, and the competitiveness and education levels of its population. Countries like Germany and France are successful in foreign trade as their economies perform with positive trade balance in high-tech commodities, the position of France in aerospace industries is acknowledged worldwide, and the UK has a dominant position in the pharmaceutical industry and research. Likewise there are many firms in Europe comparable with leading American and Japanese rivals in terms of their research intensity, the frequency of their

innovation activity and patent registration. Many European regions are high above the EU average as regards to the effect of their innovation policy. The European standing is recognised worldwide when the qualification level of the employees in Europe is assessed and compared. Europe as a whole also ranks as number one when the number of students graduating in science and engineering and their education standards are compared. On the other hand, it is generally known that comparing the EU as a whole with the US and Japan in R&D indicators, the results turn out worse than when just selected European countries are compared.

A turnover to a really effective European R&D policy cannot be considered to be the matter of this policy alone. The authors of the Aho Group report made this entirely clear by stating, "*A broad range of activities has to be mobilised which go well beyond the narrow domain of R&D and innovation policy*." This implies that this turnover must be facilitated by a whole set of reform measures in areas intensively affecting research activities. Among them the following have to mentioned: rules of competition in the internal market, fiscal policy, opening space for venture capital, measures supporting SME, intellectual property protection (Community patent), reorienting structural policy funding, changes in public procurement policy, supporting the entrepreneurial spirit, opening new markets etc. The authors went on even further. If an "innovative Europe" is to emerge, a radical change in the hitherto prevailing paradigm has to occur : traditional European values can be preserved in the future too, but in a "new social structure." A very crucial message is directed to European citizens in the final part of the report: "*Europe and its citizens should realise that their way of life isn't under threat but also the path to prosperity through research and innovation is open if large scale action is taken now by their leaders before it is too late.*"[292]

Should not the European research area become a "remote dream," as recently put by the former Head of the European Science Foundation Bertil Anderson, and should it really become an effective instrument of the deepening of the European integration process, then the promotion of research and innovation must indeed become the highest priority of all Member countries, not just a proclamatory declaration.

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# 10. SIGNALLING THE STRENGTH OF A MARKET ENTRANT IN A UNITED EUROPE

Karel Janda [293]

## Introduction

This chapter belongs to the game theory and information economics approaches dealing with the problem of signalling. The beginnings of the formal modelling of signalling are connected with the Spence's (1973) model of job-market signalling, which was eventually rewarded by a Nobel Prize in Economics for the analysis of markets with asymmetric information in 2001. In this model the major idea of signalling — the informed player takes some costly action to signal his private information to an uninformed player — was introduced to the wider mainstream economic audience for the first time. Almost ten years later Milgrom and Roberts (1982) applied this idea to the analysis of industry entry in the theory of industrial organisation.

The Milgrom and Roberts (1982) analysis of entry was connected with the notion of limit pricing. The firm engaged in limit pricing purposely reduces its profits by not allowing its price to be higher than an ex-ante specified limit value in order to deter entry by firms that are not active in the market so far. The seminal modern limit-pricing model of Milgrom and Roberts (1982) is a signalling model. In this model the incumbent firm has a high or low cost. Only the incumbent firm knows whether its costs are high or low. The possible entrant is willing to enter the industry only if the incumbent is a high cost one because the subsequent competition with the low-cost incumbent would lead to a negative profit for the entrant. Obviously, in order to have an interesting non-trivial situation, we assume that the competition with the high-cost incumbent will provide a positive profit for the entrant. Milgrom and Roberts (1982) show that while in the absence of possible entry, the low-cost incumbent would charge a lower price than the high-cost incumbent, the possibility of the entry leads to the following situation: The high-cost incumbent may wish to pretend that he is the low-cost one by charging less than the monopoly price of the high cost firm. Or, if the entrant believes that a high-cost firm might charge low prices, the low-cost incumbent may need to signal its identity by charging so low a price that it would be unprofitable for a high-cost incumbent. This is a standard approach in the signalling models — the informed efficient party engages in the costly action (low price in our case) that would be prohibitively costly to the inefficient party. In any way, some type of incumbent is using limit pricing in the Milgrom and Roberts (1982) model. We should emphasise that the informed party in the Milgrom and Roberts (1982) model is the incumbent. This approach with informed incumbent and uninformed entrant is used in the huge literature inspired by that model.

As pointed out by Riley (2001), there are no well-known signalling models dealing with the use of capacity decision as a signal of strength (low unit cost) of an

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entrant in market entry games of industrial organisation. Therefore our chapter aims to fill this gap in the industrial organisation game theoretical literature dealing with the signalling games in the context of industry entry. Our chapter provides a model of industry entry where a capacity decision is made by the informed entrant prior to entering the market. We show that for some values of underlying parameters the strength of an entrant can be revealed by the different choices of capacities between weak and strong entrants.

The scenario described by our model is very characteristic for the market entry situation that frequently happens in the newly open markets in the European Union. The model may be empirically relevant, for example, for industrial organisation analysis of the entry of a new supplier to the existing supply chain. Our chapter could also be considered as belonging to an international agricultural trade literature on the use of agricultural commodities quotas since the capacity decision can be also interpreted as a choice of import quota or voluntary export restraint. Our model is relevant for trade in both raw agricultural (or any other) commodities and for processed food industry products (or for other products on any stage of production vertical chain).

## 10.1.The Literature Review

The problem of capacity precommitment as a barrier to entry is very rigorously analysed by Allen, Deneckere, Faith, and Kovenock (2000), who, similarly to what we do in our chapter, reject the often assumed Cournot competition in the post-entry game. Their paper studies a model in which the incumbent and entrant sequentially precommit to capacity levels before competing in price. Their approach produces a simple and intuitive set of equilibrium behaviours and generates clear prediction about when these different outcomes are likely to arise. The entry deterrence is also analysed by Bagwell and Ramey (1996), Cave and Salant (1995) and Maskin (1999) on a very sophisticated theoretical level; a more empirical approach is taken by Krishna and Tan (1992, 1999) or Harris (2007).

Our model is also relevant to international trade literature. In the theory of strategic trade policies, the often-raised question is the construction of optimal tariffs or quotas in the asymmetric environment. The capacity variable used in our model may be interpreted as the quota size or the tariff level negotiated in the strategic trade policy framework. One possible approach to the analysis of strategic trade is presented by Zigic (2005). His book is primarily concerned with the trade between the industrialised North and less industrialised South in the environment characterised by information asymmetry. Among other sources of asymmetry Zigic (2005) considers the difference in the unit cost of production, which is the same approach as we use in our chapter. Given this asymmetry, Zigic (2005) explores some properties of optimal strategic trade policy as well as its sensitivity and its social welfare implications with respect to different modes of competition, possible information asymmetry and variations in ability of government to precommit to its policy choice. As opposed to our model, where we consider just the competing firms without any government intervention, he is very much concerned with the role of government. He relaxes the standard assumption that the government can commit to its policy instrument prior to

the strategic action of the domestic firm based on the reason that governments and firms are likely to differ in their ability to commit to future actions. Thus, the government may lack credibility with the firms whose behaviour it tries to influence. There may also be a time lag between the announcement and implementation of strategic trade policies. As a consequence, the government may be forced to select its policy only after the strategic choice of a domestic firm. This gives a strategic motive to the domestic firm to influence or manipulate the government policy response. In such a situation, it has been claimed that implementing a strategic trade policy can cause inefficiencies and consequently can lead to lower social welfare as compared to the corresponding social welfare under free trade.

The problem of market entry is a frequently analysed topic in agricultural economics literature, especially in connection with the modelling of agricultural and food industry vertical commodity chains. Duponcel (1998) and Frohberg and Hartmann (1997) are interested in the problems of agricultural trade in European transition economies, which are very much plagued by entry barriers and information asymmetries with respect to their target markets. An analogical situation is in developing economies as described by Faini, de Melo, and Takacs (1992). Similar problems also arise in the developed market economies as documented by McCorriston (1996) and Paarlerg and Lee (2001) in the context of US agricultural markets and by Veeman (1997) in the Canadian agricultural marketing board situation.

## 10.2.The Competition Policy of EU and Market Entry

The competition policy of the European Union is an important part of the policies ensuring the completion of the internal European market. The EU competition policy has four main parts. In the next paragraphs we will briefly describe these main components of EU competition policy and we will relate them to the topic of our chapter — the modelling of the use of capacities as the signals of the strength of the market entrant.

The first one of the main components of EU competition policy is the area of cartels, collusive behaviour and other anti-competitive practices. This is covered under Article 81 of the Treaty of the European Community. The second is the policy aimed on the preventing of the abuse of a firm's dominant market position. This is primarily the area of anti-monopoly regulation. Article 82 of the Treaty of the European Community covers this policy. The third segment of EU competition policy is concerned with mergers. This segment deals with the control of proposed mergers, acquisitions and joint ventures involving companies that have a sufficiently high amount of turnover in the EU/EEA. From the legislative point of view this segment is covered by the Council Regulation 139/2004 EC (the Merger Regulation).

The last part of EU competition policy is quite specific to the EU, as opposed to, say, US antitrust regulation. It is dealing with state aid and the control of direct and indirect aid given by EU Member States to both public and private firms. It is covered by Article 87 of the Treaty of the European Community. The establishment of this part of the competition policy was caused by the fact that the EU is made up of independent Member States, which means that EU competition policy could be

significantly harmed if the individual Member States were allowed to support national companies.

The question of market entry belongs to the second part of EU competition policy — that is, into the section regarding the abuse of a firm's dominant market position. The capacity constraints are considered as one of the possible market entry barriers there. The European Commission Directorate-General for Competition (2005) describes capacity constraints in the following way: "*Capacity constraints: competitors may have to commit large sunk investments in order to expand capacity. An investment or cost is sunk when it cannot be recovered if the undertaking exits the market. Moreover, even existing excess capacity may be so expensive to employ that these costs constitute a barrier to expansion: For instance, the costs of introducing another shift in a factory may constitute a barrier to expansion.*"

As could be seen from this short overview of EU competition policy, the question of the strategic use of excess capacities is already dealt with in the EU's official documents concerned with their competitive policy. At the same time it is obvious that our approach to this topic — treating capacities as the signal of the entrant — is quite original and novel. The current EU practice is used to the traditional view of the strategic use of the capacities only as the market entry barrier erected by the incumbent.

In the next part of our chapter we will describe our model, analyse the situation using complete information about the costs of competitors and then investigate the changes caused by the introduction of information asymmetry.

## 10.3.The Model

We consider a market for a homogeneous good with the inverse demand function

$$P(Q)=\begin{cases} a-Q & \text{if } Q<a, \\ 0 & \text{otherwise,} \end{cases} \qquad (1)$$

where $P(Q)$ is the market clearing price when the aggregate quantity on the market is $Q$ and $a>0$.

The market is served by an incumbent monopolist (Firm 1), who produces the profit maximising quantity

$$q_1=\frac{a-c_1}{2}=k_1, \qquad (2)$$

where $c_1$ is his cost per unit of production and $k_1$ is his production capacity.

We next introduce an entrant (firm 2) that can produce the same homogeneous good. His unit cost is $c_L$ or $c_H$, where $0<c_L<c_H<c_1$. The incumbent does not know the entrant's unit cost.

The incumbent and the entrant play a game with the following sequence of steps:

1) The entrant builds the production capacity $k_i, i\in\{L,H\}$ with a variable capacity cost $\gamma\geq 0$ per unit of capacity.
2) The incumbent produces $q_1$ as a Stackelberg leader.
3) The entrant of type $i$ produces $q_i$ as a Stackelberg follower.
4) Given $Q=q_1+q_i$, the price is determined by equation (1).

The variable capacity cost is in addition to a possible fixed capacity cost. The marginal capacity cost will be zero if the cost of capacity is fixed and does not change with the capacity size. This case is particularly applicable to the trade quota interpretation of the model.

Throughout the whole chapter we assume that the values of the parameters of the model are such that the complete information production of a Stackelberg leader facing a low cost entrant without any capacity restriction is positive. This is satisfied when

$$a + c_L - 2c_1 > 0. \tag{3}$$

Since we are interested in the problem of signalling by entrant, not in the problem of entry deterrence, we set the fixed capacity cost for the entrant equal to zero.

**Complete information case**

As derived by Saloner (1985) in a similar game, the capacity constraint induces different production quantities than in the unconstrained Stackelberg game.

We will use the following notation: For $i \in \{L, H\}$, $q_{1i}^D$ is an equilibrium quantity chosen by an incumbent facing an entrant of type $i$; $q_i^D$ and $k_i$ are an equilibrium quantity and capacity chosen by entrant of type $i$. The quantity produced by a Stackelberg leader followed by an entrant of the type $i$ in the model without capacity constraint is denoted as $q_{1i}^S$.

**Lemma 1.** The equilibrium quantities when the incumbent knows the type of the entrant with certainty and the variable cost of capacity are zero are:

$$q_{1i}^D = \frac{a + c_i - 2c_1}{2\sqrt{2}} < q_{1i}^S \tag{4}$$

$$q_i^D = a - c_1 - 2q_{1i}^D = \frac{(\sqrt{2}-1)a - c_i + (2-\sqrt{2})c_1}{\sqrt{2}} = k_i. \tag{5}$$

Proof: See Saloner (1985).

We will assume throughout this chapter that the capacity unit cost $\gamma$ is low enough to allow a Stackelberg follower's outcome for both a low and a high cost entrant. That is, we assume

$$\pi_H^S = (q_H^S)^2 - q_H^S \gamma \geq 0, \tag{6}$$

which leads to the following upper bound on a unit variable cost of capacity:

$$\gamma \leq \overline{\gamma} = q_H^S = \frac{a + 2c_1 - 3c_H}{4}. \tag{7}$$

**Proposition 1.** Let $\gamma \leq \overline{\gamma}$. Then in the complete information equilibrium with unit capacity cost $\gamma$ the capacities and outputs are the same as with the zero unit cost of capacity.

Proof: It follows from Lemma 1 and from the following properties of the entrant's profit function. For all $\gamma \le \overline{\gamma}$ and for all $q_i \in [q_i^S, q_i^D], i \in \{L, H\}$, the net profit $\pi_i^k$ of the entrant of the type $i$ is increasing in $q_i$. For all $\gamma \le \overline{\gamma}$ the profit $\pi_i^D$ of the entrant of the type $i$ at the equilibrium production $(q_{1i}^D, q_i^D)$ net of capacity unit cost is nonnegative. For all $\gamma \le \overline{\gamma} \pi_i^D \ge \pi_i^S$.
Q.E.D.

The profits in the equilibrium are:

$$\pi_{1i}^D = \pi_{1i}^S = (q_{1i}^D)^2 \qquad (8)$$

for the incumbent facing an entrant of type $i$ and

$$\pi_i^D = q_i^D (a - q_{1i}^D - q_i^D - c_i - \gamma) \qquad (9)$$

for the entrant of type $i$.

In the following analysis of the imperfect information game we assume that the values of all parameters are such that the full information equilibrium given by (4) and (5) is feasible.

**Incomplete information case**

We check under which range of capacity the unit cost $\gamma$ ,the full information equilibrium survives as a separating equilibrium in the signalling game with the entrant's private information about his variable cost $c_i$.

**Lemma 2.** The incentive compatibility of the complete information outcome is satisfied for the high-cost entrant if the variable capacity cost is sufficiently high such that $\gamma \ge \gamma_1$, where

$$\gamma_1 = \frac{1}{\sqrt{2}(c_H - c_L)} \left[ \left[ \frac{(2\sqrt{2}-1)a - 2\sqrt{2}c_H - c_L + 2c_1}{4\sqrt{2}} \right]^2 - \frac{((\sqrt{2}-1)a - c_H + (2-\sqrt{2})c_1)}{\sqrt{2}} \frac{(a - (2\sqrt{2}-1)c_H + 2(\sqrt{2}-1)c_1)}{2\sqrt{2}} \right]. \qquad (10)$$

Proof: The incentive compatibility is satisfied if

$$\pi_H^D \ge R_H(q_{1L}^D)[a - q_{1L}^D - R_H(q_{1L}^D) - c_H] - q_L^D \gamma, \qquad (11)$$

where $\pi_H^D$ is given by an equation (9) and $R_i(q_1)$ is the best response of the entrant of type $i$ to the quantity $q_1$.

After the substitutions for quantities and some algebraic manipulations, this leads to the condition in Lemma (2).
Q.E.D.

**Lemma 3.** The incentive compatibility of the complete information outcome is satisfied for the low-cost entrant if the variable capacity cost is sufficiently low such that $\gamma \le \gamma_2$, where

$$\gamma_2 = \frac{(2\sqrt{2}-2)a-(2-\sqrt{2})c_L+\sqrt{2}C_H+(6-4\sqrt{2})c_1}{4}. \quad (12)$$

Proof: Incentive compatibility is satisfied for a low-cost entrant if

$$\pi_L^D \geq q_H^D[a-q_H^D-R_1(q_H^D)-c_L-\gamma], \quad (13)$$

where $\pi_L^D$ is given by equation (9).

After the substitutions for quantities and some algebraic manipulations this leads to the condition in Lemma (3).
Q.E.D.

**Proposition 2.** Let $\gamma_1 \leq \gamma \leq \min\{\gamma_2, \overline{\gamma}\}$. Then there exists a perfect Bayesian equilibrium of the entry game in which capacities and outputs are the same as under complete information.

Proof: The incentive compatibility of the proposed equilibrium is satisfied by Lemmas (2) and (3). The perfectness of the equilibrium is supported by following off the equilibrium path the actions of the incumbent:

$$q_{1L}^S \text{if } k > k_L, \quad (14)$$

$$q_{1H}^S \text{if } k \in (k_H, k_L), \quad (15)$$

$$R_1(k) \text{if } k < k_H, \quad (16)$$

which are sequentially rational given the following beliefs of the incumbent:

$$i = L \text{if } k \geq k_L, \quad (17)$$

$$i = H \text{if } k \in [k_H, k_L), \quad (18)$$

$$\text{any beliefs if } k < k_H. \quad (19)$$

Q.E.D.

While the impossibility of a separation for $\gamma \in (\gamma_2, \overline{\gamma}]$ happens only for some values of parameters for which $\gamma_2 < \overline{\gamma}$, the problem of a separation for $\gamma < \gamma_1$ is a more fundamental issue. In our model, it is not possible for a low cost entrant to ensure a separation by simply increasing the capacity. For any increase of a capacity over $k_L = q_L^D$ the optimal response of an incumbent with a belief that he is facing the low cost entrant leads to Stackelberg equilibrium quantities. Nevertheless, there is still a possibility for separation if the low cost entrant obtains his Stackelberg outcome and the high cost entrant obtains the same outcome as under complete information.

**Lemma 4.** Let the produced quantities be $(q_{1L}^S, q_L^S)$ if the incumbent believes that he is facing the low cost entrant and $(q_{1H}^D, q_H^D)$ if the incumbent believes that he is facing the high cost entrant. Let $\underline{q_{1L}^S} = a - c_H - 2\sqrt{\pi_H^D + \gamma(k_L - k_H)}$ and $\overline{q_{1L}^S} = a - c_L - 2\sqrt{\pi_L(q_{1H}^D, R_H(q_{1H}^D)) + \gamma(k_L - k_H)}$. Then for all $q_{1L}^S \in [\underline{q_{1L}^S}, \overline{q_{1L}^S}]$ each type of entrant is willing to reveal his type.

Proof: The incentive constraint for the low cost entrant is satisfied if

$$\pi_L^S - \gamma k_L \geq \pi_L(q_{1H}^D, R_H(q_{1H}^D)) - \gamma k_H, \qquad (20)$$

from which we obtain

$$q_{1L}^S \leq \overline{q_{1L}^S} = a - c_L - 2\sqrt{\pi_L(q_{1H}^D, R_H(q_{1H}^D) + \gamma(k_L - k_H)}. \qquad (21)$$

The incentive constraint for the high cost entrant is satisfied if for a given $q_{1L}^S$

$$\pi_H^D - \gamma k_H \geq \pi_H(q_{1L}^S, R_H(q_{1L}^S)) - \gamma k_L, \qquad (22)$$

which is satisfied for all $q_{1L}^S$ such that

$$q_{1L}^S \geq \underline{q_{1L}^S} = a - c_H - 2\sqrt{\pi_H^D + \gamma(k_L - k_H)}. \qquad (23)$$

Q.E.D.

Since $\pi_L(q_{1H}^D, R_H(q_{1H}^D)) > \pi_H^D$ and square root is a concave function, the relaxation effect of the unit capacity cost $\gamma$ is bigger than its restrictive effect. This means that the increase in the unit capacity cost makes the separation of high and cost entrants easier.

**Proposition 3.** For all $\gamma < \gamma_1$ and for all $q_{1L}^S \in [\underline{q_{1L}^S}, \overline{q_{1L}^S}]$, there exists a perfect Bayesian separating equilibrium in which both types of entrant obtain the same import capacity $k_i$ as under full information and the low cost entrant does not fully utilise his capacity.

Proof: This equilibrium is given by the following strategies and beliefs:
The strategy of an entrant is: entrant of type $i$ plays $k = k_i$.
The strategy of an incumbent is:

$$q_{1L}^S \text{if } k \geq k_L, \qquad (24)$$

$$q_{1H}^S \text{if } k \in (k_H, k_L), \qquad (25)$$

$$q_{1H}^D \text{if } k = k_H, \qquad (26)$$

$$R_1(k) \text{if } k < k_H. \qquad (27)$$

This strategy can be supported by the following beliefs of an incumbent:

$$i = L \text{if } k \geq k_L, \qquad (28)$$

$$i = H \text{if } k \in [k_H, k_L), \qquad (29)$$

$$\text{any beliefs if } k < k_H. \qquad (30)$$

Q.E.D.

In the cases when the separating equilibrium with full information capacities is not possible, the incumbent and the entrant can play a pooling perfect Bayesian equilibrium with the capacity and production equal to the full information outcome of the high cost entrant $q_H^D$.

## Conclusion

We have shown that it is possible to use the capacity (or import quota or voluntary export restraint) as a signal of the strength of the entrant. However, in the

case of a Stackelberg market entry game this signalling is restricted by the discontinuity in a payoff for an entrant. This discontinuity is caused by an incumbent reacting by his Stackelberg quantity to any increase in the capacity over the complete information equilibrium level for a given type of an entrant.

Our model may serve as a rigorous explanation of some situations happening on the European markets that were so far puzzling and were not sufficiently explained by non-strategic competition theory. The model is especially useful for the analysis of the situation before the significant market opening. In such a way it may be used for testing the impact of the new intended European legislation dealing with opening new market access.

An example of such legislation is the labelling and market access legislation in the vertical food chain with respect to organic or genetically modified food. So far, the legislation in a majority of EU countries (Spain being the major exception) is not allowing genetically modified food. Obviously the easing of the legislation would open the relevant European markets to the big market players from the US or from some emerging economies. Those big market players in the area of genetically modified food may anticipate this market entry. Therefore their activities, like pricing or capacity building, may be evaluated as possible signals in the anticipated market entry game. Our model will serve as an important analytical tool is such policy analysis.

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# 11. RAYMOND ARON - ONE OF THE SOURCES OF CZECH EUROREALISM

Miroslav Novák[294]

## Introduction

Pierre (Péter) Kende, a notable Hungarian-French sociologist, wrote in his paper "The 'Euroscepticism' of Raymond Aron," originally given in 2000 at an international conference on Raymond Aron in Budapest (where I also gave a paper on Aron's political sociology),[295] "*…During the two decades that I knew Aron as professor, conference participant, doctoral supervisor and seminar director, I was puzzled by his reserved, doubting, sometimes ironic and in a word sceptical attitude, ... whenever the European problem was the subject of conversation*."[296] I shall try to analyse the various aspects of Aron's attitude towards Europe in detail, to explain its logic and to characterise his position. On this basis we can then develop a view of why and in what ways Aron is among the sources of Czech "Euro-realism."

## 11.1. Raymond Aron and His Attitude Towards European Integration

One can encounter a well-grounded interpretation according to which Aron's "Euro-scepticism" is explained in terms of the disappointment experienced by this originally ardent supporter of European unification.[297] This interpretation is undoubtedly correct as far as it goes, but it provides only a partial explanation. It is true that from the very start Aron strongly supported efforts directed towards European integration, firmly backing Franco-German reconciliation, the rearmament of Germany and its entry into the North Atlantic Treaty Organisation, and that he also stressed at every opportunity that Europe could not stop halfway across Germany and that there could be no talk of real European unity until the iron curtain was torn down.[298] In the France of that time, incidentally, this pro-Atlantic stance was no banality, because it was not only the then strong French communists and their fellow travellers who had reservations about NATO, but also many of the Gaullists.

The reality seems to me to have been more complicated, however, and on the basis of the literature available to me I believe that the main key to the understanding of Aron's "Euro-scepticism," as Kende describes it, is the idea of the "primacy of politics." In one of his longest works, *Paix et guerre entre les nations*, published in 1962, Aron writes that, "To declare that the Common Market must *necessarily* [Italics Aron's] result in a European federation (or in a European federal state), means to adopt the premise that economics is in our time the controlling force and as it were to

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[295] see Novák (2002: 149-164).
[296] Kende (2002: 213).
[297] see Kende (2002: 14).
[298] see Aron (1952: 22).

include politics, or that the fall of customs barriers will itself bring the fall of political and military barriers. Both these suppositions are mistaken."[299] A little further on, Aron explains: *"Some classic prerogatives of sovereignty may slip out of the control of national states without their being aware of the fact. But the theory that I call 'backstairs federalism' or 'painless federalism' seems to be illusory.... Legitimate authority, practical power and consciousness of a higher nationality may [Italics Aron's] gradually emerge from the [European] economic community, but only on the condition that the peoples want it and that governments negotiate in line with this will, or on the condition that the governments negotiate to push through a federation and that peoples approve it. The hope that federation will develop unobserved and inevitably from the Common Market…is based on the great illusion of our time: the illusion that economic and technical interdependence between different parts of humankind has finally invalidated the fact of 'political sovereignties' and the existence of distinct states that wish to be autonomous."*[300]

Fourteen years later Aron emphasised in a similar spirit:, *"Personally I have never believed that some economic mechanism could of itself bring about the unification of national economies without the continual support of the wills of governments. The automatic nature of unification is the notion of sociologists, university professors, who have never had direct personal knowledge of either businesses or governments, and even less [European] community."*[301]

As Kende rightly comments: *"This stance naturally in no way excludes the possibility that political unification might come about on the basis of explicit political will, what [Aron] condemns is the illusion of the founders of the Common Market, who — without explicitly saying so — believed that economic integration would lead automatically to political integration (specifically in a federal form). As a sociologist of general history Aron knew that no national or supranational state has been formed in an automatic way, as it were surreptitiously, as a mere result of economic necessity."*[302]

Incidentally, the reserved attitude that Aron likewise took from the very beginning of the plan for a European Defence Community (EDC) in the 1950s (see especially Aron, Lerner 1956) also deserves attention. How are we to understand it? In his *Memoirs* Aron argues that while Europe has its place on the world market, it has no place in the interstate system. "Even despite the Treaty of Rome, despite progress in economic co-operation or even concerted action in diplomacy, the European countries are not trying to act together in the first task of the state, which is defence."[303] Nor can it be overlooked that in his book *Les guerres en chaîne* of 1951, Aron even offers detailed arguments from the idea that European unification should be based precisely on the basis of *military* unification[304]: "*Countries that contribute their armed forces for common use are deciding on the most serious sacrifice of sovereignty imaginable, because they are forbidding themselves to fight each other and trusting that they will mutually respect each others interests. After this step is*

[299] Aron (1962b: 732).
[300] Aron (1962: 733).
[301] Aron (1976: 130).
[302] Kende (2002: 219).
[303] Aron (1983: 676).
[304] see Aron (1951: 414 nn).

*taken the rest will follow of itself in time. Ultimately empires were formed in just the same way: a victorious army unified its armaments for itself. A federation or empire created on the basis of mutual agreement requires that that the states concerned spontaneously decide to unify their military armaments. Without that unification no supranational state will exist. With this unification a supranational state even if the peoples are not yet aware of it*."[305]

Aron of course immediately adds that this "military concept of European unity" may be too revolutionary: "*Homeland is not something that can be decreed. It is easy to say, actually only abstractly, that national states are an anachronism because they are not capable of securing their own defence for themselves. But national feelings do not change at the same temp as industrial progress. …The European idea is empty: it has neither transcendence as a messianic ideology nor immanence like a homeland of flesh and blood (charnelles). It is the creation of intellectuals, which betrays its usefulness from the point of view of reason, and the weak emotional response to it*."[306]

Why then was Aron against the plan for a European Defence Community (EDC) of the early 1950s? Under the Fourth Republic, Aron was a member of the Gaullist RPF for some years, but he wished for the unification of Europe. Aron was working for the conservative daily newspaper *Le Figaro*, which at that time, as he says, "had fallen for the spell of the European Defence Community. I however did not. At the beginning, in 1950, I even thought that it was a bad solution. I did not believe that the French would accept it. I once said to Robert Schuman, 'This is indeed a strange conception. You do not want to accept the Germans as allies, but you will take them as fellow citizens.'"[307]

What was at the root of this attitude? Aron explains that the key question was the re-armament of Germany (which he ardently supported). When the American Secretary of State for Foreign Affairs Dean Acheson proposed the rearmament of Germany to the French and English in 1950, at the time of the Korean War, the French were mostly reserved at best. There were two possible routes to the re-armament of Germany. One was to create a common European army, and this was the plan for the European Defence Community (EDC), or to revive the German army, which would immediately be placed at the disposal of the North Atlantic Alliance. According to Aron the number of opponents of the EDC increased, with the exception of Monnet's faithful supporters. Some were against the rearmament of Germany on any terms, while others disliked the chosen method. When the idea of the European Defence Community was dropped, it was the second solution that was adopted, i.e. the creation of a German army directly under NATO command.

Aron writes: "*In a number of articles I have tried to explain the danger of the European Defence Community. I was not leading any great campaign against it. Above all I said to everyone, Americans and French, that 'The re-armament of Germany is inevitable. The question is not whether to be for or against it. The question is whether to be for ~~a~~ European Defence Community or for a German army in NATO.' I was more for the second solution."*[308]

[305] Aron (1951: 415).
[306] Aron (1951: 415).
[307] Aron (1981, 1983: 166).
[308] Aron (1981, 1983: 166).

To the question of whether Europe had wasted its chance by rejecting the European Defence Community, Aron replied: "*A minority of French really say that the only serious hope for European autonomy was the EDC ... I always had my reservations about this, because the European army was essentially understood as a barrier against the German danger, and therefore the plan was not to build an effective army. It therefore seemed to be ridiculous to limit its national units to this extent. Starting an experiment of the importance of building a common European Army with so many ulterior motives, so cagily and with such mistrust, was not a very persuasive enterprise*."[309]

A French author, who has studied not only Aron's published work but also his private correspondence in the Raymond Aron Archives, has offered the following explanation: "*The reservations of this long-standing supporter of European unity and Franco-German reconciliation may seem curious at first sight. In fact, however, they are in line with his very profound conviction of the place of politics and his very precise assessment of the ambiguity of the project [The European Defence Community]. Aron's liberalism is more political than economic in its inspiration .... This is the source of his instinctive reserve towards Jean Monnet's method, which he regarded as suitable for economic and cultural problems but dangerous in the field of politics. According to Aron, it was not sensible to create a European army without a European political authority, and premature to consider a European political authority without agreement on an institutional model and without the peoples having approved it*."[310]

Be that as it may, the fact remains that the rejection of the EDC had far-reaching and long-term consequences: it not only halted the federalist efforts, but above all channelled subsequent development into the economic field.[311]

In 1974 Aron published his text "Une citoyenneté multinationale est-elle possible?," an important work much cited by Euro-sceptics (and Euro-realists), which was reprinted in 2006[312] and is also published in English.[313] Aron answered the question that he posed in the title in the negative both for analytical and historical reasons. How could a citizen belong to several political entities at the same time? And how would he be able to claim the rights that citizenship entailed without being, for example, willing to defend his country with weapon in hand? Aron regarded multi-national citizenship as internally contradictory. He connected citizenship with the nation state. He pointed out that the expansion of a political entity, for example the hypothetical creation of a United States of Europe, would lead less to the "mutation" of citizenship than to its "transfer," as had been the case at the birth of the United States of America. Not even there had citizenship become "multinational."

Would the whole problem then be solved by expansion from today's France, Germany, Italy etc. to a European federal state? It is possible to say yes, with important provisos. First let us remember that this cannot be achieved on the basis of

[309] Aron (1981, 1983: 166).
[310] Bavarez (1993: 267).
[311] see Dulphy, Manigand (2006: 126).
[312] see Aron (2006: 781-797).
[313] see Aron (1974). Recently, for example, he was referred to by the Czech political scientist Petr Fiala [see Fiala 2007 : 107]. At the end of the 1980s he was praised, for example, by Ralf Dahrendorf [see Dahrendorf 1988].

what Aron earlier called "backstairs federalism" or "painless federalism." But this is not all: "The enlargement of the political entity does not of itself lead to any deepening of citizenship. A European state would be even further from the citizen than a national state."[314]

In this context he also criticises an opinion that is now widespread in the Czech lands: "*Whatever its supporters claim, it is not true that a united Europe is essential for the economic prosperity of Europeans. The rapid growth in national product that occurred in the last quarter-century in the countries of the European Community does not require it to be transformed into a federal state. Indeed, some countries outside the European Community such as Switzerland or Sweden experienced just as rapid economic growth as France or Italy. The condition of economic advance is probably the opening up of borders, and the free circulation of goods and capital rather than regulations from Brussels. As far as security in relation to external threat from potential enemies is concerned, a united Europe would not secure than any more effectively than today's European states, which are allied but do not form a federation*."[315]

Even at the time when he was an ardent supporter of European integration, Aron was aware that the NATO was more vitally important than European unification: "*If we have to choose between the two ideologies, between which western public opinion is hesitating, i.e. between European unity and Atlantic community, then it is necessary to choose Atlantic community. Even if unified, Europe would be lost if the United States were to lose courage and succumb to the temptation of isolation. Even though divided, Europe will have hope of safety as long as the nation states remain parts of the Atlantic community, however imperfect it is."*[316]

To what extent has citizenship transcended the national framework in the European Community? The first answer that can be roughly outlined according to Aron is that while *political* rights have remained purely *national* rights, *economic and social* rights are becoming *multinational.* "The state may without internal contradiction accord the same economic and social rights to citizens from another state and at the same time deny him or her political rights."[317] In the economic sense of the tern multinational co-citizenship might enter into custom long before a federal state came into existence.[318] A certain homogenisation of attitudes, modes of consumption and implicit values within each category of profession or income band is undoubted, but this is not just the result of the organisation of the European Community, but of a civilisational sphere and a political and economic system that goes beyond the European Community. Aron had also noticed that people from the so-called developing countries, such as Turks or Yugoslavs were flocking into the countries of the European Community while intra-community migration was weak — with the exception of workers living on one side of a border and working on the other side. For many professions (for example medicine or education) language is a major barrier to mobility abroad.

[314] Aron (2006: 796).
[315] Aron (2006: 788).
[316] Aron (1951: 411).
[317] Aron (2006: 793).
[318] see Aron (2006: 789).

Aron goes on to argue that in the 1970s the European movements that aroused great public interest at the end of the 1940s were only being mobilised (in contrast to the more visible struggle for the environment, the revival of the Breton language or against "monopoly capitalism") by very few activists. Aron responded to this problem with the words: "*The real question is not whether the European idea has maintained the influence on the minds of European that it had thirty years ago, but whether a sufficient part of the [European] idea has been embodied in reality for politics and governments to be able to continue with the experiment with the consent of public opinion*."[319]

In a certain sense Aron genuinely regarded Europe as "decadent": Europeans could not trust in their own forces, and were incapable of defending themselves. They wanted the Americans to protect them but at the same time wanted to have good relations with the Soviet Union. While according to Tocqueville, Americans crave material wealth but also are willing to get carried away by patriotism and striving for the common good. In Europe only the first, i.e. the hedonistic aspect is present, whereas civic virtues and duties are lacking, a situation that menaces Europe's survival.[320] In some texts Aron's disappointment over Europe then shows through, but in my view this in itself is an insufficient explanation of his "Euro-scepticism".

According to Aron, it is historical experience that above all confirms the difference between human rights and political, civil rights. In one place he even talks about the "existential angst" and "loneliness" of anyone who has endured the absence of a political community in his or her life, for what in fact remains of an individual's his human rights in a period of crisis if he or she no longer belongs to any political community? In the world as it is, Jews of my generation cannot forget just how insecure human rights are if they are not civil rights at the same time."[321] The last section of Aron's essay is tellingly entitled "Défense de l'Etat-nation," or "Defence of the nation state." In his view there is no doubt that citizenship, defined as a set of civic and economic rights, is today realised only within what are known as nation states. The European Community is heading towards a situation in which the citizens of Member States will have the same economic and social rights, but "there exist no European citizens, but only citizens of France, Germany or Italy."[322]

In a paper entitled "Universalité d'idée de nation et contestation," which he delivered in 1976,[323] Aron distinguished between three modes of rejection of a national idea: a) sub-national (the example of the Basque Country), b) supranational (which blames national sovereignty for international anarchy and wars), and finally c) trans-national (the example of the world market, which we mention in the chapter on the primacy of politics). The sub-national concept is nothing new. According to Aron the supranational is the weakest of the three: attempts to create a European patriotism or a supranational world authority (we shall come back to both), have repeatedly failed. The European Six is certainly a reality in its way, and war between Germany

[319] Aron (1976: 123).
[320] see e.g. Aron (1981, 1983: 301-305).
[321] Aron (2006: 794).
[322] Aron (2006: 795).
[323] It was reprinted in a posthumous edition of the collection *Essais sur la condition juive contemporaine* [Aron (1989) 2007: 294-319].

and France has become something unimaginable. Economic, and as it were everyday, integration is working, but not political integration.

In his book *Les désillusions du progrès* he points out, however, that if European integration fails to develop to the stage of federation there is no reason to consider this a failure. "*It may be that the enterprise does not reach federation in the full sense of the word without us having to consider this a failure. The common market, which would now no longer present any more obstacles to the circulation of goods, capital and persons than the administrative departments in France or the Länder in Germany, would necessarily have a common currency and in many respects a common economic administration. It would not necessarily [Aron's italics] have one diplomatic corps and policy, one and the same fate. In short not even the Common Market presupposes the birth of a 'single European state': as one true subject of history, which would be responsible for the common foreign policy of the European Six or rather which would replace six diplomatic corps and policies by a single one*."[324]

Aron also writes: "*Certainly, personally and as an intellectual the European ideal convinced or fascinated me. To create a nation out of the European nations would be an incomparable historical achievement. To be honest I never believed it, even though generally I fought for that goal. I never believed it, because I always had the feeling that what formed the specificity and originality of Europe was a plurality of nations and sovereign states. To create a sovereign state containing diverse peoples would need either an urgent danger or an omnipotent federator."*[325]

According to Aron, a European federation would be something unprecedented: *"A state that would deprive historical states such as Germany, Italy or France of their roles as subjects of history, and that would be created peacefully, by mutual consent, would have no precedent. Empires have been built by force, while federations have been formed slowly, as the confirmation of mutual solidarity attested by a long past (Switzerland) or as a compromise between ethnic groups (Canada). A European federation would be the first to have been formed by former enemy major states in order to end their rivalry for good*."[326]

In one of his last texts (published only posthumously), which after roughly twenty years answered some objections raised to his major work *Paix et guerre entre les nations*[327] on the theory of international relations, he writes: "*Nation states are not, however, giving way — either east or west of the demarcation line. If by some happy chance the Soviet army went home and the Kremlin left its allies their freedom, they would become themselves again, as they were and as they remained. Czechs, Poles and Hungarians would not dissolve in some whole in which they would lose their national identity. At the most they would look for some common market like West Europeans. This would not abolish the frontiers, or only to the extent of facilitating the exchange of goods and services*."[328]

On the other hand, at the end of the 1960s Aron believed that two reasons for human resistance to a supranational European political power no longer had very

[324] Aron (1969: 247), reprinted in: (Aron 2005: 1701).
[325] Aron (1989) 2007: 312-313.
[326] Aron (1969: 247), reprinted in: Aron (2005: 1701).
[327] see (Aron 1962b).
[328] (Aron 1984: 22).

much effect: these were unequal economic development and the will to independence.[329] As far as the first of these is concerned, i.e. uneven economic development and unequal living standards, the situation is different today especially in the context of the coming entry of Bulgaria and Romania to the European Union. The average yearly wage in these latter countries would not keep someone in the most advanced western countries for more than a few weeks. Aron based his relatively optimistic view that the will for independence no longer divided the European "Six" on public opinion surveys of the time, which showed that a common European diplomatic policy enjoyed majority popular support. A certain "convergence" in European public opinion on foreign policy can undoubtedly be observed even today. Questions can be asked about his context, however, if we take into account the fact that according to various sociological surveys in recent years Europeans see Israel and the USA as the countries presenting the greatest threat to peace in the world.

Most probably one of the keys to an understanding of Aron's attitudes towards European integration can be found in his remarkable paper, "Les institutions politiques de l'Occident dans le monde du XX$^{e}$ siècle," which he delivered at an international conference in Berlin held in 1960 under the aegis of the Congress for Cultural Freedom. One of the questions posed by Aron in this paper is whether a "continental or cultural patriotism" may not overcome national patriotism. "Do the people who in Germany, in France or in Italy who call themselves Europeans feel any "continental patriotism"? Or is this an illusion, a dream?"[330] This is a question he leaves open. In the following discussion he nonetheless offers some answers and above all explains his standpoint: "*My optimism about the problem of the [European] Community of six countries is, if I may so express myself, an optimism based on will, rather than an optimism based on observation (un optimisme de volonté et non pas un optimisme d'observation). When talking about a work in which you share, you are never an unbiased observer. To the extent that I am participating in the work I want to believe in it and temporarily refrain from seeing myself as a sociologist*."[331]

Let us now move on to the phrase "continental patriotism." According to Aron the issue here is that if we decide to create a political unit containing the countries of the European Community (at that time six countries), it is then absolutely essential that the people in these countries should gradually develop a feeling of loyalty to the new unit that they are just creating. If we want to create a federation of countries of the European Community, there has to be something like European patriotism. This does not annul the preceding national patriotism and is not necessarily aggressive towards the outside world. Nonetheless it is a feeling that must, in the minds of Germans or Frenchmen, justify the sacrifice to the unity of the land of the European Community just as Belgium requires Flemings to make sacrifices for the Walloons and the Walloons for Flemings.[332]

One interesting reaction to a view of this kind (let us remember how in the Czech Republic Petr Fiala continues to emphasise that there is no European *demos*) came from a Swiss philosopher very close to Aron, Jeanne Hersch, an important pupil of

[329] see Aron (1969: 246), reprinted in Aron (2005: 1700).
[330] Aron, Bondy, Kennan et al. (1960: 41).
[331] Aron, Bondy, Kennan et al. (1960: 231-232).
[332] See Aron, Bondy, Kennan et al. (1960: 232). One may perhaps doubt, however, whether today Flemings are willing to make sacrifices for Walloons.

Karl Jaspers, a highly original socialist and professor at the University of Geneva, and by coincidence one that she voiced at the same conference in Berlin in 1960 directed by Raymond Aron under the aegis of the Congress for Cultural Freedom.[333] I shall quote the reaction almost in its entirety: "*As a Swiss*[334] *I would like to express an objection to Carlo Schmid…. He seems to assume that there must first be a European person and only afterwards can the institution of a federated Europe be created. I say to Carlo Schmid that if people had waited until homo helveticus had appeared, Switzerland would never have come into existence and for the good reason that [homo helveticus still] does not exist today. I do not believe that European institutions are here to sanctify the existence of a homogeneous European type. On the contrary they are here to remedy the practical shortage of this unity inscribed in people, like all other institutions in fact [they have it in the job description]. In Scandinavia the institution is not necessary precisely because there is no danger of conflict between those nations. We need the institution where there are reasons for conflict. And that is exactly the argument why institutions at the European level seem to me to be essential*."[335]

In my view an adequate answer to Jeanne Hersch's argument is European confederation, i.e. a lower degree of European "institutions." In this I am not expressing my personal preference, but simply setting out the logical implications. If we are talking of some hypothetical European Federation, I regard Aron's view that it presupposes some "continental (European) patriotism" as one that continues to hold true. From this point of view it is gratifying that in his book *Citizens of Europe? The Emergence of a Mass European Identity,*[336] Michael Bruter comes to the conclusion on the basis of an empirical survey that a kind of European identity has genuinely been emerging in the last few decades.[337]

Aron develops his thoughts on continental patriotism in the context of the question of the role of *political parties at European level*.[338] On the one hand he claims that a political party that strives for the exercise of power in a particular state ought to be "national" (in Czech we would probably say "state-wide"). On the other hand, we do not have to go as far as such extreme cases as the communist party, which subordinates the interests of the country in which it operates to its international,

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[333] I would like to point out that Jeanne Hersch was reacting to the comments of Carlo Schmid, and not Raymond Aron, who at this conference represented more a moderate Eurofederalism than Euroscepticism.

[334] I translate precisely from the original ( "En tant que Suisse…" ). .

[335] Hersch in: Aron, Bondy, Kennan et al. (1960: 251-252).

[336] see Bruter (2005).

[337] The introductory chapter, contents and index may be downloaded from the Internet : www.palgrave.com/pdfs/1403932395.pdf

[338] The case of political parties in Switzerland and their "federal decentralisation" is one that I was also concerned with recently and I permit myself a reference to my own text. Here is just a short quotation from the conclusion: "Switzerland is a practically model example of federal decentralisation of political parties. For Swiss parties the cantonal and not the federal level is decisive. Linked to this federal decentralisation is a relatively marked ideological decentralisation of the Swiss federal parties. While federal decentralisation relates both to governing and non-governing parties, ideological decentralisation at the federal level relates only to governing parties. If we wish to derive some more general conclusions from the Swiss model, we should not forget one important specific feature of the Swiss political system, and this is semi-direct democracy…. In Switzerland referenda, people's initiative and generally institutions of semi-direct democracy are parts on the daily agenda and therefore political "elites" have to adapt themselves to it." (Novák 2006b: 150)

to find a series of other cases in which parties find allies outside their own countries and define themselves in relation to supranational ideals or supranational power. According to Aron this is the case particularly in periods of transition from one regime to another. This leads to a radical change in the concept of life and values, and so it is not surprising that people then identify more deeply with a party that embodies their hopes than with the land in which they were born.

Aron asks, "How would parties be formed in organisations that are as yet far from having offered final proof of their durability? Would there be liberal or socialist parties that would bring together French, Germans or Italians across the board?"[339] If the political form is not homogeneous, the parties would be able to dissolve national unity because they do not represent groups present throughout the whole territory but only in certain regions, which might then be tempted into efforts to gain independence. He goes on to say: "*If we envisage a parliament of the European Six, the European political formation would immediately split apart if the parties were German, French, Italian etc. 'European parties' would develop out of a solidarity transcending the old frontiers: from the solidarity of socialist workers or liberal voters. This solidarity would them maintain the cohesion of the European political formation*."[340]

It was specifically with these questions I was concerned with a few years ago in a paper given at a conference on the research strategy of the Charles University Faculty of Social Sciences, from which I would like to cite some passages now: "*When the then Euro MP for the Italian post-communists and well-known French political scientist Maurice Duverger visited Prague in 1991, he very strongly emphasised in his address at the French Institute that for the Czecho-Slovak federation to survive we needed to take inspiration from the way some groups functioned in the European Parliament and create federal coalitions of ideologically kindred parties (e.g. the Slovak right should form a coalition with the Czech right, the Slovak left with the Czech left). Unfortunately in the then Czecho-Slovak federation this was managed more or less only in the first free parliamentary elections in 1990, which were exceptional and 'plebiscite' in character, and where the political parties played an entirely subordinate role because they had to be temporarily replaced as a counterweight to the Communist Party of Czechoslovakia by the broad umbrella movements Civic Forum and the Public against Violence, which then soon fell apart. Let us remember, that long before the dissolution of the Czecho-Slovak federation, in deed even before the parliamentary elections of 1992, no 'Czechoslovak' party system actually existed. As a consequence of the divergent development of (post) communist parties in the CR and in Slovakia even the formal federation of the KSČM and SDL could not hold together for long, and it provided impossible to form any other relevant federal coalition. It is typical of the situation that the ODA, for example, was incapable of forming a federal coalition with the Slovak ODÚ. The party to make the greatest efforts in this line was ODS, which even had its own branch in Slovakia managed t make any showing in the elections in Slovakia in 1992. Even under the*

[339] Aron, Bondy, Kennan et al. 1960: 42.
[340] Aron ibidem.

*federation, then, in 1992 Czech political parties formed an independent political system, just as Slovak parties formed an independent Slovak political system*."[341]

As regards the party groups in the European parliament, it is hard to deny that: ".... no political scientist...could fail to approve the use of the word political party to describe the charming academies that are the European People's Party and the [European] Social Democratic Party."[342] *In the conclusion to my own paper cited above I argue: Political parties, party systems and their development are a good index of the state of democracy in the last roughly 150 years. Current weak parties and fragmented party systems are related to the era of globalisation, characterised inter alia by weak states. The parties and party system in process of formation in the European parliament can hardly, for the time being, be called parties, but the fact that political groups are coming together in them on the basis of ideological orientation, albeit very loosely and with pragmatic ends, can be considered an important step in the right direction*.[343]

As far as the "sovereignty of the state" is concerned, Aron himself — probably under the influence of Carl Schmitt — unlike many specialists never challenged it. This is clear for example from his memoirs, where he brands the critique of national sovereignty developed by his friend Jean-François Revel (1924-2006) as "Utopian", who in 1997 became a member of the prestigious Académie Francaise.[344] When in *Democracy and Totalitarianism* he rightly points out that in modern society sovereignty is already only a legal fiction,[345] what he means is only the sovereignty of "the people," and not the sovereignty of the state, which Raymond Aron acknowledged in the same way as the Czech president Václav Klaus acknowledges it today.

In his book *Les désillusions du progrès* of 1969 Aron reflected *inter alia* on the possibilities of the "universal state" (Etat universel), i.e. roughly what today David Held or Jürgen Habermas (1929) call a "cosmopolitan democracy," if we assume that it would be democratic. Aron is quite sceptical and warns: The transition from *several* sovereignties to *a single* sovereignty is not logically not materially impossible but it would be *fundamentally* different from the transition from towns to empires. Empires erased or integrated sovereign states, but did not, however, annul all external sovereignty. Humanity united under a single sovereignty would no longer have enemies — unless they came from another planet. There would therefore be a mutation of *History as such* and not just a change in *History.*[346]
Here Aron is very close to the ideas of Carl Schmitt (1888-1985).[347]

We shall cite from the Czech translation of Schmitt's work *Der Begriff des Politischen,*[348] which Aron published in French in his edition, "Liberté de l´Esprit"[349]:

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[341] Novák (2004a: 320-321).
[342] Seiler (1998 : 241).
[343] Specialists naturally consider even more radical models. E.g. S.Wolf sees as one of various possibilities the drawing up of a unified European candidate list, and so the European Union would be just one voting district (see Wolf (2000 : 737), see Fiala, Mareš, Sokol (2007 : 238, note. 17)).
[344] see Aron (1983b: 693).
[345] see Aron (1965a: 56).
[346] Aron (1969: 202), reprinted in: Aron (2005: 1662). All the emphases are Aron's own.
[347] Although Carl Schmitt temporarily served in the Nazi regime, Raymond Aron respected his works, from the 1950s to the 1970s he kept up a correspondence with him, as he writes in his memoirs (Aron 1983b : 650-651), and published one of Schmitt's books in the series „Liberté de l´Esprit," which he edited (see Schmitt (1972)).

Pluralism in the world of states derives from the nature of the political: Political unity presupposed the real possibility of an enemy, and therefore of another, simultaneously existing political unity. If any state exists, then more states exist on earth and no 'universal state': containing all countries and all mankind can exist.... Mankind as such cannot wage any war, because it has no enemy, at least not on this planet.[350]

## Conclusion

Let us summarise Aron's ideas into a number of points and try to arrange them in terms of Habermas's classification of attitudes towards European integration.

1) Aron was intellectually fascinated by the idea of European federal unification and was actively engaged in pressing for such unification.
2) He did not, however, believe that it could be achieved in the foreseeable future.
3) The opening of borders, free circulation of goods and capital, and not European unification, were the condition for economic progress
4) A European federation cannot come into existence unobserved, by the back door, or painlessly as a secondary product of a common market, but only when and if national governments have the will to it and their peoples agree.
5) According to Aron a united Europe would not provide security in the face of an external threat any more effectively than the European states of today if they ally but do not form a federation.
6) The North Atlantic Treaty Organisation (and more general Atlantic ties) is more vitally important to the life of Europe than European unification.
7) European unification presupposes that there is first a unification of defence forces.
8) European unification further requires a "continental patriotism."
9) The sovereign nation state, however, remains a strong actor of history, which moreover continues to be the focus of marked emotional identifications on the part of its citizens even though these are undermined by sub-national and trans-national processes.
10) The creation of a universal state is unlikely from the long-term point of view, because it would presuppose a "mutation of history."

Jürgen Habermas[351] now distinguishes between "Eurosceptics," "pro-market Europeans," "Euro-federalists" and "democratic cosmopolitans." Using this Habermasian terminology we might then sum up that as a politically engaged man Aron is a "Euro-federalist," but as an objective sociologist he is only a "pro-market European," with the proviso that Habermas's claim that an alliance is now forming between "Eurosceptics" and "pro-market Europeans" in fact could also relate to the "mature" Aron of the 1970s, and his then partial convergence with or affinity for the "Eurosceptics." If we continue to use Habermas's terminology we can say that Aron

[348] Schmitt (1932) 1963.
[349] see Schmitt (1972).
[350] Schmitt (2007: 54-55).
[351] 1998, French translation of Habermas (2000: 90), see also Habermas (2003: 96).

was definitely not a "cosmopolitan democrat" of the Habermas or Held type, but nor was he a "Eurosceptic."

From the foregoing analysis it becomes clear why and how Aron has become one of the thinkers to which Czech Euro-realists or their sympathisers from the social science community sometimes refer. Of the ten points set out above, eight of them (specifically the second, third, fourth, fifth, sixth, eighth, ninth and tenth points) are in line with the views declared in the Czech republic by Václav Klaus and other Euro-realists. We should nonetheless not forget that as a politically engaged figure Aron was a Euro-federalist.

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