
Political Union: Europe's defining moment

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BACKGROUND

Between the summers of 2011 and 2012, the political discourse on EU integration changed dramatically. One year ago, the response of EU leaders until then had turned out to be insufficient to control the dynamics of the debt crisis. The prevailing notion that everyone had to put their own house in order drowned in a rising tide of mistrust among member states about the reliability of one another's commitments. Reinforced engagements – such as the 'Six Pack' legislation or the 'Fiscal Compact' – were sought to counter this and to harden commitments already made at Maastricht. The growing pressures of the debt situation in the EU's southern periphery, however, undercut the confidence-building impact of these steps, and rather deepened controversies over how to achieve a balance between fiscal solidarity and fiscal discipline. More resources needed to be mobilised in the short term, more flexibility in their application was deemed necessary, and additional stimuli became imperative to spark economic growth in countries mired in deep recession. Policymakers were faced with shrinking margins to politically sustain structural reforms at one end, and a decreasing

range of options to uphold conditionality at the other end.

After the initial attempt to win time through loans and guarantees had failed, a second attempt to secure leeway with reinforced rules and additional commitments also failed. Even before its ratification, the Fiscal Compact did not prove strong enough to legitimise additional financial commitments in light of growing pressures on fiscal policy in Spain and Italy. This broke the post-Lisbon consensus of managing EU affairs under existing legal and institutional frameworks in light of widespread reform fatigue. Driven by an obvious loss of fiscal sovereignty on the part of debtor nations and a *de facto* loss of sovereignty on the part of creditor nations, the concept of deepening integration on fiscal policy and economic governance gained ground. Now, the old debate about a 'Political Union' – which was postponed at Maastricht, revived after the frustrations of the Nice Treaty and died after the Convention – is back. Once again, the 'finalité' of integration in Europe is being propelled by centrifugal forces inside the EU.

STATE OF PLAY

Conceptually, the notion of political union is fuelled by three considerations. First, at the outset of the EMU negotiations that preceded the Maastricht Treaty, many policymakers and experts considered the pooling of economic and fiscal powers as a necessary complement – if not an indispensable prerequisite – to a single currency, alongside deeper convergence between economies. On the broader political agenda, the driving force behind two parallel intergovernmental conferences was the desire to strengthen the bond between EU member states following German unification. In light of disagreement about the scope of political union, momentum shifted to negotiations on EMU, as a common currency appeared to be the strongest political symbol of progress on integration and the commitment of EU members.

The other 'historic' driver of political union is grounded in experiences gained from gaps in the quality of governance within member states. The history of Community policymaking, whether on agriculture and fisheries, on social, regional or structural policies, or on research and technology, holds ample evidence of weaknesses in implementation, monitoring, absorption capacity and insufficient administrative ability to define and carry out Community-funded programmes effectively. In this sense, the single market, monetary union and political union were viewed as strategic tools to expand the practices of good governance with rules-based mechanisms, effective public administration, reliability of service, control of corruption, and elimination of patronage across the EU. As political union appeared to be out of reach, the 'stability culture' embedded in

EMU was seen as a catalyst of better governance in member states.

While both these considerations are relevant to the current crisis, they are overshadowed by a third. As countries' debt positions require continuous refinancing, the economic recession in the southern periphery outweighs gains from governments' austerity measures. Instead, the method and conditionality of financial assistance reinforce divergences of economic development among eurozone members. Politically, this adds up to a strong centrifugal pull that drives member states apart, despite the various measures taken. The determination to hold the euro zone together, repeatedly reaffirmed politically at summit meetings, seems to be too weak an argument to balance this centrifugal force.

Against this background, a deepening of political integration would strengthen the centripetal argument. Its implications, however, come close to squaring the circle: political union would have to be negotiated, ratified and confirmed in referenda against waves of mistrust among member states, a general unwillingness to transfer powers to a central level of government, and the declining credibility of the political process among European publics. An impossible status quo, to borrow the title of a 1997 report by the Club de Florence, stands against the apparent impossibility of overcoming it.

Les plats du jour

In the days before the June 2012 European Council, a number of political approaches to deeper integration were put forward to frame the various fiscal and economic recipes that had been discussed over the past year.

The report by the presidents of the European Council, the European Commission, the Eurogroup and the European Central Bank, entitled 'Towards a genuine Economic and Monetary Union', lays out a path of 'ambitious incrementalism'. As a first step, it proposes the creation of a banking union built on single European banking supervision and a common deposit insurance and resolution framework, the latter being built by contributions from banks and backstopped by the European Stability Mechanism (ESM) as far as the euro area is concerned. The second step would be to establish a fiscal union, based on a common decision by participating member states to set upper limits for annual budgets and government debt levels, effectively putting a ceiling on national budget deficits. The proposals include options to issue common bonds, to create a debt redemption fund, and to ultimately establish a common treasury office. As a third step, moving into the sphere of political union, the four presidents call for economic policy coordination to be strengthened in order to make the European Semester and the Euro Plus Pact "more enforceable", and also to enhance the political and administrative capacity of national

institutions. Clearly, the report focuses on financial and fiscal steps, while remaining rather vague on the political and institutional dimensions.

A different approach is taken by the Tommaso Padoa-Schioppa Group. Its report 'Completing the Euro' outlines the features of what the group calls a "sui-generis fiscal federalism". It recommends the creation of a "cyclical stabilisation insurance fund", financed by contributions from national budgets or national social insurance schemes, administered by representatives of member-state finance ministries, and controlled by national parliaments. Its purpose would be to facilitate internal devaluation with an automatic scheme.

Based on the principal notion that "sovereignty ends when solvency ends," the Padoa-Schioppa Group proposes the establishment of a European Debt Agency (EDA), guaranteed by all members of the euro zone. It seeks to provide access to credit via a staggered approach, limiting sovereignty only to countries in serious crisis. The first 10% of GDP of all Eurogroup debt would be issued mutually. Countries could issue a second 10% of GDP bracket through the EDA under the general conditions of the current agreements. Beyond 20%, much stronger conditionality would be applied and a higher interest rate would have to be accepted, with steadily rising conditionality in the 30-60% bracket. For a debt load in excess of 60% of GDP to be funded by the EDA, the agency would effectively assume fiscal sovereignty in return for its bailout guarantee. The agency, established by a new treaty rather than through enhanced cooperation under the existing treaty, would be managed by a eurozone finance minister and controlled by a joint committee of national parliaments and members of the European Parliament (EP), composed at a ratio of 2:1.

While the Padoa-Schioppa Group calls for stronger limits on the transfer of sovereignty than seems to be the case in the Van Rompuy report, the Spinelli Group in its statement of 28 June 2012 surpasses the four presidents in several ways. Under the headline 'Federal Union or disintegration', the Spinelli Group demands debt mutualisation within the euro zone by issuing Eurobonds, the establishment of a collective redemption fund for national debt in excess of 60% of GDP, a mandatory common consolidated corporate tax base with a minimum range of corporate taxes, binding sustainable growth targets and respective sanctions for eurozone members, and economic and social convergence. All this should be directed by a European government, formed by the Commission, which would also represent the euro zone in international financial institutions, and chair the Eurogroup and the Ecofin Council. To negotiate all this, the group calls for a new Convention to be convened in the medium term. The next president of the European Commission should preferably come from the EP, candidates should have campaigned in all 27 EU member states, and half of

the College of Commissioners should come from the ranks of MEPs elected in the 2014 campaign.

The fourth choice on this menu of reform proposals was put forward in an interim report compiled by German Foreign Minister Guido Westerwelle after having chaired an informal group "on Europe's future" comprising ten EU foreign ministers from Belgium, Denmark, Germany, Italy, Luxembourg, Austria, the Netherlands, Poland, Portugal and Spain. Made public in mid-June 2012, the report seeks to develop European responses to both the debt crisis and power shifts resulting from globalisation. While not as explicit on how to deal with the debt crisis, Westerwelle and his colleagues agree to pool fiscal sovereignty at the European level in the medium term, in order to make commitments under the Euro-Plus Pact more binding and to decide on more matters of economic governance by qualified majority vote (QMV). Likewise, the report calls for more QMV on issues related to the EU's Common Foreign and Security Policy (CFSP), and a strengthening of the European External Action Service (EEAS). Many of the ten would like to see more ambition on defence policy beyond pooling and sharing. In the long term, the report foresees a European defence policy, which would include a chapter on defence industries; for some member states, this could include a European army.

Implications for the EU

Despite their differences, these four proposals for deepening European integration all amount to a significant agenda of change, which could transform the EU in rather fundamental ways. Such deepening would pool more powers than ever before at the Union level. This could hardly be organised as an asymmetric process, obliging some member states to cede more sovereign rights to the Community level than others, as is implicit in the approach taken by the Padoa-Schioppa Group. On the contrary, one of the strengths of previous steps towards more integration has been the non-discriminatory approach, committing all member states to be bound by the same rules. Should that lesson not be applied to fiscal sovereignty, then fiscal union would risk splitting the EU within its current core, the Eurogroup.

More visible than ever before, integration will follow a two-speed pattern, which in itself could expand into a multi-speed Europe. Fiscal union will be a step for those inside the euro zone, taken amid much hesitation and concern; only those whose strategic interest in membership is paramount will follow. Much will depend on the determination of non-euro countries not to be decoupled from the process of deeper integration. Poland's position on political union will be a strong indicator in this regard. At the other end of the political spectrum, the UK government's apparent interest in seeking a 'repatriation' of powers to the national level points to another risk in the process. The layers of

integration built on the Single Market and even the Treaties of Rome would no longer be irreversible and could be taken apart, either through multiple opt-outs or by way of treaty revision. Integration could become both multi-speed and à la carte at the same time.

In effect, the difference between an inner and an outer EU could be more profound than institutional arrangements would appear to suggest. On the levels of the Council and the European Council, two such circles already exist and interact. For the European Council, Herman Van Rompuy presides over both – seen as a pattern, this implies that future presidents will always come from eurozone members, or else the presidency will be split. Ecofin and the Eurogroup could come under a single chair, as is implicit in the arguments raised by the Westerwelle report.

The main effect of deeper integration on the Commission would be much-enhanced impact on decision-making under the European Semester, the Euro-Plus Pact and other agreements, eventually including issues such as tax harmonisation, social policies or defence industries. Precisely this role for the Commission in achieving deeper integration could become a contested issue between the inner and the outer circles. After the split over the Fiscal Compact, the UK government argued against the Commission taking on such a role. As deepening continues, this argument is likely to come back and gain ground.

The most significant factor for maintaining the EU's integrity within a two-speed process, however, will be the issue of democratic legitimacy. While enhancing the role of national parliaments could put the EP's role into question, a strengthening of the EP would contribute to splitting the Parliament into a general chamber and a 'euro' chamber. Democratic accountability for a fiscal union alone could probably be assured through greater transparency of Eurogroup meetings and a combined parliamentary body of participating countries and MEPs. However, the deeper political union becomes, the wider this split will become.

Building genuine legitimacy of deeper integration must not and would not stop there. While the more technocratic approaches of the four presidents or the Padoa-Schioppa Group marginalise the issue, the other proposals stress that the democratic accountability of political union would need to reinforce links to citizens. This could imply tying the Commission more tightly to elected bodies, and upgrading the role, rules and electoral processes of the EP and the permanent representations of member states, whether by establishing a member-state chamber or further reforming the Council system. All of these steps would have to be taken by the EU as a whole if the single institutional framework were to be kept, probably overstretching the consensus at 27. Thus, the democratic accountability of a core political union would either be weak or the splits between the concentric circles would run deeper.

PROSPECTS

Rarely has an ambitious political project to advance European integration seen more reluctant stakeholders. Most of the principal actors seem to be dominated by imperatives of their domestic agenda or constraints of national public opinion. The consensus between Germany and its net-paying neighbours – now also the core of the creditor group – could hardly be called a strategic coalition; the same is true for the debt-ridden periphery. France and Germany, while still determined to lead, lack strong consensus over where to lead to. Older patterns of leadership don't seem to apply, neither with regard to pulling along other member states, nor with respect to winning over a divided and increasingly sceptical citizenry. Neither Germany's apparent approach of 'leading from behind', nor a renewed Franco-German accord, nor a 'northern axis' will suffice – political union cannot be advanced by poker strategies.

Restarting the momentum of integration in the 1980s was not an easy task either. Despite strong Franco-German leadership and an active coalition of the six founding members, it took years to advance from the Solemn Declaration on European Union adopted almost 30 years ago in June 1983 to the Europe 1992 Programme and the Maastricht Treaty.

The current crisis, however, leaves European leaders with little time to mature their ideas on the future of European integration. Thus far, the prevailing mood among them has signalled that they do not want the changes that they are nevertheless making. This approach needs to change; as an unwanted outcome enforced by circumstance, deeper integration will not succeed. Change requires a 'positive' agenda. As a project, political union needs a broader strategic coalition of builders, of which the recent meeting between the leaders of France, Germany, Italy and Spain could be a start, defining the link between sustainability and solidarity, the balance of member-state and Union governance, and the incentives of engagement for member states and the European public.

The road ahead seems to have reached a parting of ways. The first option is to advance political union through incremental steps. It would thus emerge over time, with each step driven by the circumstances of the moment and communicated as the unavoidable response to the imperatives of crisis situations. It harbours significant risks, though. As illustrated by the debates on the Fiscal Compact or a banking union,

ambiguity over long-term plans tends to weaken the impact of medium-term changes, while the effect of political decisions on markets tends to fizzle out in ever-shorter spans of time. Even incrementalism requires agreement on the bigger picture. However, even that could hardly overcome the technocratic bias of step-by-step reform; not least because more fundamental issues such as legitimacy and accountability, decision-making and institutional arrangements are not properly addressed. These weaknesses would come out in the process of ratification – the dilemma of deepening integration by way of intergovernmentalism.

The other option would be to advance political union through the front door, spelling out the longer-term project of genuine political integration, effectively governing economic and monetary affairs, social policy, internal and external security, and foreign affairs, with full democratic accountability and parliamentary control. Such an approach would opt for the creation of a core Union inside the EU, a 'second founding' of European integration, prepared by a convention and defined by those willing to join. Certainly, this path has its risks as well: it would more clearly split the EU into concentric circles and could imply the erosion of the outer ring. More so than the incremental approach, founding a comprehensive political union would require major constitutional changes in member states, ratification and most likely need referenda: also in member states that are not formally obliged to hold them. The grand ambition could fail, rejected by the people, thus closing the door to political union for a very long time. The project would therefore require a change of discourse on Europe, with political leaders openly addressing the limits of their capacity to deliver, laying out the potential of pooling sovereignty and of building effective, rules-based governance at all levels of government, and arguing for ways to secure democratic accountability and citizens' participation.

Presented along the lines of 'TINA' rhetoric ("there is no alternative"), the debate will be lost. Openly and honestly argued as one of the principal means of confronting internal and external challenges to the prosperity, equality and relevance of Europe in the world, it could be won. For the first time in post-Cold War history, Europeans would have to actively determine the course of their community of destiny.

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