

Ladies & Gentlemen
Dear Friends

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Europe's existing institutions need to be rebuilt

My subject tonight is the crisis of the European institutions. Yesterday's serious political decisions were taken in Greece by the government. I am ready to answer the questions at the end of my lecture.

At the beginning of the financial crisis of 2007, and at the start of the public debt crisis of 2008, there was a widespread aversion of new initiatives across the EU. It was widely held that the Lisbon Treaty of 2007 contained all necessary changes to the EU's institutional framework and no further reform should be sought.

Reform fatigue prevailed in the Union, contrary to the activism of the last decade of the twentieth century. There were various reasons for this. The accession of 10 new members in 2004 multiplied the difficulties in consultations and decision-making in the EU. These new member states, mostly formerly in the Soviet sphere, reacted (and still react) against unifying efforts and new rules: Their argument was and is that, 'We did not become members of the Union to substitute Brussels for Moscow'. France and Germany had exerted pressure for the EU to be expanded, in the hope of acquiring new markets and new allies. However, the new countries felt and feel that their supporter par excellence is the USA and they express doubts over and objections to European policy.

From 2001 onwards the composition of the European Council began to change. The social democrat majority was gradually replaced. Governments were elected in Germany, France and Italy that no longer nurtured the same interest in European affairs. Their focus shifted towards internal concerns. The European Commission underwent a shift in composition reflecting this trend, with conservative Commissioners becoming increasingly

dominant. The idea of continually studying the EMU's operations and complementing the Treaties with new regulations to deal with the new problems was abandoned. The ^{EURO} currency was a matter for the ministers of finance and the central banks, a technical matter, which prime ministers should not have to deal with. There was no vision. The EU suffered from 'short termism'.

Policies for growth and initiatives to reduce the imbalances between member states were considered unsuitable. The increase in funds for the EU budget so that new projects could be launched met with intense resistance. The view that convergence should be sought by every member state through its own means and not through new tangled interventions by the EU dominated. The financial crisis that began in 2007 furthered this sentiment.

When the crisis began, the Union's inclination was towards maintaining the status quo, avoiding interventions, projecting the view that automatic stabilisers would solve any problem.

Economic developments revealed, however, a truth that the pro-Europe language of all participants concealed. Every step towards integration entails disagreements and a struggle between various ideologies, pursuits and interests. The compromises, opt-outs permitted for each wave of changes and the maintenance of the status quo mean that progress is extremely difficult to achieve. However, European integration presupposes motion, changes and the inescapable disputes that accompany them.

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Greece triggered the crisis in the Eurozone, but was not the cause of it. The cause is inherent in the fact that the Eurozone is a full monetary union but an imperfect economic and fiscal union of member states with different structural features; the mature economies of the European North differ significantly from the less mature economies of the South. The current crisis is a public debt crisis only to a small degree, and in that dimension it largely concerns only Greece and Portugal. The causes of the overall crisis are far more complex and varied. The causes of the crisis lay also in the private sector of the economy, in the banking systems of a number of member states and in the inadequate oversight and control by the fiscal and monetary authorities in the Eurozone. The EU has still not designed a rounded policy of economic governance, a new way of dealing with imbalances between the developed Core and the less developed Periphery. It has not formulated procedures for the systematic promotion of economic growth, which would distribute the benefits to all members in as balanced a way as possible.

The absence of a general consensus on the direction of the EU, and differences provoked by this absence of clarity, together with the ineffective efforts to control the crisis, have affected European public opinion negatively; the European project has come to be viewed as problematic. In the countries of the South, a large proportion of citizens considered the stabilisation programmes being applied as oppressive and a dead end. In Germany, by contrast, public opinion approved them. Three-quarters of its population did not wish for any more concessions to Greece and rejected any new financing. In the countries which had not been

dragged into the maelstrom of the crisis, mistrust prevailed over the efforts to renew the European project. The feeling was common that any changes to the Treaties would restrict further the already imperceptible role of the small member states of the EU. *The governments did not react this mentality as it should have been done.*

It is a principle of the Treaties that, in the context of the EMU, every country is only responsible for its own liabilities, and not obliged to cover the liabilities of other states. In any economic and monetary union, however, the action of each member state influences the actions of the others. Therefore, strict non-responsibility is impossible. The crisis compelled the members of the Eurozone to engage creatively in weakening the rules of the Treaties, under pressure from developments and risks deriving from the inability of the peripheral states to meet their obligations.

In the case of Greece, they devised financing through bilateral loans; in the case of Portugal and Ireland, they established a provisional stabilisation mechanism. The provisional mechanism later became permanent. *and financed a second stabilisation programme for Greece.*

The obfuscation, the disagreements, the partial solutions, the reconsiderations were continual. The decisions over supporting Spanish banks were revised twice. The Fiscal Compact does guarantee an efficient pre-emption of crises, but it does not ensure that an existing crisis can be overcome. The divergent levels of competitiveness, administrative capacity and education cannot be mastered simply by debt reduction, or the recapitalisation of banks. The underlying problems have been known for a long time. There is an evident lack of central guidance and the absence of a truly inclusive way for setting all member states to pull in the same direction. The harsh economic adjustment that is the guiding policy in a large part of the Euro

to allow a period of indecision

area cannot be an end in itself. The development of a coherent policy that will confront the causes of grave imbalances and will unify partial and fragmented efforts in a common direction towards economic growth is imperative. This requires a step to be taken towards much closer economic and political cooperation, for which the members of the Eurozone are not yet ready, whether ideologically, politically or ^{administratively} technically.

Those responsible for the management of the Eurozone and the EU showcase their efforts in ensuring fiscal discipline and monitoring the economies of the member states. This has indeed been extensive. But, as Jacques Delors observed, given the overlapping complexity of the European Semester, the Six Pack, the Two Pack, the Fiscal Pact, the European Pact, the Growth Pact, the 'rescue' mechanisms and the regulations of the ECB, 'who is in a position to understand, let alone administer the system?' Who can deduce with any certainty where it will finally lead the EU?

Political unification is questioned. The roles of the European Commission and the Council of Ministers for General Affairs have been watered down. The European Council has emerged as the central player and the European Parliament has acquired a more pronounced presence. As a consequence, the balance in the institutional triangle of the Commission-Council-Parliament has been altered. ^{An axis under German leadership} ~~The Franco-German axis~~ has become the lever for European policy formation and, despite the obvious disagreements ^{different} between the two countries, it will continue to have a decisive

influence. Moreover informal groupings of member states with special interests have materialised.

The new President of the Commission has promised to give again a leading role to the Commission. It is doubtful if he will succeed.

The conviction that the European project is not just about the achievement of a single monetary and economic area ^{ei} still prevails.

United Europe constitutes a much broader project. It is framed by the coexistence of the peoples of Europe over centuries, their common experiences and the interaction of their cultures, their related ways of life and the organisation of their societies. It derives from their common values and established practices of cooperation, but also from the painful experience of wars and totalitarian rule obscurantism. It is connected to a nexus of principles where democracy, personal liberty, respect for the individual, education and widening knowledge play a primary role. This project concerns the need for common action and the inevitability of a shared future, in an ever-changing globalised world in which new possibilities have an increasingly determining presence.

The euro is not, therefore, the result only of economic assessment; nor was it imposed by the markets to subjugate people to their designs. It was a politically necessary step to expand common activity, to abolish constraints and national boundaries, to create economic stability and growth. It was a goal of the predecessors of the EU those who created the European Economic Community long before discussions over the purpose and the form of the monetary union had begun.

European unification is all the more necessary because of globalisation, which has greatly expanded the ability of markets to

guide and determine policy. The balance of power between markets and politics has tipped steadily in favour of markets. The current global climate necessitates mechanisms for monitoring the international markets, rules to clamp down on international speculation and central ^{European} political authorities that are in a position to impose on the markets behaviour that will protect the shared interests of the public. Political union is imperative.

Dealing with the economic problems of the EU is, for this reason, integrally linked to the understanding of the political logic that underpins it. The measures to control the crisis, the common fiscal rules and the common framework for drawing up budgets must be understood and implemented in conjunction with the broader ^pursuit of a common course. The obligations every member state assumed through its participation, as well as the rights it acquired, are tied to the commitment for mutual solidarity, and the pursuit of the Union's common interest. The EU is neither a club where only the select have a say, nor an amalgamation of states governed by orders from an authority with ^usuperpowers. It is a collective project espousing liberty, growth and adjustment to the new international conditions.

Had the countries currently finding themselves in crisis maintained their own currency they would have been able to devalue it in order to restore competitiveness and growth within a few years. This is not possible any more. States in crisis must implement a strict austerity policy and extensive structural changes for a very long time. It should be reminded ^{however} that devaluation does not prevent a growth-reducing fiscal tightening. Without tightening, inflation

will erode the devaluation. Devaluations with inflation have resulted in recession, social unrest, loss of credibility and the possibility of a decade of economic stagnation. The deepening economic contraction in southern Europe today has not been addressed in a persuasive way. If austerity in the South had at least been compensated by fiscal expansion in the North, the overall fiscal stance of the Eurozone would have been, in macro-economic terms, neutral. But since the North joined the drive for austerity instead, the Eurozone ended up in recession. Major policy measures concerning southern member states are not yet on the agenda. The tackling of the root causes of the crisis is still necessary. The difference in levels of growth between the Centre and the Periphery of the Union 'threatens the integrity and perhaps the existence of the euro'. The Eurozone is an achievement which, for economic, social and political reasons, cannot be reversed. A return to different currencies is neither useful nor possible.

What is needed is a new way for the Union to function. In today's globalised world, economic, social and political ties between states have become irrevocably entwined; a return to complete autonomy is no longer possible for any country of the Union. Symbiosis, cooperation, policy coordination and common targets are a pressing necessity. In the EU's current context the problem is not one of regaining lost autonomy but the formulation of a common European policy fit for modern boundary-transcending conditions and which responds to the needs and particularities of the peoples of the Union. This is about devising ways to cooperate on a European level: making it possible to adjust to the demands and values of citizens, to combine efficiency with market control,

growth with greater equity and the democratic set-up with meaningful participation. What is being sought is a policy for the European polity, in the supranational era, which will both take account of the particularities of every member state and secure the attainment of common goals.

Economic governance and permanent measures to deal with crises require, in any case, amendment of the Treaties. However, though the citizens want economic unification to proceed, they do not accept a supranational economic authority that would decide on matters for their country, ignoring the views of their own governments and parliaments. They take the view that European policy restricts member states in their efforts to respond to the needs of their people. It focuses on the free functioning of the market and not on correcting the consequences of market failure. Social justice consequently suffers. Democracy also suffers.

Jacques Delors used to say 'people do not fall in love with a single market'. Ideas and proposals are needed that will generate a broader mobilisation for European unification in every country. We must determine and explain what future we are aiming at. We must convince the citizens that in the era of globalisation we will not be able to face competition from the USA, China and other states with populations of hundreds of millions if we insist on fragmentation, mini-states, national egocentrism and a solitary course on the part of every state. Our continent's history, with its continual wars, hegemonic aspirations and nationalist excesses clouds an understanding of 'a common narrative for the future'. But, without

it, we will be unable to maintain and improve our common way of life, with its liberties, opportunities and values.

In seeking a new framework for the functioning of the EU, we must not begin by asking whether we aim at a federation, or confederation, or some other model of common action. European unification will not be achieved by adopting historic^{al} examples of federations such as Germany or the USA. The post-national reality of the EU has already **drafted** a multilayered, ^usupranational structure of governance. However, the current form does not constitute the final framework. Under circumstantial pressure, member states continue to cede sovereignty and to adopt new rules affecting autonomy and cooperation. The most striking example of this constantly evolving situation is the system of assistance to members facing an economic crisis. It was constructed as a succession of decisions made over a period of three years, despite the silence of the Treaties on the relevant issues and despite the principle that every state is responsible only for its own debt.

Jürgen Habermass, Martin Wolf^u and many others have emphasized the democratic deficit^e within the Eurozone. They stress that power is now concentrated in the hands of the governments of the creditor countries, principally Germany, and a trio of unelected bureaucracies – the European Commission, the European Central Bank and the International Monetary Fund. They remind us that the peoples of adversely affected countries have no influence upon^{these bureaucracies} them. ^{at national level} “The politicians who are accountable to them^e are, powerless. This divorce between

accountability and power strikes at the heart of any notion of democratic governance. The Eurozone crisis is not just economic." It is also a crisis of democratic legitimacy and accountability.

to legitimacy

|| ~~the prescribed disciplines have no say.~~ The tensions between the desire of people to express their opinion on how they are governed and the reality of how power is exercised has led to a crisis of confidence and will provoke a huge political crisis at some point in the future.

Democracy is a necessity if we want the European Union to be accepted by its citizens and express their interests.

Many proposals have been made for the reform of European Union governance. I shall mention two. They may be more radical but they indicate the extent of the changes that are needed.

A year ago a group of German economists and lawyers published a declaration known as the Glienicker Group declaration, "Towards a Euro Union". According to them a series of fundamental changes are necessary:

- The euro-area needs a robust banking union. The common bank restructuring mechanism must make creditors accountable. Only when these options have been exhausted should be resort to the European taxpayer possible.
- The monetary union cannot be permanently stable without a controlled transfer mechanism. A euro-area insurance mechanism to cushion the fiscal consequences of a dramatic economic downturn is needed. Situations in which a euro-area country is forced to enact draconian austerity measures on its population must remain exceptional.
- The Euro-Union needs an economic government capable of acting. This economic government should have graduated rights of intervention in national budgetary economy. If a member states violates the stability criteria, the economic

government must be able to make binding stipulations of how much the state has to save. The state will keep the decision where to save.

- The economic government needs a budget for promotion of public goods, as well a growth fund to support reform in euro-area countries.
- The Euro government, finally must be chosen by a Euro-parliament. The Euro-parliament can be staffed either with deputies from the European Parliament representing euro-area countries or made up from members of national parliaments, so as that control over governmental spending remains in hands of national parliaments.

A group of French economists, among them the well known Piketty, published in May 2014 a Manifesto for Europe. They accepted many of the suggestions of the Glienicke Group, but proposed to "take them still further". According to them a sovereign European authority needs to be given the power to establish a common tax base that is strictly regulated. Each country might then continue to set its own corporate income tax on this common base, with a minimum rate of around 20% and with an additional rate on the order of 10% to be levied at the federal level. This would make it possible to give the eurozone a real budget, on the order of 0,5% to 1% GDP. It is essential that the budget of the Eurozone comes from a European tax, not from contributions by the states. Otherwise people will not grant to the Eurozone the right to decide how to spend the money.

The Manifesto takes up the idea of a Europarliament representing the states through their national parliaments. It underlines that it is impossible to completely deprive the national parliaments of their power to set taxes. "It is precisely on the basis of national parliaments sovereignty that a shared European parliamentary sovereignty can be forged". A Europarliament would be the place where decisions would be made because all implications in terms of rights and duties would be explicit.

The Manifesto stresses that the only way to put the debt crisis behind is to pool the debts of the eurozone countries. Otherwise speculation on interest rates will renew again and again. It suggests to pool all debts exceeding a country's 60% GDP limit and add in a political component, *for example reforms that* ^{set as a condition} *should be realized.*

redemption It is not possible to decide 20 years in advance how quickly such a fund could be reduced to zero. Only a democratic body, namely the Europarliament, would be able to set the level of the common deficit every year, based concretely on the state of the economy.

Wolff referenzia o piva

7) ~~What is necessary and possible today is~~ ^{Martin Wolf says suggests} a far more symmetrical adjustment, an adjustment union. Thus, after a crisis, inflation, would rise in the surplus countries, offsetting the falling inflation of countries in external deficit. The ECB should, in order to achieve this, embrace unconventional measures such as quantitative easing , negative interest rates and even temporary higher inflation targets. It is also

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essential to provide a bigger and better temporary ^{backstop} ~~backstop~~ ^{to} ~~for~~ crisis-hit countries and banks. Permanent subsidization of weak economies would be a disaster. The Eurozone might then turn into something like Italy, a developed northern part and a southern part less developed, like the Italian Mezzogiorno, in constant need of help.

~~Though correct,~~ **T**he proposed changes are not feasible at present. The prevailing view of governments in both the Euro Zone and the European Union is that ^ucrucial decisions must be made by the governments of the member states following inter-governmental understandings and arrangements. This decision-making method is, however, incompatible with the project of the gradual integration of Europe and above all with the existence of a single currency whose problems must be addressed centrally and promptly. As J. Pisani Ferry noted: Europe is condemned today by its leading

members to “experiment with politically acceptable, but systematically inferior solutions, and to muddle through in search of a path towards an effective and democratic governance structure.” *The new Commission is inclined to proceed to important changes, but it is still uncertain if the member states are ready to accept a change of the status quo.*

This is why many commentators on recent developments of the EU have supported a gradualist approach to new forms of cooperation. *the of these commentators* Despite the differences in their reasoning, they agree that exiting the crisis will involve ‘escaping forwards’, that is, in the direction of stronger economic governance and political union. That is the goal we must pursue seriously and insistently. The Greek problem was not an unfortunate happening in the forward march of the Union, not a deviation that overturned a well designed project. It was the catalyst that showed up the weaknesses of how the EU had been functioning, that showed up the need to remodel its institutions, so that it does not fall short of the broader role it is being called upon to assume.

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