SPECIAL REPORT

THE FUTURE OF THE EUROPEAN PROJECT

Politheor: European Policy Network

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The Future of the European Project

Editor: Mario Munta

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Introduction

"Many thought the EU was finished after Brexit but that is not the case", <u>said</u> Italy's prime minister Matteo Renzi during a joint press conference with his French and German counterparts on the Italian aircraft carrier Garibaldi. This symbolic meeting on the 22nd of August 2016 was a prelude of sorts ahead of the informal EU summit in Bratislava in September this year. Reassuring the rest of the club that EU's disintegration is out of question is the least this *trio* could have done after a shocking decision by the Britons to leave the EU. But the future is uncertain, and even the most opinionated pundits hesitate to predict anything with certitude. Still, nearly everyone agrees – the European project needs a revamp, one way or the other.

A crisis-ridden EU has sparked many debates. Is the EU becoming more intergovernmental? Should it integrate more deeply (with a fiscal union)? Is disintegration or policy dismantling a real concern? These are only some of the questions frequently asked. More or less Europe, better or worse Europe – the outcome might ultimately boil down to two factors. On the one hand, it will depend on the ability of European leaders to continue fostering a consensus-generating culture (which has been seriously undermined by the refugee crisis). On the other hand, this time the architects of the future must not forget to actively include citizens in the process. At the end of the day, the only thing that could be said about the EU with a fair amount of certainty is that – it will reform. It always has been reforming and it most likely would have continued to, regardless of the Brexit. Take the [Five Presidents' Report](#) or last years' [Macron-Gabriel sketch](#) to further integration as cases in point.

The purpose of this Special Report is to imagine an EU of tomorrow. In front, you will find 9 op-ed contributions grouped into two thematic blocks – one group of op-eds considers the fate of individual policies and policy areas, whereas the other debates how democracy in the EU should be envisaged. Flanked by the block of op-eds on individual policy areas and EU democracy generally, two interviews - one with Professor Thomas Straubhaar from the University of Hamburg and the other with Professor Piers Ludlow from the London School of Economics (LSE) will talk over the general course of European integration post Brexit.

Mario Munta
Editor of the Special Report
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Piers Ludlow: "Brexit is neither the first nor the worst crisis that the EU has confronted"

Dr. Piers Ludlow is an Associate Professor at the International History Department of the London School of Economics and Political Science. His main research focus is the history of Western Europe since 1945, in particular the historical roots of the integration process and the development of the EU. In this interview he discusses the causes of Brexit and the lessons to be learnt for the future integration process; European defence cooperation receives special attention.

Author: Jacob Thaler

JT: Dr. Ludlow, Britain joined the EEC in 1973. Obviously, more than the name has changed since then; the EU grew to 28 member states, with Eastern enlargement alone accounting for 12 new members. After a decades-long membership, a majority of 51.9 per cent of the British voters decided to leave the European Union. Looking at the structural environment, is this decision the result of changes having taken place at EU level within these decades or rather of a fundamental euroskepticism right at the heart of the British EU debate ever since the country joined?

PL: My answer here would be very definitely both rather than one or other of the two factors – and indeed would be to highlight the interplay between the two. So it does matter that the EU of today is very different from the EEC that Britain joined in 1973, partly because today's EU was perceived by many British voters as posing threats that were not present when Britain joined (or in 1975 when the first British referendum EEC membership was held), and partly because many British felt that such growth and change had happened without their consent. It is actually a myth that the EEC's political dimension had not been mentioned in 1973 or 1975. There were plenty of references to the Community's political dimension in the 1970s debates, even if most voters seem to have been more concerned with rather narrower issues such as the effect of EEC membership on food prices. But it is a myth that a large number of 2016 voters chose to believe, fuelling a widespread sense of having been duped.

The longstanding nature of British Euroskepticism also matters though. For a start there is a surprising degree of continuity between the arguments of the two referendum cam-paigns. A lot of the sovereignty arguments in 2016 were largely unchanged, for instance. Second, in 2016 the Leave campaigners did their homework on why they had lost last time around. They were thus much better at neutralizing the economic and business arguments that had helped sway the 1975 vote so decisively in favor of the pro-Europeans. Third, and most fundamentally, Britain's early ambivalence about European membership, highlighted by the need to hold the 1975 referendum, helped frustrate the widespread assumption that Britain would effortlessly become a co-leader of the integration process alongside France and Germany. Instead, British leaders from Wilson through Thatcher to Cameron, gloried in their efforts to prevent European advance rather than taking pride in Europe's successes. As a result no strong narrative about Europe's success being British success ever emerged in British political discourse, despite the fact that many of Britain's strategic priorities – from the Single Market through to Eastern enlargement – actually came to pass. Instead 'Europe' came to be seen as something driven forward by other countries' priorities and liable to evolve further in directions uncongenial to British interests without British leaders being able to stop this hap-pening. The very limited outcomes of Cameron's ill-conceived attempt to 'renegotiate' British membership only played into this analysis. The Prime Minister had tried to shape Europe in Britain's interest and had been incapable of achieving very much.

"Few of Europe's leaders seem either to want or to be in a position to lead a dramatic march towards much greater integration in the immediate future. The challenge instead is to consolidate what has already been achieved."

Can the British leave turn out to be a chance for the remaining 27 to propel European harmonization projects Britain so far knew how to obstruct? Deepening the European defense cooperation, for example, has been put on the agenda in the aftermath of Brexit.

The idea of a *fuite en avant*, of reacting to trouble by accelerating rather than hitting the brakes, has a long history in the European integration process and it was hence unsurprising that there were some calls for this in the immediate aftermath of the British vote. But I would be surprised were there to be many immediate concrete instances of the EU dashing ahead rather than standing firm. Few of Europe's leaders seem either to want or to be in a position to lead a dramatic march towards much greater integration in the immediate future. The challenge instead is to consolidate what has already been achieved. Having said this there are some areas where, in the medium term, the 27 without Britain may well be able to agree more easily than was the case when the British were members. Defense cooperation might be one area; banking union another. But this will probably be gradual advance, not a bold leap forward.

Brexiteers have argued that deepening the European defense cooperation was simply un-necessary as NATO was the central peace-keeping institution in Europe. Others argue that in the last decades safety requirements have changed dramatically through global terrorism and cyber-warfare. Does Europe's security architecture require a much higher degree of information and burden-sharing compared to today's standard?

The security challenges now confronting Europe will go on requiring more than just NATO. The Atlantic Alliance still matters of course, not least because of the glaring gap between US military capabilities and those of

most European states. But total reliance on the US makes much less sense now than it did during the Cold War era. The US is less interested in European affairs and as such a less reliable guarantor (and will become even less reliable were Trump to be elected in November); there are more EU countries uncomfortable with total reliance on NATO; and many of the potential new threats are not amenable to the type of protection that NATO is able to provide. So Europe's need to provide more of its own security will continue post-Brexit. The challenge though will be replacing the military capabilities and the expertise that the British provided, since this was one area where, behind the scenes if not always in public, the UK had become an important player in the collective European debate. Other countries, and perhaps the FRG in particular, will need to increase their capabilities so as to make up for Britain's withdrawal.

If a fuite en avant is unlikely, what else can the EU do to prevent a cascade of further exit-endeavors?

I think the risk of contagion was always massively over-stated. Britain has had a problem with European integration ever since the process began in the 1950s. That it has now voted to leave the EU is thus much more a reflection of its own long-standing ambivalence than a portent of how other countries are likely to behave. Yes, Brexit will weaken certain aspects of the EU and is a disappointment to all of those who believed in a more united Europe. But it is neither the first nor the worst crisis that the EU has confronted. Indeed it is a much less real crisis in many ways than the migration crisis. So I remain largely optimistic about the EU's medium term prospects. European integration emerged because of a desire to prevent further interne-cine European conflict, an underlying economic interdependence between the countries of Europe, and their shared realization that individually none of them were big enough to matter on the world stage. None of these underlying realities has been altered by the British decision. It hence stands to reason that Europe's leaders will continue to want to cooperate closely with one another. In the process they will of course have to prevent populist opponents from hi-jacking the political debate. There are thus lessons that need to be drawn from Cameron's mistakes, just as there are lessons to be learnt from the current state of US domestic politics. But while tactical changes will need to be made in order to respond to the populist challenge, I don't envisage a major alteration in the underlying strategy.

What are the lessons to be learnt for the future development of European integration?

What will have to change is the position that European leaders adopt in talking to their national audiences about the integration process. The Brexit story is above all a story of how a political elite failed to convince the wider population that European integration brought more gains than costs. And this was not a failure confined to the two or three months of campaign-ing prior to the June 23, 2016 vote. Instead it was a failure that stretched back to 1973 if not earlier. Nor were the failings of the British elite wholly unique, although they were perhaps worse than most. As a result, Europe's leaders will need to learn how to articulate more con-vincingly why they continue to believe that tight European cooperation is so needed and to resist the temptation to blame 'Brussels' for all that goes wrong, while claiming credit for all that goes well. Britain's decision is not a cue for the rest of Europe to abandon all that it has been seeking to do or to change direction altogether. But it is a reminder that in democracies it is not enough for a political elite to share a conviction; such beliefs have to be 'sold' to the rest of the population too if future disasters are to be averted.

Healing the European patient – Narrowing the gap between the EU and its citizens

It has been a rough couple of years for the EU with much debate in academia on its various deficiencies. However, with the financial crisis, the almost Grexit, the refugee crisis and now the Brexit, these struggles have also entered the everyday life of ordinary citizens. For many EU enthusiasts the past years of crisis seemed more like a minor hiccup, a difficult period that could be overcome if everyone just kept on moving forward. Yet, the Brexit vote changed everything.

Author: Mira Alexander

Previously, the situation was like the one of a sick patient who had to stay positive and rest in order to recover, now, with the Brexit it is like a failed surgery: instead of healing the patient, it put him into intensive care. It is no longer enough to stay positive and wait - an active and clear remedy has to be pursued in order to improve the EU's condition.

Despite being numerous, the problems the EU is facing can be boiled down to a one key issue: the lack of finality, a crisis of vision with no clear goal on where to head to. It is apparent that change is needed although there is no consensus on how it should look like. The so-called *Monnet Method*, based on the Confucian principle of "the journey is the destination", does not work if overall agreement on the project itself has vanished. A clear vision for the future is needed to again convince citizens

to believe, care, and relate to the EU. This uncertainty combined with politicians using the Union as a scapegoat and policy makers that don't insist on European solutions and unity among EU member states, leads to a loss of popular consensus for the European project.

This lack of accord is reinforced by EU policy making being too far away from its constituents. An example for this are the European Parliament (EP) elections. The voter turn-out has continuously declined since the first election in 1979 with an all-time low in 2014 of just 42,62%. It indicates that voters don't feel that their vote matters in EP elections which may be because they consider them to be second-order elections with no direct influence on national politics. Additionally, people might not know whom to vote for because EP parties don't have very

differentiated party programs. The parties often don't diverge on policy issues, but the only real divide is between pro-EU and Eurosceptic parties. This setup fails to give dissatisfied voters an adequate option to vote for change. The only way to protest is to either not cast a ballot at all or vote for a Eurosceptic party.

Joschka Fischer - former German foreign minister - proposes in his book ["Scheitert Europa?"](#) (Is Europe failing?) to reform the EU according to the Swiss political model in order to fight its democratic deficit. He argues that all problems the EU is currently facing could be solved if the "small-state mentality" - the constant insistence on national solutions and individual benefits, is overcome and European unity becomes the preferred solution. A Union-wide government could be created with the Commission remaining the executive body and the European Court of Justice as the judicative. The parliament, however, would be reformed into a parliament with two chambers, where one consists of representatives of the different member states and members of the second chamber are elected through Union-wide elections regardless of their nationality.

This model has many benefits: It gives the EU a vision for the future that addresses its main deficits and brings EU policy making closer to the citizens through the reformed parliament. The reforms allow for Union-wide elections and campaigns. That way parties are forced to differentiate their programs in order to gain votes. Hence, it provides the opportunity for real policy debates and the formation of an opposition in parliament that offer alternatives to policy problems but doesn't question the existence of the entire Union. Nevertheless, it is obviously not the easiest policy option to realize. Union-wide campaigns are difficult due to language barriers. Additionally, it becomes harder to ensure a balanced representation of all member states if MEPs are elected per party and not per country. Furthermore, this model depends on strong and fearless leaders that are

willing to push for severe changes in the set-up of the EU. While these flaws show that the proposed model is not the easiest to implement, it is worth the effort. In times of fundamental crisis, like the one we are facing at the moment, small step solutions are not enough anymore. This is where the proposed model is highly beneficial: it is a wholehearted effort to address the EU's core problems.

The Brexit has been a wakeup call: if we don't want the EU to fall apart, we have to act now. We need to demand from our political leaders to be pioneers in fighting for more Europe, and not for less. We can't go the easy way now. As Bill Clinton once said: *"The price of doing the same old thing is far higher than the price of change"*. Much progress in the EU has always happened after periods of crisis. Let's use the current difficult years as a turning point to make the EU a better, stronger, and closer union starting with an increasingly representative parliament that allows citizen to feel involved in EU politics.

Can the Energy Union secure the future of European integration?

With anti-Europe sentiment rising through Member States, the EU is facing a crisis of faith. The Energy Union provides an argument for continued European integration, with energy democratisation as the key to its success.

Author: Emma Donnachie

The onslaught of shockwaves from the political, economic, and social crises faced by the EU in recent years, most topically the migrant crisis and Brexit's concerning affirmation of rising right-wing nationalism in Member States, have shaken the EU to its very core. This apparent increase in disenfranchisement with the European project has meant that questions are being raised over the legitimacy and future of the project itself. However, the Energy Union may well have the opportunity to re-ignite the (no longer coal driven) fire that once brought the Member States together.

The Energy ties that bind

Most recent calls for European energy integration stem from former Polish Prime Minister, Donald Tusk's, fears over Russia's "energy chokehold" and virtual monopoly over European natural gas supplies, highlighted by the conflict in Ukraine. The concept of the Energy Union has since been re-packaged and taken on as a key political priority of the Juncker Commission to "ensure secure, affordable, and climate friendly energy".

But unity over energy is no new concept, the European Coal and Steel Community (ECSC) of the early 1950s was a trigger for wider European integration, and the founding of the EU as we now know it. At that time, in the early post- war period, the European States came together to seek mutual economic prosperity and to ensure lasting peace, with the foresight that agreement over energy would lead to a harmonised European community.

It is therefore somewhat ironic that energy has, to this point, been an area of limited EU level integration, struggling to find consensus in the face of member state sovereignty and powerful

national energy companies resisting market liberalisation.

Yet it is abundantly clear that Europe's main pressure lies in security of supply- it is recognised that most European countries cannot secure their own energy, making Europe as a whole the biggest energy importer in the world. Thus a unified single energy market, particularly in pursuance of increased renewables in the energy mix (which provide inherently non-consistent energy) would help to combat Member States' most pressing issue. That is not to mention the increased political and economic clout that an Energy Union would bring in the international arena.

Wider benefits of an Energy Union

That is not to say that the Energy Union strategy as it is presently proposed is not without criticism. Its focus on macro-level gas and electricity integration is not likely to confront the crisis of faith that the European project is currently suffering from. While the European citizenship of the ECSC era was seeking peace from arms, the pressures faced today are as much social issues as political ones, necessitating a re-engagement at local level to restore confidence in European level integration.

With aims of diversification, and pursuance of climate and renewable goals, energy is uniquely poised to shift the focus onto local generation and energy democratisation, boosting socio-economic growth within European communities and restoring confidence from its disenfranchised citizens. If the Energy Union tackles this head on, by shifting some focus down to the micro-level, it has the potential to be a catalyst to overcome the divisions appearing between Member States across all sectors, and re-invigorate the whole European project.

Energy – Europe's trump card!

The raison d'être of the European project, the added value that Member States gain from being a member, is glaringly clear in the energy arena - concerns over security of supply, increasing pressure to de-carbonise, not to mention increased bargaining power, making it all but obvious that an individual state has a weakened capacity acting alone.

Evidently it will take more than the Energy Union in its current package to reinvigorate faith in the European project, but the potential that it contains to address greater socio-economic cohesion could do. Thus the European Union may have found the counter balance to rising anti-integration sentiments that it desperately needs, which ultimately may become the bargaining chip that it uses to secure its own future against member state notions of ''bowling'' alone.

Brave New Euro

The European Union (EU) should further integrate fiscally and politically in spite of the many challenges it faces. Nationalist movements across the continent threaten the existence of the EU. The Euro, once the pinnacle of the European project, has been dealt a couple of blows. We cowardly lay blame on refugees, populists and a coin; they will never disappear. It's not the fault of the Euro. It's (the lack of) political will, stupid!

Author: Cédric Algoed

Many economists weighed in on the persistently sluggish economic performances of European countries. On August 16, Nobel Prize winner Josef Stiglitz released his new book *The Euro: How a Common Currency Threatens the Future of Europe.* Yes, the title is misleading. Stiglitz argues that economic integration outpaced political integration. Barring an institutional overhaul, it could mean the end of Europe as we know it. It's one of the few things economists actually agree on.

In the golden years everyone, but Germany, profited from the new currency. The Mediterranean countries especially benefited from the huge drop in interest on government bonds, which enabled them to spend more money. Many countries built up debt despite mechanisms in place to prevent that. At one point the music had to end. In 2008, the American housing bubble catalysed a global crisis, which then turned into a Euro-crisis. It made us wonder whether stagnation is the new normal.

A government can stimulate the economy through either fiscal or monetary measures. In the case of the Eurozone, the European Central Bank (ECB) has assumed full and independent power over monetary measures. The distribution of responsibilities damages their individual effectiveness. The ECB conducts a one-size-fits-all policy. Yet, the economic performance of countries differs greatly. Their business cycles never synchronized. The ECB had to maintain an interest rate too low for some and too high for others. On top of that, the common currency prevents countries to devaluate; one of the most effective methods to kick-start an economy.

This problem of diverging economies has been recognized for a long time. There was never enough political will to address this problem comprehensively. Several not-so-great mechanisms were implemented instead. The Stability and Growth Pact, for example, prescribed that budget deficit could not pass 3 per cent of GDP, but France and Germany were among the first to relax the rules. The introduction of the Euro was a BYOB-party, without anyone bringing drinks. It resulted in a crippled monetary union unaccompanied by a fiscal and a political arm.

Since the crisis the biggest structural overhaul was the introduction of a banking union, which monitors the biggest banks and guarantees private deposits up to 100,000 Euros. Undeniably important, the banking union will not prevent future crises (and remains relatively dysfunctional). It only aims to prevent collapsing banks and bank runs. A banking union will not synchronize European economies. The Eurozone needs a fiscal union in which it can tax and spend directly.

We can justifiably ask ourselves why the Euro is necessary in the first place. Do we really need to go through all this reform-hassle? It's just a coin isn't it? Giving into these demands will be devastating to the European project. It is preposterous to think that abandoning the Euro has no impact on other aspects of the EU. Who guarantees that Schengen or the Single Market will not come under pressure? The Euro is the most prevalent product of integration. Its disappearance would have far-reaching consequences.

It is also the reason why we cannot return to a core of Euro-countries. In spite of the serious competitiveness differences, it would be a political kamikaze to kick out several other countries. Some have argued that even a fiscal union will not solve these fundamental differences. There is however, no other choice than to take the gamble.

Crises are also promising moments. Politicians need crises to optimize institutions. Yet, this time it's different. The rise of Euro-sceptic parties casts a shadow over the viability of the European project. The UK is not a Euro-country, but in coming months Italy, France, Netherlands, Germany and Austria will be holding elections. In all five countries Euro-sceptics could seize power. The EU will then be happy to maintain a status quo, instead of implementing the much-needed measures to strengthen the Euro. Relying on the current incomplete monetary union will result in a slow, painful suicide.

To avoid a crash, we need to integrate. It is an ambitious idea in the current political climate. The rise of Euro-scepticism is a self-fulfilling prophecy. Attempts to fix the Euro are blocked. Maintaining a status quo will undoubtedly lead to new crises, more resistance, and eventually the end. If we want to revive the Euro we have to be brave, give up our sovereignty, and move towards a fiscal and political union.

Europe of concentric circles... or divergent values

The elephant in the room is now too big to be ignored and too obvious to be buried in mumblings.

Author: Svetlana Slavcheva

The question of what the EU is and should become has been in the air ever since its initial creation. Through many difficult negotiations and crisis, the EU and its Member states have found a way to sneak through a concrete answers to these questions and somehow move forward.

With the UK voting to leave the EU, the "constitutional crisis" the union faces, does not take a diploma in finance or law to be understood. The obvious question now is whether there is going to be a renewal of the EU vows towards an "ever-closer union" or a newly agreed "partnership".

In a Europe of concentric circles the idea of a strong attraction force of a core of countries moving forward with integration seemed feasible and plausible until now. With the advent of Brexit, some see an opportunity to get rid of the pulling-back weight of the UK and move forward to the "ever-closer union" as wished for in the treaties. Founding countries seem worried with showing strength and

launching calls for a political union coming from Germany, European army to cope with terrorism coming from France, etc. However, in order to put in place a core as a driving force and circles leaning in the same direction with the ultimate goal to achieve a coherent union, shared values and an agreed direction are needed. Brexit is indeed a wake-up call. But it reveals also divergent answers to the question of what the EU should become from now on.

In the aftermath of Brexit the first meeting of importance was one of the six founding countries. In the unprecedented crisis the EU found itself, foreign ministers of the "old Europe" countries (namely Germany, France, Italy, Netherlands, Belgium and Luxembourg) only met to discuss the next steps, as opposed to previous emergency meeting of the 28 Members states. However, this will to lead and to respond unified also needs the circles around to follow in order to be effective.

In response, the Visegrad countries - historical gathering of Central and Eastern European

(CEE) countries including Poland, Hungary, the Czech Republic and Slovakia, are becoming more and more vocal, especially empowered by their convergent conservative politics contrasting with the other predominantly liberal members of the union. *"Crucial decisions about the future of Europe cannot be defined by two, three member states, or the founding states of the EU"*, would say the [Slovak Prime minister](#) in the week following the UK referendum. Poland would call for shifting of powers from the European Commission to the Council and a new Treaty founding a confederation and a "[Europe of nation states](#)". In other words, the supposed followers claim their place on the decision making table, thus questioning the relevance of this Europe of concentric circles. Having felt that now is the time to act, CEE countries push for powers to be given back to the national level and wish less EU, rejecting in embryo the bid of enthusiasts of a fast-tracked political union.

Substance-wise, EU policy disputes are also on the agenda where political values diverge strongly, too. Southern countries disapprove economic dogmas as recently the Greek prime minister called for an [anti-austerity alliance](#). The Visegrad countries oppose altogether the [Commission-led migration policy](#). Poland and Hungary question the basic EU values such as [the rule of law and media freedom](#), among others. Western countries seem determined to continue with the fiscal union/banking union. Eastern countries oppose the reform of the Posting of Workers Directive, and so on…

The current political unease is thus amplified by regional groupings with divergent values and aspirations - far-right and populist movements fueling anti-European sentiments all over Europe and EU leaders whose legitimacy has been [called into question](#) with voices asking for the resignation of the European Commission President, Jean-Claude Junker. In this context, calls for treaty changes are raised from different actors and with different intentions. Although necessary, a constitutional debate about the future of the EU risks becoming a dialogue of the deaf.

In these troubled waters, a convention for treaty changes risks to only crystallize what is already visible now - disputes over EU legitimacy and policy directions. But most importantly, for such an important re-launch of the EU project, a new impetus is needed. Most of the major developments the EU has seen have been achieved both because of crises and thanks to strong leaders. A crisis is now present. But are there strong leaders willing not only to talk the talk but also walk the walk?

Thomas Straubhaar: "Integration remains a political process."

For this month's Special Report, Prof. Dr. Thomas Straubhaar, professor of Economics at the University of Hamburg, shares his opinion on the current state of affairs in the EU's economy as well as the future of fiscal integration. He was the Director of the Hamburg Institute of International Economics (HWWI) from 2005 till 2014. In 2005 he joined the IZA Policy fellow network. In 2009 he was awarded the Helmut Schmidt Fellowship of the ZEIT Foundation at the Transatlantic Academy in Washington, DC.

Author: Dorin Chiritoiu

DC: *The economic situation of some of the EU members is not very bright with many members struggling with low economic growth rates and deflation. In order to restart the economy, the European Central Bank (ECB) has heavily relied on* quantitative easing (QE). *Now that such policies have been implemented, do you believe that the usage of QE was a good idea? Is it sustainable to continue "to print money out of thin air"?*

TS: If we focus on the short-term effects, we can say that **QE has helped to turn around the very negative mood in Europe** and **helped stabilise the European financial markets**. On the other hand, QE is associated with two long-term costs:
(a) **the loss of confidence in ECB** → the ECB has somehow lost its credibility and confidence to follow the rules that were originally agreed upon (e.g. not bailing out countries and/or financial actors). Other participants in the

market may interpret this as a signal that ECB might intervene again in the future;
(b) **the distortion of supply and demand within the capital market** → QE has destroyed the signals of scarcity and relative abundance in the capital market by pushing interest rates downward. In turn, interest rates have lost their ability to signal the real price of capital – on both sides – i.e. for savings and for lendings. Basically, QE has made capital free of costs. This is not true for the real economy as there must be some costs for the exchange of time preferences between current and future consumption when it comes to capital accumulation.

The sustainability of the extremely expansive monetary politics should be called into question as **nobody knows how to exit quantitative easing**. Even if someone knew, it would have to be taken into account that markets have already adjusted to the idea that the ECB is not only part of but player in the

market. Stopping the interventionism of the ECB will force the markets to self-adjust again.

supply and demand to re-adjust the credit and financial markets.

More and more economists are looking for alternatives to QE. One of them is the helicopter money solution. It is supported because the money could be directly given to specific market actors and not pumped into financial markets as QE does. How do you see this alternative?

I think that the helicopter money alternative, which has been extensively researched by Ben Bernanke, **could be a solution in those cases in which a short term market shock has occurred**. The Lehman Brothers fail was a shock, which extended to the entire financial system. Instead of flooding the banking system with liquidity, **the American Government could have helped its citizens** overcome the difficulties of the financial crisis by offering different monetary and financial assistance. For example, by targeting actors more directly affected by the dramatic fall in housing prices, the burden of the recession could have been eased to a greater degree from those suffering most.

However, **the prolonged Eurozone crisis has too many culprits**. Even if you want to give money for free, **you do not know to whom**. You have already tried to re-vitalise capital markets by engaging in QE. The market is already saturated with "money printed from thin air". Printing more will only further destabilise the financial and capital markets.

Therefore, the idea is to understand that the **helicopter money alternative and QE are measures that tackle short-term problems related to business cycles**. They cannot work as long-run growth strategies.

What should these long-run growth strategies be based on?

First, **we should put an end to the market interventionism**. We are far away from having free capital markets. They are strangulated at the moment. We should allow the forces of

After stepping out from the market, we can focus on what enhances sustainable economic growth: **increased competitiveness, modern infrastructure, education, and innovation**.

It is clear that QE hasn't alleviated the existent discrepancies across the European Union when it comes to income levels (East vs. West) and unemployment rates (North vs. South). Can convergence still be achieved? If yes, how?

I am very pessimistic. We live in a world of divergence and not of convergence. However, more convergence can be achieved across the European Union. Firstly, **institutions matter**. They matter as they enable governments to work in an efficient and effective way. Therefore, the legal framework of any state is important. Secondly, **a country has to guarantee people the necessary educational framework** in order to help its citizens develop their individual capacities and skills, and increase their individual knowledge. If the institutions work, the long-term effect will be that both economic and societal incentives are provided, encouraging educated citizens to remain in their home country.

A good example within the EU is Ireland. Ireland was a relatively poor country in the past, with high rates of emigration and political instability. However, in the last 25 years Ireland has managed to convince young citizens not to leave the country and to invest into their future in Ireland. The **inclusive institutions created in Ireland endured the effects of the 2008 financial crisis**. Such institutions have now seen Ireland exceed the levels of economic growth expected before the crisis. Ireland is a good case that has to be analysed in order to understand how convergence across the EU can be achieved.

At the moment, the EU is only a Monetary Union. It does exercise fiscal discipline with the Stability and Growth Pact but a fiscal union is out of

sight. Do you believe that further integration is possible?

Monetary union and a common currency with national fiscal policies will always be an instititional mechanism that provokes problems (e.g. bail out issues). This comes from the different needs of the national governments for specific fiscal rules at certain times according to national caracteristics and interests. A multitude of national fiscal policies provoke asymmetries and troubles. Personally, I am for a common fiscal policy. However, **the reality shows how powerful the forces of decentralisation and nationalism have become.** It will take a long time before realistic discussions of a fiscal union re-enter the European agenda.

What are the most convincing arguments for and against further European integration?

When it comes to advantages, we have to refer to: economies of scale; economies of scope; reduced negative and increased positive spillover effects; enhanced collaboration with other market actors; better financial and economic organisation of the fiscal union member. The disadvantages are related to the way in which the fiscal union will be governed. Will a central authority govern over the fiscal union? Or will there be more competitors? I believe that the main problems are political in nature, and not economic.

Nevertheless, once you have decided to go to a kind of currency union with a common monetary union, you also have to go the next step forward – common fiscal policy.

Would a common fiscal policy undermine the role of national fiscal policy?

Not necessarily. When it comes to fiscal policy, it is not either fiscal policy union or national policy union. **We can have both**. We have the examples of different federalist countries. We can adopt the general rules of a fiscal framework at the level of the European level,

while the execution of the laws can be delegated to the national bodies. We can still have a national tax law, a national fiscal policy, only that would be part of a larger European framework in the form of the European Fiscal Union. For example, in Switzerland we have national taxes and community taxes. **It is possible to have national taxes and European taxes.**

Is the European Union capable of promoting further integration at the moment?

Personally, I do not believe so. Too many actors are too short-sighted now. **The European Union did not deliver its promised prosperity and well-being in many states**. This allows some politicians to come up with easy and harsh solutions that can be understood by everyone (e.g. Brexit). We are not even sure that we can somehow enforce the pacts and contracts that have already been settled (e.g. the European Stability and Growth Pact during the Eurozone crisis).

Economic arguments can help. However, they are complex and more difficult to explain. According to the political science literature, it is easier to offer simplistic solutions to voters who view the future with a great deal of uncertainty in the context of increasingly complex globalisation. Integration remains a difficult political process. A complex process still ruled by the vested interests and not by the possible long-term benefits that accompany it.

> *"The European Union did not deliver its promised prosperity and well-being in many states. This allows some politicians to come up with easy and harsh solutions that can be understood by everyone."*

European Pillar of Social Rights: a blunt weapon in the fight for citizens' hearts

The EU licks its wounds after the Brexiteers' narrow victory in June. The Union's support base, which has crumbled under the EU's reaction to the economic crisis, needs an answer to prevent further decay. That answer might take the shape of what the EU is still largely lacking: a social rights dimension. But can the EU successfully wield this very sensitive national competence to fight the fear to lose authority? The answer is in the dosage. If social rights are the EU's weapon of choice to fight its negative image, the pillar is a blunt knife to the European citizens' heart.

Author: Hanne Cokelaere

Damned if they do and damned if they don't - the catch 22 of a European social policy

The outcome of the Brexit vote that saw a small majority of voting Britons reject EU membership has made a re-evaluation inevitable. The country's willingness to vote alone had leaders across the EU calling for a fresh start that would enthuse citizens for the EU project. Britons are not the only sceptics in Europe after all.

"What we learned from the Brexit [...] is that there is a group of people that feel lost – that are afraid to be the losers of globalization and internationalization and all the changes that are going on," Social Policy Commissioner Thyssen told journalists in Brussel, *"and they want more social protection."* Put less delicately; at least to some extent it's the European citizens' perception of the EU as an estranged and austerity-enthused elite that has inspired aversion.

If disenchantment with EU governance is what spurred on Brexiteer sentiment, President Juncker's Commission seems to consider social rights (part of the) the remedy. But it needs to tread carefully: too far into national waters and the intended cure might actually add to the EU's unpopularity. After all, member states' hard won social rights are the air to a welfare state's viability.

Enter the European Pillar of Social Rights

In his State of the Union speech Juncker described the Social Rights pillar as a "compass" to sail the Eurozone toward more

convergence – while steering clear of an unbalanced neoliberal austerity program. His goal? To complement the EU social acquis and mitigate the losses after the recent economic crisis – be it losses in welfare or in citizen zeal.

Much needed, undoubtedly, but [not enough](). With the Eurozone as its sole initial focus the pillar falls short of a restart for the EU as a whole. Created to sustain the Eurozone's economic policy, social rights remain a function of the economy. But it is the pillar's expected legal status that seals its unimpressive faith: its contents are likely to remain unenforceable guidelines.

Juncker says he wants social rights to counterbalance the weight of its economic competence. Without real power, however, the Social Rights Pillar will be a mere feather to the economic policy's lead. Or, if you will, the unwilling compass arrow to the economic policy's inevitable North.

The initiative's title is a give-away of the fine line the Commission president walks

In his proposal Juncker recycled the "pillar" label – only just thrown out in the 2009 Lisbon treaty. While suggestive of a strong foundational role, the word also illustrates the veritable minefield that is social policy on the EU level. The old pillar structure made the different levels of EU power in different policy areas very easy to grasp: far-reaching in community policies, limited in justice and home affairs, practically non-existent in foreign policy matters. The EU pillars' main function was to reassure worried member states on their continued authority. To use it today shows that the only acceptable way to introduce social policy in the EU is to keep it visibly out.

But the EU needs to tackle more than perception; more, even, than the very real consequences of recent austerity programs. Its problems are more structural than that. The lack of balance between economic and social

competence on the EU level has proven harmful for the same hard won national social rights that member states have tried to shield from EU interference. Regulation spill-overs do not stick to neat categories and have spoiled member states' social protection before – adding to EU aversion. With only the economic half of the scales within the EU's reach, the necessary balancing act has proven difficult. If the Social Rights pillar biggest merit is in its symbolic value, it is unlikely to tip the scales.

The Social Rights Pillar's founding fathers, therefore, need not fear going too far. [As yet]() they risks not going anywhere.

Increased social protection might be part of the solution but it is not an easy fix. When it comes to introducing social rights lawmakers face a Catch 22; damned if they do and damned if they don't. The Pillar won't be offensive enough for damnation. But it might be too close to doing nothing at all. In the fight for the citizens' heart it might be too blunt a weapon.

The Refugee Crisis and EU integration: The Need for a Fine Balancing Act

The ongoing refugee crisis in Europe is threatening to unravel the very fabric of EU integration. It played a decisive role in determining the outcome of the 'Brexit' vote, and has sown the seeds of discord across the EU. To prevent further disintegration, the Union must develop a coherent and comprehensive migrant integration policy, and because it must do this amidst a strained political-economic climate, this will need to be a fine balancing act.

Author: Izza Tahir

President Juncker of the European Commission has described the refugee crisis as the EU's foremost priority. In 2015, more than a million migrants sought refuge in the EU; another 1.5 million are expected to arrive in 2016, and 0.5 million in 2017. This unprecedented influx of refugees and the EU's discordant management of the crisis has led to increased political tension and public dissatisfaction. There has been a rise in xenophobic and nationalist movements across the EU, and the crisis played a critical role in influencing the decision of the UK to leave the European Union. To prevent this slow dissolution of the Union, and because the inflow of refugees is not likely to abate in the foreseeable future, the EU needs to successfully integrate these refugees. This can be best achieved by continuing to mainstream its migrant integration policies.

The EU needs to view the refugee crisis as an opportunity. Indeed, the long-term benefits of integrating refugees outweigh the short-term costs relating to the reception and processing of refugees, and settlement procedures such as the provision of housing and mental and physical health services, language training, credential recognition and education and employment support. The International Labour Organization estimates that the increase in public spending and the resulting gains in labour force can contribute to an increase in GDP of 0.2-0.3% by 2020. Furthermore, a larger labour force can offset the demographic crisis that Europe faces: because of its aging population, under zero net migration, the EU's labour force could shrink by 11.7 million (-3.5%) by 2020, and by 13 million (-4%) by 2030. Capitalizing on the diverse skills of its

migrants might spur innovation, productivity, growth and social cohesion.

Creating an environment where refugees are welcome is thus contingent on their successful integration. However, European policymakers are operating in a climate of limited public budgets, heightened political tensions and increasing public dissatisfaction. Skeptics point to the almost negligible net economic benefit of increased migration, and to the added burden of economically-dependent migrants. They point to migrant-related [reports](#) of criminal activity and sexual assaults threatening social harmony. They fear a shift in the ethnic make-up and identity of European society and worry about the security threat in light of the terrorist attacks that Europe has suffered since 2014.

EU policymakers thus need to successfully integrate refugees while assuaging the fears of the skeptics. This balancing act may be contrived by 'mainstreaming' migrant integration policies. Mainstreaming is essentially a [shift in focus](#) from specific towards generic policies and targets, and a shift from state-centric to poly-centric governance. Mainstreamed integration policies thus allow migrant populations to benefit from social programming aimed at facilitating integration that doesn't target migrants specifically but rather, diverse populations more broadly. For instance, a programme aimed at providing employment support to disadvantaged groups would not only benefit all such groups, but also migrant groups particularly, since they will be disproportionately over-represented. Mainstreaming policies also allows for cooperation across a number of diverse stakeholders, such as government, private and civil society actors, as well as between different levels of government. In order to be effective, mainstreamed policies [need](#) a coherent, comprehensive political discourse and implementable policy measures.

Mainstreaming integration policies will thus allow EU policymakers to make efficient use of public funds to simultaneously address the needs of the refugees as well as their own disadvantaged populations without specifically targeting the former and reassuring the latter that refugees are not benefitting at their expense. This will lead to social cohesion and a diverse, inclusive society in the long run, and [evidence](#) points to better integration prospects for migrants. Furthermore, even though migrant policies to some extent fall under the jurisdiction of individual Member States, this approach will allow for policy coordination across the EU.

Mainstreaming is no panacea, however, and critics will point to its limitations. For one, the generic nature and targets of policies may obscure or dilute the policy message that is essential when addressing complex social issues such as migrant integration. Second, it is not clear to what extent vulnerable groups will actually end up benefitting from such generic policies. Moreover, designing effective needs-based policies targeting migrant populations requires reliable ethnic statistics.

These are all valid points, but one can argue that they simply highlight the fact that mainstreaming is still a relatively new trend, especially in the field of integration policy. In recent years, the UK, Denmark, Germany and France, have [mainstreamed their migrant integration policies](#) with some success, but despite this [clear trend](#) towards mainstreaming, observers note that there is still room for improvement. Mainstreaming migrant integration holds much more promise of success than previously tried policies such as coercive integration or assimilation. And it is through mainstreaming that Europe will be able to achieve a balance between addressing the needs of its citizens, and ensuring future integration and prosperity by successfully integrating new citizens.

On the way to Trade Justice in the EU?

With the political and social challenges currently faced by the EU, as well as the threats of disintegration, it is essential to re-access the existing structures from several angles, namely its trade policy. One of the largest free trade agreements - TTIP is hotly under debate and CETA has been approved by the EU parliament. But should these be the fundamental and primary focus of the EU in this field for a healthy future of the Union and its citizens? Wouldn't it be more important to, instead of aiming towards big free trade agreements, focus first on how trade is done: its sustainability, development, justice and fairness?

Author: Gianna Merki

The World Fair Trade Organization (WFTO) – a global network of organizations representing the fair trade supply chain suggests the implementation of 10 essential principles to achieve these objectives which would consequently also support the reduction of worldwide poverty through better trading conditions.

Free trade has been for too long inconsiderate towards equity and justice and not even the WTO when indicating *what it stands* for has a word on labor standards, fair pay or human rights. Besides the need to re-structure and democratize the WTO in this sense, the important thing here is that the EU can and should become an example to the world in this field, representing progress and not the maintenance of the status quo. EU Trade must not be only about making trade cheaper, faster and maximizing profit, it also has to take EU core values such as justice, solidarity, development and reduction of poverty in the world into account.

While forced labor, child labor and gender discrimination are illegal within the EU soil and with ILO standards being implemented, what do we say about goods which enter the EU but are produced by unfairly paid workers, employees working in poor condition and living in poverty or eventually by individuals in forced/child labor? How can we as citizens reject this kind of standards for ourselves and within our territory but disregard the fact that some products we consume might come from such sources?

It would be relevant to take action towards clearly investigating and listing

corporations/brands/companies using unfair standards in their supply/production chains which would not be legal or accepted within the EU (whether forced or child labor, discrimination, poor working conditions, unfair payment, or (dis)respect for the environment). Unfortunately, this might be a difficult task, even more with the recent approval of the Trade Secrets Directive.

The solution can be in an *a contrario* approach, meaning, certifying products, brands and companies which assure to use international labor standards and fair trade. The WFTO has a list of guaranteed fair trade organizations and the Fairtrade International coordinates the fair trade labelling internationally and standards review. The more organizations/companies join such networks and are verified the easier it will be to identify the ones which don't comply with such principles or are not looking forward to doing so.

A suggestion here is that the EU should support these initiatives more proactively. A good start could be the regular publishing of analytical reports on several levels of fair trade achievement within the EU: What is the percentage of products entering the EU that is produced fairly? How can this be improved? What are the changes in comparison to previous years/year?

According to the Fair Trade Advocacy Office, the European Commission and European Parliament have recognized, throughout recent years, the importance of fair trade. The EC stated in a communication from 2009 that fair trade can *"be an effective way to foster sustainable and inclusive growth".* Also, the Committee of the Regions (CoR) has emphasized the relevance of local and regional entities in fair trade, supporting the implementation of a European Fair Trade Strategy in their own-initiative opinions of 2009 and 2015, which so far were not followed by the EC.

A clear set of policies on fair trade, as well as a defined framework and specific legislation is still lacking and there is no reason to delay it further since there is already a vision supportive of it. Fair trade also goes hand in hand with the Global Goals for Sustainable Development, beginning with the first – ending poverty, which is one more reason to start designing policy as of NOW.

The EU was founded on the grounds of trade and commerce and shall therefore be an example to the World in Trade Justice. It is time to change perspectives on trade in practice and not only in statements and vision.

A stronger Union in an insecure World

"Europe has never been so prosperous, so secure nor so free"
- A Secure Europe in a better World, the European Security Strategy from 2003

Author: Andrej Stefanovic

Affairs in which it was possible to write down such words seem worlds away from the situation we live in today, when the very concept of the European Union is challenged and put to a test, especially after the Brexit vote. Precisely because of this, it is important not only to reconsider the future development of EU's internal affairs and structures, but also the plans and ideas that would redefine the EU as an international actor. Even though it seems the new Global Strategy, adopted two months ago, has come at the right time, the question remains whether it will trigger an adequate new approach to EU's external affairs.

The situation in which the 2003 Security Strategy was adopted was also challenging: the EU (or at least a part of it) had found itself at odds with its greatest ally- the United States of America. The US was heading to Iraq to initiate its new grand strategy of pre-emptive warfare.

Attempting to maintain its special relationship with the US, but also trying to distance itself from its newly found understanding of the self-defence principle, and also enjoying the peak of its attractiveness and prestige with 12 countries eager to join it, the EU sought to define its role and behaviour in international politics through an all-round external action strategy. Unlike the Americans, the EU refined the idea of 'effective multilateralism' based on respect of international law and the dominant position of the UN in safeguarding international peace and security. Ultimately, the EU confirmed the notion of itself as a normative and civilian power, that seeks to reshape the world community in accordance with its values and principles - the same values that have inspired its creation. Regardless of the dissonance that existed between the US and the EU at the time, the transatlantic bond was still

hailed as one of the core elements of the international system.

Up until 2016 there was no similar document brought forth in the EU that would address the same range of issues as the 2003 Strategy, despite radical and dramatic changes happening both in Europe and outside of it. Unlike the 2003 Strategy, the [Global Strategy for the EU's Foreign and Security Policy](#), made public in June 2016, starts with the following words: *"We live in times of existential crisis, within and beyond the European Union. Our Union is under threat. Our European project, which has brought unprecedented peace, prosperity and democracy, is being questioned…"*. Possibly, the pessimistic tone that is present throughout the document would be even murkier had the Strategy been drafted following the British vote to leave the Union. Even without it, the situation in Europe seems grim: terrorism, organised crime, the refugee crisis, rise of the right wing in many European countries, and many other security considerations. The words quoted above seem to echo throughout the Strategy and render the question of Europe's future uncertain. Even though it is agreed in the new Strategy that the EU should continue to push for rules-based multilateralism, however it seems as though this goal is outweighed and set aside by some other novel elements in the EU's global strategic commitments.

When there is crisis, there is also opportunity. The caution underpinned in the new Strategy does offer an opportunity to question the EU as an international actor and its approach to international events, and to come up with new policies, new ideas, and, finally, a new meaning for its existence. In accordance with the cloudy disposition of the Strategy, there is a distance being made to the previous idealistic approach, which had a place in many EU documents and policies, and is replaced with a much more sober and down to earth pragmatic stance which would guide EU's activities in the world in the future.

This new approach of reconciling the idea of defending and spreading values, on one hand, and having a more realistic framework in thinking about the world, on the other, is coined - **principled pragmatism**. Hand in hand with a more pragmatic approach towards international politics is the need to acquire even more strategic autonomy in acting internationally which would presume strengthening Europe as a security community. Even though NATO would continue to be the main framework of collaboration and cooperation, Europe would have to invest more in its own defense and security in order to survive both internal crises and external threats of different nature.

It is up to the Commission to guide into the right way to EU democracy

However desirable it may seem for political organizations to endow themselves with the halo of democracy, the European Union should be cautious to hastily "democratize" in response to the Brexit. Reform efforts to tame spreading Euroskepticism are necessary, yet not according to national standards. The EU will have to develop its own unique, transnational version of democracy.

Author: Jacob Thaler

When the European Coal and Steel Community came into being in July 1952, the founding governments felt that the mines and factories of Northern and Eastern France, Belgium, Luxemburg and West Germany already formed a single economic unit. 64 years later, the "Take back control"-Brexiteers cry foul and leave a message on Britain's empty chair in the Commission's Berlaymont building in Brussels that could read like: "It's not the quality of the policy outputs coming from Brussels that we doubt but the ability of Brussels to produce quality outputs at all."

The convergence of national interests is one prerequisite for international cooperation. Over time, the European Commission has reasserted its authority and established an independent role as the vanguard of European integration. In an ever-growing European Union, however, citizens across all member states recognized the waning ability (and aptitude) of their national governments to "negotiate away" different or even opposing national interests at the table prepared by the Commission.

Traditional Commission roles are outdated

Refocusing EU politics on major issues, a solution proposed for the post-Brexit aporia, is thus an illusion. However acute the challenges posed by climate change or Islamist terrorism are, a 'one-size-fits-all' policy is a relic of bygone times. Although governments may agree on the ends in principal terms, this is hardly ever the case for the means. For example, member states generally approve the 20-20-20 target of the EU's climate and energy package, yet, the question of decommissioning brown coal power plants to reach this goal drives a wedge between Western and Eastern European members.

A return to a passive Commission member states only resort to for the purpose of implementing and monitoring prior agreed upon policies, however, is not a solution either. That would only shift the impasse the EU legislative process reaches all too often to an earlier stage. Be it 28 or 27 member states, since the 2004/2007 Eastern enlargement, the EU has grown to a critical mass requiring the impulse from outside and above national bureaucracies in order to create reliable cross-border synergy effects.

Multi-level governance requires multi-level institutionalization

For the EU to tame the centrifugal forces of Euroskepticism, the Commission must not try to resolve its now constitutive predicament in favor of either the instrumental power-logic of national governments or the synergy-logic of autonomous supranational institutions. To the very opposite, it has to conceive this tension as an energy source and try to lift the burden of a unilateral adaption process that runs either from the members states' governments to the supranational EU institutions or vice versa.

The EU needs an effective arbitration mechanism that facilitates lateral as well as vertical compromise-finding. No national standard of democracy alone is sufficient to achieve this. In fact, a majority system à la Westminster strongly favors a clear, stable decision-making process over a proportional representation of all relevant interests. Taking the Brexit-decision seriously means to equalize the European policy-making process. The support of intergovernmental endeavors aimed at developing a shared reality and hence fostering a rapprochement of national interests needs to gain center stage of the Commission's efforts to propel European integration. Multi-level governance requires multi-level institutionalization.

A truly transnational democracy

The task is to anticipate the potential for future intergovernmental cooperation and, equally important, the danger of negative externalities of isolated national actions on third EU parties. The latter is a neglected, yet essential pre-structuring measure enabling a continuous, stable supranational institutionalization process which avoids a devastating zero-sum game. Now the EU has the chance to position itself as a global example of a resource-effective political organization.

As a hybrid-institution between intergovernmental pre-structuring and supranational institutionalization, the Commission would, to a large part, determine the nature of the union's democracy. It would be a truly transnational democracy; one that tends to produce stable interest-institutionalizations which reflect real-world interdependencies. That is not utopian. It would combine the best of the majoritarian and the proportional democratic system, the best of two worlds.