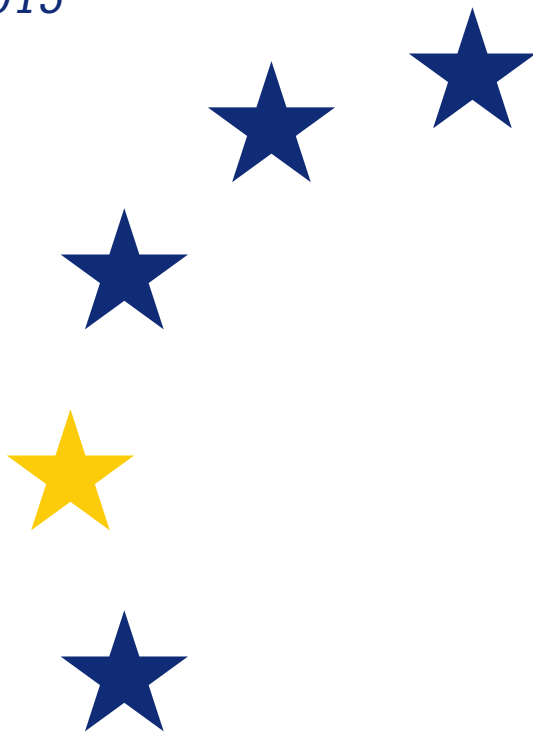


From the Eurozone to a “Euro Union”

*International workshop
Luxembourg
26 / 27 June 2015*



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Preface

I have a very clear – and to tell the truth, frustrating – recollection of an informal meeting with a few friends, which took place, if I remember correctly, towards the end of 2009.

Shaken like so many by the impact of the financial crisis on European banking institutions and by the repercussions on our countries' sovereign debt, we were quite quick to agree on the idea of implementing a mechanism for "pooling" – in full or in part – the portion of our countries' sovereign debt that was directly attributable to the financial crisis.

But, to my mind, this idea was nowhere near enough: it would undoubtedly result in a reduction in the cost of servicing the debt, but the so-called "real" economy would not be stimulated enough by it to ensure a satisfactory level of growth.

Rather abruptly, I put forward the idea, explaining it briefly, of the necessity of a new treaty for the euro area. All my friends, despite being staunch Europeans, instantly informed me some of their scepticism, other their disagreement. I filed the idea under "immature ideas" that must patiently await maturation or else slide into obscurity.

Sometime later, I happened by chance – in a leading French newspaper – on a stimulating text by a group of German intellectuals known as "Glienicker". The idea had suddenly re-emerged, and in such spectacular fashion!

Ever since, based on that, my convictions have become even stronger. They focus on three areas:

1. The euro area is the heart of the European Union. If it loses credibility, worse still, if it lags behind in terms of growth and solidarity, the whole European structure will falter;
2. The governance of the euro area must be established under the responsibility of a full-time president;
3. The organisation of a true parliamentary oversight within the euro area is an absolute necessity.

It was in order to move forward in these three areas that I asked the IED to organise an initial seminar, in collaboration with the Paris based think tank, Europanova, under the responsibility of its executive director, François Lafond. I would like to thank them for making the project a reality.

Gérard Deprez
Minister of State
Member of the European
Parliament
(September 2015)

The Institute of European Democrats (IED) - ASBL, established in 2007, is a non-profit association based in Brussels. The IED is an innovative European political and cultural research center that offers fresh political ideas as well as a strong and respected cultural background to the European Democratic Party (EDP) to which it is formally affiliated. Therefore, as a political foundation, the IED is recognised and funded (every year since its creation) by the European Parliament.

Its main goals are to promote a better understanding of the core aspects of the European integration process and to play an active role in strengthening the confidence of European citizens and furthering their understanding in the European Institutions and common policies, particularly in pursuit of the idea of a united Europe. According to these aims, the working programme of the IED is to promote a wide range of activities that include studies and analysis, workshops and public conferences. To put it into a nutshell, as a political think tank, the IED underpins and complements the objectives of the EDP by performing these tasks within 2 main pillars:

IED events:

In order to contribute to promote a political debate at the EU level, where alternative policies confront each other, thanks to a well-developed European-wide network, IED organises international conferences and seminars where politicians, experts, EU and national officials, academics as well as other stakeholders gather together, to discuss and share best practices and ideas. The IED promotes also training activities linked to European public policy issues addressed to youth organizations and other

representatives of civil society. Such events are mainly organised in EU Member States, in order to discuss concrete issues closer to EU citizens and closer to EDP member organisations. This is also the best way to contribute to the national debates with a European perspective ensured by the international dimension of the events. IED events take place also in Brussels and the Institute promotes and maintains an extra-European network of academic and political contacts, to be able to focus on EU relations with key global areas and policies. Developing cooperation to promote democratic principles, including in third countries, is also an opportunity to keep an international background of the current discussions.

IED research activities:

IED also delivers policy papers and publishes studies thanks to its research fellows and through external projects. In all its activities, the Institute of European Democrats operates in connection with other European and international Foundations, Universities and Centers of Research, European and national Institutions.

IED's structure:

The Institute of European Democrats is headed by a Board of Directors representing nationalities from different European member states. The President of the Board is Jean-Claude Casanova, French academic and economist, President of the foundation of Sciences Politiques, as well as founder and editor of the quarterly journal *Commentaire*.

The chief executive officer is Luca Bader, currently Italian foreign affairs official.

In addition to the board of directors a Scientific Committee consisting of eminent European and international personalities coming from the political, cultural, economic, and academic circles has been set up and contributes to the orientations of the activities and to organization of the events.

The programme of activities of the Institute is planned on a yearly basis in accordance with the EP annual grant, approved by its members represented in the statutory bodies, and then coordinated and implemented by the IED office in Brussels.

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About EuropaNova

EuropaNova was set up in 2003 by a few young Europeans who wanted to speed up progress towards a Europe that is more democratic and better economically and socially integrated. An Europe able to withstand crises, not tempted to withdraw into itself, and committed to an inclusive form of globalisation, which respects individuals and cultures, and concerned about the sustainable development of our planet.

EuropaNova's objective is to boost the necessary European spirit. For this reason, for over 10 years, *EuropaNova* has continually been developing concrete initiatives and actions aimed at mobilising citizens and informing them about European construction, and encouraging a direct dialogue between citizens and decision-makers. *EuropaNova* is present at all the major European milestones and organises projects to help citizens better understand European structures and participate in our events.

The three main cornerstones of our activities illustrate our goals:

- Encouraging public debate through the organisation of events, such as the “Conference Europa” (first held in October 2013, with 1,000 people over two days and some thirty non-French speakers), the « États Généraux de l'Europe » (first held in Lille in 2007 and, for the fifth time, in Paris in May 2014, in collaboration with the *European Movement*), and numerous thematic seminars in Paris, in the French cities and in European capitals;
- Developing two complementary set of activities aimed at young people: on the one hand, the ‘European Young Leaders’ (EYL) programme (set up in 2012 with the support of the European Commission and in cooperation with Friends of Europe); and, on the other hand, a series of political hearings with

scholars from the Paris suburbs on European topics and the simultaneous contribution from a French and an European Parliamentarians (in 2013-14 with the assistance of the French National Assembly and the European Parliament); and

- Disseminating thoughts and ideas on the European project, and the formulation of proposals or recommendations that feed into all our activities, through working groups that meet on a regular basis.

After being led by Guillaume Klossa for many years, Denis Simonneau has been the chair of EuropaNova since February 2015. Cédric Denis-Rémi, Cynthia Fleury, Sandro Gozi and Cédric Villani are vice-chairs.

François Lafond has been Executive Director since October 2013.

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Programme

International Reflection Seminar:
“From the Eurozone
to a ‘Euro Union’“

26 / 27 June 2015
Neumünster Abbey, Luxembourg

Day 1 / Friday 26th June

20:00 Dinner and official welcome

Day 2 / Saturday 27th June

08:45 Welcome remarks:
G rard Deprez (Minister of State and MEP)
Fran ois Lafond (Executive Director, EuropaNova)

09:00/10:45 **Session 1: The Eurozone: Diagnosis
of a dysfunctional zone?**

20mn Presentation by Xavier Timbeau (Prime director, French
Economic Observatory (OFCE))

15mn Comments: Jean Arthuis (Chair of the Committee on Budgets,
EP)

15mn Comments: Harry Theocharis (MP, Hellenic Parliament)
Moderation: Fran ois Lafond (Executive Director, EuropaNova)
Debate

11:15/13:30 **Session 2: A “Euro Union”: the path of reform?**

20mn Presentation by Sergio Fabbrini (Director, Luiss)

15mn Comments: Jean-Luc Sauron (Associate Professor,
University of Paris-Dauphine)

15mn Comments: David Martinez Garcia (Policy officer, Union of
European Federalists)
Moderation: Fran ois Lafond (Executive Director, EuropaNova)
Debate

Conclusive remarks: Philippe Maystadt (Minister of State,
former Deputy Prime Minister and Minister of Finance of
Belgium and former President of the EIB)

A high level reflection seminar untitled “From the Eurozone to a ‘Euro Union’” has been organized in Luxembourg the 26th and 27th of June 2015 by the Foundation Institute of European Democrats (IED) and by the Paris based think tank EuropaNova, on the initiative of Mr. Gérard Deprez, Minister of State and member of the European Parliament.

The fifteen participants of seven different nationalities have debated in all frankness of the current situation of the European integration process and in particular the Eurozone situation. Establishing a common diagnostic, they have also reflected on the best ways to reset the European project, being also informed in live about the Greek referendum announcement, by Harry Theocharis, member of the Greek Parliament, present at the seminar. The participants agreed on the necessity to set up a new “Convention” in charge of formulating precise answers to five propositions frequently debated.

The main idea is that a vigorous political initiative needs to be taken in order to revitalize and re-legitimize our unique collective project of the European integration. As necessary as it was sixty years ago, even more so, the participants consider that the numerous and difficult challenges our societies are facing can be handled only collectively, at the European level, in a framework that goes beyond the simple governmental cooperation.

Meanwhile, all participants were fully aware that to restore the credibility of the European institutions, it is necessary to go back to the citizens’ main concerns. Many of them demonstrate, also during the European elections, their deception and skepticism towards the European Union. Many of them fear the weakness of the economic growth in Europe, the high level of unemployment, especially for the young people, the uncontrolled migratory flux, the terrorist attack threats, the energy dependency, and the climate change. In front of so many challenges, Europe is not the problem! Europe is the solution, the

necessary level to implement the best solutions with the use of the subsidiarity principle.

For all the participants, the regeneration of the European project must start from the heart of the current EU, the Eurozone. The 19 Member States share already one essential sovereignty element, a single common currency. Furthermore, the economic and financial crisis have also led to strengthen the economic and budgetary coordination of the Eurozone's Member States, with the European semester procedure.

All concluded that it is necessary and urgent for the Eurozone governments to go even further in the economic and budgetary integration, since the other Member States of the EU may join the Euro union, provided all the terms and conditions are accepted.

In conclusion, the participants expressed their will that the European Parliament calls to a new open "Convention" to deepen the integration of the Eurozone, without having in a first step to modify the current treaties.

This Convention would have the mandate to provide answers to the five following proposals:

1. What parliamentary entity (committee of the EP of the 19 + members of the national parliaments?) would be suitable as a control authority and democratic legitimization of the Eurozone?
2. What President (even VP of the Commission?) capable of offering the necessary impulse and good representation of the Eurozone?

3. What budget or fiscal capacity for the Eurozone (from which available or new financial resources)?
4. What measures the Eurozone could undertake from this budget capacity in supplying some public goods, or to absorb asymmetric shocks?
5. What kind of institutional arrangement between these new bodies compared to the European Union as a whole?

Paris/Bruxelles, July 01, 2015



“From the Eurozone to a ‘Euro Union’” Workshop

26-27 June 2015, Luxembourg

Opening dinner

26 June 2015

« Summary of discussions »

Dinner presided over by:

Jean ARTHUIS, *Chair of the Committee on Budgets, European Parliament*

Moderation:

François LAFOND, *Executive Director, EuropaNova*

List of participants:

Angelo Federico ARCELLI, *Partner, Oliver Wyman, Milan*

Jean ARTHUIS, *Chair of the Committee on Budgets, European Parliament, Brussels*

Flaminia BAFFIGO, *Institute of European Democrats (IED), Rome*

Marie CRAMEZ, *Project Manager, EuropaNova, Paris*

Gérard DEPREZ, *Minister of State, Member of the European Parliament, Brussels*

Prof. Sergio FABBRINI, *Director, LUISS, Rome*

Dr Ulrike GUEROT, *Director, The European Democracy Lab, Berlin*

François LAFOND, *Executive Director, EuropaNova, Paris*

Philippe MAYSTADT, *Minister of State, former Belgian Deputy Prime Minister and Finance Minister and former President of the EIB, Brussels*

François PAULI, *Member of the Board of Directors, Institute of European Democrats (IED)*

Jean-Luc SAURON, *Associate Professor, University of Paris-Dauphine, Paris*

Dr Mihai SEBE, *Member of the Young Democrats for Europe, Bucharest*

Harry THEOCHARIS, *Member of the Greek Parliament (To Potami), Athens*

Dr Xavier TIMBEAU, *Principal Director, Observatoire français des conjonctures économiques (OFCE) [French Economic Observatory], Paris*

A Europe lacking in political governance

The initial observation made by the Chair, Jean Arthuis, «young MEP», to open the debate is directly rooted in his French parliamentary and ministerial experience of some thirty years. First and foremost, he observed that the setting up of a single market could not be left as it is, with different currencies. The euro has the distinctive feature of being a «currency without a State behind it». It was thought at the time that other integrated «policies» would follow its creation. In fact, the eurozone has not been governed for about 10 years. The aim of the establishment of the Eurogroup and the adoption of the Stability and Growth Pact was to outline the beginnings of coordination of the currency. Today, the eurozone is the most prosperous economic region in the world, but the euro has never really benefited from «political governance».

Moreover, the very unsatisfactory situation at the present time as regards the handling of migratory flows in Europe demonstrates a somewhat disquieting European Union if we cannot agree on welcoming 60,000 refugees over two years! The European Commission does not assume the role of a government, the Council still does not function optimally and the Parliament does not have a clear majority. To this should be added the fact that the EU does not have its own resources to be able to justify independent decision-making at the supranational level.

The consequence of all this is a Europe synonymous with standards and a governance that is more technocratic than political. Some people even think that the EU is in the hands of civil servants, of COREPER, even when it comes to major

Opening dinner 26 June 2015

« Summary of discussions »

decisions. It becomes difficult for European citizens to understand Europe and consequently to support it. The disappointment of Europeans can therefore be understood and this situation cannot continue.

The issue is obviously not new and several participants recognise that, despite numerous conferences, seminars and other meetings that enable European experts to consider solutions, things are not moving forward or only very slowly. It can be said that there is a lack of reform proposals within the EU to overcome this negative perception in the eyes of public opinion. Would it perhaps be desirable today to set up a more transparent institutional structure? To obtain real results in terms of the economy and in combating unemployment? To inject more democracy? Some people even advance the idea of a « European Republic » as a major proposition, with more systematic involvement of citizens. Above all, the EU must be capable of creating the best possible conditions to help Member States resolve our societies' key endemic problems, such as weak economic growth and unemployment. The arguments and statements of the EU are falling on deaf ears while those of extremists are increasingly gaining in popularity among Europeans faced with numerous difficulties.

Several participants emphasise, nonetheless, that Europeans' attachment to the EU — if it is intended to be deep and enduring — cannot subsist solely on the basis of results. The concept of « output legitimacy » has even been called into question by some speakers during discussions. For the time being, the situation is too uncertain and the EU too imperfect to be able to produce concrete benefits easily and visibly for citizens.

This is why the EU should focus its efforts on creating «input legitimacy». Two concrete measures would allow such an objective to be achieved:

- Firstly, the setting up of a Parliament in the eurozone (e.g. along the lines of an independent subcommittee within the current Parliament);
- Secondly, a «tax consolidation» system with the aim of overhauling budgets as much as possible, while also making Member States accountable for the management of their accounts.

In concrete terms, the Member States are independent in this regard, except in the case of urgent need. The statutes could provide for consultation with the Parliament in the eurozone in order to give a reasoned opinion on the budgetary position of the country in question. But, according to some people, this second proposal might pose a problem in terms of the balance of power.



The Greek crisis (1)

Situation to date

According to one participant, « Greece's experience of the crisis » is relevant to the European project. Especially as it did not appear only in the last few years, but as early as the beginning of the 2000s. Greek economic growth was positive for a long time, boosted by public investment and EU structural funds. The prosperity observed was consequently also attributable to an overly optimistic perception of the markets rather than actual wealth generation.

As the crisis took hold, the markets lost confidence in the performance of the Greek economy and since 2010 Greece has not been able to raise funds on the markets. It was at this point that it turned to its partners and the International Monetary Fund (IMF). The Eurogroup has started to take control of the Greek situation but without adequate support or any standard from which to work. There are serious shortcomings in the public sector, particularly the parties' stranglehold over the system, with nepotism being common practice. The political class and recent governments have been unable to make choices that could have modified the Greek economy and its «production model».

Today, according to one of the participants, the optimal solution for getting out of the crisis would be to set up a «reformist» government capable of restoring confidence within Europe. A road map should be adopted, which would be to have the Greek debt taken over by the European Stability Mechanism (ESM), but with zero interest for five years (to avoid the argument that reforms are carried out solely to pay back lenders).

At the same time, a programme of structural reforms should be rolled out (including that of the public sector whereby the influence of political parties and corruption must be stamped out) and the benefits of growth (once rebound) earmarked in the years ahead for repayment of creditors.

One of the ideas put forward concerning the assistance provided to Greece would be to have the EU support the country more effectively by contributing directly to controls at the porous Greek borders by offering logistical support to manage migratory flows.

For the moment, it is very difficult to predict whether Greece, represented by Alexis Tsipras, and the troika will reach an agreement, acceptable to both parties, to extend the bailout plan. The participants are unanimously of the view that an agreement is urgent and vital for Greece and for the eurozone, and the lack of an agreement amounts to setting up a process that could lead to a Grexit. Such a prospect would be a veritable political and economic catastrophe and would probably result in a loss of confidence in the eurozone, which could lead to less investment and possibly further exits from the eurozone. Furthermore, the irreversible nature of the EU and the eurozone would be undermined.

The Greek crisis (2)

Position of Angela Merkel, her party and German public opinion

German governance and its attitude towards the Greek issue are complex in that the Chancellor does not always share the same views as her Finance Minister, Wolfgang Schäuble. He adopts a much more radical stance while the Chancellor seems to be more aware of the challenges, being pragmatic and committed to preserving the eurozone as it was conceived, i.e. inclusive.

German public opinion is mostly in favour of a Grexit. The head of the BDI (Federation of German Industries) has stated that Greece's exit would be sustainable.

The Greek crisis (3)

Estimated cost of a Grexit

According to some participants, Greece's exit from the eurozone following a default would, in turn, result in major losses for the European Central Bank (ECB). Therefore, the ECB would be a victim of significant political tensions. Faced with another wavering of confidence and of the eurozone, how could the ECB not be criticised for its «bold activism»? Some people might reproach it for having somewhat overstepped its mandate. And who would become the political guarantor of the ECB capable of supporting it in the face of these attacks?

If Greece remains in the eurozone, it will eventually be necessary to reduce the value of the Greek debt, possibly to 100% of GNP, according to some people. The cost of a Grexit is estimated at 400-500 billion euros. Another participant, however, explained that the real problem with such a scenario will not be economic but political. The ECB's losses will be largely absorbed by the European system of central banks and first and foremost by the Bundesbank.

Assuming a reduction in debt, it is expected that significant political tensions will emerge within the eurozone with the countries that were bailed out by the troika but which were not able to benefit from a similar rescue.

The Greek crisis (4)

Indicator of the failings of the eurozone?

The participants agreed that the Greek crisis cannot be described as being solely an issue of debt or liquidity problems. It was emphasised that the discussions and negotiations have been limited to those subjects alone and did not allow any deeper consideration of the institutional and political causes of the crisis.

One of the participants called for France to be quicker in allying itself with the German Chancellor in order to defend the notion that the eurozone and the EU are partially responsible for the current Greek situation.

It was emphasised that, since its creation, the institutional construction of the eurozone has by nature been in a permanent state of imbalance between a decision-making body, the Council, which operates in intergovernmental mode, and the ECB, an independent, supranational institution.

To this should be added the lack of real political governance in the eurozone. A genuine political structure would limit the power balance and restore equality between the Member States. Today, for example, the Member States compete to welcome large US groups, such as Google, Amazon and Facebook, while citizens do not have a European project of which they can be proud and to which they can relate.

A perfect European monetary zone should be capable of managing the diversity of its members. One of the solutions that could lead to such a reality might be the « federal jump ». Yet some participants reject this solution, fearing that citizens are not ready for such a major change.

One of the participants attempted to outline a new «euro» treaty, the main characteristics of which would include establishing a common destiny underpinned by a highly «pragmatic» sense of solidarity: the Union would be formed because the Member States need each other. This treaty would also abolish the rule of unanimity and allow the EU to use its own resources.

Other participants reiterated the need to set up a parliament in the eurozone and change the ECB's status (i.e. it can reform itself other than by unanimity as is currently the case). Another participant introduced the example of US federalism (debts are an issue for the federated States, while growth is a matter at federal level) when some people noted bitterly that Europe no longer has the ability to plan for the future and merely ends up reacting to crises.

Workshop

27 June 2015

« Summary of discussions »

List of participants:

Jean ARTHUIS, *Chair of the Committee on Budgets, European Parliament, Brussels*

Flaminia BAFFIGO, *Institute of European Democrats (IED), Rome*

Marie CRAMEZ, *Project Manager, EuropaNova, Paris*

Gérard DEPREZ, *Minister of State, Member of the European Parliament, Brussels*

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Dr Xavier TIMBEAU, *Principal Director, Observatoire français des conjonctures économiques (OFCE) [French Economic Observatory], Paris*



Introductory remarks

«The aim of this seminar is to formalise four or five specific recommendations for strengthening the eurozone». It was with these words that François Lafond, Executive Director of EuropaNova, opened the seminar of exchanges devoted to the future of the eurozone. He stressed how difficult it is today for citizens to have a positive perception of the EU, when it seems incapable of creating economic growth and employment. And it is for that reason that he is convinced that what is needed is «more Europe», as the recovery must come from the eurozone. Participants were invited to consider what are the best means for reviving European integration.

First part:

« Eurozone »: diagnosis of a dysfunctional region?

Xavier Timbeau, Director of the Observatoire français des conjonctures économiques (OFCE), started his presentation by recalling the successes and stumbling blocks of the eurozone (annex 1). First of all, he went back to the origins of the economic crisis in 2007 and proposed a graphical comparison between the eurozone, the US and the UK. The hypothesis put forward is that the crisis may be similar for all three, with some minor differences. The eurozone is not in a worse situation than its partners in terms of growth and its economy started down the road of recovery in 2009. Then in 2011, while this modest positive trend continued in the US and the UK, the situation in the eurozone diverged. Employment is fairly similar in terms of trends. Inflation remains low in the eurozone compared with the US and the UK, which is not necessarily a good thing as in this way the debt will not « disappear ».

As regards the fourth indicator considered, the eurozone observed a rate of investment as a percentage of GNP that was higher until 2011 before falling thereafter. However, public debt was less in Europe than in the US or the UK because « *we care about our children* » according to the economist. In other words, despite appearances, Europe may be more preoccupied with the impact of debt on future generations than elsewhere.

Within the eurozone, public accounts started to diverge from the mid-2000s, commented Xavier Timbeau. The situation has even deteriorated year-on-year since 2007-08, « *which constitutes one of the factors of the crisis that we are experiencing* ».

But the trend reversed in 2010-11.

Competitiveness remains a major theme in the eurozone and divergences between Member States persist. « *There are a number of differences between countries* », continued Xavier Timbeau. Although some are faring better, others in contrast are on a downward spiral. The consequences in terms of costs therefore take on importance, especially in an area where solidarity is not clearly defined.

The speaker suggested considering the eurozone as an entity, particularly as regards the redistribution of wealth. « *The rise in inequalities in the eurozone is comparable to the rise in inequalities in the US* » in his view. « *The promise of an inclusive zone is no more guaranteed in the eurozone than in the US. (In other words), the eurozone does no better than the US* » in terms of combating inequalities. « *On average, the idea of convergence in terms of income per capita works in Europe, albeit at a slow pace. Yet since 2008, the poorest regions have not been advancing as quickly as the wealthiest regions. In other words, the convergence process has stopped and nothing that we have built, based on this premise, is working anymore* ».

Xavier Timbeau spoke of the outlook for the eurozone. If, in a « *positive* » scenario, signs of recovery are currently tangible, account needs to be taken of the fact that this will be insufficient as growth will not be high and strong enough for the unemployment rate to fall. Furthermore, pressure on salaries will persist: « *People will have a job which is precarious or they will have to accept part-time work* ». This will only make the inequalities grow.

« *In this crisis context, much has been done* », stated the OFCE Director. « *The ECB has been a major institution in Europe* », albeit non-democratic! In fact, although the EU sees itself as

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being «political», the institutional setup should be modified, especially as the tools for strengthening the eurozone are still fragile.

This is particularly true for the banking union which the OFCE Director criticises, considering that it is a tool «*without money*» and «*without a heritage*». The problems encountered by the banks will not be resolved by the banking union. «*Therefore, people understand that, despite calls to make these organisations more democratic, there is in fact no democratic process. It is the intergovernmental level that dominates*».

«*What system do we want to build?*», he asked, concluding his presentation by drawing a parallel between the debt and interest rate curves for each Member State of the eurozone. In the past, this parallel that he calls «*market discipline*» did not exist. However, when the Greek crisis started, «*market discipline*» had become a concrete principle imposed on all Member States of the eurozone, thus forming the link between debt and interest rates. His question was therefore: do we want to pit market discipline against debt? If we follow this logic, the markets will panic and some countries, such as Portugal, will struggle and return to the path of austerity, he warned. A vicious pattern will emerge, resulting in a country like France going into recession and plunging the continent into austerity.

«*If you do not want market discipline, you need the ECB (...) but if you want discipline without market discipline, you must invent something, non-market discipline for taxation*», said Xavier Timbeau. This is how the idea of «*tax capacity*» emerges, which would act as an instrument that is counter-cyclical to the market discipline imposed on Member States. The OFCE Director thought that this idea was hardly appropriate in that «*for it to work, you must accept transfers between Member*

States and no country is willing to agree to that».

A third way can however be considered: this is «*tax discipline*» imposed by certain democratic principles based on the idea that Member States have the right to scrutinise the budget of another Member State. «*You cannot resolve the problem simply via a common budget, (especially) as this is not so straightforward*», he thought as «*this requires considerable maturity*».

To finish, Xavier Timbeau returned to the idea of convergence: «*There are several types of convergence. If you seek to obtain total convergence (tax, social, etc.), you will encounter problems in terms of economic geography*», cautioned the economist. «*Who will pay for social security, schools or healthcare? The answer is simple: those people, who are productive in places that are productive. Consequently, those, who are not productive, will move to productive places to work. Are we capable of supporting this model? Certainly not!*»

In fact, total convergence presupposes full solidarity between Member States with significant transfers in terms of education, for example, and a high degree of personal mobility. «*But who will sign up for such an operation today in Europe? I can tell you that people born in Auvergne will not move to the Ruhr to work!*»

Following this first presentation, the debate opened with a participant recalling the circumstances surrounding the creation of the single currency. «*The Germans did not want to hear of an economic government and this is why the stability (and growth) pact was set up limiting the public deficit to 3% of GDP and requiring that public debt not to exceed 60% of GNP. The 3% rate corresponded to a balanced budget*». Before adopting the euro, the States argued for maintaining a minimum level of discipline as, when the deficit is too large, the markets immediately sanction

these States, which is exactly what happened when France devalued its national currency against the Deutschmark. A risk that has disappeared today with the introduction of the euro. Yet faced with some « lax » States, it became difficult to maintain this discipline in the Eurogroup. *« Adopting the same currency with very different countries — Greece on one side, France and Germany on the other was perceived as a provocation »*, he concluded. *« This was not a reasonable challenge »*.

It was later rapidly demonstrated that France and Germany did not respect the Stability Pact in 2003 and that we had subsequently been weak when faced with countries that had excessive deficits. The eurozone was therefore incapable of imposing the discipline it had created on itself. The loss of influence (prestige) of the States was the only punishment for not complying with the rules.

While posting excellent results to the outside world, the internal disparities between Member States became increasingly apparent and a number of countries did not undertake the necessary structural reforms. According to this speaker, it was necessary to improvise and the troika — a kind of « court administration » — was set up to « support » the countries with excessive debt. The speaker was surprised, however, by the ECB's presence in this troika as it goes against the ECB's Statutes. *« It cannot be independent and at the same time recommend reforms to the States »*, especially as, if these reforms fail, the States might be tempted to take the ECB to court!

Following the crisis, the heads of States and government met and realised that, depending on the countries, the principles of solidarity and responsibility did not have the same meaning with respect to the single market.

The same speaker then criticised the absence by the European Parliament (and by national parliaments) of any control over the running of the eurozone or over new institutions such as the European Stability Mechanism (ESM). « *We must get out of this situation* », he hammered home and the only way to do so is to model a fiscal union along the lines of that which prevailed in the US where the fiscal union (in which the federated entities share the debt burden) even preceded the monetary union.

« *We need leadership* », he continued, thinking it necessary that MEPs and national MPs meet, work together and set up a « democratic watchdog » in the eurozone in order to keep an eye on the instruments put in place, such as the European Stability Mechanism (ESM). « *We can have a eurozone Parliament* », he added.

Harry Theocharis, Greek MP and member of the centre-left « To Potami » party, then spoke. The participants had discovered only the previous evening, during the working dinner, that the Greeks were to vote, in a referendum, on the terms of the bailout plan proposed by the troika. Having set out the issues with regard to the referendum and briefly recalled the economic situation in his country, the parliamentarian criticised the process used by the Greek Prime Minister, Alexis Tsipras, who said that the referendum, to be held on 5 July, was the consequence of the blackmail of the Greek people by the European institutions. According to the Greek MP, the issue of the referendum actually centred on whether or not to keep Greece in the eurozone rather than on the terms of the new bailout plan negotiated with the troika, which, moreover, had not even been finalised.

He was worried about the potential consequences in the event of a « No » victory. Alexis Tsipras had, in his view, remained vague

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on this point. *«The government thinks it has control (over the situation) but in reality it does not!»,* he thought, betting on the fact that the European institutions would end up giving in when faced with demands from Athens.

«How do you assess the role of the Greek political parties? Are you able to exert a greater influence collectively and so offer an alternative to SYRIZA? Lastly, should Europe intervene in the Greek debate on the occasion of the referendum?», asked François Lafond. For Harry Theocharis, the three opposition parties (To Potami), New Democracy (Conservatives) and PASOK (Socialists) had already announced their support for the «yes» vote in the referendum, adding that a negative vote in the referendum should be considered, from a European point of view, as the desire to leave the eurozone.

Gérard Deprez, Belgian Minister of State, member of the Mouvement réformateur (Belgian French-speaking liberal party) and MEP from ADLE group, shared his impressions by returning first of all to the Greek crisis. For him, Alexis Tsipras was playing «poker» when he needed European financing to implement his programme.

«But what can be done to get Greece back on track?», he asked. *«And how do you get elected on the basis of a programme without having anything to finance the proposed measures?»,* he added in order to emphasise the difficult situation in which the Greek Prime Minister finds himself following his electoral campaign promises.

Gérard Deprez and Xavier Timbeau returned in particular to the notion of convergence within the eurozone. For the OFCE Director, *«this issue has never (even) been raised»*. *«Ask the*

question and find the people who will be interested in the subject!»

Several answers are feasible, according to Xavier Timbeau. «*We must invent a system in which we can implement different national contracts alongside each other*», while also guaranteeing competitive and fair dynamics, in order to avoid any unfair competition as regards social matters, as in the case of seconded workers, for example. «*In fact, within the eurozone, (the Member States) want to preserve their national systems, which is not possible!*»

Second part: **a « Euro Union »: the path of reform?**

The second part of the workshop focused on the responses to the eurozone crisis in terms of political and legal improvements.

Sergio Fabbrini, Director of Luiss in Rome, started his presentation with the observation that « *The European Union is a Union of States and citizens based on an inter-State division rather than on political divisions* ». This Union, he recalls, has been shaped by a series of fundamental compromises that must be understood if its current nature is, in turn, to be understood and also in order to guess how it will evolve:

- The compromise reached during the discussions on the Maastricht Treaty in 1992 between the Member States sharing an intergovernmental vision of Europe and those in favour of a supranational vision – a compromise that was confirmed by the Treaty of Lisbon;
- When setting up the Economic and Monetary Union between the Member States that accepted it (and consequently adopted the single currency) and those that have benefited from opt-out clauses (i.e. Denmark and the UK); and
- Within the Economic and Monetary Union, between supporters of centralisation, on the one hand, and those, on the other hand, in favour of decentralisation of economic and monetary policy.

Drawing on the results of his research, Sergio Fabbrini assessed the consequences of the eurozone crisis on the basis of these three basic compromises.

For the academic, the crisis calls them into question, just as it does the idea of maintaining two different and opposing visions for the EU within the same institutional framework. In the eurozone, three approaches are feasible:

- The economic community approach;
- The intergovernmental union approach;
- The parliamentary union approach.

«The crisis opens up several possibilities» he said and *«these are sufficient to answer the question about a political Europe»*. The debate is focusing, therefore, on how to reconcile the interests of Member States, which are only interested in the domestic market, with those wishing to deepen their integration in the eurozone. He also emphasised the significance of the domestic market, *«the greatest achievement of the European Union for 60 years»*.

He then came back to the three approaches, dealing with them in more detail.

In Maastricht, a crucial compromise was found between those who wanted a supranational constitution and those who only wanted a deepening of the domestic market. This compromise was found in the «Community method» for deepening the domestic market while, conversely, the other policies conducted were Europeanised on condition that the Member States could monitor and have direct control over them (economy, foreign

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affairs, defence and justice). *«From this perspective, the (national) government goes to Brussels and stays there! »*, which translates, however, into a predominance of the European Council at the expense of the European Commission. Based on this (French, in particular) viewpoint, legitimacy comes from national parliaments rather than the European Parliament, which explains why it is difficult to define this institution's role in the eurozone.

The intergovernmentalism is consequently explained by the power of the European Council, when it takes decisions on behalf of European citizens, decisions which also apply to the Economic and Monetary Union. For the Italian academic, *«this is an incredible mistake accepted by the political elite»*. *«With the institutionalisation of the intergovernmental union, it became possible to have more integration without necessarily going through the process of supranationalisation»*, continues Fabbrini.

The eurozone crisis does not seem to have strengthened the powers of the European Parliament, the European Court of Justice or, of course, the European Commission contrary to Jean Monnet's belief, who thought that the emergence and existence of a crisis would be to the advantage of the European institutions. The result is rather that the treaty on the European Financial Stabilisation Mechanism (EFSM) is intergovernmental in nature.

Furthermore, in an intergovernmental Europe, there is no distinction between legislative and executive, as neither is exercised by the European Parliament. These two powers have been vested in the European Council, which made Fabbrini say that *«Montesquieu has still not arrived in Brussels!»*. *«In fact, if you do not make the distinction, you will enter a kind of technocratic tyranny»*, he warned, as *«there is a mix of powers»* in this Europe.

The parliamentary union is the second alternative presented by Sergio Fabbrini. He explained that the Maastricht compromise maintains the domestic market policy organised by a supranational constitution. «*The constitutional policy is shared*» he stated, which presupposes «*sharing national sovereignties*». Such a view implies the establishment of a supranational parliament. Consequently, «*more integration calls for more supranationalism*». The main decision-making power shifts from the European Council to the European Parliament and European Commission, in view of the fact that the union is above all a citizens' union. In line with this, the «*spitzenkandidat*» (top candidate) procedure during the most recent elections to the European Parliament forms an integral part of this interpretation.

«*Any attempt to transform Brussels into Paris, London or Rome is insignificant*», thought Fabbrini. In other words, this system presupposes the reconciliation of the different political systems and divisions, which is often not straightforward. The Finnish Left is different from the Greek Left! Such homogenisation is therefore difficult to imagine.

Sergio Fabbrini rationally set out his doubts about a hypothetical alternative to an intergovernmental approach. Citing the current case in Germany, he is no longer certain that the parliamentary approach is still the model supported. This is also the positioning of countries, such as the UK, Sweden or Denmark, which are reluctant to increase political integration. The Maastricht compromise enabled them to develop opt-out clauses, whether for the single currency or in the areas of justice and home affairs. Thus, the eurozone must tackle the issue of Member States' diverging interests, «*the City's interests not being those of Greek citizens*», broadly speaking.

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As the intergovernmental approach is unilateral, Fabbrini pointed out an ongoing conflict between the European Parliament and the European Council. Hence, this predominance is also found in the Greek crisis at the expense of political division.

For him, a union without its own governmental representation is doomed to failure and *«we must find a way to maintain a balance between a Union of States and a Union of Citizens»*. *«We must create a political union around the single currency and build an original system to separate powers in order to make a distinction between executive and legislative. If we do not apply the Montesquieu principle, we will enter a phase of disintegration»*, he thought.

The notion of a «Federation of Nation States» could provide the necessary framework for reconciling both unions. A constitutional strategy would allow the open domestic market to be separated from a political union for the Member States of the eurozone. This is because the present system cannot continue. Irrespective of whether it is a «political compact», a «Euro Union» or any other solution, it will be necessary to establish a «constitutional differentiation», a «Democratic Federal Union» but not a «Federal State».

One participant observed that *«the mechanism needs to be reversed and, with this in mind, to be said that «Unity in diversity» is not enough. European citizens have things in common and without Europe, it would be McDonald's!»*, in his view. *«We must offer young citizens a proactive programme. We must leave this defensive attitude behind»* because Europeans have a *«common destiny»*. This translates in particular into a single currency. Talking only about «Unity in diversity» nurtures populism. Starting from the eurozone, it will be necessary to modify our internal working relationships and imagine that the European Commission will

become the eurozone government and MEPs in this eurozone will have an equal voice with the governments' chamber!

Another participant regretted that *«we do not do enough politics»*, since *«politics gives purpose and hope and makes people move from A to B»*. *«In fact, not only do we not know where B is, we are also continuing to hang round A!»* We should abandon the tripartite setup of «Parliament, Commission, Council», which is not working anymore and redefine the normative function of the Parliament.

«The Union has a dual constitutional nature» according to another participant, with an intergovernmental framework that has a low degree of integration based on common rules and coordination with little «European added value», on the one hand, and a supranational framework with high-level integration, on the other. He highlighted the rationalisation of the policies conducted at Community level and their extremely high costs. This rationalisation had, moreover, altered the relationships between the European Council and the national parliaments, particularly as regards economic policies.

Lastly, with regard to economic governance, he shared the idea that the current rules are insufficient, and picked up also the issue raised by Sergio Fabbrini, namely that there is no distinction between executive power and legislative power. In this context, he referred to the Union of European Federalists' proposal to concentrate executive power in a Eurogroup president and strengthen the powers of the Commission's Vice-President, as a first step towards a government of the Economic and Monetary Union, and so address the issue.

With regard to the financial autonomy of this Economic and Monetary Union, the initial conclusion is *«that an executive body*

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cannot be held accountable if it does not have the capacity to implement the policies it has decided». Therefore, the implementation of a budgetary policy for the eurozone would be an initial step towards strengthening both the European Commission's executive powers and the European Parliament (as legislative power).

Two models in the current legal framework can therefore be identified for such a move:

- Enlarging the current European budget by adding a new line dedicated to own resources. However, *« we think beyond the European budget if we want to find a solution for a eurozone budget »*, thought the researcher; and



- The existence of two intergovernmental fiscal capacity instruments, the European Stability Mechanism (ESM) and the European Development Fund (EDF), shows (supported by legal texts) that *«the Member States may create instruments outside the Community framework and integrate them later»* as confirmed by the judgments of the European Court of Justice.

How can this European budget be financed? For David Martinez Garcia, own resources are not a problem per se. In fact, the issue is one of political will rather than of subsidiarity. *«The actual problem»*, he explained, *«is knowing how to segregate what are considered as being the EU's own resources from the current contribution from the EU Member States in proportion to their GDP?»*

The current treaties only permit cosmetic solutions. Hence, we must go further and accept the EU's power to tax the goods it produces and directly collect taxes (and no longer only through an appropriation of the national budgets).

Budgetary supervision instruments could also be improved, particularly as part of what is known as the «European semester», even if *«this would provide only a few solutions»*, as the recommendations of the Commission and ECB are purely indicative. However, the «European semester» could be supplemented by a «proactive instrument» with a better medium to long-term macroeconomic convergence strategy.

«Eurozone governance could therefore be considerably improved» using the current treaties by *«a concentration of executive powers, greater involvement of the European Parliament and an increased fiscal and monetary autonomy of the EMU»*, said David Martinez Garcia in his closing remarks.

However, there are still four stumbling blocks:

- Lack of any strategic policy;
- Lack of harmonisation instrument (mainly for social policies);
- No common tax collection system (and EU unable to levy taxes); and
- EU unable to issue Eurobonds.

One participant took a more critical line, recalling that other systems and mechanisms have been devised in the eurozone, particularly the Stability and Growth Pact, which introduces budgetary discipline while also remaining within an intergovernmental framework.

Following a new exchange between participants, Philippe Maystadt, Minister of State, former Belgian Deputy Prime Minister and Finance Minister, and former President of the European Investment Bank (EIB) agreed to share his conclusions.

For the former president, there were five points to be mentioned, two of which enjoyed a consensus and three on which views were slightly more divergent:

The first element of the discussions is that they should be based on citizens' concerns. Europe must be a solution and not a problem, in terms of terrorism, energy and the environment. It is obvious to citizens that the Nation States cannot provide solutions on their own, which implies effective application of the subsidiarity principle.

The second focal point is that *« a clear distinction must be made between the eurozone and the rest »* of the common market. *« Some questions do not concern all of the twenty-eight Member*

States » and, for the former president, this distinction is necessary and must be made.

Views on three other considerations tend to diverge as regards how they could be realised.

Some participants seem more pragmatic as opposed to other, more idealistic participants. According to him, we should imagine a number of short-term concrete solutions, while also considering the long-term and more radical proposals requiring a change in the treaties, for example. Philippe Maystadt did not reject a change in the treaties after 2017 based on work initiated by the meeting of an open convention that could be organised by the European Parliament.

«We need a eurozone parliament. That is something we can defend!» noted the former Belgian minister. The modalities remain unknown, particularly within the European Parliament, as there is the issue of participation by MEPs from countries that have not adopted the single currency. In this respect, the former EIB President thought that a committee dedicated to the eurozone in the European Parliament could prove useful.

Lastly, consideration must be given to drawing up a budget for the eurozone that would meet four key objectives:

- Help Member States carry out their own structural reforms — an idea put forward by the former European Council President, Herman Van Rompuy, but rejected by a number of Member States;
- Permit a counter-cyclical role, if necessary, but this presupposes that the budget should be more substantial, which seems premature;
- A budget focused on certain public goods that are not provided satisfactorily by the Member States (Energy Union); and
- Help absorb the asymmetric shocks in certain circumstances.







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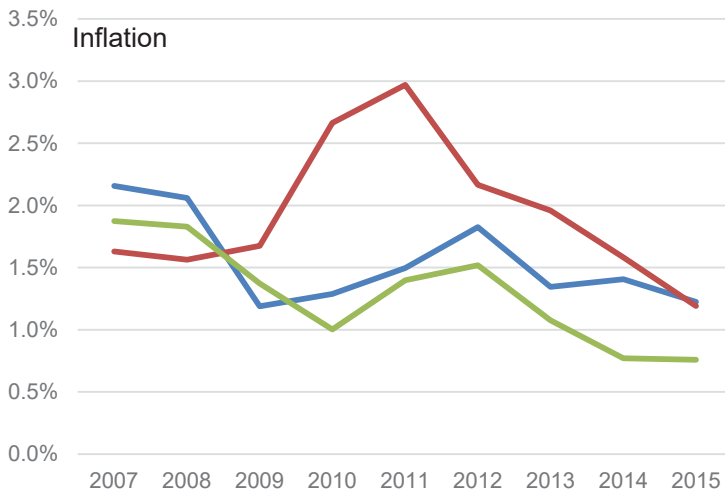
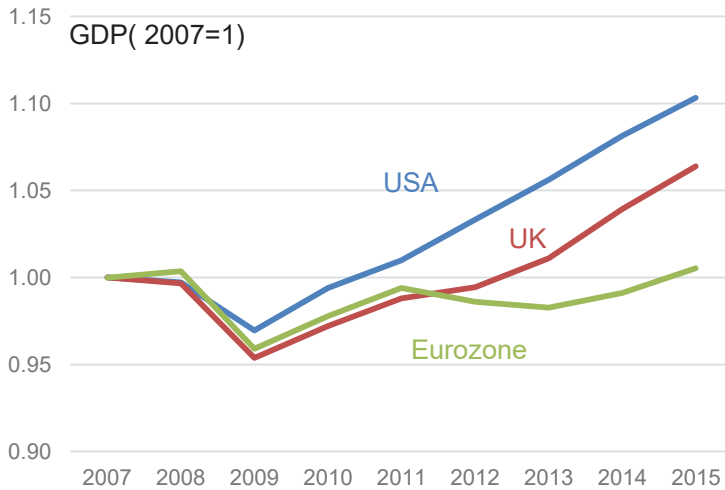
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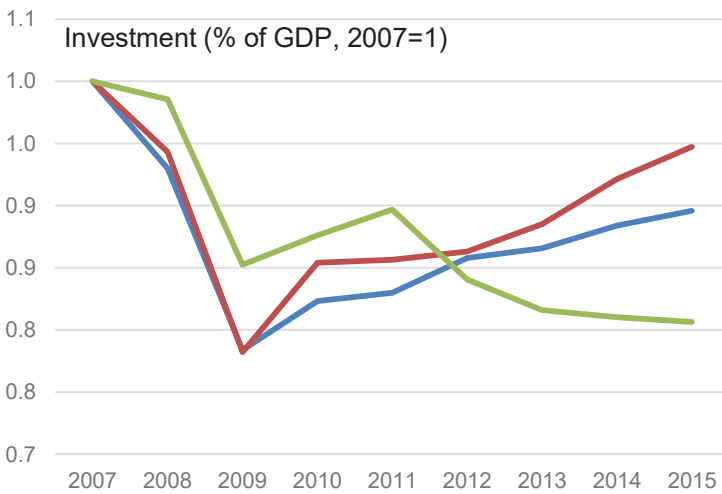
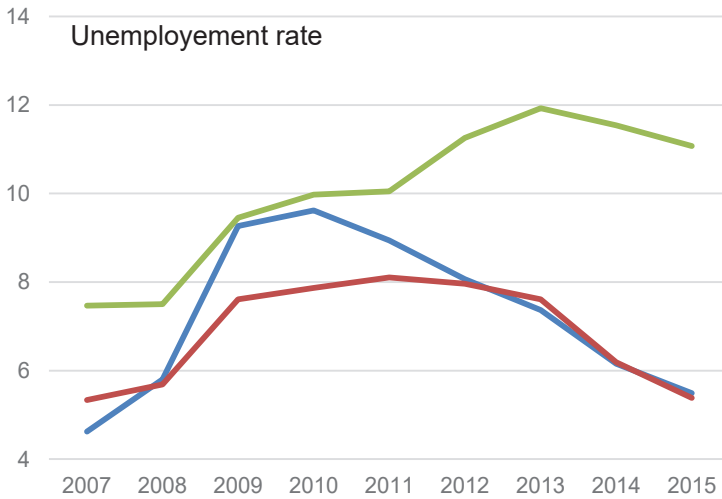
Annexe 1

The Eurozone: diagnosis for a dysfunctional eurozone

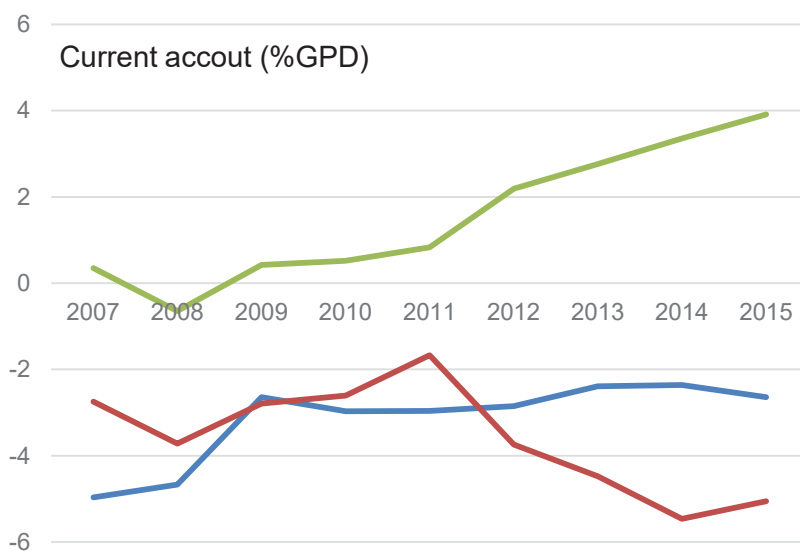
Xavier Timbeau, OFCE

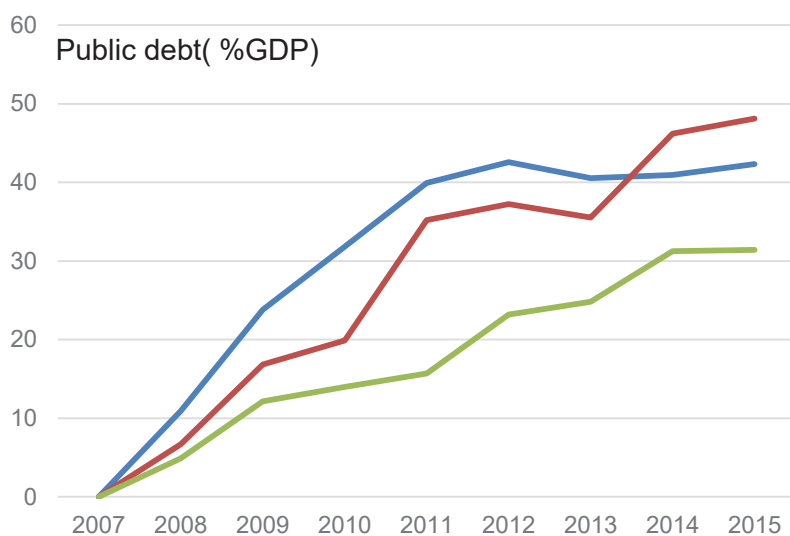
Since 2007 outcomes are not good



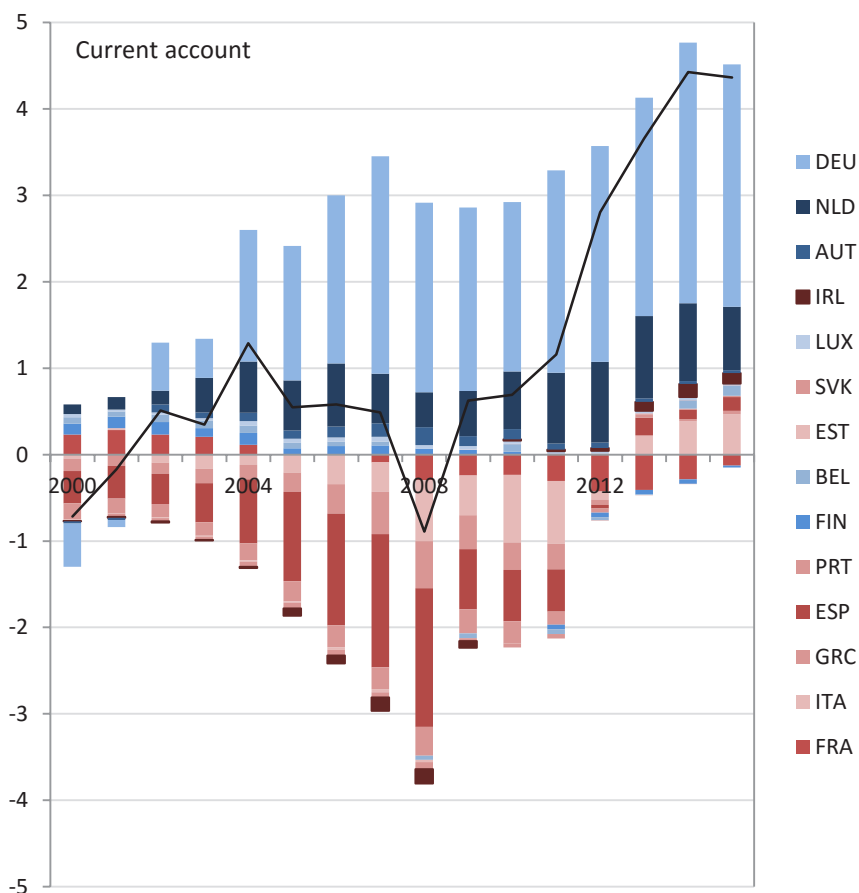


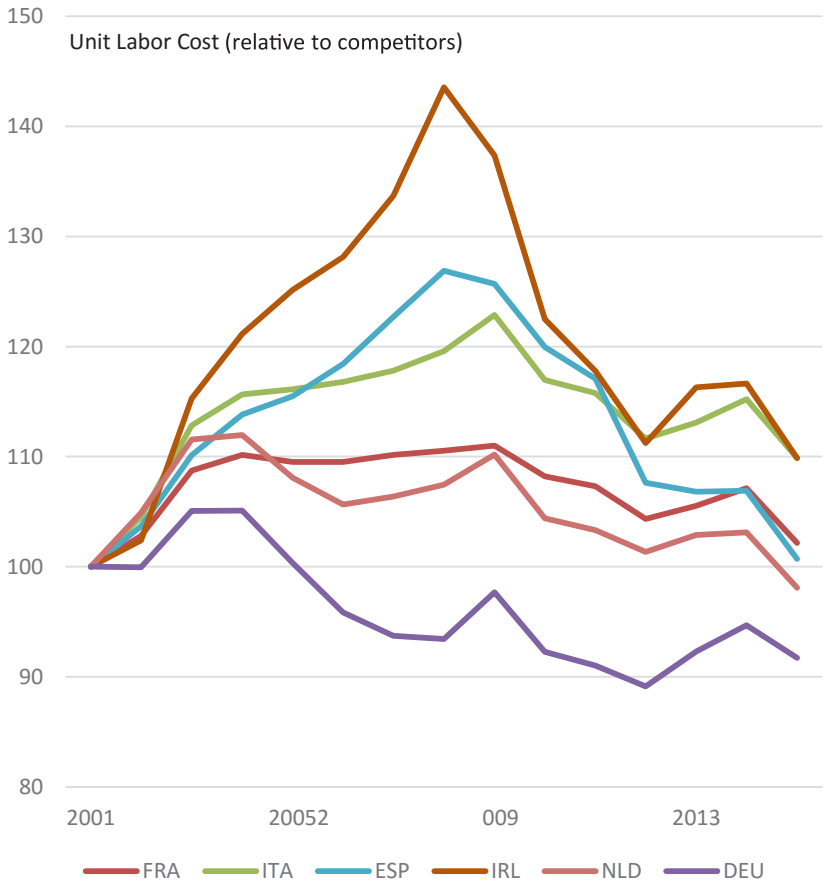
Two positive indicators (are they ?)





On going divergence





Social indicators are a disaster in some countries

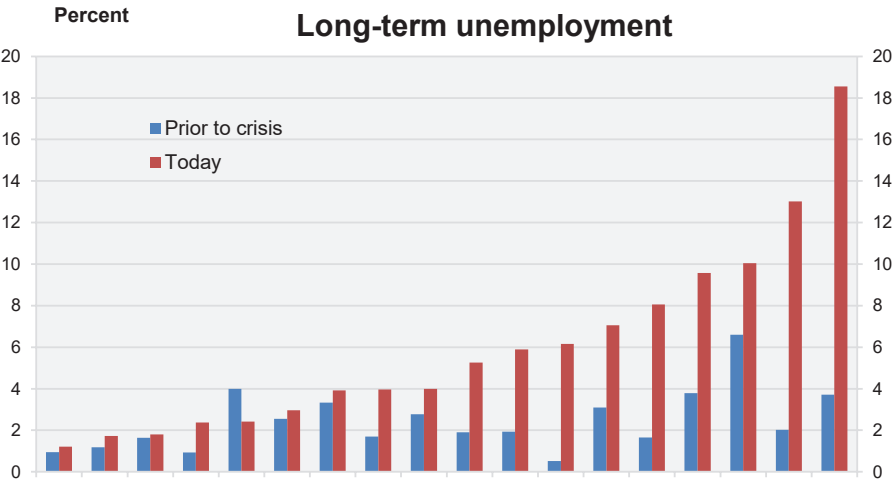
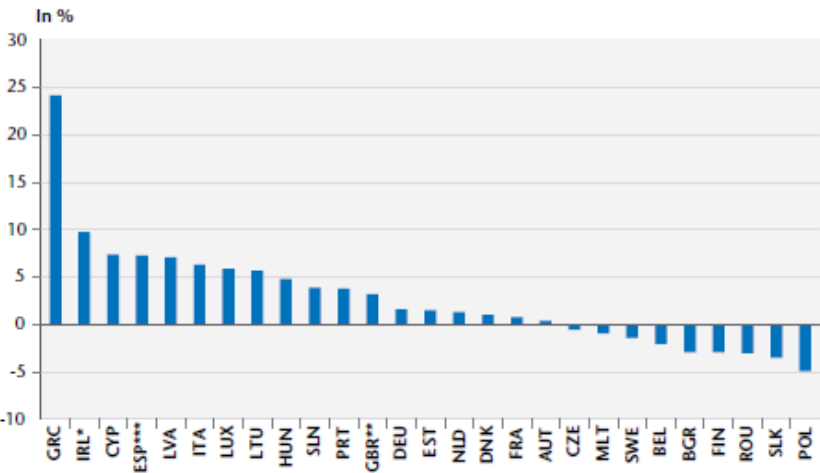
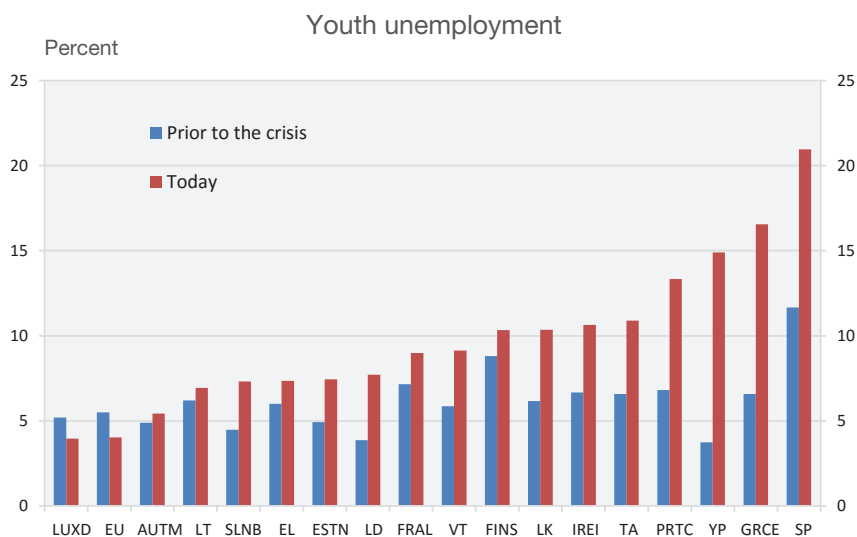


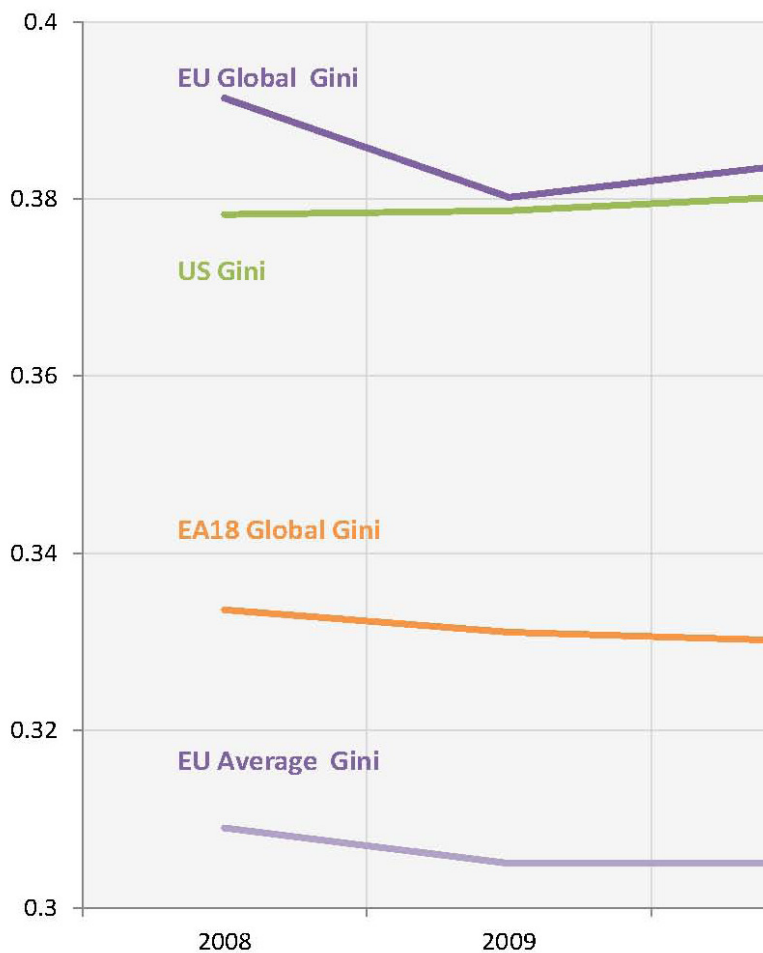
Figure 8. Change In the risk of anchored poverty 2008-2013

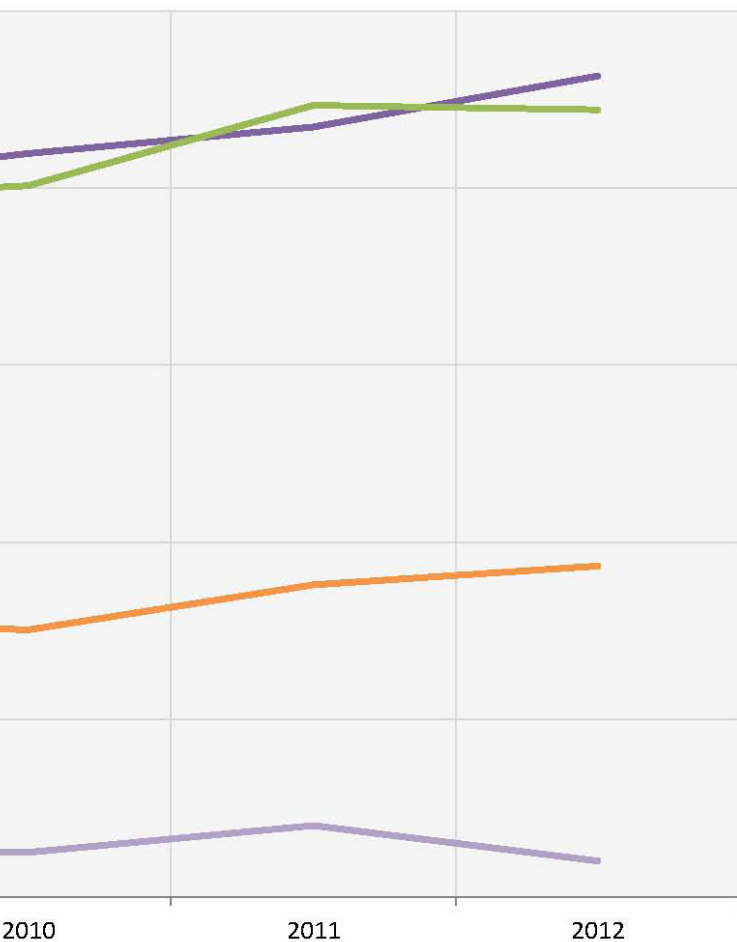


Note: (*) latest data from 2012. (**) latest data from 2011 due to breaks in time series. (***) latest data from 2012 due to breaks in time series.
Source: Eurostat.

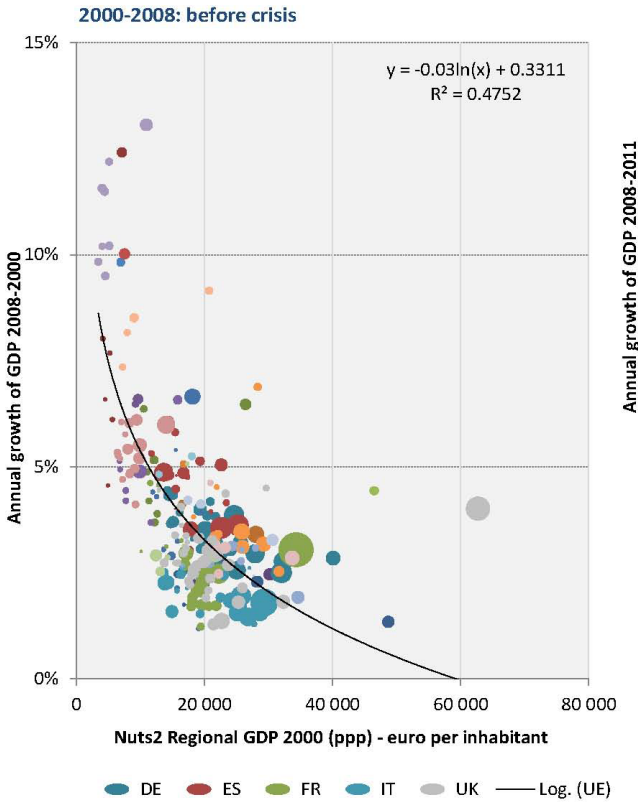


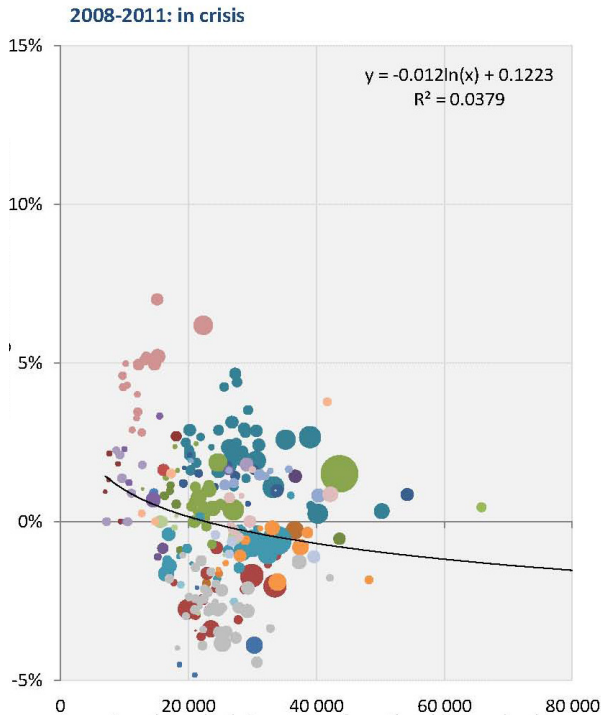
Inequality is rising





Regional divergence: the end of an inclusive dynamic



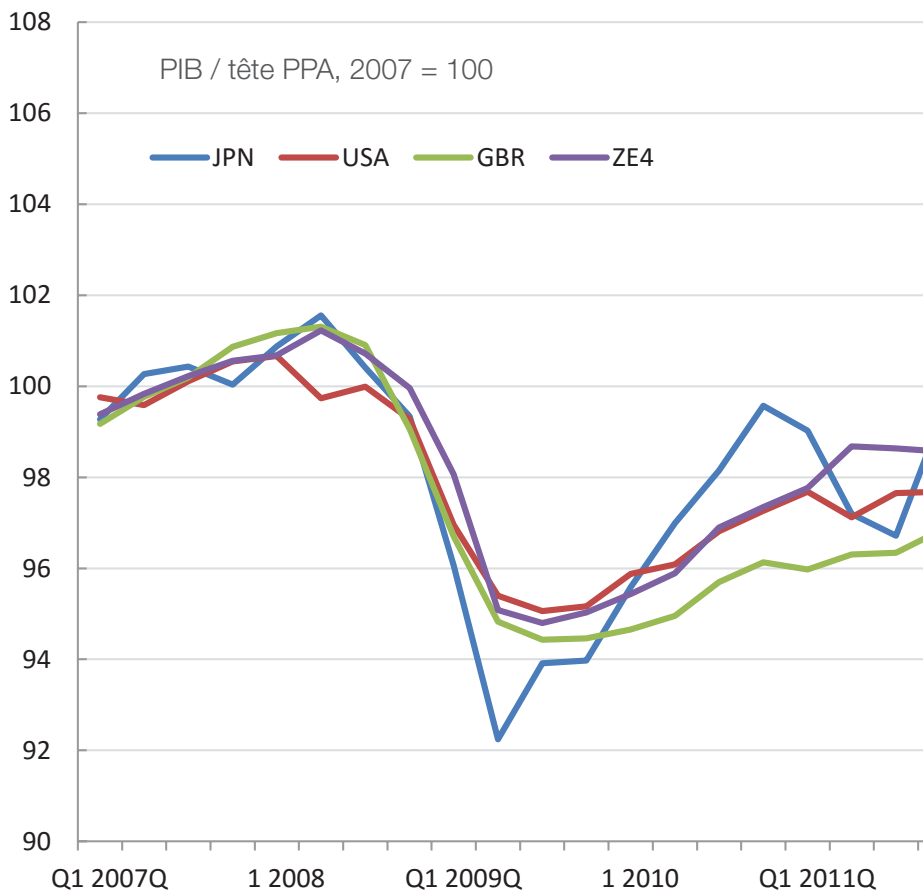


Nuts2 Regional GDP 2008 (ppp) - euro per inhabitant

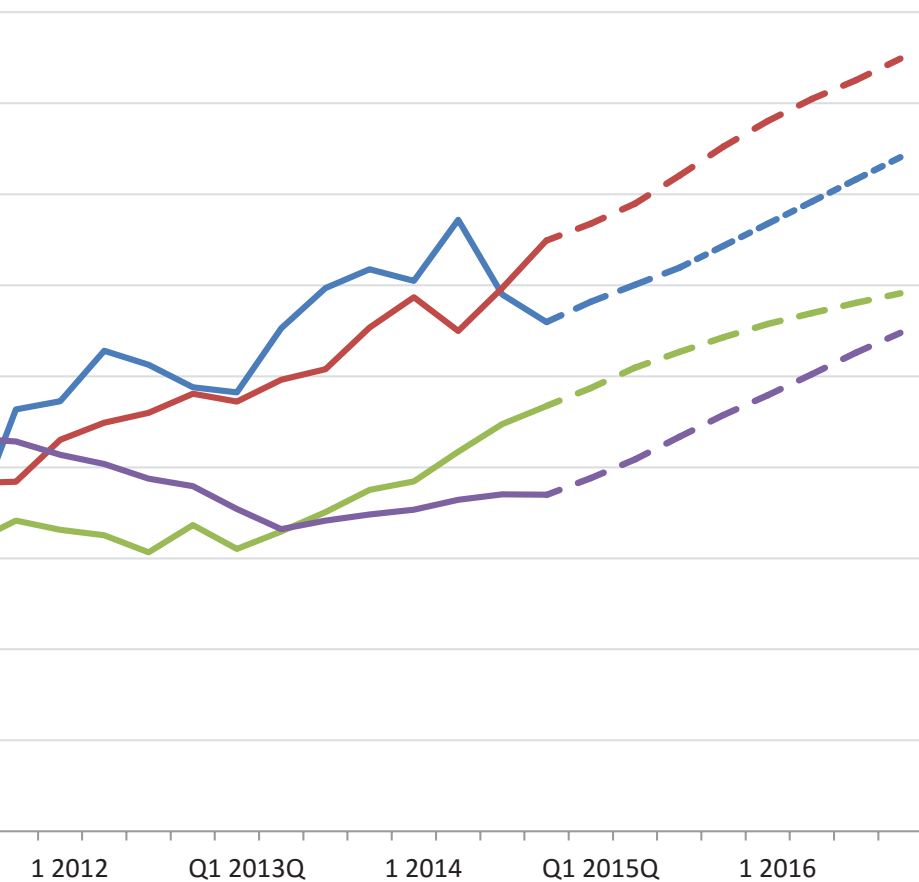
A negative relationship between rate of growth and GDP per head is a classical indication of convergence. But it has broken down in the crisis. See chapter 2 of iAGS2 015, page 71-72

The 2008 and EZ debt crisis has be a « test » of eurozone architecture

A lot has failed, a lot has been done



Sources: Comptes nationaux, prévision OFCE avril 2015



If everything works then no strong growth

- No fiscal impulse no juncker plan
- Damaged banks
- Damaged balance sheet
- Reduced investment in the past, need to catch up
- End of external stimulus (oil in 2016, monetary policy in late 2016, euro will pop against the dollar)
- Unemployment is going to weight n wages and inequalities
 - But unemployment is going to reduce
- So recovery, but no magic trick

If something goes wrong, than it is an other kind of story

ECB as a corner stone

- Trichet letter on fiscal consolidation against ELA (11/2010 Ireland) (Italy 2011? Greece 2011? 2015, Cyprus 2013)
- Mario Draghi, «What ever it takes», OMT, Banking union, no more sterilization of SMP, 2000b€balance sheet, LRTD, LTRO, QE
 - Bazooka on the table
 - Political and legal discontent

From FESF&MESF to ESM

- FESF intergovernmental, 440 b€
- MES, 700 b€, intergovernmental, unanimity, limited liability, some national parliament ceiling
- Conditionality

Banking Union

Fiscal compact

- More rules, stricter, more complex: who understand that ?
- National constitution (or fundamental law) modified for automatic correction of fiscal deficitsindependent offices

Juncker Plan

More rules when we need to adapt to unexpected situation

- Debt rule plus deflation = more front loading of fiscal consolidation, fueling deflation
 - Possibility of an infinite stagnation
- Rules are complex and rigid
 - More legal interpretation of rules, will increase defiance between member states and distrust by citizens
- Rules are unrespected (plus inequality of states)

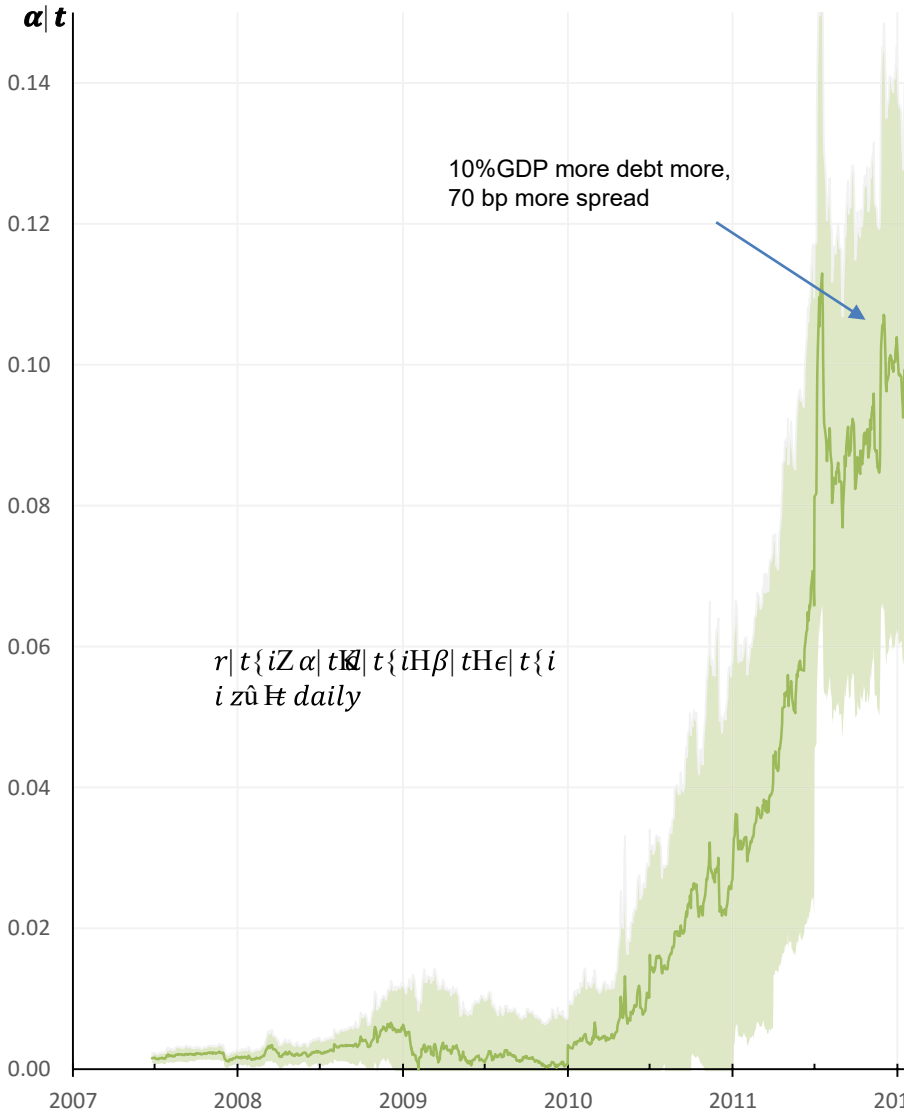
Unsolved questions

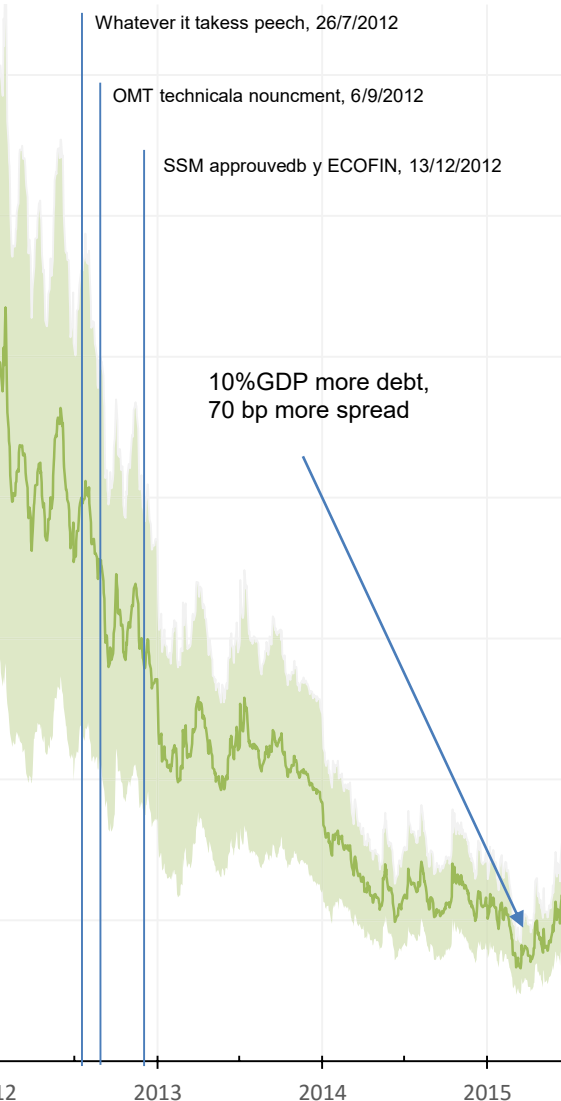
- Banking union is asymptotic (in effect to the limit) and refusing the legacy
- Greece is an issue with no positive outcomes
- No coherent fiscal policy, front loading is the rule, fiscal space is not going to be used, rebalancing of current account desiquilibrium is going to be done with deflation pressure
- ECB is under a lot of questioning (ELA, OMT ruling, QE, no lending to MS)
 - Who is going to decide for somemore if everything fails?

Important matters are intergovernmental

- Forever infant democracy in Brussels

*All the questions in a graph:
marker discipline or not ?*





Spread reaction to debt is the vicious circle

Based on that fiscal multipliers are negative (expansionary fiscal consolidation), fiscal consolidation brings down own activity, but reducing sovereign rates, it eases the budget. Not doing so increases rates and brings down (harder) the economy

Is it possible to have fiscal discipline in a monetary union based on markets (that can panic) ?

If not how do you implement fiscal discipline ?

How do you implement such a fiscal discipline (market based or not) and guarantee democracy ?

**A series of converging proposition :
the lure of technocracy**

- Report by the 5 presidents
- A Blueprint for a deep and genuine Economic and Monetary Union
- Padoa-Schioppa group, Bruegel
- Fiscal Union, Banking Union, Financial
- Markets Union, Tax and social convergence, democratic legitimacy through information/ approval of the parliament

Other proposals: building democracy

- Joschka Fisher, 2000, eurozone chamber/parliament
- Habermas
- *Glieneke group*
- Manifeste pour une union politique de l'euro
- European republic

Annexe 2

A « Euro Union » : the path for reform

Sergio Fabbrini,

Director, LUISS School of Government, Professor
of Political Science and Jean Monnet Chair,
Rome - Italy

1. Introduction
2. The intergovernmental union
3. The parliamentary union

4. The economic community
5. A euro political union
6. Conclusion

Slide 1

1. The EU is a union of states and citizens, based on inter-state more than partisan cleavages, where different perspectives on integration have tried to coexist
2. Unions of states are structured around compromises between different state interests and views. The 2009 Lisbon Treaty has been structured by three basic compromises:
 - (1) between MSs with a supranational and MSs with an intergovernmental view of integration;
 - (2) between MSs pursuing an Economic and Monetary Union (EMU) and MSs opting out from it;
 - (3) within EMU, between MSs requiring centralization of monetary policy and MSs claiming decentralization of economic policy
3. The euro crisis has called into question those compromises and the coexistence of the views supporting them within the same legal and institutional framework

4. Those views on integration can be conceptualized as the perspectives of *the economic community*, *the intergovernmental union* and the *parliamentary union*
5. The crisis has opened the possibility of a different alternative for setting up a *political union* within the EU
6. A debate is now open on:
 - a. how to conciliate MSs interested only to the single market and MSs engaged in the deepening of the euro area;
 - b. which institutional architecture should be devised for a euro area-political union;
 - c. how to keep the two areas of MSs within the shared framework of the single market.

Slide 2

1. The EU is not a *sui generis* organization, although it has acquired specific institutional features. In fact
2. The EU aggregates state previously independent – it is closer to federations by aggregation (federal unions) than to federations by disaggregation (federal states)
3. Contrary to federal states (Germany, Austria, Belgium, Canada, Australia), federal unions (USA and Switzerland) have historically displayed limited core state powers

4. Federal unions have a governmental authority weakened by multiple separation of powers, while federal states have adopted a parliamentary system that centralize decision-making power
5. Both federations are based on a formal constitutional pact between MSs: the EU cannot rely on a formal constitutional pact, nor it has elaborated its own model of separation of powers

Slide 3

1. In Maastricht a crucial compromise was made: single market policies continued to be organized by a supranational constitution, the new strategic policies (economic, foreign, defense *inter alia*) entering the EU agenda had to decide through an intergovernmental method
2. The LT formalized the compromise recognizing the intergovernmental union as a specific decision-making regime – operating through voluntary coordination (*pooling*) of national sovereignties in the Brussels intergovernmental institutions (European Council and Council)

3. EMU epitomized the new intergovernmental union: European Council-controlled, the Council playing both executive and legislative functions, the Commission acting as an implementing agency

4. Legitimacy derives from national parliaments, not the EP –difficulty in identifying its role in the euro-area. Limited role for the ECJ

Slide 4

5. The intergovernmental union is based on the idea that the European Council and Council take decisions on behalf of EMU, although their legitimacy comes from distinct democratic electoral processes

6. With the institutionalization of the intergovernmental union, it has become possible to have more integration without supra-nationalization: new intergovernmental treaties of the ESM, FC, SRF

7. The intergovernmental union has blurred the distinction between national and supranational levels (hollowing out of the subsidiarity's protection) but also between legislative and executive functions: confusion of powers. *The EU as a union of national governments*

8. The euro crisis has shown that an intergovernmental union is an hierarchical organization where the stronger national governments and parliaments (i.e., Germany) impose their views and interests to the weaker ones

Slide 5

1. The Maastricht compromise maintained that single market policies should be organized by a supranational constitution, based on the principle of *sharing* national sovereignties
2. The supranational constitution assumes the EU to be a parliamentary federation in the making (1957 Rome Treaty): “trilogue” with the Commission playing the leading role in agenda-setting, the EP become a powerful popular legislature and the Council representing state interests (Community Method)

3. Integration through law constitutes the foundational principle of supranational parliamentarism – crucial role for the ECJ
4. According to this perspective, more integration will bring increased supra-nationalization because of the functional necessity to solve collective action problems

Slide 6

5. Where supra-nationalization means: the decision-making center of gravity should be located in the relation between the EP and the Commission:
the EU as a union of European citizens

6. The parliamentary election of the Commission president constitutes the strategic innovation for moving the EU in direction of the parliamentary union: has the *spitzenkandidat* strategy worked?

7. The EP has positively tried to balance the role of the European Council. But the idea of the parliamentary union is structural weak: it is unable to deal with the demographic asymmetry and national differentiation between the MSs of the EU
8. A parliamentary union can regulate left/right cleavage, but not inter-state cleavages. It cannot be an alternative to the intergovernmental union. The euro crisis has led to an inter-institutional stalemate

Slide 7

1. In Maastricht another compromise was set up – between MSs moving in direction of EMU and other MS allowed to keep their own currency (UK, Denmark – Sweden de facto). Formation of different monetary regimes (ins, pre-ins, outs) thanks to the opt-out clause
2. These ex-EFTA countries could maintain their view of the EU as an *economic community* through the extension of the opt-out clause to other policy areas

3. That view consists of: preservation of national sovereignty; single market interpreted as an area of trans-national economic cooperation, regulated by a network of national governments; protection of national parliaments as bulwark of democracy;
4. The crisis has called into question the compromise between EMU and opt-outs MSs, dramatically distancing the latter from the former (see the banking union): the May 2015 UK elections did the rest

Slide 8

1. The coexistence of different unions within the same legal and institutional framework has been upset by the crisis
2. The euro crisis has created conflicts of interests between the euro-area (EMU) and non-euro-area MSs: it is necessary both to recognize that separation and to preserve the single market

3. At the same time the euro crisis has triggered a tension between the intergovernmental and the parliamentary views -epitomized by the inter-institutional conflict between the EP and the European Council
4. A Euro Union should compound MSs of different size and national identity – and should also guarantee its legitimacy through the direct representation of citizens in the union decision-making process. A euro-parliament, more than an inter-parliamentary assembly, should be the balancing/checking institutions of MSs

Slide 9

5. The 5 Presidents Report leaves untouched the intergovernmental nature of EMU and does not recognize the systemic differentiation of interests between the latter and the non- euro area MSs: it proposes the usual *muddling through strategy*

6. The alternative should be a *constitutional strategy*. This presupposes (*first*) the institutional and legal separation between an (inclusive) single market open to all European states and an (exclusive) political union for the euro area MSs

7. An (exclusive) political union for the euro-area should go (*second*) beyond the unilateralism of the intergovernmental and parliamentary unions – distinguishing between executive and legislative functions and MSs and Union competences
8. Finally, a euro political union should be supported (*third*) by a formal Political Compact – that guarantees its MSs and their citizens

Slide 10

1. The political union should be coherent with the systemic constraints of a union of states: demographic asymmetry and national differentiation
2. It should be based on a Political Compact and organized on multiple separation of powers (*checks and balances*): no institution should have the last voice in the central decision-making and MSs prerogatives should be protected against the center

3. At the same time an (inclusive) common market framework with supranational authorities should be preserved – through a negotiation between the euro/political union and the other European states

4. To move from a Eurozone to a Euro Union implies a constitutional differentiation within the current EU- with the aim of creating a democratic federal union – not a federal state



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