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Negotiating the European Union's Dilemmas: Proposals on Governing Europe

by Nicoletta Pirozzi and Pier Domenico Tortola



ABSTRACT

This paper culminates and concludes the *Governing Europe* research project by presenting an overall assessment of the state of the European Union, and a set of prescriptions for the short and medium term, building on the analysis and findings of the individual contributions. The paper is organised around six main questions: first, how to construct a realistic and fruitful political narrative for the Union? Second, how to turn politicisation from a threat to an opportunity for integration? Third, how to best balance unity and diversity by means of differentiated integration? Fourth, how to consolidate the Eurozone both economically and institutionally? Fifth, how to change the EU's guiding economic paradigm? Finally, how to formulate a foreign policy that matches Europe's position in the world? For each of these themes the paper reflects on the main issues and dilemmas facing EU policy-makers, summarises the project's recommendations, and lists a number of actionable policy points.

*European Union | EU institutions | Democratic legitimacy | EU integration
| Eurozone crisis | Economic governance | CFSP | CSDP*

keywords

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Introduction

The first overall message emerging from this project is one of complexity. Complexity works on two levels: the first is within each theme. All of the problems dealt with in the individual papers defy simple solutions: for one thing, recipes to improve the European Union (in terms of, say, democracy, legitimacy, solidarity or effectiveness) diverge even among generally like-minded observers. For another, and at a deeper level, when applied to the hybrid and multi-level institutional form of the EU, each of the normative concepts listed above acquires more layers of ambiguity than elsewhere. For example, who are the primary subjects of democratic politics in a multi-level, post-national context? Who should the recipients of redistribution be when the available possibilities (say territories versus individuals) are conflicting? Opinions abound – hence policy complexity increases.

The second meaning of complexity is cross-theme. That the Union needs to change is by now a given. But the EU is a compound construction of numerous (moving) parts. Many of these are institutional – the main focus of this project – while others are political, economic, and social in nature. Working on any of these parts is bound to involve and affect others – sometimes upsetting carefully constructed political equilibria among stakeholders. It is difficult, for instance, to discuss the institutional theme of democracy in the EU without touching on the social questions of Europe's public sphere (or lack thereof), and the perception of the Union among voters. This in turn connects directly to the politico-economic issue of what sort of role the EU has, or should have, in the shaping of people's welfare. Similarly, questions pertaining to the EU's foreign policy can hardly be separated from, on the one hand, a discussion of its resources and budget, and on the other, the issue of the Union's evolving membership and borders.

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These are just a few examples of the interconnections, trade-offs and dilemmas with which the Union is faced in reordering its governance. In these times of crisis change is necessary (and, arguably, likely). The specific direction of such change, and ultimately the new arrangement among the Union's many parts, is however highly uncertain and will depend crucially on the emergence of capable "euroleaders" and their ability to make hard decisions. These are, for Europe, times for politics in its noblest sense.

This project has acknowledged much of the complexity described above by asking authors to tackle five broad and multi-faceted issues. This choice has paid off, giving rise to a set of well-informed and stimulating papers, which have competently tackled real issues the EU is facing. Here we want to push the exercise further and reflect on these questions from yet another angle, trying to sketch an agenda for politicians and policymakers, as well as other actors involved in the construction of the future EU, in the first place, intellectuals. In doing so, our goal will be threefold: 1) recap some of the papers' main points and recommendations, whenever these have emerged clearly; 2) integrate these recommendations with a number of additional policy points building on the project's contributions; 3) for the rest, highlight the main choices and dilemmas facing decision-makers in the months and years to come.

1. A new narrative – or a remix of traditional ones

The institutional crisis that Europe is undergoing poses both a tremendous risk and an equally big opportunity. Political fluidity and turmoil have opened a window for a big leap forward in the process of integration, at the same time as they have moved the unravelling of Europe into the realm of possibility – the Brexit referendum being a worrisome signal of that. Which way we will eventually go hinges on what direction will be politically more attractive to the peoples of the continent. This in turn will depend to a significant extent on the ideas and political narratives deployed on either side.

At times dismissed as a matter for rarefied academic discussions, the importance of a convincing narrative for the EU is now widely recognised in the scholarly sphere,¹ as well as the politico-institutional one.² An integration narrative should, more precisely, operate at two levels. In the first place, it should provide a fundamental *raison d'être* for the Union – a reason for the Member States to stick together. This point cannot be overstated, for unity should not be complacently taken for granted in the face of the Eurosceptic and populist challenge. Second, a narrative is needed to guide the reconfiguration of the EU's institutional and policy setup,

¹ See, for example, Maurizio Ferrera, "Solidarity in Europe after the Crisis", in *Constellations*, Vol. 21, No. 2 (June 2014), p. 222-238.

² See e.g. the initiative by the European Commission: *New Narrative for Europe*, <http://ec.europa.eu/culture/policy/new-narrative>.

which should derive from the Union's founding principles and always remain inextricably linked to them.

What, then, should this political narrative be? At one end of the spectrum there is what one might call the "national road": one based on a unifying political vision somewhat analogous to a "national identity" for the Union. While the analogy to the experience of the Nation State makes this idea, in a sense, conceptually straightforward, this road is clearly neither realistic nor politically convenient. For one thing, the EU could hardly compete in an ideational field still dominated by the State – and in a moment of resurgent nationalism, at that! For another, taking the national road would most likely end up backfiring by fomenting even more hostility than the Union already attracts.

What alternatives do we have? What emerges – both explicitly and implicitly – throughout the contributions to this project is a more pragmatic, functional and multi-faceted road, in which the traditional achievements of European integration are revamped into narratives on how the Union can tackle current challenges: peace and security vis-à-vis new geopolitical problems such as Russia's new expansionism and the challenge of migration, growth and competitiveness to thrive in the global economy; democracy, tolerance and secularism as a response to the challenges of ethnic and religious diversity; and welfare to make the economic system more fair and equitable.

This "multi-faceted narrative" has the advantage of adapting quite well to various institutional scenarios. It is consistent, first, with a federal-like view of the EU, which would incorporate a multi-faceted narrative as a way to "give something to everybody" according to their position in the integration project – ultimately being the foundational counterpart to the deal-making and consensual style that has characterised Europe all along. It also chimes with the alternative scenario, envisaged by Vivien Schmidt in her contribution, of an EU made of partly overlapping policy communities – each of which would, in this more radical view, be grounded on one or more components of the multiple narrative.³ Needless to say, the multiple narrative is also consistent with any solution in between these two, such as the one advocated by Giuseppe Martinico, of an asymmetric union with an "untouchable core of integration."⁴

Getting the EU's foundational narrative(s) right is crucial also because of the latter's downstream effects at the policy level. These effects can be summarised into two notions. First, clarifying the "division of benefits" in the Union – in other words, who gets what from remaining joined with the others – might make it easier to

³ Vivien A. Schmidt, "The New EU Governance: New Intergovernmentalism, New Supranationalism, and New Parliamentarism", in *IAI Working Papers*, No. 16|11 (May 2016), <http://www.iai.it/en/node/6311>.

⁴ Giuseppe Martinico, "A Multi-Speed EU? An Institutional and Legal Assessment", in *IAI Working Papers*, No. 15|48 (December 2015), p. 3, <http://www.iai.it/en/node/5704>.

solve some policy issues and political dilemmas. It may be argued, for example, that if voters in northern Euro Member States had a clearer perception of their countries' gains from the common currency, they might be less hostile to notions such as inter-State solidarity and risk-sharing. Similarly, the referendum debate on Brexit would probably have been quite different had the British public had a better understanding of how the country benefits from free movement rules.⁵

Second, once higher order goals are clearly set, decision-making at lower levels is arguably easier. Adapting Peter Hall's famous argument on policy-making orders, there is a chain going from the basic goals of the EU polity all the way down to the day-to-day instruments of policy-making, passing through the filter of policy paradigms (such as Ordoliberalism versus (neo)Keynesianism).⁶ It is important that clarity and agreement is reached – to the greatest extent possible – on each part of the chain, so that discussions on the next order down are easier and more fruitful. A lucid demonstration of this can be found in Eulalia Rubio's paper on the Eurozone budget, in which she spells out five scenarios and rationales for an expanded Eurozone budget.⁷ Her contribution not only shows the full complexity of an issue that is too often discussed superficially, but provides also a tangible example of the benefits of discussing exhaustively the objectives sought from a certain policy instrument, so as to shape it in a way that is most effective and politically sustainable.

Policy points

- Supranational actors – in the first place the EP, europarties and the Commission – should work for the promotion of a multi-faceted integration narrative, focusing on past and future achievements in four areas: 1) peace and security; 2) democracy and liberalism; 3) sustainable growth and competitiveness; 4) welfare and social justice.
- The European Council, Commission and EP should coordinate to revisit the strategic agenda of the Union, reformulating it around the four pillars above, and more importantly identifying for each pillar a small set of clear and widely "relatable" institutional/policy milestones for the next five to ten years.

⁵ Adrian Favell, "The UK has been one of the main beneficiaries from free movement of labour in the EU", in *EUROPP* blog, 1 July 2014, <http://wp.me/p2MmSR-7dq>.

⁶ Peter A. Hall, "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain", in *Comparative Politics*, Vol. 25, No. 3 (April 1993), p. 275-296.

⁷ Eulalia Rubio, "Federalising the Eurozone: Towards a True European Budget?", in *IAI Working Papers*, No. 15|50 (December 2015), <http://www.iai.it/en/node/5738>.

2. Politicisation: from threat to opportunity

Without a doubt, one of the most significant transformations undergone by the EU over the past few years has been its "politicisation," which we define here as the increased public salience of European matters and their consequent entry into the public sphere and politico-electoral debates throughout the continent. European integration has always had an ambiguous relationship with the notion of politicisation. Early integration scholars – most notably neofunctionalists⁸ – depicted politicisation in a positive light, as the culmination of integration and the correspondent transition of the European project from a predominantly technical to a "normal" political system. Yet today the politicisation of Europe is often attributed negative connotations, due to its "capture" by populist and Eurosceptic movements, whose political battles are characterised by a new nationalism (presented as the antidote to the EU's unaccountable technocracy), which is in turn often grounded on gross political simplifications, if not oversimplifications.

To be sure, neither of these two elements – nationalism and simplification – is pathological *per se*. Simplification is key to political messages, and the centralisation/autonomy debate is rather common in all compound systems. What is perverse in the politicisation of the EU is that this process has been taking place *only* in these terms. Jan-Werner Müller describes the problem very well:

[D]epoliticization is no longer a real option. The problem, however, is with the precise forms which politicization has taken so far. Many of the new conflicts have been framed as nation against nation – the very thing European integration was meant to prevent. At the same time, Brussels also gets the blame for everything that is going wrong, because both the Eurozone and the Schengen zone of open borders are inevitably associated with it. So, rather than having a meaningful debate about a future course that the EU might take, Europeans are getting upset with decisions made in national capitals and in Brussels itself.⁹

How can politicisation be turned into a virtuous process? This project has highlighted three closely interconnected solutions for policy-makers. The first is working for the promotion of a European public sphere and *demos*. The latter is, admittedly, a problematic concept in the EU context. While the Union will probably never have (nor, probably, should it) a *demos* comparable to national ones,¹⁰ there is a lot of truth in Fossum's claim that arguments against a European *demos* are often

⁸ See for all Ernst B. Haas, *The Uniting of Europe. Political, Social, and Economic Forces, 1950-1957*, London, Stevens, 1958.

⁹ Jan-Werner Müller, "The EU's Democratic Deficit and the Public Sphere", in *Current History*, Vol. 115, No. 779 (March 2016), p. 87.

¹⁰ On this see Jürgen Gerhards and Holger Lengfeld, *European Citizenship and Social Integration in the European Union*, London and New York, Routledge, 2015.

lazy.¹¹ The EU's *demos*, he notes, is an ongoing civic construct, the development of which depends greatly on the actions deployed at the political and institutional level to promote it. This implies not only a "democreative" role for EU institutions (in the first place the European Parliament, which represents the European citizenry most directly) but also the need for institutions, parties and societal actors to reinforce the European *demos* by promoting the expansion of Europe's public sphere, as both Schmidt and Enrico Calossi suggest in their papers.¹²

The second solution is the improvement of the channels allowing, in Fossum's words, "the EU system and [...] the integration process to connect properly to the citizens."¹³ While Schmidt is right in warning against underestimating the European Parliament's recent gains within the Union's institutional balance,¹⁴ the EU still has quite some way to go in terms of representation and accountability. The jury is still out on how to fix this problem. Some, including the EP itself, envisage a traditional federal road, in which strengthening democracy equals strengthening the supranational Parliament.¹⁵ Other analyses include scenarios for a stronger role of national parliaments in EU policy-making – as summarised by Fossum in his paper.¹⁶ Schmidt goes even further, by envisioning a redressing of the disconnect between policy and politics that plagues the EU also through the repatriation of some portions of the Union's policy processes.¹⁷ One prominent example is the European Semester, which could – she argues – be restructured to make the process more bottom-up and better tailored to each Member's needs and constraints.¹⁸

One thing these accounts – and especially the first – often underplay is the key role that factors other than formal-institutional ones play in making the EU more democratic. This is the case, most notably, with the EU's electoral and party systems. A number of actions could, taken together, contribute to the development a truly transnational party system, ordered primarily (though not only) along the left-right spectrum, and supported by cross-national societal mobilisation. Among these are the measures suggested by Calossi in his contribution, such as introducing pecuniary incentives for national parties to use europarty symbols

¹¹ John Erik Fossum, "Democracy and Legitimacy in the EU: Challenges and Options", in *IAI Working Papers*, No. 16|01 (February 2016), p. 4, <http://www.iai.it/en/node/5928>.

¹² Vivien A. Schmidt, "The New EU Governance", cit.; Enrico Calossi, "Towards European Electoral and Party Systems", in *IAI Working Papers*, No. 15|47 (December 2015), p. 4, <http://www.iai.it/en/node/5674>.

¹³ John Erik Fossum, "Democracy and Legitimacy in the EU", cit., p. 5.

¹⁴ Vivien A. Schmidt, "The New EU Governance", cit., p. 7.

¹⁵ Mercedes Bresso and Elmar Brok, *Working document on improving the functioning of the European Union building on the potential of the Lisbon Treaty* (PE 569.777v02-00), 30 October 2015, <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+COMPARG+PE-569.777+02+DOC+PDF+V0//EN>.

¹⁶ John Erik Fossum, "Democracy and Legitimacy in the EU", cit., p. 9-11.

¹⁷ Vivien A. Schmidt, "The New EU Governance", cit., p. 14.

¹⁸ *Ibid.*, p. 13.

on the ballot, the harmonisation of electoral systems (for instance by introducing the preferential vote everywhere), and the introduction of primary elections for the choice of candidates for the Commission presidency.¹⁹ The latter move would, as Johannes Müller Gómez and Wolfgang Wessels suggest in their paper, also contribute to the consolidation and effectiveness of the *Spitzenkandidaten* procedure experimented with in 2014, whose results in terms of electoral traction and ultimately democratisation have thus far been mixed.²⁰

The third and final solution for normalising the EU's politicisation is to simplify and streamline the structure and workings of the Union itself. The issue of simplification is too often underestimated, if not overlooked, in accounts of the democratic deficit. The argument is straightforward: the more the Union's remit expands and includes policy areas affecting the lives of citizens directly, the greater the efforts the EU must make in order to be comprehensible to the average citizen. This is true, in the first place, at the institutional level: the architecture of the European Union is, at the moment, overly complex and unintelligible. This calls for institutional streamlining, as hinted at by both Martinico and Fossum.²¹ The above argument, however, also holds for the EU's policies, which are often overly technical in character and unintelligible to citizens – and sometimes even experts! Tosato, for instance, mentions the case of the capital markets union.²² In a separate research project, Firat Cengiz has shown how the technical character and language of competition policy is detrimental not only to the participation of citizens, but also to the role of representative institutions in policy-making.²³

The danger, in leaving the EU as it is, is to reinforce the widespread perception of the Union as a distant and obscure entity. This will make it increasingly difficult for pro-European forces (most notably parties) to explain the benefits of integration, and for citizens to engage – let alone identify – with the EU. At the same time, it will constitute a permissive condition for populism to keep promoting a distorted image of Europe as the root of all evil, and instigate hatred towards this political project.

¹⁹ Enrico Calossi, "Towards European Electoral and Party Systems", cit., p. 13-18.

²⁰ Johannes Müller Gómez and Wolfgang Wessels, "The Spitzenkandidaten Procedure: Reflecting on the Future of an Electoral Experiment", in *IAI Working Papers*, No. 16|08 (March 2016), <http://www.iai.it/en/node/6072>.

²¹ See Giuseppe Martinico, "A Multi-Speed EU?", cit.; John Erik Fossum, "Democracy and Legitimacy in the EU", cit.

²² Gian Luigi Tosato, "How to Pursue a More Efficient and Legitimate European Economic Governance", in *IAI Working Papers*, No. 16|03 (February 2016), p. 12, <http://www.iai.it/en/node/6028>.

²³ Firat Cengiz, "The EU policymaking paradox: Citizen participation is a must, but the shaping of policies has become too technical", in *EUROPP* blog, 22 January 2016, <http://wp.me/p2MmSR-9vD>.

Policy points

- Supranational actors should work for the strengthening of a Europe-wide “imagined civic community” through: 1) educational initiatives (such as strengthening EU-focused civic education in primary and secondary school); 2) the promotion of EU-wide media (focusing particularly on the web); 3) the introduction of small yet highly tangible EU-wide instruments of individual solidarity (such as some form of unemployment scheme – see also section 5 below).
- The European Parliament should introduce strong financial incentives for national parties to use europarty symbols in EP elections.
- The *Spitzenkandidaten* process should be strengthened through the introduction of europarty primaries for the selection of presidential candidates.
- EU institutions should continue on the path of institutional streamlining, starting with some highly visible measures, for instance the merger of the Commission and European Council presidencies, and/or the merger of the European Council and the Council of the European Union.
- As for secondary legislation, an effort should be made to render EU business as intelligible to voters as possible, in the first place by reinforcing and systematising EU initiatives for the translation of legislation (including the one being discussed) into non-technical language. Further, and connected to the foregoing, the Union should prioritise legislation that has no national-level alternative, and which brings about visible benefits for the whole EU citizenry, in the spirit of subsidiarity.

3. Differentiated integration, but institutionally driven

Since its inception, the European integration process has been confronted with one crucial dilemma: how to turn its foundational principle, “unity in diversity,” into a functioning system of governance. Finding a solution has become even more challenging and compelling in light of two developments: enlargement, and in particular the 2004 “big bang” expansion that brought in ten new Members (primarily from eastern and central Europe), and the recent economic and financial crisis, which has exacerbated divisions among Member States and further differentiated national interests, thus creating new fragmentation patterns.

The debate was reignited in connection with the mounting pressure for, first, a possible exit of Greece from the Eurozone, due to its unsustainable debt, and more recently the decision of the UK to leave the EU, as a result of the June 2016 referendum. Brexit adds further dimensions to the discussion on differentiated integration: as pointed out by Funda Tekin in her paper, for the first time an

individual Member State is stepping down from the integration ladder (and the EU entirely), while in the past differentiated integration has always moved upwards by granting opting-out in exchange for abstention from vetoing the next step.²⁴ Coping with a shrinking membership would imply the renegotiation of a new settlement on the relationships between the former Members and the EU, making the differentiation scheme even more complex.

Many reform proposals have tried to answer these questions by putting forward different models of differentiated integration within the EU: "Europe à la carte," "multi-speed Europe," "variable geometry," "concentric circles."²⁵ It is possible to assume that differentiation has always existed in the EU, as witnessed by projects such as the Economic and Monetary Union and the Schengen area, and today represents one of the trademarks of European integration.²⁶ However, the concurring trends of widening, fragmentation and exiting have made this tool to manage heterogeneity within the EU more fragile and difficult to handle. The central issue is how to design a system of governance based on differentiation that would be resilient to disintegration tendencies, allowing, as the European Council put it, "those that want to deepen integration to move ahead, whilst respecting the rights of those which do not want to take such a course."²⁷

Our reflections pointed out flexibility and asymmetry as instruments of differentiated integration that are useful to guarantee unity without jeopardising the diversity that inspires the European project (according to Article 4.2 TEU).²⁸ On the one hand, it is possible to refer to a variety of factors that lead the EU to rely on asymmetry, including political cultures and traditions, social cleavages, territoriality, socio-economic factors, and democratic patterns.²⁹ On the other hand, the central assumption is that the flexibility ensured by asymmetry gives something more to the life of a political system only when the identity of this system is preserved.³⁰ Therefore, it implies the identification of a constitutional core of principles and values the respect of which renders asymmetry "sustainable."³¹

The more likely scenario has been identified by Fossum in the consolidation of the Eurozone as the hard core of a differentiated EU, where non-Eurozone members are institutionally attached to it.³² Brexit has reinforced the suitability of this model,

²⁴ Funda Tekin, "Bexit or no Brexit? Political and Institutional Implications of an EU without UK", in *IAI Working Papers*, No. 16|07 (March 2016), p. 6, <http://www.iai.it/en/node/6062>.

²⁵ Alexander C.-G. Stubb, "A Categorization of Differentiated Integration", in *Journal of Common Market Studies*, Vol. 34, No. 2 (June 1996), p. 283-295.

²⁶ Funda Tekin, "Bexit or no Brexit?", cit., p. 4.

²⁷ European Council, *European Council conclusions*, 18-19 February 2016 (EUCO 1/16), p. 9, <http://europa.eu/!kN97MC>.

²⁸ Giuseppe Martinico, "A Multi-Speed EU?", cit., p. 2.

²⁹ Ibid., p. 4.

³⁰ Ibid., p. 3.

³¹ Ibid., p. 5.

³² John Erik Fossum, "Democracy and Legitimacy in the EU", cit., p. 14.

but it might be problematic in a number of ways. In fact, there is no guarantee that it would work effectively, given the different policy preferences among Eurozone members, and deeper integration in one area could produce higher degrees of differentiation and even engender the risk of disintegration in other areas.³³ A more integrated system of governance leading to the completion of a fully-fledged Economic and Monetary Union seems to be the only way to ensure the resilience and effectiveness of the Eurozone.

As for other policy areas, Brexit might represent the starting point of more advanced forms of integration among those Member States that share the same objectives and are ready to achieve them in a cooperative framework. However, this bears the risk of generating a degree of complexity that would be extremely difficult to manage in a situation of weakness and instability for the Union. Therefore, supranational institutions should be entrusted with a strong managing and coordinating role of the various policy communities, while in any one of them a restricted group of Member States can take the leadership.³⁴ It should also be ensured that the various projects remain open to accession by all Member States and that the initiatives initially launched outside the scope of the Treaties can eventually be integrated in the *acquis communautaire*. Finally, the resilience of this model implies the need to design appropriate mechanisms through which Member States would be able to have their say across policy communities, even if the vote is restricted to participating Members.³⁵

Policy points

- The post-Brexit EU should develop through differentiated forms of integration that are anchored to its constitutional core of principles and values as listed in Article 2 TEU in order to make asymmetry sustainable.
- The governance of the Eurozone should be reinforced to ensure its resilience and effectiveness as the hard core of a differentiated EU (see section 4 below).
- Advanced integration projects should be promoted in key policy areas, such as security and defence (see section 6 below), coordinated by supranational institutions and guided by restricted groups of Member States in order to manage complexity and avoid fragmentation.
- The new path of differentiated integration might lead to the formation of a restricted group of Member States that take part in all the integration projects, thus configuring a sort of "super-core" entrusted with enhanced political initiative and coordination tasks.

³³ Vivien A. Schmidt, "The New EU Governance", cit., p. 11.

³⁴ Ibid., p. 12.

³⁵ Ibid.

- Various integration projects should remain open to accession and deliberation by all Member States and those initially launched outside the scope of the Treaties, like the Fiscal Compact and the ESM, should be integrated into the *acquis communautaire* to ensure democratic accountability and simplification.

4. Economic consolidation and politicisation of the Eurozone

The opinions of scholars, experts and policymakers on the impact of the economic and financial crisis on the EU institutional system in general and the Eurozone endurance in particular, widely differ, thus drawing extremely variegated potential paths for the years ahead.

In particular, analysts are divided between 1) *intergovernmentalists* according to which the economic and financial crisis has considerably strengthened the intergovernmental components of the EU's institutional system, with the European Council playing a central role (the so-called "Union Method"), through measures such as intergovernmental treaties (i.e. the Fiscal Compact) and bilateral bargains (notably between Germany and France, and Germany and Greece); and 2) *supranationalists*, which argue that the crisis has reinforced the supranational component of the Union, notably in the area of macroeconomic policy and banking regulation, in which the role of both the European Commission and the European Central Bank has been enhanced.³⁶ The one view shared by all is that the economic and financial crisis has weakened the EU's democratic legitimacy,³⁷ in particular as a consequence of the declining significance of the European Parliament and the co-decision mode of policy-making known as "Community Method."³⁸

Looking at the specific debate on the potentials of the post-crisis Eurozone, views are polarised between 1) the "gloomies," who predict the breakup of the Euro system due to the absence of a centralised economic government and the lack of will of Member States for a constitutionalised Eurozone; and 2) the "believers," which envisage the possibility that the present European economic governance might evolve towards a more legitimated and efficient structure.³⁹

Nevertheless, a reinforced Eurozone remains at the centre of all scenarios that forecast the survival of the EU's integration process, whether it is the hard core of a shrunken EU or the most advanced among overlapping policy communities within a broader Union. Four main dimensions can be identified in the process of consolidation and politicisation of the Eurozone:

³⁶ John Erik Fossum, "Democracy and Legitimacy in the EU", cit., p.16; Vivien A. Schmidt, "The New EU Governance", cit., p. 2.

³⁷ John Erik Fossum, "Democracy and Legitimacy in the EU", cit., p. 6.

³⁸ Vivien A. Schmidt, "The New EU Governance", cit., p. 2.

³⁹ Gian Luigi Tosato, "How to Pursue a More Efficient and Legitimate European Economic Governance", cit., p. 2-3.

1) *Integrated fiscal policies*: The response to the economic and financial crisis has significantly enhanced the powers of the EU's institutions to monitor national compliance with the Treaty's fiscal discipline,⁴⁰ while new monitoring tools have been introduced by the Six Pact, Two Pact and Fiscal Compact. According to the Presidents' reports (Four Presidents' Report of December 2012⁴¹ and Five Presidents' Report of June 2015⁴²), one leg of a genuine EMU is the Fiscal Union, which should eventually lead to the adoption of a common macroeconomic stabilisation function of the Eurozone in order to ensure an effective response to future shocks that cannot be managed at the national level alone.⁴³ In this regard, Rubio suggests two long-term options: the generalisation of Eurobonds, conceived as a buffer of mutually-guaranteed debt offered to Eurozone members not only in crisis situations, but also in normal times; or creating a Eurozone insolvency regime supported by a Eurozone debt redemption fund aimed at reducing the current public debt overhang of Eurozone members through its temporary mutualisation.⁴⁴

2) *Convergence of economic policies*: A fully fledged Economic Union entails the convergence of economic policies of Member States towards growth, employment and social cohesion objectives.⁴⁵ According to the Five Presidents' Report, if much can be achieved through the deepening of the Single Market and its completion in the energy, digital and capital sectors, a broad set of structural reforms must be adopted at national level.⁴⁶ Rubio argues that this might not be enough, as reforms and fiscal consolidation do not always go hand-in-hand, and there is a case for providing some budgetary support to weaker Eurozone economies.⁴⁷ This could be done either through a new instrument (such as the contractual arrangements proposed by Van Rompuy⁴⁸ or a new fund to channel investments in these countries as put forward by Delors or Enderlein and Pisani-Ferry⁴⁹), or through existing convergence instruments such as structural and cohesion funds, which would be less challenging but difficult to restrict to Eurozone countries only.⁵⁰

⁴⁰ Ibid.

⁴¹ Herman Van Rompuy et al., *Towards a Genuine Economic and Monetary Union*, 5 December 2012, http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134069.pdf.

⁴² Jean-Claude Juncker et al., *Completing Europe's Economic and Monetary Union*, 22 June 2015, https://ec.europa.eu/priorities/publications/five-presidents-report-completing-europeseconomic-and-monetary-union_en.

⁴³ Ibid., p. 14-15.

⁴⁴ Eulalia Rubio, "Federalising the Eurozone", cit., p. 6-7.

⁴⁵ Gian Luigi Tosato, "How to Pursue a More Efficient and Legitimate European Economic Governance", cit., p. 7.

⁴⁶ Ibid.

⁴⁷ Eulalia Rubio, "Federalising the Eurozone", cit., p. 11-12.

⁴⁸ Herman Van Rompuy et al., *Towards a Genuine Economic and Monetary Union*, cit.

⁴⁹ Jacques Delors, "Rethinking the EMU and Making Greater Europe Positive Again", in Jacques Delors *Institute Tribune*, 28 June 2013, <http://www.delorsinstitute.eu/011-16329>; Henrik Enderlein and Jean Pisani-Ferry, *Reforms, Investment and Growth: An Agenda for France, Germany and Europe*, Report to Sigmar Gabriel and Emmanuel Macron, 27 November 2014, <http://www.bmwi.de/EN/Service/publications,did=675240.html>.

⁵⁰ Eulalia Rubio, "Federalising the Eurozone", cit., p. 11-12.

3) *Risk-sharing capacity*: The necessity of developing risk-sharing mechanisms in the Eurozone has gained ground and different options have been advanced. As reported by Fossum, the introduction of an intergovernmental insurance mechanism is the least challenging at a technical level, but is politically problematic since it would reinforce the vision of one country paying another instead of pooling resources for a common good. The second option is the creation of an EMU-wide unemployment scheme, which is politically appealing but requires significant efforts to harmonise labour market policies and limit moral hazard at the national level. The third idea is a re-insurance scheme for national unemployment interventions, which would support them if the unemployment rate reaches a certain level, much easier but with rather limited stabilisation effects. Finally, there is the long debated option to establish a fully-fledged Eurozone budget, which could have significant stabilisation effects and serve a number of other purposes.⁵¹ The latter is currently being considered by the high-level group on own resources (HLGOR), established in February 2014 and chaired by Mario Monti.

4) *Democratic (input and output) legitimacy*: A stronger and politicised Eurozone would also require a boost of the principles of representative democracy, based on the role of the European Parliament in the legislative developments of the EMU and the national Parliaments through their control on national governments, the respect of the subsidiarity principle and the approval of any extra-EU agreements.⁵² In addition, considerations on output democracy issues should be taken into account, particularly as regards the simplification of policies and the rationalisation of the institutional set-up of a consolidated Eurozone.⁵³

Policy points

- Reform the ESM governance through short term improvements, such as extending the use of qualified majority voting or harmonising parliamentary procedures or transferring powers to an inter-parliamentary committee based on Article 13 of the Fiscal Treaty. In the long-term, expand the size and functions of the ESM and eventually convert it into a European Monetary Fund.⁵⁴
- Complete the Banking Union by implementing the steps identified by the Five Presidents' Report.⁵⁵ In addition, strengthen macroprudential institutions at EU level, in particular by building on the European Systemic Risk Board and

⁵¹ John Erik Fossum, "Democracy and Legitimacy in the EU", cit., p. 7-6.

⁵² Gian Luigi Tosato, "How to Pursue a More Efficient and Legitimate European Economic Governance", cit., p. 9.

⁵³ Ibid., p. 12-13.

⁵⁴ Eulalia Rubio, "Federalising the Eurozone", cit., p. 6.

⁵⁵ Ibid., p. 11.

maximising its synergies with the ECB,⁵⁶ or expanding the macroprudential functions of the ECB, thus combining fiscal and monetary tasks in one single entity.

- Establish a strong Eurozone executive with discretionary powers, in charge of managing the Eurozone budget, supervising the implementation of fiscal rules and mobilising resources in exceptional circumstances. The most appropriate form for this executive would be a Eurozone treasury led by a “double hat” European Financial Minister, who would be backed by both Member States and the European Commission.⁵⁷
- Redefine the role of the European Parliament according to the model of governance in order to guarantee adequate democratic legitimacy, for example by envisaging various forms of involvement in the Eurozone's matters (i.e. through a specific parliamentary committee).⁵⁸
- Manage the relationship between Eurozone members and non-members by entrusting a strong coordination role by supranational institutions, namely the European Commission and the European Parliament.

5. A more Keynesian and social EU

Due to the economic and financial crisis, the sustainability of the European project has been threatened by the emergence of new forms of inequality and domination, the main divisions being between creditor and debtor States, and within debtor States.⁵⁹

The gap has widened between two opposing views on economics: Ordoliberalism, advocated mainly by Germany, and Keynesianism, more in line with the Latin economic approach.⁶⁰ The first view is based on the main assumption that private competition should be placed within a strong regulatory framework in order to create a stable monetary policy and avoid large public deficits. It has dominated the European economic and monetary policy from the 1997 Stability and Growth Pact, through which Member States agreed to strengthen the monitoring and coordination of national fiscal and economic policies to enforce the deficit and debt limits established by the Maastricht Treaty, to the Two Pact, Six Pact and Fiscal Compact between 2011 and 2013, which reinforced economic coordination between Member States and introduced new monitoring tools, including the

⁵⁶ Ibid., p. 12.

⁵⁷ Ibid., p. 15.

⁵⁸ John Erik Fossum, “Democracy and Legitimacy in the EU”, cit., p. 14.

⁵⁹ Ibid., p. 6.

⁶⁰ See for instance “Of Rules and Order”, in *The Economist*, No. 415 (9 May 2015), p. 21-22, <http://econ.st/1JSa0Uu>.

European Semester.

Moving from the assumption that ordoliberal solutions to the crisis have failed, alternative responses have been promoted mainly by the European Central Bank led by Mario Draghi through non-standard monetary policy measures, culminating in the 2015 Quantitative Easing aimed at stimulating the Eurozone's stagnating economy and preventing deflation (now raised to 80 billion euros a month from April 2017), and by the European Commission, which in 2015 issued guidance to encourage structural reforms and investment in support of jobs and growth. This points to the need to rethink the EU's economic paradigm into one that is more Keynesian, thus revamping the "European Social Model" as an inherent part of the integration project.⁶¹

In particular, two instruments can best fit the purpose to boost a Social Europe: the first, strategic investment, has already had its relevance acknowledged as well as the need to promote it through a more efficient use of the structural funds and through the opportunities offered by the Juncker plan, officially approved in June 2015 for mobilising investments (at least 315 billion euros in three years under the European Fund for Strategic Investments – EFSI). These opportunities should be further exploited particularly with a view to supporting investment in the real economy and creating an investment friendly environment centred on the Digital Single Market, the Energy Union and the Capital Markets Union.

The second is people-based social expenditure and programs, i.e. minimum unemployment benefits, minimum income, access to child care and basic health care, etc., and has also gained space in the political discourse as a pivotal element for realising the objectives of equality and solidarity listed in Article 2 TEU as two of the founding values of the Union, but its implementation is still struggling against considerations of financial backing and fiscal discipline. Reinforcing these two pillars in a strengthened Eurozone would give the EU the necessary tools for stabilisation and ensure also greater political legitimation. On the contrary, sacrificing social consensus, which relies on the principles of equality and prosperity, at the altar of technocratic solutions and austerity measures would pave the way for internal instability and be very dangerous for the European project.⁶²

Policy points

- Trigger a Europe-wide debate on a new EU economic paradigm, aiming at developing a strategic document based on key social rights – employment, housing, health, education, social protection and welfare – and objectives for the EU's responsibility, thus revamping the "European Social Model" as an

⁶¹ Sven Biscop, "Global and Operational: A New Strategy for EU Foreign and Security Policy", in *IAI Working Papers*, No. 15|27 (July 2015), p. 6, <http://www.iai.it/en/node/4459>.

⁶² *Ibid.*, p. 5.

inherent part of the integration project.

- Accelerate the pace of implementation and expand the Juncker plan, particularly with regard to strategic investment in the real economy and progress towards the creation of the Digital Single Market (the Boston Consulting Group estimates about 200 billion euros in investment in digital infrastructures needed, with a current gap of roughly 95 billion euros to reach the Agenda 2020 targets⁶³), the Energy Union (according to the European Commission, the objectives of energy efficiency gains – 20 per cent by 2020, and 27 euros by 2030 – need 108 billion euros per year, with a current gap of 38-54 billion euros per year⁶⁴) and the Capital Markets Union.
- Implement people-based social expenditure and programmes such as minimum unemployment benefits, minimum income, access to child care and basic health care to foster equality and prosperity (see also section 2 above).

6. Thinking and acting bigger on the world stage

Revamping the debate on the pre-eminence of values or interests as driving factors in EU foreign policy might be sterile and ultimately detrimental for a new narrative on the Europe's role in the world. Nevertheless, it is not without reason that some observers advocate that the EU build on its "internal egalitarian aspiration" to frame its external action.⁶⁵ Europe can regain influence at the global level by turning values it propagates into practice both domestically and in its foreign policy,⁶⁶ according to Article 21 TEU. Others have instead insisted on the need to develop a more strategic approach to international affairs, with a view to prioritising and making choices according to shared interests among EU constituencies. In the attempt to reconcile these opposing views, the new EU Global Strategy privileges the expression "principled pragmatism," referring to an external action that is based on a realistic assessment of the international environment as much as on the values and principles that constitute the connective tissue of the EU's identity.⁶⁷

In terms of the level of ambition, the EU's external action should be commensurate to its economic and commercial standing in world affairs and take a global dimension both geographically, with a strong regional focus on surrounding

⁶³ Wolfgang Bock et al., *Five Priorities for Achieving Europe's Digital Single Market*, A Boston Consulting Group (BCG) report for ETNO, October 2015, http://www.bcg.be/expertise_impact/PublicationDetails.aspx?id=tcm:103-198290.

⁶⁴ European Commission, *Mobilising investment for Europe's Energy Union*, updated 26 August 2015, <http://europa.eu/!XH43Bx>.

⁶⁵ Sven Biscop, "Global and Operational", cit., p. 3.

⁶⁶ Ibid., p. 5.

⁶⁷ High Representative of the Union, *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European's Union Foreign and Security Policy*, June 2016, p. 16, <http://europa.eu/!pr79yu>.

regions, and thematically, with a strong focus on security matters. The global breadth of the EU's external action needs to be turned into a "joined-up approach" among external policies, in particular between security and development, and between internal and external policies, to be more effective in addressing complex phenomena such as migration or hybrid threats such as terrorism.⁶⁸ Looking at the governance aspects, this means turning the peculiar architecture of the EU into a coherent framework for effective action among institutions – in particular among the European Commission and the European External Action Service, with a pivotal coordination role played by the High Representative for Foreign Affairs and Security Policy/Vice President of the European Commission (HR/VP) – and between institutions and Member States.

A serious reform of the EU's governance for foreign and security policy would require a Treaty reform, starting with the wider use of majority voting within the Council, an empowerment of the role of the Commission and the European Parliament, the creation of new common funding instruments for military capabilities and an improvement of the HR/VP mandate.⁶⁹ Whilst there seems to be no space nor political will among the 27 for such a serious reform in the short term, the integration process in this field could be kept alive by the initiative of a smaller group of Member States by exploiting the opportunities offered by the Lisbon Treaty.⁷⁰

The Lisbon Treaty has not exhausted its potential in foreign policy. At the institutional level, a number of innovations and actions can be realised without any Treaty change. In the security and defence sector, the Treaty opens the possibility of establishing Permanent Structured Cooperation (PESCO) for those Member States whose military capabilities fulfil higher criteria and which have made more binding commitments to one another in this area with a view to the most demanding missions (Article 42.6 TEU). In order to facilitate the establishment of Permanent Structured Cooperation, the Treaty introduces an exception to the unanimity rule and envisages the use of qualified majority voting both for the decision to launch Permanent Structured Cooperation, as well as to authorise or suspend the participation of Member States in pre-existing Permanent Structured Cooperation (Article 46 TEU).

The lack of operationalisation of this provision since the adoption of the Lisbon Treaty testifies to the difficulty of realising permanent schemes of differentiated integration in the field of security and defence. Nevertheless, PESCO can regain momentum in the current phase in which asymmetric threats are increasingly intertwined with traditional territorial challenges, as in the case of terrorist actions

⁶⁸ Ibid., p. 50.

⁶⁹ Lorenzo Vai, "How Will I Function When I Grow Up? The Effectiveness of EU Foreign Policy Governance Stuck in a Teleological Dilemma", in *IAI Working Papers*, No. 16|18 (July 2016), p. 16, <http://www.iai.it/en/node/6659>.

⁷⁰ Ibid., p. 17.

conducted by affiliates to international networks within the EU, and demand for coordinated responses in intelligence sharing and defence capabilities.

At the same time, expeditionary forces can be pulled together through different frameworks of cooperation without the structural character of PESCO, in order to accommodate different strategic interests and military capabilities among Member States, for example through the valorisation of other mechanisms included in the Lisbon Treaty that allow for a swifter and more rapid implementation of security and defence tasks. In particular, attention has been placed on the so-called "PESCO light," meaning the provision Article 44.1 TEU. It states that the Council of the EU may entrust the implementation of the Petersberg tasks to a group of Member States, which should be both willing and able to accomplish it, thus introducing a mechanism to facilitate the deployment and conduct of EU civilian and military missions to in order to protect the Union's values and serve its interests (Article 42.5 TEU).

Differentiation and flexibility, if not an institutionalised differentiated integration, might help the EU's foreign, security and defence policy to become more credible, more effective and more visible in world affairs.

Policy points

- Making the EU's international role commensurate to its economic and commercial standing in world affairs requires the implementation of a joined-up approach among (external and internal) policies and institutions.
- In the short term, the integration process in the Union's foreign and security policy should be kept alive through the political initiative of a smaller group of willing and able Member States.
- In the medium-long term, a Treaty reform should envisage the wider use of majority voting within the Council, an empowerment of the role of the Commission and the European Parliament, the creation of new common funding instruments for military capabilities and an improvement of the HR/VP mandate.
- Permanent Structured Cooperation (PESCO) should regain momentum to devise coordinated responses in intelligence sharing and defence capabilities.
- Expand the use of more flexible forms of enhanced cooperation, such as the provision of Article 44.1 TEU, which are best suited to accomplish tasks such as civilian and military missions abroad.

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