

## EDITORIAL

### Whither the Stability and Growth Pact?

The stability of the common currency requires stable public finances. This economic insight found its way into the Maastricht Treaty through the Excessive Deficit Procedure (EDP). The essence of the EDP is an examination of a country's public finances, which is triggered if its deficit and debt exceed certain numerical limits. But since the stability of public finances is a difficult concept which cannot be assessed on the basis of simple numbers the Maastricht Treaty rightfully foresaw that the examination would be a comprehensive one.

In contrast, the Stability and Growth Pact (SGP), adopted in the 1997 Amsterdam Treaty, emphasises automatism and speediness of the assessment. In doing so, it gives the numerical criteria unduly large weight. This is economically unjustified and, therefore, ultimately not credible. The consequences became visible during 2002: The ECOFIN Council's willingness to go for a soft interpretation of the Pact raised public doubts about its effectiveness. President Prodi's public talk of a "stupid" Pact contributed to the increasing calls for reforms.

A literal interpretation of the Pact is indeed stupid. Whether Germany runs a deficit of 2.9% or 3.1% of GDP is irrelevant for the fact that the stability of her public finances is insecure. What Europe needs today is a less politicised assessment and sufficient leeway for a fiscal policy that can restore the sustainability of public finances in Germany and the other large EMU states. The European experience of the last decade teaches unambiguously that this requires a return to higher trend growth through a reduction of the tax burden on labour and capital and a reduction in social transfer programmes. Fixed, numerical limits must not keep countries from adopting the necessary reforms.

A return to the spirit of the Maastricht Treaty would already be a good reform. It would allow the Commission to take formal measures against governments that fail to adopt reforms and allow it not to take such measures if governments take credible and effective action in the necessary direction. At the same time, the credibility of the Pact could be improved by giving the Commission the right to issue warning letters against governments that lack fiscal discipline.

Prof. Dr. Jürgen von Hagen

## DocMorris Internet Pharmacy appears before the European Court of Justice

by Friederike Meurer

**On the 10<sup>th</sup> December 2002, a ZEI delegation travelled to Luxembourg, where the European Court of Justice discussed the permissibility of mailing pharmaceuticals to other Member States. ZEI Director Professor Dr. Christian Koenig, LL.M. appeared as counsel for the Dutch Internet pharmacy DocMorris. The controversial debate gave the 32 participants of the ZEI Masters programme an insight into Community law.**

For some time, there have been controversial public debates on the sale of pharmaceuticals from other EU Member States via the Internet. While the health insurance associations and politicians believe that this would

result in saving more money in the health system, critics fear it could put patients' health at risk and would pose a threat to the livelihoods of German pharmacies. The debate heated up when the Dutch pharmacy DocMorris began mailing pharmacies to German costumers. Referring to the German prohibition on mail-order sales of pharmaceuticals, German pharmacy confederations have since attempted to have this practice prevented by court. Following various rulings by national courts, Frankfurt Regional Court ultimately submitted several Community law matters to the European Court of Justice in Luxembourg for a preliminary ruling. The chief issue to be settled was the compatibility of a prohibition on mail-order with the free movement of goods in accordance with Art. 28, 30, EC Treaty, EC for short.



DocMorris founder Ralf Däinghaus (3<sup>rd</sup> from the left) and Prof. Dr. Christian Koenig (4<sup>th</sup>) together with ZEI and DocMorris staff members in front of the court in Luxembourg.

▶ The oral hearing took place on the 10<sup>th</sup> December 2002. The 32 Master programme students as well as eight staff members of ZEI's "Legal, Political and Institutional Issues" Department accompanied Professor Dr. Christian Koenig to Luxembourg to experience the practical implementation of what had previously been worked out at theoretical level.

The focus of the oral hearing was on the compatibility of the regulations contained in the German Pharmaceutical and Medicine Advertising Act with the free movement of goods and services. § 43 Section 1 of the Pharmaceutical Act (AMG) stipulates a firm prohibition on mail-order sales of pharmaceuticals. And in accordance with § 73 Section 1 AMG, medicine must generally not be imported to Germany by private persons. These strict regulations have resulted in a categorical prohibition on foreign pharmacies directly providing German patients with pharmaceuticals.

In their written statements, various Member States as well as the Commission in conjunction with the German Federation of Pharmacists rejected the compatibility of these regulations with the free movement of goods, referring to the Keck and Mithouard ruling of the European Court of Justice in 1993. There, the area the free movement of goods applied to had been restricted on the grounds that national regulations governing certain terms of procedure for sales in the Member States affected could not be regarded as measures of the same effect if they applied equally to all businessmen affected pursuing their activities at home and pro-

vided that sales of domestic produce and produce from other Member States were equally affected both legally and factually.

The question therefore arises whether the German prohibition on mail-order sales of pharmaceuticals merely affects a non-discriminatory procedure for sales and is therefore not covered by Art. 28 EC. At first glance, this does appear to be the case since mailing of pharmaceuticals represents a procedure for sales. Moreover, banning a distribution of pharmaceuticals in this way applies equally to domestic and foreign pharmacists. However, in its subsequent rulings, the European Court of Justice put this so-called "Keck Formula" into more concrete terms, making its chief reference more and more frequently to the issue of market access. If distribution regulations prevent access to the market of the importing state as such or represent an impediment in this sense in comparison to domestic goods, this constitutes a restriction of the free movement of goods, even if it is a regulation affecting procedures for sales that are not product-related.

So in the issue debated by the European Court of Justice, the crucial question is whether the German prohibition on mail-order sales of pharmaceuticals prevents access to the end-customer. The counsels for the plaintiff federations of pharmacists and various Member States also rejected this in the oral hearing. They referred in particular to the possibility to deliver pharmaceuticals of foreign manufacture to German wholesalers and pharmacies without any restrictions.

In contrast, in his argument of counsel, Professor Koenig pointed out that the basic freedom stipulated in the EU Contract applied equally at every level of the

market and for every participant in the market. From the manufacturer to the consumer, anyone could rely on the free movement of goods. But the German prohibition on mail-order sales of pharmaceuticals was resulting in pharmacies from other Member States not being able to supply their pharmaceuticals directly to German customers. And German consumers could only procure pharmaceuticals from another Member State if they travelled to a pharmacy in another Member State themselves. With reference to this restriction at the retail level, Professor Koenig argued for the respondent, Internet pharmacist DocMorris, that an obstacle to market access was at issue here that was not covered by the restrictions of the Keck formula.

The 15 European Judges and the Austrian Solicitor General also raised practical issues of health protection such as the scope for pharmaceutical counselling in selling medicine via the Internet, guaranteeing the obligation to present a prescription and the measures DocMorris has taken to safeguard the transport of pharmaceuticals. The answers given by the various parties to the proceedings clearly showed that the frequency and quality of counselling as well as the safety of an Internet pharmacy were by no means inferior to the service of a conventional pharmacy in this respect and that the sources of error in Internet trading of pharmaceuticals were not more frequent than in buying pharmaceuticals at conventional pharmacies. The final motions of Solicitor General Stix-Hackl are expected to be submitted around March, while the ruling will be made by the middle of the year. The outcome ought to be interesting!

*Friederike Meurer is an academic assistant at ZEI's Department for "Political, Legal and Institutional Issues".*

## ZEI CALENDAR

### FEBRUARY–JULY 2003

- 27<sup>th</sup> - 28<sup>th</sup> February **International Congress** "Monetary Strategies for Accession Countries", jointly organised by ZEI, the National Bank of Hungary and the Institute for World Economics of the Hungarian Academy of Science, in Budapest.
- 7<sup>th</sup> - 8<sup>th</sup> March **Conference** "Empirical Models of the Euro Economy", organised jointly by ZEI and CEPR, in Bonn.
- 26<sup>th</sup> March: **Conference** "The Bidding Procedure for Infrastructure Projects – A Straightjacket or a Life Jacket" at ZEI.
- 10<sup>th</sup> – 11<sup>th</sup> April: **International Congress** "The European Convention: Completing 'Mission Impossible'?" in Trier as part of the four-year ZEI/ERA Constitution Project supporting the Post-Nice Process in co-operation with the European Law Academy in Trier.
- 3<sup>rd</sup> - 6<sup>th</sup> June **34<sup>th</sup> Konstanz Seminar** on Monetary Theory and Policy. Juni Konstanzer Seminar zu „Monetary Theory and Policy“ in Konstanz.
- 25<sup>th</sup> June – 19<sup>th</sup> July: **10<sup>th</sup> Transatlantic Summer Academy (TASA)**, organised by ZEI in close co-operation with the University of Bonn's North America Program for Students from North America and Europe with the topic "Unilateral America, Multilateral Europe? Managing Divergence in Transatlantic Relations".

# Internationality as a trademark

by Brigitte Linden

**The International Advisory Council welcomes the very positive result the Evaluation Commission appointed by the Land Ministry of Science and Research has arrived at following several months of thorough examinations of the Center for European Integration Research (ZEI).**

The Advisory Council congratulated ZEI, which was set up five years ago together with the Center for Development Research (ZEF) at the University of Bonn using means from the compensation fund, on the "remarkable success it has scored in the small number of years it has existed". The Report particularly stresses the Center's international effort and its consistent orientation on practical issues.

Thus ZEI has fulfilled the expectations of its founder fathers and can be referred to as an absolute success story in the framework of the project to promote Bonn as an international scientific city. The basis for the evaluation was the concept that the University of Bonn's Senate had formulated before ZEI was founded. According to this concept, the institute is to conduct scientific surveys of political, legal, economic, societal and cultural issues of European integration and work out solution proposals. By offering political consultation, it assumes the role of an interface between theory and practice. Research is conducted in international and interdisciplinary teams. And ZEI is responsible for the education of postgraduates.

The crown jewel in this respect is the European Masters Program. Each year, around 150 applications are submitted for this elite one-year course offered to German and foreign graduates seeking a career in the international sector – diplomatic service, overseas branches of large corporations or banks – in spite of the tuition fees totalling 5,000 euros. A total of 32 participants have been chosen for the 2002/2003 academic year (cf. interview with Cordula Janowski).

The Report of the Evaluation Commission also stresses the "good offices" ZEI has "with industrial partners and industrial federations" and the links it has forged with political practice. This is reflected in the high rate of third-party funding amounting to 40 percent, but also in the large numbers of reports and consultation activities. Here, clients are both the Foreign Office, e.g. re-

garding issues of EU Enlargement, as well as the "biggest headaches among the Candidate Countries". In the framework of the Stability Pact for South-East Europe, ZEI has played a key role in the largest scientific project of the region: setting up a "Bulgarian-Romanian European Center" at the Danube Bridge between the two countries. There, two-year Master programmes in European Studies are run with the aid of ZEI guest lecturers (cf. Emil Mintchev's report).

## Proximity to Brussels a locational advantage

The reviewers of the Evaluation Commission have detected much impetus as well as a wide diversity of subjects in the young Center. Of course, they have remarked that the development phase is not over yet. Improvements could above all be achieved in interdisciplinary collaboration with the departments and the partner institute ZEF, which is working under the same roof. Points here, for example, are unification movements in developing countries, which have resulted in a considerable interest in the European model, as well as a comparison between the development policies of the individual European countries.

The government's shift to Berlin has had an impact on ZEI in two respects. While the politicians used to be eager to pop in for

lectures or discussion meetings in Walter-Flex-Straße during the midday break, the audience has now become rather more academic. But Bonn's locational advantage is its greater proximity to Brussels. And already, there are plans to step up an agency there together with the Land of North Rhine-Westphalia (NRW). The reviewers recommend the setting up of a ZEI branch. In all circumstances, further education programmes ought to be linked up more closely with the European capital in future.

The Report of the Evaluation Commission has also arrived at a very positive result for ZEF, so that the future of the two institutes can be regarded as secured beyond 2004, when the money from the compensation fund runs out. The agreement on objectives signed by the Land of NRW with the University of Bonn stipulates basic funding for 36 positions. This does mean a considerable shrinkage, given that, according to Hatmut Ihne, Managing Director of the two institutes, ZEI alone currently disposes of basic funding for more than 70 positions. Nevertheless, the directors believe that the 60 to 70 percent of the current staff volume that will remain are going to constitute the basis of a good future, for further staff can be funded via third-party means.

*Dr. Brigitte Linden is a freelance journalist based in Bonn.*

## AT A GLANCE

■ **Prof. Dr. Jürgen von Hagen**, Director at the Center for European Integration Research (ZEI), together with **Helmut Seitz**, ZEI Senior Fellow and Full Professor at Viadrina University Frankfurt/Oder, has assumed overall control of the new, national priority programme of the Deutsche Forschungsgemeinschaft (DFG) "Institutionelle Gestaltung föderaler Systeme: Theorie und Empirie" (institutional structuring of federal systems: theoretical and empirical aspects). The programme's aim is to examine federalism under economic, political and legal science aspects, focusing on the key issue of how tasks, income and expenditure can be shared in an economically sensible and efficient manner in Germany and Europe with special consideration given to the different territorial authorities, e.g. the EU the Federal Government, the Länder and municipalities.

Scientifically sound economic data is to be established, for example concerning the issue: "How are taxation rates developing in the different countries?" Von Hagen sets out from the approach that territorial authorities compete with each other, e.g.

for jobs or for businesses establishing themselves, etc. On the basis of the data gathered, he wants to gain a more accurate insight into how competition actually works so that he can make a sound statement on whether there is a requirement for regulatory measures. The issue of the financial autonomy of Länder and municipalities, e.g. in choosing taxation rates, will be a further focal area. Around 30 scientists representing various research institutions throughout Germany will be working in an interdisciplinary framework and together with representatives of politics and administration, conferences will be organised, and research travels will be conducted. A total of 5.5 million euros has been provided to this end up to 2008.

■ **Xuewu Gu**, who has been Coordinator of the Europe-Asia Program in the Research Group "The Global Role of Europe" since 1999, has been appointed Full Professor for "Politics in East Asia" at Ruhr-University Bochum as from the 1<sup>st</sup> October 2002. As an external Senior Fellow, Professor Gu is going to contribute his expertise to future ZEI projects.

# The EURO – a currency recognised world-wide?

by Xuewu Gu

**A few months after the introduction of the Euro, the unified EURO currency was the subject of a workshop organised in Seoul. The participants discussed the consequences for politics and the economy world-wide. They also asked what Asia's answer might be.**

Is the EURO currency going to maintain its hold on the market, confronted with the US dollar and the yen? What will the repercussions of a unified European currency be concerning the structures and forms of world politics? Does the EURO have the potential to develop into a currency recognised world-wide, taking into account that so-called "Euro-land" already comprises 12 states and that it exports almost 25 % more goods than the USA and twice as much as Japan?

These questions were dealt with at the workshop "Political and Economic Impacts of the EURO" on August 21<sup>st</sup> 2002 in Seoul organised jointly by the Center for European Integration Studies, Bonn (ZEI), the Korean International Trade Association and the EU Studies Association – Korea. This event was financed by the Friedrich Ebert Foundation, the SBS Foundation and the Korean Institute for Industrial Economics and Trade.

This workshop focused mainly on Korean students and journalists, but also attracted ministry officials interested in Europe. And there were participants coming from the circle of European and Asian diplomats who work in Seoul. The goal of the workshop was to present the new currency to an interested public and to the experts connected with this subject in Korea and to point out to them the potential and real consequences for the economy and politics.

ZEI was represented at this workshop by interdisciplinary speakers and/or their papers. While Professor Dr. Ludger Kühnhardt (Director of ZEI) and Dr. Xuewu Gu (Coordinator of the European-Asian Programme at ZEI) focused on the EURO currency's political repercussions, Professor Dr. Jürgen von Hagen (Director of ZEI), Dr. Susanne Mundschenk and Dr. Boris Hofmann (both Senior Fellows at ZEI) analysed the economic aspects of the new unified currency for Europe. Prof. Ludger Kühnhardt's contribution pointed to a broader horizon as he described the EURO as a political project while at the same time stressing the connections between European integration and globalisation.

In his contribution "The EURO and Its Implications on World Politics", Dr. Xuewu Gu analysed the potential modifications in the structures of world politics that could be triggered by the introduction of the EURO. The contribution "Fiscal Policy in EMU" by Prof. Jürgen von Hagen and Dr. Susanne Mundschenk referred to the interdependence of the European Central Bank and the economic and financial policies of the different Member States of the European Economic and Monetary Union and warned that the achievements of the Union could be severely jeopardised if national policies and the monetary policy of the ECB were not sufficiently co-ordinated.

In a similar context, in his contribution "Issues in EMU Monetary Policy", Dr. Boris Hofmann examined the institutional deficits of the European Monetary Union and appealed for a balanced co-ordination between monetary and non-monetary political measures in order to guarantee price stability as the ECB's main task.

The Asian participants of the workshop showed great interest in the political and economic perspectives connected with

the introduction of the EURO. In particular, the question whether and how the creation of a unified EURO currency could have an impact on the position of East Asia in the world economy was discussed in a lively manner. Asia – at least this seems to be the predominant opinion among the Asian participants – will only be able to maintain its hold on the market confronting Euro-land and North America on a long-term basis if a unified currency is introduced throughout this continent or at least in East Asia.

For instance, Professor Rhee Yeonseop and Professor Moon Woosik believe that the introduction of a unified currency in Asia is only a matter of time. In their contribution "The Current Status and Future Prospects for Asian Monetary Integration: Lessons from the European Monetary Union", the two speakers showed themselves confident that Asia, on the basis of the experiences that the European Union made when it introduced the EURO, would be able to avoid many mistakes if it were to develop its own unified currency in its region.

*Dr. Xuewu Gu, Full Professor for "Politics in East Asia" at Ruhr-University Bochum, is Senior Fellow at the ZEI Department "European Value Systems, Cultures and Languages".*



*Susanne Mundschenk (ZEI) and Prof. Hee-Yeol Chai, Seoul, during the workshop on the Euro.*

## PUBLICATIONS

### Discussion Paper Series

#### C 108/2002

Hans von der Groeben: Europäische Integration aus historischer Erfahrung. Ein Zeitzeugengespräch mit Michael Gehler.

#### C 109/2002

Emil Mintchev / Klaus Büniger: A Sustained Economic Revival in Kosovo. Need for a Liberal Concept.

#### C 110/2002

Michael Lochmann: Die Türkei im Spannungsfeld zwischen Schwarzmeer-Kooperation und Europäischer Union.

#### C 111 / 2002

Indra de Soysa / Peter Zervakis (eds.): Does Culture Matter? The Relevance of Culture in Politics and Governance in the Euro-Mediterranean Zone.

#### C 112 / 2002

José Manuel Martínez Sierra: The Spanish Presidency. Buying more than it can choose?

#### C113/2002

Wilfried Loth: Europäische Identität in historischer Perspektive.

*A list of all ZEI publications that have appeared so far can be called up from the Internet at: <http://www.zei.de>*

# How not to drop a clanger in NRW and Benelux

by Georg Michels

**Mentalities, cultures and traditions in the heart of Europe were the topic of three ZEI workshops the upshot of which is a guide to mentalities for the Benelux Countries and North Rhine-Westphalia. This guide can serve as a useful manual for people on business or other trips. At the same time, it has the character of an entertaining vademecum.**

Different countries have different customs. In Europe, this even applies in the smallest areas. For example, if a business partner visits a company in the Netherlands around lunchtime, a tin of biscuits will be handed around with the coffee, or brodjies with cheese are offered, whereas in Germany, people would have lunch together. But there is even more style in Belgium, where the guest is invited to a set meal with several courses and wine.

The workshops, which were organised on the initiative of North Rhine-Westphalia's State Chancellery in Bonn, were not aimed at conducting a comprehensive re-

view of the three countries. Rather, the focus was on what happened to be particularly typical and characteristic of a respective mentality. This is why each section in "Zwischen Pommies und Praline" really is different. Neither does the guide contain any catalogue of topics. Instead, the respective problematic fields are presented, and attention is drawn to potential hazards. Thus the result is what could be called a "clanger guide".

However, anyone walking around in his neighbouring country with open eyes but without behaving as if he was just visiting the usual places at popular seaside resorts will hardly run the risk of putting his foot in it in the presence of his guests. Nevertheless, for those cases in which this could happen, he has a manual that he can resort to. The book does not only address the experienced traveller but is also aimed at contributing to countering fear of embarking on something new.

To put it in more casual terms, one could also say that the approach was determined by the search for the human factor. In addition to the outcome of the workshops, which have been published under the title "Die Rheingesellschaft" (cf. ZEI Publications), interviews among testpersons using a questionnaire and longer, less structured interviews in the Netherlands, Belgium, Luxembourg and North Rhine-Westphalia provided the source material. The partners

usually came from industry and could boast a wealth of experience in cross-border cooperation. Thus the text is very practical, which serves both the entertainment of the reader and the intention of the project as a whole.

*Ute Schürings: Zwischen Pommies und Praline. Mentalitäten, Kulturen und Traditionen in den Benelux-Ländern und NRW, edited by Georg Michels and Bernd Müller, Münster 2002.*

*Dr. Georg Michels is an academic assistant at ZEI's Department for "European Value Systems, Cultures and Languages".*

## NEWZEIPUBLICATIONS

Ludger Kühnhardt: Constituting Europe. Identity, Institution-Building And The Search For A Global Role. Baden-Baden: Nomos 2003, 256 Seiten (ZEI-Schriftenreihe, Bd. 60).

Karl Magnus Johansson / Peter Zervakis (eds.): European Political Parties between Cooperation and Integration, Baden-Baden: Nomos 2002 (ZEI-Schriftenreihe, Bd. 33).

Peter Zervakis/Peter Cullen (eds.): The Post-Nice Process: Towards a European Constitution? Baden-Baden: Nomos 2002 (ZEI-Schriftenreihe, Bd. 49).

Thomas Lemmen: Muslime in Deutschland. Eine Herausforderung für Kirche und Gesellschaft. Baden-Baden: Nomos 2001 (ZEI-Schriftenreihe, Bd. 46).

Martin Weber: Schweden und die Europäische Union. Europadebatte und Legitimität. Baden-Baden: Nomos 2001 (ZEI-Schriftenreihe, Bd. 47).

Carlo Masala (ed.): Der Mittelmeerraum – Brücke oder Grenze? Baden-Baden: Nomos 2002 (ZEI-Schriftenreihe, Bd. 48).

Hans-Dieter Lucas (ed.): Genscher, Deutschland und Europa. Hans-Dietrich Genscher und die deutsche Außen- und Europapolitik 1974-1992. Baden-Baden: Nomos 2002 (ZEI-Schriftenreihe, Bd. 50). *Hans-Dietrich Genscher is the president of the International Advisory Board of ZEI.*

Uwe Leonardy (ed.): Europäische Kompetenzabgrenzung als deutsches Verfassungspostulat – Dokumente zu Entstehung und Auswirkung des Artikels 23 GG (mit einem Vorwort von Bundesminister a. D. Dr. Hans-Jochen Vogel). Baden-Baden: Nomos 2002 (ZEI-Schriftenreihe, Bd. 59).

Jacobus Delwaide, Georg Michels und Bernd Müller (eds.): Die Rheingesellschaft. Mentalitäten, Kulturen und Traditionen im Herzen Europas, Baden-Baden: Nomos 2002 (ZEI-Schriftenreihe, Bd. 56).

Xuewu Gu (ed.): Grenzüberschreitende Zusammenarbeit zwischen den Regionen in Europa, Baden-Baden: Nomos 2002 (ZEI-Schriftenreihe, Bd. 39).

## EU Accession – the view of EU Member States and Candidate Countries

by Janusz Musial

**Already for the fourth time, the Parliament Forum on EU Accession took place on 21<sup>st</sup>-22<sup>nd</sup> November 2002 at ZEI in Bonn. Like in the previous year, the Chairpersons of the Parliamentary Committees dealing with integration in the European Union were invited to discuss current issues of the integration process together with high-ranking representatives of European and German politics.**

The remarkable openness of the meeting, which is one of the trademarks of this confidentially held Forum, motivated speakers such as Dietrich von Kyaw, a former German ambassador to the European Union, Peter Altmaier, member of the German Bundestag and member of the Constitutional Convention of the European Parliament, and Peter Doyle, director of the Euro-

pean Commission Representation in Ireland, to frankly present their views both on the enlargement process with its last stage and on the state of internal reforms in the EU.

The Forum was predominated by the discussion about the stage of the negotiations, which came to an end during the EU summit in Copenhagen and the Constitutional Convention, which was to find a new order for the European Union. The second day of the Forum once again concentrated on a specific topic, this time the ratification processes and referenda in the EU Member States as well as in the candidate countries. For the first time, three parliamentarians – Mr Jaroslav Zverina of the Czech Republic, Mr Alojz Peterle of Slovenia and Mr Liviu Maier of Romania – presented their views in a Round Table.

*Janusz Musial is Research Associate at the ZEI Department "European Value Systems, Cultures and Languages".*

# Local fiscal crises in federal systems

by Guntram Wolff

**ZEI has initiated a joint project with the University of Pittsburgh to compare municipal finance, intergovernmental relations and the incidence of crises in the USA with those of the Federal Republic of Germany. In this framework, Guntram Wolff visited the University of Pittsburgh for several months in order to investigate the topic for the United States.**

Why do cities experience fiscal crises? What characterises a fiscal crisis? What can be done to prevent a crisis? These questions have recently attracted the attention of many policy-makers in Germany, since the number of municipal defaults has increased substantially in the last years and since cities are the centre of economic, social and cultural life. What is of special interest is the determinants of municipal spending and debt in general as well as their relation to fiscal crises.

Cities in the USA have substantial freedom in shaping their budget. They can raise taxes to finance services for citizens. The extent of horizontal tax equalisation between cities is modest. One may therefore expect that budgets reflect the preferences of voters, mediated by the respective election system. A model of the preferences of a median voter shows that the demand for the provision of municipal goods depends on his or her income and tax share (which represents the price the median voter pays for municipal goods) and the population size of the city.

In addition, a number of socio-demographic factors like the percentage of minority population, age structure of the population, crime rates and economic factors like poverty are likely to have an influence on the demand for municipal goods and services. A higher percentage of poor people living in a city will likely increase the demand for public goods since poor people pay lower taxes and need more services. The percentage of Hispanics living in a city will be negatively correlated with public expenditure since the voter turnout of Hispanics is

around 25 percent, compared to over 50 percent for African Americans and Whites. Thus, politicians aiming for re-election will care much less about the preferences of Hispanics and spend less.

Estimation of the demand model for municipal goods with a cross-section of all American cities (943) with a population size of over 25,000 inhabitants shows that prices, income and structural factors explain more than 90 percent of the variation in spending across cities. Thus the budget outcome of a city reflects preferences and constraints of its inhabitants.

## Large cities have high debt levels

The determinants of public debt of cities are similar to the determinants of spending. This can be rationalised by the fact that politicians have an interest in partly financing their expenditure with deficit spending since taxes are inherently unpopular and voters have fiscal illusions. Estimates of the same model show that it can account for large parts of the observed variation in debt levels of cities. Two results emerge: (1) Large and central cities have to carry a greater burden in the provision of goods and services than smaller ones and cannot compensate for this to a full extent by exporting taxes. (2) Consolidation of responsibilities from special districts like school districts in the control of cities is likely to reduce overall spending and will also reduce the debt burden per capita.

Case studies have described the characteristics of fiscal crises. The most prominent cases, New York City and Philadelphia, both had high debt levels before the outbreak of the crisis. Lenders refused to give any further credit and the city experienced a fiscal crisis with substantial difficulties to pay its employees and provide the required services. In all case studies of fiscal crises in the USA, the high debt level was mentioned as a symptom of the crisis.

Since there is no database reporting fiscal crises in cities, using a cluster analysis, the cities were split into two homogenous groups, one with high debt levels and one

with low debt levels. The resulting threshold lay at around 4,000 \$ debt per capita. Eighteen cities had a higher debt level, while 925 cities had substantially lower debt levels. A comparison of the properties of these cities shows that spending of the highly indebted cluster significantly exceeds the average spending of the low-debt cluster. The debt level of the former is ten times as high. However, the other variables like population size and growth, income per capita and ethnic composition do not differ statistically.

Thus, while spending and debt differ, the variables which explained the variation across the entire sample do not explain the differences between the indebted and non-indebted cluster. High debt levels are therefore not caused by economic and socio-demographic factors. Case studies usually identify political factors like strength of public-employee unions and political strength of a mayor as determinants of high indebtedness and fiscal crises. The new results indirectly support this finding for a large sample of cities.

From a policy perspective, it does not seem to be necessary that cities with certain structural characteristics get additional intergovernmental funds to prevent crises, since the crises are not caused by these structural factors. However, transfers to central cities of metropolitan areas will compensate them for the burden of providing infrastructure for surrounding cities.

*Guntram Wolff is Junior Fellow at the "Economic and Social Issues" Department of ZEI.*

# Elites for politics, industry and administration

## Interview

The "Master of European Studies" course of further study, by now one of ZEI's trademarks, has been run for five years and has entered its anniversary year with a new programme head. Political scientist Cordula Janowski, M.A., has taken over this task from Dr. Stefan Fröhlich, who headed the "European Studies" since their introduction in 1998.

*Ms Janowski, how would you put the objective of "European Studies"?*

*Janowski:* It is an elite education programme for university graduates, above all jurists, economists and social scientists and arts scholars who are aiming for a position in politics, administration or industry in the EU.

*What is special about the Bonn master programme?*

*Janowski:* Its close relevance to practical issues and strict adherence to interdisciplinarity. Sound political, legal and economic basic knowledge concerning European students is imparted to the students. This opens up prospects for our graduates on a wide labour market. In addition, practical relevance is constantly being extended in the curriculum. The cornerstones of the programme are the European Dialogue and the concluding two to three-month practical training period.

*Who are the teaching staff?*

*Janowski:* In addition to the three ZEI Directors, Prof. Dr. Jürgen von Hagen, Prof. Dr. Christian Koenig, L.L.M., and Prof. Dr. Ludgar Kühnhardt as well as former Programme Director Prof. Dr. Stefan Fröhlich, high-ranking academics from here and abroad such as Prof. Dr. Patrick Minford of Cardiff Business School at the University of Wales and holder of the Jean Monnet Professorship for European Integration Research at Manchester Metropolitan University, Prof. Dr. Neill Nugent, vouch for the high quality of education.

In addition, practitioners from EU institutions, ministries, industry and business are involved, such as Robert Klotz of the Directorate-General at the Brussels Commission. He provides the fellows with access to the much-sought practical training periods. And this year, executive staff from the

world's largest strategy consultants, McKinsey and Boston Consultant Group, as well as Deutsche Telecom AG and RWE AG will be joining the programme to provide input on their day-to-day business activities. *How are the fellows' different levels of knowledge balanced?*

*Janowski:* The programme is really tough from mid-October to the end of May. The roughly 300 teaching units are distributed among three basic courses in which each student makes up for his deficits as well as up to nine special courses per semester. I also run a back-up tutorial in which any questions the students may have can be asked. And many alumni are providing support for the newcomers. The network is working.

*What is the role of the geographical proximity to Brussels?*

*Janowski:* We maintain very good links with the Permanent Representation of the Federal Republic of Germany at the EU, which provides a considerable amount of support for our fellows. An excursion to the EU Commission is part of the study programme. But we also travel to the European Court of Justice in Luxembourg and to Berlin to visit the German Federal Parliament and the Foreign Office.

*How much interest is there in "European Studies", and where do the students come from?*

*Janowski:* There is indeed considerable interest in the programme. This time, we had more than 150 applications and have filled all available places for the first time, which also means that the programme is self-supporting for the first time. Out of the 32 fellows, nine are German, seven come from Eastern Europe, six from the EU and Norway and four from North America, three from Japan and one each from South America, South Korea and Ukraine. So we have once again boosted our internationality.

*How do you select the fellows?*

*Janowski:* The exams report gives a first impression of the candidates. Here, however, it is important to weight the degrees and marks fairly. A very good knowledge of English is a further precondition, since this is the language the subjects are taught in. And foreigners need proficiency in German, which may, for example, be certified by the Goethe Institute.

What is also important is a letter of recommendation by a professor and rea-



Political scientist Cordula Janowski, M.A., is the new head of the master programme.

sons for the candidate's interest in European studies given in a written personal account of his or her motivation. Finally, it is of advantage to have worked in an honorary capacity, for example in politics or at the university.

*What new developments will there be in the Masters programme?*

*Janowski:* Our aim is straightforward. We intend to be among the top programmes in Europe. This is why we are now having our Masters programme accredited by the FIBAA. With this stamp of quality, we want to enhance its degree of popularity beyond Europe.

What is also important is that we find further high-ranking co-operation partners who are willing to offer our fellows practical training and facilitate their entering their careers.

*What careers have the graduates from the programme so far pursued?*

*Janowski:* We keep in touch with them via ZEI Alumni, reg. Ass. Many of them have started promising careers or are preparing them. For example, one of our graduates is working for the World Economic Forum in Geneva, while a diplomat candidate of the last cohort of graduates is with the Foreign Office, and a British graduate has joined the EU Commission. Many of our graduates make use of the opportunity to do a PhD.

The course of further study has also proved worthwhile for participants from non-EU countries. For example, a student from the Balkan region is now working for Croatia's Telecom, and a Jordanian woman graduate has become consultant to the Foreign Secretary. Graduates from the Accession Countries have particularly good job prospects. Their governments send them straight to Brussels.

*Ms Janowski was interviewed by Dr. Brigitte Linden, a freelance journalist who is based in Bonn.*

# Arab cooking and globalisation

by Carlo Masala

In 2002 ZEI and the Konrad Adenauer Foundation (KAS) held two workshops within the Mediterranean Dialogue Program of the ZEI. The workshops marked the beginning of a common conferences series of both organisations aiming to accompany the Barcelona Process of the European Union.

The meeting in Beirut, which took place on the 10<sup>th</sup> and 11<sup>th</sup> of May, brought together more than 25 researchers, staffers and politicians from the southern and northern rim of the Mediterranean. The kick-off meeting was dedicated to the consequences of globalisation on the Arab societies. The presentations and debates were centred along a common ZEI-KAS paper which had been delivered among the participants in advance. In this paper, both institutions raised three main questions. 1. How does globalisation influence societal change? 2. How does this affect governance and governmental politics? and 3. How can societal change be managed in a peaceful, just and self-determined way?

In the debate it became clear that most of the participants from the southern Mediterranean did not perceive cultural globalisation as a move towards cultural uniformity and standardisation or as a move towards cultural homogenisation. On the contrary, a number of speakers, such as Dr. Salim Nasr, Director of the Beirut-based Lebanese Center for Policy Studies, or Prof. Dr. Theodor Hanf of the Arnold Bergstrasser Institute in Freiburg, argued that in some respects the spread of Arab culture as well as Arab cooking due to migration were signs that some of the southern Mediterranean countries were early globalisers rather than latecomers in the process of cultural globalisation.

The second workshop, which was held from the 12<sup>th</sup> and 13<sup>th</sup> of July in Casablanca, was dedicated to the possible impact of the EURO on the southern economies and on North-South trade. Specialists from more than ten Arab countries as well as organisations like the Arab Monetary Fund were discussing the issue very intensively during these two days. Most participants of the workshop agreed that the

euro would have a positive, albeit limited, impact on the region. The MED countries would benefit from a more predictable and transparent external economic environment allowing them to better exploit their comparative advantages in the long run. They would also benefit from a stronger output growth in Europe. With the creation of a stable monetary anchor in Europe, MED countries would have the opportunity to reconsider and possibly change their exchange rate regimes and policies. The EURO could contribute to a spill-over on to the formulation of economic policy in the Mediterranean. It was also providing the Barcelona partners with incentives to conduct a more predictable and therefore stable fiscal and monetary policy and to implement far-reaching structural reforms so that the region could take its place in the world economy.

*Dr. Carlo Masala is an Academic Councillor at the Forschungsinstitut für Politische Wissenschaft und Europäische Fragen at the University of Cologne and Senior Fellow at the ZEI Department "European Value Systems, Cultures and Languages".*

## AT A GLANCE

■ As part of the program "Dialogue, Science and Praxis" of the Hanns Martin Schleyer Foundation (Cologne), ZEI organised the 9<sup>th</sup> Europe Colloquium on the 22<sup>nd</sup> and 23<sup>rd</sup> November 2002 at the Adam Stegerwald Haus in Königswinter near Bonn. The Colloquium aims at institutionalising an exchange on topical issues between former and present doctoral candidates of Prof. Dr. Ludger Kühnhardt, director of the ZEI department "European Value Systems, Cultures and Languages", and experts and personalities from government, politics and academia. The central theme of the colloquium was: "Transatlantic Relations after 11 September. Challenges and Perspectives". Three eminent experts had been invited: Dr. Andrew Denison, Director, Transatlantic Networks, Prof. Dr. Lothar Rühl, University of Cologne and ZEI Senior Fellow, and Prof. Dr. Bassam Tibi, University of Göttingen.

■ The organisers chose an issue which will have a profound influence on the future direction of transatlantic relations at the beginning of the 21<sup>st</sup> century. The aim of the colloquium was to discuss the central foreign and security as well as cultural issues caused by the terror attacks on 11<sup>th</sup> September, namely the new orientation of U.S. foreign and security policy, the military-strategic implications for transatlantic relations and the relations be-

tween the West and Islam against the background of Samuel Huntington's widely discussed thesis of a clash between Western and Islamic civilisation. The results of the colloquium will be published in the ZEI Discussion Paper series.

■ Prof. Dr. Christian Koenig, Director of the "Political, Legal and Institutional Issues" Department at ZEI, is extending the department's scope of activities. To this end, he has set up a Task Force on Law Governing the Award of Contracts. In the Task Force, which he heads, members of the various research project groups are co-operating in an examination of the central and present problems of German and European law on the award of contracts which gives enterprises the opportunity to take action against the incorrect award of public contracts. Several publications covering the topic are planned for the medium term.

Currently, the department is working out the concept for this year's "European Summer University on Telecommunications Law and E-commerce Legislation". There are plans to co-operate with GTZ and Israeli and Palestinian universities.

# Competition or Service Public in the European energy economy?

by René Pfromm

On November 12<sup>th</sup>, 2002, the first Brussels ZEI Energy Talks were organised by the Department for Political, Legal and Institutional Issues in co-operation with the Representation of the Land North Rhine-Westphalia at the European Union. Over 50 guests from the energy industry, law firms, politics and sciences attended the conference on "Competition or Service public in the European Energy Economy".

How can sufficient and reliable provision of the public with basic services such as water and electricity be ensured if, at the same time, (more) competition is to be introduced here and the takeover of public utilities by corporations is facilitated? This question is at the centre of the newly founded Research Group "Energy Law". It has its focus on legal issues arising at European and national level within the dynamic developments in the energy market. Here, the group consisting of five research associates can for instance draw on experiences for its research that ZEI has won in the telecommunications sector.



The panel during the first Brussels ZEI Energy Talks: on the left Prof. Dr. Koenig.

During the first Brussels ZEI Energy Talks the problem was considered from various points of view. Visiting Lecturer Dr. Christian Pielow (University of Bochum) explained "The Concept of Service Public in France". In his lecture, he presented the French approach to market separation by granting special rights in the energy market sector. Dr. Christian Schneller (E.ON Energy) focused on "Service public as a defence strategy" as seen from an international enterprise's point of view in his presentation. Professor Dr. Christian Koenig, LL.M. (Director of ZEI) spoke on "Public services through competition on the energy market with special consideration of experiences from telecommunications". The focus of his speech was laid on the concept of public services granted by competition and within

competitive surroundings, as foreseen by EC Law. Professor Koenig compared the concept of public services in the energy market with the mechanism of universal service for telecommunications services, and concluded that neither EC secondary law nor German energy law granted a convincing concept of public services in a working competitive environment.

Dr. Stefan Gewaltig (European Commission, DG Energy and Traffic) concluded the presentations with a talk entitled "Services d'intérêt général and competition in the energy market from the European Commission's point of view". Dr. Gewaltig presented the Commission's Proposal for a Directive concerning common rules for the internal markets in electricity and natural gas as well as its position and approach in the current discussion. Moderated by Dr. Jürgen Kühling, LL. M. (Research Associate at ZEI), a panel consisting of the morning's lecturers and the former Advocate General at the European Court, Professor Dr. Carl Otto Lenz (Baker & McKenzie), deepened further issues and answered remaining questions. The first Brussels ZEI Energy Talks Informal closed with lunch, which afforded an opportunity for further discussion and new contacts.

*René Pfromm is a Research Associate at ZEI's "Political, Legal and Institutional Issues" Department.*

## Labour market issues in the Baltic States

by Kenneth Smith and Birgit Uhlenbrock

Top researchers in the fields of labour economics and the nexus between labour economics and transition and European integration theory were brought together with young researchers in these fields in May 2002 in Tartu, Estonia.

ZEI, in co-operation with CEPR, BICEPS (Baltic International Centre for Economic Policy Studies), EuroFaculty and Tartu University, organised this week-long workshop at Tartu University as the last of a series of three. The previous workshops had been held in Vilnius, Lithuania (hosted by Vilnius University) in April 2000 and in Riga, Latvia (hosted by the University of Latvia) in March 2001. The workshop series "Labour Markets, Work and Welfare During the Transition and Integration Processes" was supported by an EU 5<sup>th</sup> Framework grant and built upon a workshop hosted by Tartu University and ZEI in February 1999, which in turn was funded by an EU Phare-ACE grant.

During the project six senior lecturers presented a total of 72 hours of lectures. The

topics covered in these lectures included labour supply and demand in the transition economies, the role of human capital in labour markets generally and in the transition economies specifically, the effects of economic integration on labour markets, and the potential effects of the "brain drain" that might occur as the transition economies fully integrate into the EU.

Additionally, the junior researchers, representing institutions in many different European countries, as well as several researchers from North America and two researchers from India gave approximately 60 presentations. These presentations covered a wide range of topics, although most of them dealt with labour market issues in the transition economies and issues related to the integration of the transition economies into the EU. To date, approximately 15 papers presented at the workshops have been published or are forthcoming in international journals, books or collected volumes.

An additional purpose of the workshop series was to bring together researchers from Eastern and Western Europe and to aid the three national universities of the Baltic States in their attempts to reintegrate into the Euro-

pean academic community. In this sense too, the project was very successful. Participation in the workshops was roughly divided as follows: about 1/3 Baltic researchers, about 1/3 researchers from other prospective EU members and about 1/3 researchers from Western Europe and North America.

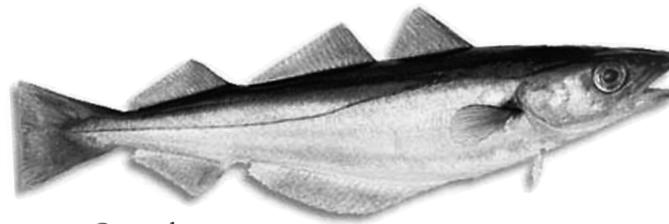
Several of the young Baltic researchers have gone on to enter Ph.D. programmes in Western Europe and North America or spend time as visiting researchers at ZEI and other Western European institutions. In addition, many students and faculty members at the Baltic universities have in turn benefited from attending lectures and presentations by the senior speakers.

Those interested in learning more about the workshop series are free to contact Kenneth Smith (Kenneth.smith@millersville.edu). More information about ZEI's primary partner institutions in this project, BICEPS, EuroFaculty, and CEPR, may be found at their respective web sites, [www.biceps.org](http://www.biceps.org), [www.eurofaculty.lv](http://www.eurofaculty.lv), and [www.cepr.org](http://www.cepr.org).

*Kenneth Smith, Ph.D., is a Non-resident Senior Fellow, and Birgit Uhlenbrock is a Fellow at the ZEI "Economic and Social Issues" Department.*

# On whittings, olive oil and the fundamental right to effective judicial protection

by Jens-Daniel Braun  
and Moira Kettner



**The right of the individual to effective judicial protection is an established Community fundamental right. Over the last few years, however, doubts have been raised whether the current Community system of judicial protection is indeed able to ensure this right.**



Art. 230 (4) EC states that any natural or legal person may institute proceedings against a decision addressed to that person or against a decision which, although in the form of a regulation or a decision addressed to another person, is of direct and individual concern to the former. When defining “individual concern” within the meaning of Art. 230 (4) EC, the European Court of Justice’s (ECJ) starting point has traditionally been the so-called “Plaumann formula” (ECJ, ECR 1963, 213 (238)). According to the Plaumann formula, “persons other than those to whom a decision is addressed may only claim to be individually concerned if that decision affects them by reason of certain attributes which are peculiar to them or by reason of circumstances in which they are differentiated from all other persons and by virtue of these factors distinguishes them individually just as in the case of the person addressed”.

The “Plaumann formula” has always been a controversial topic in academic writing. According to its critics, the formula is an overly narrow and unduly restrictive interpretation of Art. 230 (4) EC leading to an insufficient level of judicial protection of non-privileged applicants. With his opinion in case C-50/00, delivered on March 21<sup>st</sup>, 2002, Advocate General Jacobs passionately put this view before the ECJ. In this case, the applicant sought the annulment of a regulation abolishing an earlier Community aid scheme for olive oil.

The applicant was not individually concerned in the sense of the “Plaumann formula”, so the appeal would have had to be declared inadmissible. However, it was impossible for the applicant to challenge the lawfulness of the contested regulation before the national courts. Therefore, the Ad-

vocate General argued for abandoning the restrictive “Plaumann test”. Instead, he suggested that a person should be “individually concerned by a Community measure where the measure has, or is liable to have, a substantial adverse effect on his interests”.

In his view, such an extension of locus standi is necessary to ensure the fundamental right to effective judicial protection against Community measures. Neither the preliminary procedure under Art. 234 EC nor the obligation of the Member States to change their judicial systems provides for a sufficient level of protection.

## The national courts decide until EC law has been amended

A similar approach was adopted by the European Court of First Instance in its judgement delivered on May 3<sup>rd</sup>, 2002 (Case T-177/01). In this case, the applicant, a fishing company specialising in whiting, wished to challenge a regulation imposing a new minimum mesh size for fishnets. The change in mesh size, the applicant argued, deprived it of the opportunity to fish for whiting, which represented the vast majority of its catches. According to the “Plaumann formula”, however, the company was not individually concerned by the regulation. Diverging from the previous case law, the Court of First Instance decided that a natural or legal person will be regarded as individually concerned by a Community measure of general application “if the measure in question affects his legal position, in a manner which is both definite and immediate, by restricting his rights or by imposing obligations on him”.

In the light of these new formulas (for more details, see *Braun/Kettner*, DÖV 2003, Issue 2), the judgement of the ECJ in case C-50/00 was eagerly awaited. Despite high expectations on the part of some of the observers, the ECJ ruled without much ado that the Community courts had to stick to the narrow interpretation of Art. 230 (4) EC. The court argued that an extensive in-

*The whiting (lat.: *Merlangius merlangus*), a fish found in the North and Baltic Sea as well as in the Atlantic Ocean, that is also used to make fish and chips.*

terpretation of the criterion of individual concern could not be reconciled with the wording of that provision. In the view of the ECJ, the level of judicial protection can only be raised by an amendment of the EC Treaty.

Whether one agrees with this decision *de lege lata* or not, it has become clear that judicial protection against EC regulations has to be sought before national courts. In

this respect, the ECJ has clearly opted for a decentralised system of legal remedies.

However, the Court has also argued that “it is for the Member States, if necessary, in accordance with Article 48 EU, to reform the system currently in force”. From a political point of view, such a reform should urgently be pushed forward to effectively guarantee the fundamental right to judicial protection. Art. 230 (4) EC – as interpreted by the “Plaumann test” – does not offer a sufficient level of protection, as the cases mentioned above plainly demonstrate.

Instead, one could consider adapting Art. 230 (4) EC to the less restrictive wording of Art. 33 (2) of the ECSC Treaty (which expired last summer), so that the rich case law concerning this provision could be made use of. It would also be possible to bring Art. 230 (4) EC in line with the test stipulated by Art. 37 (2) of the Protocol on the Statute of the Court of Justice (see *Braun/Kettner*, as above).

Therefore, it is to be welcomed that the European Convention has started to deal with this problem (see <http://register.consilium.eu.int/pdf/de/02/cv00/00402d2.pdf>, German version only). This question of utmost practical importance should not be left out when discussing a major overhaul of the Treaties on the occasion of the future enlargement.

*Jens-Daniel Braun is a research associate at the department “Political, legal and institutional questions” at ZEI. Moira Kettner is a student assistant at this department.*

# A European Centre at the Bulgarian-Romanian Danube Bridge

by Emil Mintchev

**Accompanied by the anthem "Gaudeamus Igitur", the first students of the Bulgarian-Romanian Inter-University European Centre (BRIE) celebrated its opening together with their professors on the 14<sup>th</sup> October 2002. The new institution, in which ZEI plays an important role, runs four-semester Master programmes in European Studies in Rousse, on the Bulgarian side of the river, and in Business Informatics in Giurgiu in Romania. BRIE is sited at what is so far the only Danube bridge linking the two countries.**

The ceremonies marking the event took place in both cities. In addition to leading politicians and academics of the two countries, the lecturers included the rectors of the Romanian Academy for Economic Studies, Bucharest, and the University of Rousse, Professors Bran and Tornov, President of Germany's Hochschulrektorenkonferenz (HRK) Professor Landfried, spokes-

woman for the management of the Charitable Hertie Foundation, Ms Mosiek-Müller, head of department at the Federal Ministry of Education and Research (BMBF) Ms Rüde and ZEI Director Professor Kühnhardt.

Almost two years after the idea for a cross-border Bulgarian-Romanian study programme following the example of the European University "Viadrina" (Frankfurt an der Oder) was launched, the new European Centre at the Danube bridge between the two countries has proven a good example for a successful cross-border co-operation scheme in teaching and research under the active participation of a number of German higher education institutions including ZEI at the University of Bonn.

The project, initiated at the end of 2000 by the HRK, is financially supported within the framework of the Stability Pact for SEE by the BMBF and the Hertie Foundation with around € 400,000 each. The best students from South Eastern Europe enrolled in the European Studies programme have the

chance to obtain up to ten fellowships from the Hertie Foundation.

Selecting and supervising the Hertie fellows is another task of ZEI. And together with the other German partners, ZEI will be responsible for the scientific aspects of the European Studies programme in Rousse. For all these tasks at ZEI, a special Hertie Co-ordination Bureau has been set up that is headed by Dr. Emil Mintchev. The bureau will help to send renowned representatives of politics and academia to Rousse to present the "Hertie Lectures" there.

Almost a third of all the students come from different countries of South Eastern Europe. Together with their Bulgarian and Romanian colleagues, they will spend a semester in Germany and are to play an active role in designing the European future of their home countries.

*Dr. Emil Mintchev is Scientific Assistant at the ZEI Department "European Value Systems, Cultures and Languages".*

## Christian Democracy and the transformation process

by Georg Michels

**To discuss the development and the situation of Christian Democratic parties in Eastern Central Europe, the Konrad Adenauer Foundation, the Catholic Center for Social Research and ZEI invited scientists from twelve countries in western and eastern Europe to Budapest.**

The scientists made a combined effort to find answers to the challenge of the transformation in Europe's eastern parts. The analyses of the movement's history in the "old" countries (i.e. France, Belgium, the Netherlands, Italy, Austria and Germany) contrasted the descriptions of the present situation of Christian Democratic parties under the conditions of rapidly changing

political landscapes in the East (Poland, Czech Republic, Slovakia, Slovenia, Croatia and Romania).

The very difficult situation of Christian Democratic parties in these countries is the result of the domination of (post-) socialist, liberal and often nationalistic thought in everyday political life. Consequently, Christian Democratic parties are trying to place themselves in the centre of the political spectrum, but they are always in danger of become parties merely representing a certain social milieu, a situation similar to Belgium and the Netherlands. The following question illustrates the problem: Does anything like a political centre already exist in the transformation countries?

Internal problems of these parties have a further weakening effect. Opposition to communism united important

persons who proved to be unable to develop a common concept for the time after the communist collapse. So spectacular withdrawals led to rifts in the parties, causing the movements to virtually disappear. The former Polish trade union "Solidarity" is an example of such a process. It broke up into more than 260 different groups.

These facts show the importance of clear and distinct political programmes. The discussion on Christian values in the present world has to remain a basic element of Christian Democratic policy. Christoph Böhr's concluding presentation – he is chairman of the CDU of Rhineland-Palatinate – highlighted this fact.

*Dr. Georg Michels is Scientific Assistant at the ZEI Department "European Value Systems, Cultures and Languages".*

# The efficiency of the Euribor Futures Market

by Kerstin Bernoth

**Quotations on the Euribor Futures Market are based on speculations regarding developments in interest rates. A ZEI survey is aimed at demonstrating that these interest rate expectations are accurate predictors of actual interest rate development in the European Monetary Union.**

Financial markets are a crucial element of the transmission channel of the European Central Bank's (ECB) monetary policy, since expectations about future key interest rates, set by the central bank, determine market interest rates. So for an effective and smooth monetary policy implementation it is important that interest rate expectations are in accordance with the central bank's policy intention. The degree of interest rate predictability can therefore be seen as an indicator of the clarity of communication between the ECB and the financial markets and the effectiveness of monetary policy implementation.

One key market to be monitored in the analysis of the predictability of interest rates in the EMU is the Euribor interest rates futures market. The abbreviation Euribor stands for "European Interbank Offered Rate" and means the interest rates for euros which are traded between the banks. A futures contract generally refers to an agreement between two parties to exchange a particular good for a particular price at a future date. Thus, a futures contract is characterised by a time lag between the conclusion and the fulfilment of a contract. The three-month Euribor futures contract is an interest rate futures contract, and the subject of exchange is an interest-bearing asset with a maturity of three months. According to the efficient markets hypothesis (EMH), the Euribor futures rates serve as predictors of interest rate expectations in the case of risk-neutrality.

Up to now, no papers have been published investigating the degree to which the interest rate expectations as expressed by the Euribor futures rates are good predictors of actual future spot interest rates. By implementing an unbiasedness and efficiency test for the European 3-month

Euribor futures from December 1998 to March 2002, ZEI research aims at filling that gap. While in the previous literature this topic was only researched in a time series dimension, a panel approach enabling the use of all daily Euribor futures rates is applied as a novelty. The estimation results give evidence that the Euribor futures rates are unbiased and efficient predictors of future spot interest rates in the sense that they do not incorporate any risk premium and incorporate all available information given to the market (also compare the figures for a graphical illustration of the relationship between spot and futures interest rates). This result supports the view that the policy decisions of the ECB have been predictable on average, and by and large, the communication strategy with the market has worked surprisingly well for a relatively new institution.

## Predicting central bank policy

From the perspective that Euribor futures rates can be regarded as the market's expectation about future interest rates, one can also take a closer look at the extent to which money market participants predicted decisions of the Governing Council of the ECB. According to the efficient markets hypothesis, the three-month futures rate as a predictor of future three-month spot interest rate should only change from one day to the next if new information becomes available to money market participants which modifies their expectations about future interest rates. Thus, the volatility of the respective asset prices, i.e. their movement in

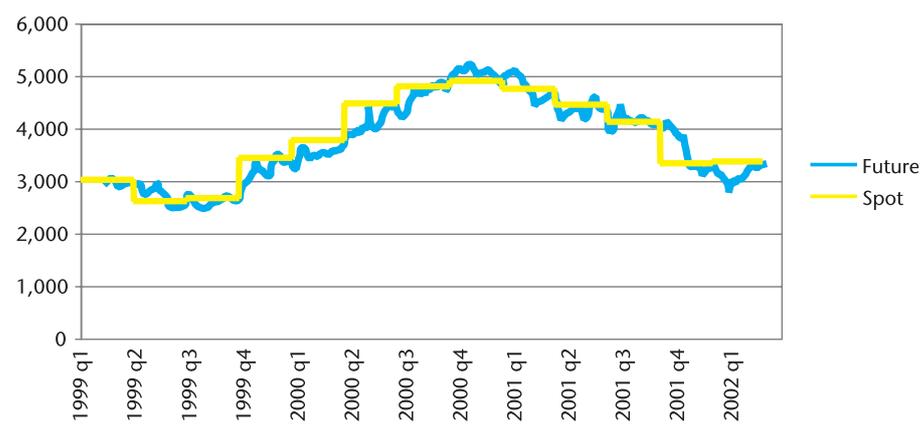
response to policy action, depends on the extent to which market participants were surprised by that action and were induced to revise their expectations regarding economic and political developments.

The analysis of the interday volatility of the futures rates provides evidence that the futures rates' average volatility is significantly higher on Governing Council meetings days than on non-Council Thursdays or any other day of the week. Additionally, the Governing Council meetings are found to have a higher informational content on average than e.g. the release of information published by the Monthly Bulletin. However, a closer look at the futures rates changes on Governing Council days shows that while some ECB policy decisions were anticipated correctly by the money market participants, some other decisions came as a surprise.

One can conclude that the unbiasedness and efficiency of the Euribor futures rates reflect that the transmission process of the ECB's monetary policy is working well. The market participants understand the policy decisions of the Central Bank and are, on average, able to predict them accurately. But nevertheless, one can observe that some Governing Council decisions may cause surprises, leading market participants to revise their interest rate forecasts expressed by the futures rates.

*Kerstin Bernoth is Junior Fellow at the "Economic and Social Issues" Department of ZEI.*

**The relationship between Spot and Futures Interest Rates**



# European migration – challenges and opportunities

by Uta Friederich, Nicole Groß and Jared Sonnicksen

On June 25<sup>th</sup>, 2002, ZEI hosted a seminar on “Migration in the EU” for 25 American academics. The presentation and subsequent discussion were part of the annual summer seminar on “International Migration and National Identities” sponsored by the Fulbright Commission in Germany.

To begin, the seminar participants were introduced to ZEI’s general activities and latest publications by Dr. Peter Zervakis, Senior Research Fellow. Following the introduction, Zervakis indicated the insufficient level of research on the implications of foreigner and migration issues for political parties in Germany and France. He then referred to the research project being developed by ZEI and the Paris-based Institute Centre Interdisciplinaire de la Recherche Comparative en Sciences Sociales.

These two institutes will address the significance of the above issues for political parties comparing Germany and France, and with a fresh look at the emerging European

“multicultural” society. Consequently, the project seeks to examine institutional-organisational issues of the Europeanisation process of national parties as well as how parties address cross-border problems such as the integration of migrants. For both countries, the integration of migrants and the presence of ethnic minorities represent issues of high political and cultural relevance.

At the seminar, the differences, similarities, and problems in migration and integration policy were delineated through comparisons between Germany and France. “Germany is not an immigration country” – such wishful thinking among numerous German politicians no longer coincides with the current political situation because Germany is a new kind of immigration country. The debate surrounding the Immigration Law recently passed by the German Government reflects the polarisation of the foreigner issue.

In contrast, France has a long tradition as an immigration country. For mainly economic and demographic reasons, it has pursued an active immigration policy since the 19<sup>th</sup> century, which has forced the French

government to deal with the integration of the permanently settled migrants. Accordingly, discussions continued on citizenship laws in the two countries and the resulting difficulties of integrating foreigners.

The last presentation explored the impetus behind the Europeanisation of Migration Policy. It was maintained that peace and conflict resolution as well as prosperity signify the main reasons for integrating policy areas like immigration and asylum into the European Community level.

*Uta Friederich, University of Passau, and Nicole Groß, Bonn University, were interns in the Research Group “Institutional Development in Europe” at the ZEI Department “European Value Systems, Cultures and Languages”.*

*Jared Sonnicksen is a US Fulbright Scholar from Indiana in this Research Group.*

## NEW PUBLICATIONS

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EU-/EG-Prozessrecht, 2nd edition, J.C.B. Mohr (Paul Siebeck) Verlag, Tübingen 2002, 557 pages, (ISBN: 3-16-147884-3).

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# How should the European Union be governed?

by Marcus Höreth

**The EU Constitutional Convention, which has been meeting since March 2002, is gathering momentum. A provisional draft of a constitutional agreement that the president of the convention, Giscard d'Estaing, presented towards the end of October already more or less defines the shape of the future European Constitution.**

One particularly controversial topic is how the future Union is to be governed and which form of European Presidency would be most promising. As has been the case so often in European history, this conflict has flared up between the advocates of a European policy oriented more on an inter-state basis and those "integrationists" who are campaigning for a higher status for supranational institutions.

The so-called "ABC proposal", which is being supported by the heads of governments of Spain, the United Kingdom and France, will probably fail to assert itself. The notion of a European President vested with far-reaching powers who is appointed by the EU heads of state and government has met with rejection among both the small states of the European Union and the integrationists.

Above all, there are fears that the Commission President would be marginalised alongside such a powerful European President, and the Commission would once and for all be degraded to a mere secretariat of the Council, with the right of initiative on the part of the Commission being undermined.

## ZEI represented in Brussels

This is why the Commission has proposed that its President be elected by the European Parliament and the Council comprising the heads of states and governments. According to this model, both chambers would have the right to pass a vote of non-confidence in the Commission. Although an EU President oriented solely on an inter-state basis would be ruled out with this arrangement, only few can imagine what would happen if one of the Commission chambers were to withdraw its confidence in the Commission with the other Chamber remaining perfectly satisfied with the government.

Here, most of the Convention members clearly favour the notion of the Danish Government's delegate to the Convention, Henning Christophersen, which they also believe is far more realistic. Christophersen suggests that in future, a committee comprising representatives of the European Parliament and the

delegates of the people from the individual EU Member States elect the President of the European Commission. However, it would be solely the right of the European Parliament to table a motion of non-confidence.

Many expect that such an arrangement would not only ensure better democratic legitimisation but that it would allow for more independence on the part of the European Commission as a European motor of integration as well. What also speaks in favour of this proposal is that a balance would be maintained between the three central institutions of the Council, Parliament and the Commission.

Whatever the outcome of this interesting conflict may eventually be, ZEI is keen to follow further developments. As part of EPIN (European Policy Institutes Network), ZEI, represented by Dr. Marcus Höreth, is going to meet members of the Convention and international experts on Europe in Brussels on a regular basis. Thus, EPIN is not only pursuing the goal of always being in touch with the latest developments in the Convention negotiations, but it can also influence leading representatives of the Convention with sound expertise.

*Dr. Marcus Höreth is a Scientific Assistant at ZEI's Department for "European Value Systems, Cultures and Languages".*

## Regional interests and the European Constitution

by Thorsten Zimmermann

**In co-operation with the North Rhine-Westphalian Land Mission, ZEI organised a workshop on "Europe's Regions in the Laeken process – real players or mere spectators?" on 14<sup>th</sup> November 2002. About 70 guests participated in the discussion chaired by Director Ludger Kühnhardt of ZEI.**

Folker Schreiber, host and director of the Representation of North Rhine-Westphalia to the European Union, already expressed his central message to the conference in his opening remarks: A successful progress of European Integration would only be possible if regional interests were more intensely considered in the European structure of institutions.

Key questions included the future role of the Committee of the Region (CoR) in the European decision-making system, the arrangement of the principle of subsidiarity as well as the influence of the so-called constitutional regions in the Laeken process.

Alain Lamassoure firmly rejected the idea that a future European Constitution

could regulate the territorial order of the Member States. From the point of view of the representative of the European Parliament to the European Convention, the CoR is an institutionalised representation of regional interests which is not sufficiently democratically legitimated and should not be vested with more competences.

In the European Treaties the competences of the regions should remain limited to questions of Regional policy. The Member States should phrase individually if and to which of their regions they grant the right to appeal to the European Court of Justice. As Representative of the German Federal Parliament and as Member of the Working Group I on the Principle of Subsidiarity, Prof. Dr. Jürgen Meyer emphasised the importance of this concept. He called for its inclusion in a future constitutional preamble. Monitoring its compliance would be of an essentially political nature and should be ensured by an early participation of national parliaments in the European legislative process as an "early warning system".

Moreover, the CoR, which still needs to be reformed, should have the right to refer a matter to the European Court of Justice in

case of violation of the principle of subsidiarity. The Court of Justice should basically receive responsibility for the ex post judicial review. Dr. Rüdiger Bandilla explained that the Regions within the Council were not "ignored, but invisible". The Representatives of Regional Governments were also considered as Representatives of their Member States. The EU was not entitled to directly influence questions of federal organisation.

The hon. Director General of the EU Council rejected a direct participation of the CoR in the legislative process because of its obviously heterogeneous composition. Dr. Marcus Höreth, senior fellow at ZEI, described the effort of the "constitutional" regions to influence the Convention's decisions in their sense. To Höreth, the CoR should not be considered a "third chamber" in the future European constitutional structure but should remain a purely consultative body with broadened juridical spheres of influence.

*Thorsten Zimmermann is a student at ZEI's Department for "European Value Systems, Cultures and Languages".*

# Regional labour markets in Eastern Europe: Adjustment in the course of integration

by Anna Iara

In the first years after 1989, economic developments in the Eastern European countries of the former Soviet block were investigated primarily with a focus on various aspects of transition. Meanwhile, researchers' interest has been turning towards the integration of these economies into the economic area of the EU. ZEI is participating in an international team of economic research institutes with the purpose of investigating the adjustment mechanisms of Central and Eastern European labour markets to demand and supply shocks as well as institutional changes from a regional perspective.

In order to evaluate likely developments after an EU accession of the Candidate Countries, a sound understanding of economic mechanisms in these countries is imperative. In particular, labour markets need to be better understood, given the political sensitivity of this topic. In August 2001, the three-year research project "Regional Labour Market Adjustment in the EU Accession Countries" was launched. The project is being funded by the European Commission's 5<sup>th</sup> Research Framework Programme.

## Macro- and microeconomic perspectives

Along with ZEI, the participant institutions from Germany are the German Institute for Economic Research (DIW), Berlin, and the Centre for European Economic Research (ZEW), Mannheim. From other countries, researchers from the University College London, the CPB Netherlands Bureau of Economic Policy Analysis in Den Haag, the Austrian Institute of Economic Research (WIFO) – which is the co-ordinating institution – in Vienna, and the Institute of Economics of the Hungarian Academy of Sciences, Budapest, are members of the project team.

The research project aims at analysing different adjustment mechanisms of regional labour markets in the EU Accession Countries to various shocks from a broad perspective which combines macro- and microeconomic approaches. The findings will be compared with respective structures in the current EU Member States. In particular, the focus of the research is on migration, changes in labour supply, and the adjustment of wages and of employment as means of balancing supply and demand in regional labour markets. Based on the findings, recommendations will be drawn for regional, migration and competition policy.

## The new German Länder as a test case

In the research setup, special concern is credited, first, to the relevant experiences in the new German Länder, since they constitute the only "test case" of the integration of an Eastern European state into the EU and, second, to Candidate Countries' regions bordering on EU Member States, since these are "model regions" setting an example of functional integration on a lower spatial scale.

By the end of September 2002, a workshop was organised by ZEI to discuss the preliminary results of the ongoing project research. External labour market experts were invited to discuss the presented papers, which ensured unprejudiced feedback. In the studies presented, various aspects of structural change, wage flexibility and internal migration in the EU Candidate Countries were addressed.

The main findings of the research are: (1) In the EU Accession Countries, structural change has effected different outcomes, depending on the extent of agricultural reforms. In the more advanced transition countries, de-industrialisation has been accompanied by the establishment of a services sector, while in other countries, it has implied re-agricultivation. Respective developments in the regions of South-Eastern EU Candidate Countries seem more strongly determined by regional characteristics than by the sectoral composition of the economy.

## Wages respond to unemployment

(2) Regional unemployment levels are persistent in EU Accession Countries. At the same time, there is evidence that wages are reacting flexibly to unemployment in the regions of these countries. (3) Internal migration in the Candidate Countries is modest and does not sizeably contribute to the reduction of regional differentials in wage levels and unemployment. Although internal migration is increasingly responsive to regional wage differentials, migration flows have been diminishing. This development has been driven by the reduction of 'autonomous' flows, i.e. migration independent of wage differentials.

Currently, the studies presented at the ZEI workshop are being revised. The presentation of the final versions is scheduled to take place in a follow-up workshop in Budapest in early spring 2003.

Two papers elaborated in the context of the project have already been published in the "ZEI Working Paper" series (nos. B23-2001 and B18-2002). Further information on the project is available from the project homepage (<http://accesslab.wifo.ac.at>). Here, the final versions of the studies will be put in for download too.

*Anna Iara is Junior Fellow at the ZEI Department "Economic and Social Issues".*

## PUBLICATIONS

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# Bioethical safety standards of the Council of Europe and the German view

by Daniela Beer  
und Christiane Busch

**So far, the Federal Republic of Germany has not joined the Council of Europe's Bioconvention, which stipulates the framework conditions to safeguard human dignity and human rights in the application area of modern biomedical science. The ZEI research group "European Pharmacy Law" has been commissioned by the Federal Ministry of Justice to establish common ground and differences in the German legal position.**

Owing to the rapid pace of developments in the field of biotechnology and biomedicine, there is an increasing requirement to have legal and ethical standards in place not only at national level. In the field of biotechnological research, research and the use of biotechnological methods on people or on human hereditary matter is of considerable significance with a view to human dignity and human individuality. For example, questions arise regarding the limits to interventions in the human genome or with respect to research on people unable to give their consent. Here, research results are not only of importance to a certain location but to the whole world. It is therefore desirable to develop uniform international standards for biosciences and create a basic consensus.

## Limits to interventions in the human genome

Following years of deliberations by a committee of experts appointed by the Council of Europe, the final version of the "Convention for the protection of human rights and dignity of the human being with regard to the application of biology and medicine: Convention on human rights and medicine" has been on hand since November 1996. The parties to the contract are re-

sponsible for the protection of the dignity and identity of all human beings and for guaranteeing integrity and the other basic rights and freedoms of "everyone" with a view to the application of biology and medicine. Additionally, each party to the contract is obliged to take the necessary measures in the framework of its regulations in force at national level to bring the Convention into effect. In terms of its contents, the agreement stipulates regulations governing consent to interventions in the area of health, in research projects, also in people unable to give consent, in data protection, in limits to interventions in the human genome, in protection for embryos and in organ transplantations.

## Friction between the Convention and comprehensive academic freedom

The Convention expressly only establishes minimum standards with regard to the areas it covers since it is not intended to be interpreted as limiting or restricting the opportunities of a party to the contract to guarantee protection reaching beyond this agreement with a view to biological and medical applications. Moreover, the agreement only stipulates framework conditions which can be added to and specified by supplementary protocols. The Convention came into force in December 1999, while the supplementary protocol on a ban on cloning became effective in March 2001.

The supplementary protocol on the transplantation of organs and tissue of human origin has been open for signature since January 2002. A draft supplementary protocol on biomedical research has been published. The Federal Republic of Germany has probably not joined the Convention and its protocols yet owing to the heated (and not always objective) debate in society. The use of imprecise legal terms and the

regulations on the genome and on research on people unable to give consent have been subject to particular criticism.

There is no overall codification in Germany that treats all questions related to biotechnology. There are merely individual regulations, e.g. in the Law on Embryo Protection, in the Medical Preparations Act, in the Medical Products Law and in the Transplantation Law. Critics regard the protection standards German law provides as higher than those guaranteed by the Convention and fear that ratifying the agreement would result in a lowering of German protection standards. Moreover, there is friction between the Convention and comprehensive academic freedom guaranteed in Germany by Article 5, Section 3 of the Basic Law.

In order to objectify the debate, the ZEI research group "European Pharmacy Law" has been commissioned by the Federal Ministry of Justice to take stock of German law in the Convention's areas of application. In particular, this is to result in determining the respective protection standards. A further target is to examine any requirements for amendments to German law and demonstrate corresponding options for action.

*Daniela Beer and Christiane Busch are academic assistants at ZEI's Department for Political, Legal and Institutional Issues.*

## IMPRINT

Zentrum für Europäische Integrationsforschung  
Center for European Integration Studies  
Rheinische Friedrich-Wilhelms-Universität Bonn  
Walter-Flex-Str. 3  
D - 53113 Bonn  
Germany

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Editorial staff:

Boris Hofmann, Franz-Josef Meiers, Ulrike Steiner,  
Brigitte Linden  
Telephone +49 (0)228/73-7249  
Fax +49 (0)228/73-5097  
E-Mail: [zei@uni-bonn.de](mailto:zei@uni-bonn.de)  
Internet: <http://www.zei.de>

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