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## 2019: The year for a fresh start in Europe?!

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# **IW-Policy Paper 4/19**

## **2019: The year for a fresh start in Europe?!**

Michael Hüther

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## 1 Opportunity for a fresh start?

1. The good news is that Europe will not be dominated by populist parties. For big tent parties, i.e. the conservative EPP and the social democratic PES, however, results still aren't rosy – they are looking at heavy losses, including the loss of their joint majority. From now on you need at least three parties to get most votes, handing either the Greens or the Liberals the role of king maker. But decision making in the European Parliament has always been characterized by often-changing majorities based more on factual debates and less on voting according to party discipline. The debate will probably become a bit more pluralistic but not fundamentally different from the current situation. As regards policy priorities, climate and environment are expected to be even more centre stage; security policy, ranging from migration-related topics to the fight against terrorism will remain high on the agenda, as will the reform of the Eurozone, incl. financial policy and the rule of law.
2. The Debate about the Future of the European Union has been under way for a long time now and is fuelled by opinions from the highest levels. First it was the European Commission whose “White Paper on the Future of Europe. Reflections and scenarios for the EU27 by 2025” systematically got the ball rolling on 1 March 2017. Then President Macron formulated his firmly pro-European position in two statements addressed to the European public (his speech at the Sorbonne on 24 September 2017 and his election appeal in different European newspapers on 5 March 2019). They contain some far-reaching – and uncoordinated – proposals that lack a system and internal coherence; some of the proposals are far from convincing too. The same applies for opinions in German politics, which took a long time to appear, are much more defensive and partly reactive, though the Treaty of Aachen shows the joint will of the Germans and the French to drive Europe forward.
3. In any case, it seems necessary to identify the fundamental directions before defining areas of action, and then using these to derive action strategies which do not ignore the fact that there are many different opinions about the European idea, in spite of its historical dimensions, while criticism and even rejection are articulated just as pointedly today as approval. First formulated in 1983 at the European summit in Stuttgart, the declaration “to progress towards an ever closer union among the peoples and Member States of the European Community” has ceased to be self-evident, leaving demands for a “United States of Europe” unchanged and therefore without reflection.

To put it another way, what does “towards an ever closer union” mean today after the establishment of the single market, after the Southern and Eastern enlargement of the EU, and after the establishment of the European Monetary Union? What would the Delors report, which responded at the time to a phase of deadlock, a lack of orientation and European aporia, say today? These days you would look in vain for such a comprehensive

programme for progress, or even better, the creation of European integration. The question of “where to go” is answered by seeking to optimise the partial political orders in Europe just now, instead of considering which problems and challenges could be tackled most effectively at EU level. It is exactly these seemingly self-evident issues of the EU’s efficient integration mechanism that need to be discussed, which no longer seem to be automatically plausible.

4. Recognising the perspectives of Convergence or Cohesion in the European Union also falls into the context of basic considerations. The global financial and economic crisis in 2009 led to a situation where the fundamental East-West convergence, i.e. the relatively robust catch up of the Visegrad countries to the established integration participants in the West, was distorted by the weak development in the southern states of the EU. At the same time, the structural weaknesses of the countries in the first and second southern enlargement (1981, 1986) that were the hardest hit by the sovereign debt crisis and the crisis peaks in the banking sector, were brought to light in particular.

Studies on institutional convergence show the same difference: while Central and Eastern European countries are getting constantly better in this respect, southern Europe – particularly with the sovereign debt crisis – reveals a deterioration in the quality of the state and institutions that has yet to be properly corrected. It is worth noting that this not only applies to Greece, which just joined the EC in 1981, but also to the founding Member State of Italy. The EU is unable to cope with this in the long run. For a fresh start, there is a need for a convincing convergence outlook in order to cushion the centrifugal forces, primarily of the tardy nations in Eastern Europe and the crisis states in Southern Europe.

5. In January 2019, the European Parliament agreed on new rules to ensure the rule of law that will be channelled into the next, medium-term financial framework of 2021-2027. Under the new rules, and supported by a panel of independent experts, the European Commission is to identify “general deficits in the rule of law” to adopt various measures against the governments of the Member States in question (suspension of payments, reduction of pre-financing amounts). The implementation of such decisions requires the approval of the Parliament and the Council. Regardless whether these rules will be adopted or not, this clearly illustrates a functional problem of the EU since the debates about respecting the rule of law and the incorporated values reveal difficulties with safeguarding the common principles of law in the Union amidst changing political majorities in the countries. It will ultimately only be possible to solve this conflict when the fundamental perspective of Europe rests on a realistic basis that does not negate the existing differences in preferences. This requires a review of self-evident issues deemed questionable, and a common answer to the question of “What Europe will we need together in the future?”, or rather, “Do we understand Europe as a common space, and if yes, how?”

## 2 Orientations: against separated self-evident issues

1. European integration is not a project, it is a process that is never completed but is constantly under way and in progress.
2. European integration is not against nation states, it is based on them. The positive aspects of the nation state as the expression of modernisation in modern history – freedom and equality of citizens, security for and the framing of the public realm, the shaping of identity and cultural differentiation – are essential for conscious coexistence in an association of states with federal elements.
3. The European Union is an attempt to tackle the negative side of the nation state under the motto “United in diversity”. Unprecedented in history, the horizontal integration in Europe led countries to relinquish sovereignty voluntarily for the first time, resulting in “European multilevel constitutionalism” made up of the national (partial) constitutions, and the constitution-like legal basis of the EU.
4. Nations have different histories, and they have developed different identity effects for citizens’ feeling of belonging. There are early nations and there are tardy ones. Nation-building processes for countries playing catch-up can be accelerated, but not outpaced. It seems that it is precisely the younger nations in this sense that are critical of the restrictions of internal sovereignty stemming from the relinquished sovereignty and the challenging of the associated identity.
5. The European Union must be serious about the danger of overstretching the integration idea by being ignorant of historical relativity, cultural differentiation and national identity needs. This topos takes on significance considering the diverse regional breakdown and corresponding allocation of competences in the EU Member States. Not instinctively interpreting the pressure for change from the regions as being against Europe is also part of this.
6. The principle of subsidiarity, which only became legally applicable in 1993, has in fact proved to be far less effective than hoped. The associated idea at the time was hampered in its implementation due to the rather different interpretations of the principle of subsidiarity.
7. The globalisation trilemma by Dani Rodrik reflects on the proposition that democracy, the nation state and globalisation cannot be reconciled without political adjustments and interventions (Rodrik, 2011). You can either regard this dilemma as effective in the European Union with its four fundamental freedoms and its single market, or you can argue that the “European federation is developing into a mechanism for liberating the capitalist economy from democratic distortions” (Wolfgang Streeck). What also applies is that the European Union is to be understood as a response to the dominance of the economy over democracy.

8. Therefore, the European Union must continue to develop with tangible benefits for citizens. On the one hand, this shifts attentions to public goods across the EU and to economies of scale: external and internal security, mobility and digitality. The potential strength of acting together is Europe's opportunity not to lose significance politically, economically and culturally between the dominant powers of China and the USA. On the other hand, the regional or federal order of Member States must be reassessed from the point of view of European integration. The EU's cohesion policy is particularly important, despite all its shortcomings and potential for improvement, because it makes Europe visible and tangible "on the ground" as compensation for the capitalist order.

Finally, we must take on the challenge of ensuring the rule of law. The European Union is a community of law, where the effective principle of "law before power" must be credible, and this goes for the regulation of the Stability and Growth Pact as much as for the rule of law in general. Ultimately, the EU must not act arbitrarily, thus bringing the axe down itself on the status of the rule of law. Regardless of their size and position, the Member States bear equal responsibility for doing so. You cannot succeed in this without imposing sanctions.

9. The following principles are key to the further development of European integration. By adopting a realistic position for the EU, they aim to strengthen the EU's internal sovereignty in complex requirements from the Member States and its external effectiveness among the world's regions as a role model:
  - a. The democratic effectiveness of the European Parliament is to be strengthened to enhance the EU's own democratic legitimacy. The development triggered by the last two elections, namely recommending European candidates to European voters based on European parties (associations of parties), must be intensified. The relationship with the European Council should be clarified going forward so that it could serve as a second chamber.
  - b. However, strengthening the EU's own democratic legitimacy in this way presumes in "Europe's multilevel constitutionalism" that the less effective principle of subsidiarity is shaped by a clear limitation of communitisation in specific policy areas.
  - c. The identity of Europe should replace the finality of European integration, which should be followed by the targeted deepening of limited areas of action, but also by keeping open the finality and the task of the outdated and now vague aim of "an ever closer union".
  - d. Europe must demonstrate its superiority in specific policy contexts, thus providing orientation and identity. European spaces (also different speeds in a spatial respect) – as experimental alliances – are possibly important triggers to finding common solutions. Attempts have indeed been made in this respect (single currency or the Schengen area for example).

### 3 Areas of action: tangible benefits for European citizens

1. European integration is an answer to the disasters of the 20th century, ensuring peace among Member States. Even though peace is regarded as a given, and is presumed safe, it must not be seen as self-evident. Military conflicts have reached European borders. The majority of European (German) citizens believe that the peace dividend approach of the 1990s is still effective. They are wrong. Europe must take its defence in its own hands for reasons of efficiency, but also with its international reputation in mind. The latest Eurobarometer survey shows that more than three quarters of Europeans now support the idea of “a common defence and security policy of the EU Member States.” A European Defence Community is required that first creates a solid foundation for the common foreign and security policy and also has a better grip on a common migration policy. This means that the idea of establishing Europe as an “area of freedom, security and law” can become reality again.
  - a. The introduction of the Permanent Structured Cooperation (PESCO) in 2017 further developed the common foreign and security policy (CFSP) of the EU Member States, with Denmark, Malta and Great Britain opting out. This is a first step towards closer cooperation in armaments and defence. Without coordinated action in foreign and security policy, Europe will barely be able to play a role on its own next to the USA and China.
  - b. Jointly organised external security also means coordinating equipment and having corresponding funding levels. Germany has so far benefited from the peace dividends at the end of the Cold War more than any other important EU country. This financial relief cannot be continued, due in part to the much-documented lack of equipment. Common developments and procurements lead to efficient defence. Unified rules on armament exports are urgently needed to enable common equipment projects in the first place.
  - c. When it comes to protecting external borders, Europe is only beginning to get its act together; this needs to be further enhanced to support national border protection authorities. We should investigate whether, and to what extent, a migration policy with third countries could be developed, taking into consideration specific regional characteristics and divergence. “[...] Member States have not yet found the right balance between the responsibility each must assume on its own territory; and the solidarity all must show if we are to get back to a Schengen area without internal borders” (Jean-Claude Juncker, State of the European Union 2018). Europe must urgently take the next big step towards managing migration collectively, the key elements of which should be the common protection of external borders by providing additional resources to the European Border and



Coast Guard Agency; curbing illegal migration; supporting repatriations and readmission agreements; harmonising admission conditions; granting asylum and establishing a common EU asylum agency; EU relocation schemes; safeguarding the Schengen idea under these changed conditions.

2. Over the past two and a half decades or so, national economies in Europe have become more closely connected, the single market and the common currency have boosted trade flows and encouraged the creation of cross-border value chains. This should be managed in the future by a Strategy for the Single Market 2.0:
  - a. Infrastructure: The development of trans-European networks should be given priority, and additional funds should be provided specifically for the development of cross-border (transport) infrastructure. Despite the INTERREG programmes that have been in place since the early 1990s and despite the Connecting Europe Facility, we still face severe shortcomings in this area. This applies for example to the meshing of energy networks, but also to the national access roads for cross-border transport infrastructure. Highspeed train networks too often still stop at the border for instance. A reshaped EFSI could address these needs (e.g. border infrastructure) and may be used to fund the infrastructure gap to avoid a division among EU member states).
  - b. Climate change: The reduction of CO<sub>2</sub> emissions is a global challenge. The European Emissions Trading System is the central policy instrument to tackle the growth of greenhouse gas emissions in Europe. Starting in 2020, due to the latest reform the price for CO<sub>2</sub> certificates shall increase. The number of certificates will be reduced every year by either putting them into a Market Stability Reserve and by distributing less free allowances. Industry has to be incentivised to invest increasingly in new, low-carbon technologies. National strategies need to be harmonized with the ETS to avoid rebound effects. In addition, it must be a question of achieving a uniform CO<sub>2</sub> price (analogous to the Swedish solution, which is generally neutral in terms of burden).
  - c. Research: Research cooperation in key future topics should be strengthened (Horizon 2020). All Member States should work hard to establish national AI strategies or programmes, taking the Commission's coordinated plan into consideration. Dialogue among Member States and the Commission should be coordinated at EU level and should involve the different national ministries and other players, e.g. from industry, academia and civil society. To assess the impact in terms of achieving the common goals, the Member States and the Commission should identify relevant investment parameters and comparable benchmark guidelines for the introduction of AI. Progress should be monitored on an annual basis.
  - d. Industry: Renewed in 2017, the EU's industry strategy should be further enhanced and systematically designed with the Digital Single Market programme (2015), the Europe 2020 strategy as well as with research (AI) and infrastructure (trans-

European network) projects, so it becomes mandatory to evaluate the consequences of every EU measure from a compatibility perspective. Given its size, the European single market has the potential to help businesses develop in new, digital business areas. To this end, further steps are necessary to align regulations and to establish a digital single market.

- e. Competition policy: Europe's competition policy faces new challenges with the digital economy. It should be more differentiated, considering economies of scale, market definitions and market power to avoid market power in downstream secondary markets and lock-in effects for users. Stronger interoperability obligations should also be analysed. The private market for data should be reinforced with increased legal certainty. We should keep an eye on the regulating power of platforms. Particular attention should be paid to acquisitions in order to avoid a repetition of cases like Facebook's acquisition of WhatsApp and Instagram (European Commission, Competition Policy for the digital era, 2019).
  - f. Capital markets Union: The establishment of a Capital Markets Union (CMU) is a high-priority project to foster additional non-bank sources of finance, mobilize private savings more efficiently and enhance capital market integration. The CMU may be used to revise the general regulatory framework in the light of the experiences since 2011 for all financial intermediaries (banks, funds, SIV other non-bank finance instruments), and it should address the financial fragmentation in the Eurozone (sound sovereign debt markets with stable sovereign finances, sovereign risks have to be treated adequately in bank regulation; harmonization of insolvency laws, accounting and tax laws).
  - g. Globalisation: Europe currently finds itself in systemic competition with China, and must, at the same time, find a solution to the USA's increasing protectionism and rejection of multilateral institutions. European industry policy should not set targets for the supply side of national economies – it should strengthen the supply conditions of the European economy for a structural shift that promotes employment instead. With a view to the further development of the WTO, Europe must safeguard rules-based international trade and develop standards in accordance with the fundamental values of democracy and freedom, including deliberate responses to the distortion of competition by China. One example is the EUs lead in negotiating a plurilateral agreement on e-Commerce and to overcome the WTO deadlock by integrating China and the USA.
3. The European Union continues to suffer from the fact that there is no European public, or a pan-European public space. European debates are always very indirect. It is down to national politics to hold EU-level debates clearly visible for national publics. Europe must not be an elite project; the public in general must be able to feel it.
- a. The development of a European digital single market started with the EU's General Data Protection Regulation, and the adoption of the copyright law positioned

Europe as a setter of trends and standards. The impact of both topics reaches far beyond their strictly interpreted horizons, both ultimately address the functionality of the public realm as a place for debates, negotiations, conflict resolutions, finding compromises and thus shaping identity. Social media is both a challenge and an opportunity. Effective regulation is only possible at EU level, and if so, then there is a chance to set standards on a global scale.

- b. Language training must make vital contributions to this by following common standards and common objectives in all EU countries (e.g. active instead of passive foreign language proficiency). Providing more funds for student exchanges as foresight would be just as helpful as expanding the Erasmus Programme.
  - c. During the implementation of the European Qualifications Framework (EQF), designed to make all qualifications across Europe comparable, the dual system in vocational training must be treated in line with its importance. The high levels of competencies and qualifications stemming from the dual system must be considered in the national implementation of the EQF.
  - d. Since 2012, it has been possible for vocational training qualifications from abroad to be recognised in Germany. Ever more immigrants wish to make use of this recognition procedure; what is more, a very high number of applications are submitted in areas where there is a lack of skilled workers. However, the recognition procedure is still cumbersome and costly. Therefore, it would be important to make such a recognition law the basis for the enhanced mobility of vocationally qualified individuals across Europe.
  - e. Labour force mobility should be strengthened. The above-mentioned points would contribute to this. Differing regulations hinder the free movement of labour: the EU overstepped the mark with the reform of the Posted Workers Directive. This reform is protectionist; it denies Eastern Europe a competitive edge and thus development opportunities. The reform is also damaging for Western European businesses though since posting their employees will entail considerable red tape in the future.
4. Looking at the regional differences, specific cohesion policy, i.e. experiencing Europe locally and regionally, should focus more on establishing local institutions with the power to act on the ground (conditionality) and thus contribute to building a European identity.
- a. Funding programmes should be simplified and systematically evaluated. More use should be made of knowledge transfer and exchanging experience among regional institutions and companies.
  - b. The proposal to create national convergence roadmaps has considerable potential. On the one hand, this provides an opportunity to place national responsibilities systematically in a European context, and to make comparable objectives and

standards effective (in the spirit of the single market). On the other hand, this instrument also provides an opportunity to integrate different political approaches (at national level and from a European point of view) to be able to act effectively and efficiently. This way, finally, the trilemma of democracy, nation states and opening markets could be taken into appropriate account by effectively addressing the ability to act locally.

5. In the spirit of the basic idea – policies for practical advantages as an ongoing design process instead of “narrating” for the other side – certain ideas and proposals can be regarded as misguided. So finally, this is what we do not need:
  - a. Economic governance instead of allocating clear responsibilities to EU and Member State level. In principle, this also applies to what is frequently a macroeconomic and fiscal stability function in the euro area. It is primarily the responsibility of the Member States to build up financial buffers for upcoming crises with a fiscal policy focusing on stability. If some countries do not plan for the next crisis even during an upswing, it is questionable whether jointly funded risk hedging is feasible. Experience from 2009/2010 demonstrated that coordinated action can be successful, provided there is consistent crisis evaluation. Without it, there is no use for a European fiscal capacity either. A genuine fiscal union with clear powers to intervene in national budgets seems impossible with the current political constellation, but given its constitutional dimensions, it is not desirable either.
  - b. Social union instead of institutional differentiation of social systems on historically defined paths. EU Member States usually have a tradition of social security dating back over a hundred years. Diverse preferences and experiences mean different principles are applied. A mobility-friendly structure seems important when workers move across the EU. In the spirit of reinsurance during major economic turmoil, we could at best envisage a European backstop for unemployment. However, this may not be superimposed on or financially compensate for national systems.
  - c. Agricultural policy as protection against import competition. Agricultural subsidies should be shifted from EU level to the national level and should be cut substantially. There is insufficient justification for this being an EU matter since there are barely any economies of scale or cross-border spill-over effects. If public goods such as environmental protection or rural conservation are provided, they tend to be local in nature as a rule. Justifying agricultural subsidies by pointing to sustainability goals is not much more than a political immunisation strategy that is rather easy to see through. Priorities need to be fundamentally reset: slashing agricultural subsidies could create room to fund new priorities such as a common defence policy and protecting external borders.



Opportunity for a fresh start?