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Future prospects
Facing the E(M)U challenge: a new policy package through a new political deal

David Natali

As shown by this edition of *Social developments in the EU*, 2013 was characterised by a mixture of highs and lows. The low-points were the apparent stalemate of the institutional and governance reforms and the rise of anti-European political movements. The high-points included the lively intellectual and political debate on the future of economic and social governance that developed in the run up to the European elections of May 2014. All in all, the events of 2013 confirmed the generalised perception of the urgent need to reform E(M)U economic governance and its interplay with the still insufficient social dimension¹.

As stressed by many contributors (Vandenbroucke *et al.* in this volume), Social Europe is necessary – for functional, economic and political reasons – if we are to find a way out of the crisis. This concluding chapter provides some further reflections on the future of the European Union and the highly complex problems to be tackled by policymakers. If Europe is to be rescued, a new deal must be struck between economic integration and social protection, and between supranational institutions and Member States.

The key question which we address here is: what is the right strategy to tackle the problems of the EU? To answer this, we first need to look back at the origins of the European Union and at the main phases in its development. Previous chapters (see Degryse *et al.* and Hemerijck) have shown the importance of a historical approach in analysing the

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¹. Here we are using the acronym E(M)U to represent the persistent ambiguity of the debate on the revision of the integration project. Some analysts focus on the EU, others on the more limited eurozone. This is part of the on-going confusion surrounding what to do to rescue European integration.
EU. This is useful in order to trace the long-term evolution of both the ideas and the institutions that have characterised EU integration. In order to know where we should go next, it is important to know where we have come from.

European integration has in fact been characterised by different phases, each marked by a specific paradigm. The latter (sets of norms, goals, and instruments) consists of two main elements: a policy framework that defines the economic and social ambition of the project, and a political framework that provides a model for the interaction of national and supranational political institutions.

As we show below, the evolution over time of the integration project has been characterised by two distinct phases. The first of these emerged from the Treaty of Rome, and proved effective – at least until the 1970s – in providing economic growth for Member States and social protection for their citizens through a process of convergence. The second phase emerged from the Maastricht Treaty and has been much less effective, as demonstrated by the recent economic crisis and the gradual divergence of the Member States’ economic and social performances. Both its policy and political dimensions are fragile. There are policy problems relating to the persistent fragility of economic growth, high unemployment, and the increased divergence between the North and the South. The political tensions concern the lack of legitimacy of the EU and the apparent fragility of popular support for a more in-depth integration. The hypothesis put forward in previous chapters, and endorsed in this concluding contribution, is that Europe needs a new paradigm, to be achieved by means of an in-depth revision of both its policy and political components. It is not just a matter of adding a social chapter to the broad system of economic and monetary governance, but of carrying out an in-depth revision.

Section 1 below looks at the paradigms that have historically shaped the integration process: the post-war paradigm (set up with the Treaty of Rome) and the paradigm underlying Monetary Union (based on the Maastricht Treaty). Section 2 looks at the current flaws in the E(M)U project inherited from Maastricht and the need for reforms. Section 3 sheds light on the prospect of a new compromise, the persisting weakness of support for a reinvigorated social dimension, and a new consensus for a fairer and more mutually-supportive Europe.
EU integration as a two-dimensional process

The evolution over time of European integration has been characterised by changing policy and political frameworks. The two dimensions are in fact part of a paradigm, setting economic and social policy goals, as well as the political dynamics and the source of legitimacy of the institutions involved in the project. As put it by Scharpf (1999), we look at output and input legitimacy. Output legitimacy derives from a recognition that rules have effectively solved problems; input legitimacy builds on the idea that political choices are derived from the preferences of citizens. Both policy and political frameworks are based on a division of labour between the EU and the Member States. This section summarises the two paradigms that have inspired the EU so far.

The post-war consensus

In the words of Ferrera (2005), the EU project, when it was launched in the 1950s, was not intended to challenge the national welfare state. On the contrary, it consisted of a virtuous interaction between open economies – integrated through the Single Market – and a closed area of solidarity defined at the national level. The idea was akin to the division of labour exemplified by the famous ‘Keynes at home, Smith abroad’ slogan (Gilpin 1987). The policy framework underlying the Treaty of Rome was meant to favour Member States’ economic competitiveness through the completion of the single market. The benefits of economic growth and wellbeing were expected to help reinforce the national roots of the welfare state. And this did happen, at least until the 1970s. Ongoing economic growth granted increased legitimacy to the European project and provided the resources needed by national welfare states to further integrate European societies (Natali 2012: 221). At the European level, as stressed by Hemerijck in this volume, market integration contributed to economic prosperity, while at the national level ‘Keynesian economics and Beveridgean social insurance (...) made modern capitalism fit for mass democracy’. In the meanwhile, budgetary and monetary policy still fell within the competence of the Member States.

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2. Paradigms consist of a coherent causal and normative framework and the set of instruments to implement it (Hall 1993).
In terms of a political framework, European politics was marked by a key role for technocrats, operating through regulatory instruments. EU policymakers implemented the market-making strategy using EU legislation aimed at increasing competition and equal opportunities. Supranational institutions worked in a context of ‘integration by stealth’ (Majone 2005). In the words of Pascal Lamy, ‘this was Monnet’s approach: The people weren’t ready to agree to integration, so you had to get on without telling them too much about what was happening’ (Ross 1995: 194 quoted in Majone 2010). European institutions thus received output legitimacy derived from the effectiveness of regulations. By contrast, Member States’ political institutions received both input and output legitimacy. National institutions involved political participation by and representation of the people to address problems of redistribution (input legitimacy). Decisions on budgetary and welfare policies resulted in political conflicts and compromises. Such decisions also gained output legitimacy due to the long-term economic prosperity and the improved protection against social risks (Figure 1 below).

![European integration paradigms](image)

The virtuous interaction between economic integration at European level and the welfare state at national level peaked in the 1970s (at the end of the ‘golden age’ of welfare). Since then, such an interaction has
become much more difficult to achieve. In the 1980s, the need to re-launch the European project resulted in a new, ambitious project: to complete the single market and then create the EMU. At that time, the idea was to revise the old compromise between economic integration and social cohesion. Reinforced protection under the four fundamental freedoms and stricter control of budgetary and macro- and micro-economic policies should have been accompanied by new impetus for defining social Europe (Natali 2012). None of these attempts, however, helped to save the old paradigm (see Pochet 2005 for a detailed review of these attempts).

The Maastricht consensus

At the beginning of the 1990s, the European project set out the end of the post-war compromise as we knew it. The Maastricht Treaty of 1992 provided a new paradigm to reshape interaction between the EU and the Member States. The Monetary Union represented a new step in the integration process and an in-depth revision of the policy package agreed on after WWII (Degryse et al. in this volume).

The EU became more ambitious for the liberalisation of capital transactions, the full activation of the single market for persons, goods, services and capital, and the strengthening of competition policy. The launch of the EMU then added more tools to complete the currency union, through convertibility of currencies and the elimination of margins of fluctuation and the irrevocable locking of exchange rate parities. Verdun (2013: 24) has spoken of an ‘asymmetrical EMU’, with full integration of monetary policy (a true monetary union) but still limited integration of economic policies (a less developed economic union). The new policy paradigm was inspired by the Delors report of 1989 (ibidem).

The Maastricht consensus also largely destabilised the previous division of labour between supranational and national institutions. The new paradigm saw a key role of the EU in monetary policy, with more explicit influence in the field of budgetary policy (and indirectly in the area of social policies). This means that the key policy objectives of the integration process have been set in terms of strengthening the internal market, improving monetary stability (e.g. low inflation), increasing
long-term viability of public budgets, and emphasising the need for structural reforms to boost competitiveness. Indeed, if compared to the policy aims of the ‘post-war consensus’, this was a quantum leap. The new paradigm was thus framed in terms of ‘Smith at home and abroad’ (Natali 2012). In the meantime, Member States have seen a much reduced autonomy in the fields mentioned above: monetary policy has been shifted to the supranational level, and budgetary policy and welfare states have been put under pressure by the (stringent) guidelines proposed by the EU.

These trends have not been accompanied by a full and coherent package of institutional reforms, consistent with the revision of the political framework of the integration process. The EU has started to interfere with redistributive policies, thus going beyond the regulatory fields of competence which characterised the ‘integration by stealth’ phase. On the one hand, no additional sources of input legitimacy have been added through the Treaties. On the other, output legitimacy started to weaken in the shadow of turbulent economic contexts and cyclical downturns. Citizens started to show signs of mistrust towards their national political institutions (Figure 1).

The political framework introduced through the Maastricht Treaty was a sort of patchwork: a combination of even more technocracy and some intergovernmental features. The prime example of the move towards a more technocratic approach is that of the status of the European Central Bank (ECB). The latter had a constitutional status granting it full independence. In the words of Majone (2010), national parliaments of the eurozone Member States have lost any control over monetary policy, while the European Parliament has no authority in this area. The ECB is free to operate in a political vacuum. As for the intergovernmental features, the EMU Treaty of 1992 recognised the need to promote more integration in monetary and economic policy (EMU), as well as in other fields, but it interpreted integration as increasing coordination between Member States’ governments (Amato et al. 2013: 29). In the words of Bardi (2013), since Maastricht it has been generally agreed that the EU’s policy decisions would be legitimised by a sum of national legitimacies transmitted through intergovernmental institutions.
The EU challenge: how to set up a new policy framework by means of a more legitimate political compromise

Neither the policy nor the political framework underlying the Maastricht consensus have delivered what the EU leaders expected. Contributions to this volume (namely Hemerijck, and Vandenbroucke et al.) have stressed the main flaws in the new integration paradigm.

The first policy problem has been the asymmetry in the design of EMU. The lack of fiscal powers has proved a major flaw. Monetary integration and the increased stringency of budgetary coordination have eliminated two key instruments that Member States used previously to address economic shocks: currency devaluation and public (welfare) spending. Economic shocks cannot entirely be absorbed by national policies alone, given the constraints imposed by the single monetary policy and since devaluation cannot be used to help remedy the situation. Many have thus stressed the need for a eurozone fiscal capacity, as a form of insurance.

Weak economic coordination is the second shortcoming of the current policy design. Insufficient macroeconomic coordination and misaligned wage and productivity developments translate into significant competitiveness divergences, with high deficits in current accounts in some countries and high surpluses in others (see Fichtner in this volume). If left unaddressed, this situation results in prolonged economic divergence.

A related problem concerns the balance between economic and social policy coordination. Since the Maastricht Treaty, many attempts have been made to improve this balance, but with limited results. The supposed balance between the economic and social dimensions has not materialised: the European social dialogue has seen both progress and setbacks, and EU social legislation has not advanced very much, while the attempt to achieve soft coordination through new modes of governance has been partially successful. What has become increasingly evident (especially since the Great Recession) is the different pace of integration in the economic and social dimensions, and the predominance of neo-liberal orthodoxy in EU policymaking (Vandenbroucke et al. in this volume).
All the policy tensions mentioned above have clear political implications. Pure technocratic policies are no longer appropriate for the EU. This is true of the ECB and its increased role in monetary and economic policy. While some commentators have given a positive reading of this trend, others see it as a perpetuation of the misguided institutional assumptions behind the Maastricht Treaty (Majone 2010). The bank’s role as a fully independent body is the result of a lack of mechanisms for economic governance (e.g. more advanced economic policy coordination). Until these failings are fully addressed, the ECB, by default, will continue to exercise authority over the entire domain of monetary policy (ibidem, 7).

The rise of intergovernmentalism is at the origin of further tensions. Key decisions taken since the crisis have been the result of intergovernmental agreements and are perceived to be imposed by the stronger Member States (namely Germany) (Bardi 2013). As a consequence, output legitimacy no longer works, while input legitimacy is still weak.

Some authors have spoken of a ‘dyscrasia’ between the Member States and the European political process. While policy decisions are in the hands of European institutions and bodies (e.g. the ECB) – which are as remote from citizens’ control as possible – politics remains at the Member State level (Matarazzo 2103).

**What strategy for a new paradigm?**

Europe thus needs a new policy framework, abandoning the ‘Smith at home and abroad’ strategy, but it also needs a new political compromise that goes beyond the old ‘Monnet method’ and the more recent revival of intergovernmentalism. The two sides of the challenge need to be addressed together.

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3. The Convention of 2002/2003 tried to address this problem by means of a European Constitution. The aim was to reinvigorate the Community method and to increase the input legitimacy of the EU. However, its failure following the referendums in France and the Netherlands blocked progress in this area, with some minor exceptions (Amato 2014).

4. This leads to the ‘policy without politics’ phenomenon: poor policy-making and weak democratic accountability (Schmidt 2012 quoted in Matarazzo 2013).
In the following sections we shed light on the outcomes of the intense debate between stakeholders and analysts: two paths for a new policy and political strategy. The minimalist path is a very pragmatic approach to addressing present problems: it seems feasible but may not turn out to be particularly effective. The second path is more ambitious and innovative: it needs more political support and courage but may – and this is the risk – become impossible to achieve.

Two paths for a growth-oriented policy strategy

The minimalist path to growth

One line of action is highly pragmatic. It takes account of the evident (both political and legal) limits that make it very difficult to effect a quantum leap towards a more federal Union with powers in the area of economic and social policy. The idea is thus to take a ‘step by step’ approach, consistent with the recent trend of coordination of economic and social policies. An interesting insight comes from Thillaye (2013a and 2013b), who has provided a comprehensive study of the potential for enhanced coordination. In this scenario, the ‘Smith at home and abroad’ framework is not abandoned, but revised.

A first opportunity comes from the ‘horizontal social clause’ introduced by the Treaty of Lisbon (Article 9 TFEU). This clause has not yet contributed to enhancing the social dimension of Europe. It could, however, be more systematically invoked, and, in parallel, the social pillar of the EU’s Impact Assessment procedure could be strengthened. This would require the mainstreaming of the EU’s social objectives into all policy areas and through all different tools (regulation and coordination).

A second instrument is the European Social Dialogue. This could serve as a platform for progress in wage setting and coordination in this area among E(M)U Member States, and for the establishment of new, pan-European programmes (such as minimum wage regulation or an

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5. We are not referring here to the more radical proposals for a gradual limitation of EU competencies in economic and social policies, which would in fact undermine the EU project (see De Beer 2013).
6. See Marlier and Natali (2010) for an in-depth analysis of these instruments.
unemployment scheme for the EMU members). The latter exercise has proved to be very difficult, but new attempts could build up a common understanding of cross-national issues. One option could be to formally involve social partners in the discussion of wage developments within the Macroeconomic Imbalance Procedure, as was discussed at a recent meeting of the Council's Employment Committee in the presence of social partners (Thillaye 2013a). This is also envisaged by the Commission in the Communication on a social dimension of the EMU (European Commission, 2013).

A third route could then be the recalibration of the European Semester and a more balanced implementation of the Europe 2020 agenda for smart, sustainable and inclusive growth. As argued elsewhere (Sabato et al. 2014), the EU should deliver an assessment of the impact of these on the achievement of the Union’s long term objectives of convergence and sustainable development. Recommendations based on the Stability and Growth Pact and the Macroeconomic Imbalance Procedure (MIP) have often been detrimental to a true social protection and investment strategy. To deliver what has been promised in terms of poverty reduction and investments in education, for instance, a more explicit focus on the coordination process has to be achieved. The Social Protection Performance Monitor (SPPM), set up by the Social Protection Committee and endorsed by the Council in October 2012, provides EU policy-makers and leaders with a set of social indicators consistent with reinforced coordination. This could be a good complement to the ‘convergence and competitiveness’ agreements to be signed between Member States and the EU, to help with structural reforms and pro-growth strategies (Vandenbroucke and Vanhercke 2014).

All these measures (summarised in Figure 2) can be easily activated and could provide short-term improvements to social policy coordination. There is a risk, however, that they might perpetuate an ‘invisible’ and ineffective strategy that would not change the policy or political inertia of the EU.
The more ambitious path to growth

As stressed by the previous chapters, a more ambitious strategy means providing E(M)U with all the instruments it needs to address asymmetric shocks and create an integrated monetary union, with more stringent tools at its disposal than simple budgetary and economic coordination. This is what Henning and Kessler (2013) have underlined as the key characteristic of the US federalist system: the federal government does not provide any guarantee for state public debts, but it intervenes through growth-oriented investments to help those states that suffer a sovereign debt crisis and consequently implement austerity measures (quoted in Amato 2014). In this case, the policy framework can be summarised by the slogan ‘Smith and Keynes at home and abroad’.

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7. Member states’ room to manoeuvre to follow Keynesian policies largely depends on their budgetary conditions, e.g. public debt and deficit level.
Two largely complementary measures are often proposed as a way to make the EU policy-mix more balanced and more favourable to economic growth: providing more financial resources to the EU (and eurozone) budget, and giving EU institutions some powers in the area of redistributive policy. The chapters in this volume have already provided a detailed assessment of some of these initiatives: the setting-up of a minimum income programme, a pan-European unemployment insurance scheme, etc. The latter scheme in particular would require active involvement of the social partners, who would play a key role in improving legitimacy and effectiveness (Figure 2 above).

Many have stressed the need to improve EU resources for growth and have proposed the implementation of a new pan-European Corporate Income Tax at EMU level. Here the focus would be on establishing an EMU budget of around 0.5 - 1% of the 18 members’ GDP. This would, in the short-term, increase the resources available for growth-enhancing measures, while combating so-called fiscal optimisation.

A further possibility would be to stimulate investment through the European Investment Bank and investment projects, but, as stressed in the introduction to this volume, this kind of approach also needs time to be rightly implemented and produce effects on growth. Financial support would also strengthen the EMU’s social dimension by gearing Member State funding, for instance, towards ‘the modernisation of vocational training systems or increased effectiveness of labour market policies’. In general, education and training, R&D, technological innovation, environmentally sustainable modes of production and consumption, active ageing and lifelong learning strategies, care services (in particular, child care), and other services aimed at improving people’s quality of life are all key areas on which resources should be concentrated (Sabato et al. 2014). ETUC (2013) has proposed a coherent set of measures to boost investment in Europe: through the investment plan for sustainable growth and quality jobs, the European trade union movement has provided a list of priorities for an alternative policy path.

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A recent essay by Boitier et al. (2013) clearly demonstrates the potential effect of more growth-oriented investments both at EU and national levels. Average growth in the EU in the next two decades could double, from about 1% to 2% of GDP, with consequences for the labour market – an increase of about 15 million workers in the EU labour force by 2030.

Two paths for a more legitimate political framework

In the same way as we see two possible approaches to the policy framework, we also see two possible paths ahead for the political framework: one minimalist approach, based on the legal and political status quo, and a more ambitious path, pursuing a more ground-breaking strategy towards making the EU more democratic and effective.

The minimalist path (back to the Member States)
The more pragmatic approach is somewhat sceptical as to the prospect of a more politicised and federal EU (Hurrelmann et al. 2013). Much of the literature has cast doubts on federalising trends, and sees the scenario of a more in-depth cooperation between Member States as more realistic than a European federation.

This is the case of the ‘republican’ approach to democratic legitimacy put forward by Bellamy (2013). In the view of the author, the republican account regards democratic ‘inputs’ as of intrinsic worth, and as the only legitimate means for pursuing and preserving citizens’ rights and interests (Scharpf 2012). Republicans contend that the democratic legitimacy of states depends on these being representative of a people; politicians and their policies should thus be accountable to citizens. Bellamy applies this approach to the European context and concludes that the EU is legitimate if it represents the Member States and their ‘national citizens’, rather than a hypothetical European ‘people’. In line with this ‘republican’ logic, the future EU is expected to work by means of intergovernmentalism and will be based on a differentiated process of integration at different levels.

This is what Buras (2013) calls the ‘silent revolution’, which has occurred since the sovereign-debt and institutional crisis. Different groups of countries have entered into deals, using EU or international law, to
address specific problems, such as public debt (through the ESM) and migration (via Schengen) (see also Fernandez 2013). This could also be a possible path to follow in the near future: a less ambitious Europe, with sectoral networks (made up of regional institutions, NGOs, etc.), which would work from the bottom up to build a ‘Europe of excellence’ in fields such as environmental protection, research, etc. (Zielonka 2014). If applied to the E(M)U context, such an approach could imply the splitting-up of the eurozone and the setting-up of a new monetary system for the southern periphery (Amato 2014).

This politico-institutional scenario would be largely in line with a policy path giving priority to coordination between national institutions rather than further integration. Member States would remain the main source of political dynamics and conflicts, while EU institutions would become progressively weaker.

**The more ambitious path (towards a federal EMU)**

Many analysts and stakeholders have designed a much more ambitious strategy to rescue Europe (Versini 2014). Here we are referring to those who have called for a new ‘grand plan’ for a more federalist type of integration (see Giddens 2013, Tsoukalis 2013). Two hypotheses have been proposed: on the one hand, a strengthening of the legislative power, with a second parliamentary chamber; on the other, the strengthening of the executive power, with a stronger President of the Union or even a merging of the roles of President of the Commission and President of the European Council into one figure.

A group of French intellectuals, including Palier and Piketty, have proposed the introduction of a parliamentary chamber for the eurozone. This chamber would be made up both of MEPs from the 18 countries belonging to the eurozone and of a selection of national parliamentary members. Such a system would address the democratic deficit of the EMU and increase the legitimacy of the EMU institutions, in a context in which multinationals could be asked to pay EMU taxes, or Member States would have to pay a fee. In other words, these would be the first steps towards a true federation.

An alternative scenario would be that of a stronger President of the European Council. This figure would be elected by an assembly of
representatives of both the European Parliament and the Member States’ parliaments. As an alternative, others have considered merging the two Presidents, of the Council and the Commission, into one figure: the President of the Union (Duff 2006). The latter would be head of the EU executive. He or she would be appointed following European elections in which candidates would compete against each other. Then the President of the Commission could also take on the role of President of the European Council.

These two approaches, reinforcing the legislative and the executive power, would lead to more EU competence in the field of economic and social policy. For Giddens (2013), among others, political integration should address the major risks of climate change, social insecurity and migration flows. While all this seems reasonable, the main problem relates to its feasibility. In the wake of the recent European elections, a more fragmented parliament and the growing wave of anti-Europe sentiment seem at odds with such a grand plan (Garbasso 2013).

Whatever the strategy, who will support it?

In the above sections, we have summarised the set of options (and others could have been mentioned) discussed in the European and national debates. Some of these, especially the most ambitious, would need huge political support to become real steps towards a more effective and legitimate E(M)U. This is the crucial point to be addressed by stakeholders and political forces.

The recent European elections have confirmed the growth of anti-European forces and the weakness of the more traditional political parties. The results open up new scenarios for the future, some of which would seem to offer more risks than opportunities. This is a challenge for politicians, but also for the trade union movement and for social partners in general. As emphasised above, one of the few points common to both the minimalist and the more ambitious plans for Europe is the need for strong social partners able to move beyond the status quo and to provide ideas and organisational resources to the EU.

April 2014
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All web page links were checked on 11 June 2014.