



No market economy for the new Europe?

di Daniel Gros and Stefano Micossi

The end game for the shape of the European Union has started at the Convention on the Future of Europe with the publication, by its *Praesidium*, of the draft text of the first sixteen articles of the “Treaty establishing a Constitution for Europe”.

In the main, the text replicates the structure of Giscard’s “skeleton” Constitution of last November and the conclusions of the Convention working groups. However, not so for economic matters, where the text stretches the conclusions of the working group “economic governance” to propose a centralistic approach, strongly tilted in favour of social, environmental and consumer objectives, with complete neglect of economic freedoms and the market economy.

Let us start with the sins of omission. The “values” of the Union (Art. 2) include peace, justice, equality of all before the law and solidarity – which of course is all right – but no mention of freedom of initiative and enterprise. Similarly, the “fundamental objectives” of the Union (Art. 3) indulge profusely on “sustainable” growth, social cohesion and social protection, gender equality, the environment and consumer protection. However, the need to have a free and well-functioning market economy is not included, even though this is the fundamental pre-condition for the high standards of living and protection that are so resolutely advocated.

Moreover, the application of subsidiarity is restricted to the relationships between the member states and the Union (“vertical” subsidiarity). There was a richer alternative, consisting in the introduction in the Constitution of a broader right of private individuals, and their associations and organisations, to be protected from unnecessary interference by public powers, thus creating a presumption against public intervention and shifting the burden of proof on its need – at any level of government – on their proponents (“horizontal” subsidiarity). This might have been very important in ensuring that the EU will not interfere unduly with market activity.

But not only the *omissis* are worrisome. Art. 11 provides that the Union “shall have competence to coordinate the economic policies of the member states”; and, as if this was not sufficient, Art. 13 reiterates that “the Union shall coordinate the economic policies of the member states, in particular by establishing broad guidelines for these policies”. This language implies that member states will no longer be the masters of their broad policy orientations, which will be entrusted to the Union, presumably with formal Commission powers of initiative in their preparation. National Parliaments are expected to oblige graciously.

But the crucial surprise concerns social policy, which, so far was a closed preserve of national autonomy. It is included, by Art. 12, among the “shared” competences of the Union; and Art. 10 provides that in this case “the Member States shall exercise their competence only if and to the extent that the Union has not exercised its”. This implies a fundamental reversal of the present approach, whereby social policies belong to the member states and the Union has tightly circumscribed powers of intervention, which, in addition, can only be exercised with unanimity.

Thus, on economic matters this draft text is indeed a great surprise. We are presented with the model of a centralistic Union, endowed with strong powers to coordinate economic policies and, indeed, to impose a common social policy. The economic governance working group had agreed that monetary policy should be managed at Union level by an independent central bank, the ECB, while fiscal policies should be left with the member states, albeit under the constraints imposed by the EC Treaty (the coordination procedures of Art. 99 and the excessive deficits procedure of Art. 104). There was no consensus on bringing macro-economic policies amongst the “shared competences” of the Union. Nor was there agreement on the proposal to grant the Euro-Group – the economic and finance ministers of the euro area – formal decision-making powers over the economic policies of its members.

How did this come about? Up to now the process of European integration has worked best whenever it reduced the role of public (usually national) intervention and thus worked to open up national markets. It seems that some politicians are no longer satisfied with this so-called ‘negative’ integration. They want to be able to intervene and be active.

The text tabled by the *Praesidium* will open their way. The omission of the freedom of private initiative from the objectives and values of the new Europe will influence countless court judgements, which will become biased towards an interventionist stance. The provisions concerning the coordination of economic policies are probably less of a danger because they are so vague that they are likely to remain a dead letter. But the inclusion of social policy among the shared competences is potentially very serious. Together with the emphasis on social values among the objectives of the EU, it would amount to an invitation to start a process of harmonisation of social protection which would be disastrous for growth and employment, given the enormous and deeply-rooted differences in productivity and living standards in the Union.

The good news is that this has not yet been carved in stone. We must make sure that sufficient pressure is placed on the *Praesidium* by the Convention, and the public opinion, to scrap this disastrous approach.

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