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Differentiated integration : a necessity

Proposals put in perspective

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Dedicated to those
who elect a dynamic,
a pluralistic,
democratic and federal Europe

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Three questions will be raised in this paper: (1) why is differentiated integration a balanced and reasonable request by those who aspire to an effective and democratic Europe? (2) why do political leaders of the possible willing Member States not demonstrate their sense of responsibility by taking urgent action? (3) why do European federalists not formulate ambitious ideas towards a stronger EMU and an economical government with federalist features? A comparison and analysis of recently expressed ideas on a Political Union will reveal their individual bearing.

Differentiated integration : a necessity

Proposals put in perspective

Introduction

'Europe is an advantageous and necessary project'
Alex Brenninkmeijer, former ombudsman

Why put an affirmation in the title of this paper? Is this affirmation justified and which objectives can be met? Proposing an idea is not enough. Assumptions and arguments shall be clear.

In paper N. 52 in the Series 'Which Europe?' (c), page 6 to 7, these assumptions are enumerated in a draft form. They are offered for perusal and reflection. This exercise is essential when an ambitious project, likely the euro area will be initiated.

A growing number of top European politicians seem to back the idea of further political integration by the creation of a Political Union. 'Yet nobody exactly knows what that Political Union should mean. (...) The question about the Political Union creates doubt the Monetary Union now is not yet political. It is only too true. Euro means politics. The challenge for the euro is not to become political, but to deepen the awareness that we are a Union', Luuk van Middelaar, political philosopher, said. (De Tijd - 25/07/2015)

However the idea of differentiated integration covers many contents. The consequences of each alternative are important and should be understood by all stakeholders in the EU.

Most of current political proposals hardly mention the idea of differentiated integration, although that will undoubtedly be the consequence. The authors must have reasons not to play with open cards.

Many unresolved crises today lead to believe differentiated integration is the better solution compared to the continuation of an inflexible unitarian EU-28, which keeps up a semblance of joint objectives and demonstrates incapacity to deal with the real issues.

Chapter 1

Differentiated integration has many faces

- Various denominations of differentiated integration point to differences in content: two tiers, two speed, concentric circles, political integration versus a free trade area, inter-governmental cooperation versus supranational coordination, unanimity decisions versus decisions by qualified majority vote, a Union of Nation States or a Federation of Nation States versus a post-national Federal Political Union. Differentiated integration and differentiated development are the same. It is of paramount importance to use these denominations in the right context and to understand why they are different.

- EU-28 currently demonstrates differentiated integration in a number of permanent opt-ins and opt-outs. Opt-outs for the UK and Denmark regarding the euro. The Schengen Convention covers not all 28 countries. Social Europe: also an opt-out for the UK. Home affairs has an opt-out for the UK, except for 36 limited domains, the national rebates applicable to the UK, The Netherlands and Sweden. Switzerland, Norway and Iceland are associated with the EU. The euro area operates within separate rules with regard to the Monetary Union.

- A spearhead group in the euro area doesn't exist yet, but could be a coalition of willing Member States that aspire to create an empowered Political Union able to steer this group along democratic and legitimated rules towards more horizontal and vertical supranational coordination among the various tiers of government, with the ultimate goal to create more added value for its stakeholders. This spearhead group will possibly not include all 19 euro Member States. What status will a rest-group have in the euro area? Or should a spearhead group include anyway all euro area member States?

- The euro area is considered the most likely starting point of further political integration. The euro area, by definition, needs more efficient policy coordination, which exceeds mere monetary, financial, fiscal and economic cooperation. Coordination of these various policies requires legitimized and efficient decision-making that excludes intergovernmentalism and decision by unanimity.

- A free-trade-alone group of Member States does already exist (EFTA), but doesn't represent much (actually including non-member countries of the EU). Prime minister Cameron believes the UK could be the most important member of a (new) free-trade group, open to enlargement by Scandinavian and East-European countries. How many competences related to the internal market would be maintained in this group is unknown. The intergovernmental character of this new Group limits the amount of progress this group of Member States can ever achieve. The constitution of this free-trade group within the EU would fundamentally change the nature of the EU. The likelihood of the creation of this group is almost nihil.

Chapter 2 **Why differentiated integration?**

- The EU has **diminishing control** over the events that shape its future. This situation is created by the intergovernmental type of cooperation in Europe. That polity is slow and inadequately legitimated. The non-binding character of many decisions in the EU is a cause of ineffectivity in the EU. Not just the Foreign and Safety Policy of the EU is ineffective.

- Current unresolved crises illustrate the **institutional deadlock situation** in the EU caused by intergovernmentalism. These crises are not being addressed properly. The so-called solutions rather maintain the false impression European interests are safeguarded. In this context the common cause (that suits all best) is considered of lesser importance.

- **Heterogeneous** political objectives by the Member States of the EU increase and the question is: what is best for opposing groups of EU Member States? Since no Member State can be forced to embark in further political integration, the conclusion should be: stay together as much as possible and go for more autonomy for specific competences in a

different configuration. There should be no more than two configurations. The basic principles of the EU would anyway be maintained, at least those that don't impede differentiated integration. This idea represents a break with the past. Necessity can break rules, history learns.

- Some constitutionalists assume European Treaties impose an **unalterable relation** between all Member States. That opinion would deny the implementation of differentiated integration. Differences in objectives would be ignored and are considered not to harm common interest. This standpoint is untenable and shall not be accepted any longer by the group of Member States aspiring to deeper political integration.

- **Differentiated integration doesn't mean separation.** The internal market remains the joint basis of cooperation of all Member States of the EU. The spearhead group (in the euro area) however can make further progress in (a) internal market matters if the free-trade-countries don't accept new legislation which the spearhead group deems necessary (right of first refusal), and in (2) EMU operates as a Political Union where decisions are taken by majority vote in its Council of ministers and in its European Parliament section (with equal competences). Decisions are prepared by the government of the euro area. Possibly represented by one person: the minister of Finance of the euro area (now chairman of the eurogroup). This Political Union will not be the outcome of sheer consolidation of past political decisions, but comes from reform in decision-making (transfers of sovereignty).

- The **spearhead group** will further make use of the existing institutions but will, where needed, operate within its own configuration. Cooperation and harmonious relations between the two groups remain the objective. However one group shall not veto the other.

- **Political consolidation and integration in the spearhead group**, other than intergovernmental, aspires to a true union of interests and is based on joint assumptions. In this 'ever closer union', joint interests will be taken care of democratically, effectively, enforceably and transparently. This polity will benefit prosperity, growth and social justice.

- The EU brings itself in a state of irrelevance as long as current crises are not resolved. The **intergovernmental method of government** is unable to generate needed deep institutional reform. Therefore a bold conclusion imposes itself: a differentiated integration cannot be avoided any longer. European integration can but progress if economic cooperation is transformed in an efficient Political Union with the tools needed for good governance and a legitimated government.

- 'Our policy-makers and social partners shun innovation for fear to be held accountable for what could go wrong, leading to extreme caution, shortsighted policies and reticence towards their own decisions. We shall throw off our blinkers that prevent us to see the obvious **way to better coexistence**. (...) Throw off the straitjacket of (past) ideas', Koen Schoors, prof. of the University of Ghent, says. (De Tijd - 7/08/2015)

- 'The future cannot be understood by extending the **patterns of the past**. Megatrends cannot be held as predictions. (...) Rather shall we think in terms of scenarios. (...) Changes go fast and globalization makes they can come from everywhere. (...) Therefore we need more than ever show adaptability, a fighting spirit, trust in our own capabilities and the nerve to do it. (...) A clear vision and a sense of direction towards society-building are indispensable, Caroline Ven, CEO of VKW, said. (De Tijd - 20/05/2015)

Chapter 3

Which timing for a big leap forward?

- The growing **negative influence of euroscepticism** should be an impetus to start developing new ideas about a Political Union for willing Member States. Urgency is now.
- Brexit and Grexit crises expose the **missing political links in the EU**. Both the EU and euro area are ill-equipped to face existential crisis situations. Solutions proposed are often perceived as unfair, inadequate and contrary to individual interest in Europe. An effective and generous project has not yet been proposed. Time has come to formulate the basic objectives of a new polity for the spearhead group in the euro area.
- In paper N. 53 in the Series 'Which Europe?' (c), pages 8 to 14, (see ESIC/publicaties in www.europadebat.be) draft objectives are offered for perusal and reflection.
- **Slow change**. 'Experience demonstrates how small the margin of manoeuvre is in political reform. The same is true for changing economic life. In Europe growth is low, inflation and investments are low, but ageing cost is high. Drastic changes shall not be expected. Real change shall come from elsewhere. Two factors will always have to concur: a strong political will and proper attitudes by the elites'. (De Tijd - B. Haeck - 6/06/2015)
- **Stepping-stones**. Change shall be introduced in a measured and well-considered manner. Sense of urgency and political feasibility shall be tuned to one another. Priority setting and a logic build-up of a polity shall go hand in hand. Priority measures shall not impede further progress, especially if a post-national federal polity is the ultimate objective.
- **In advance formulated track**. This approach is opposite of a sui generis track. Indeed the intermediate steps, as well as a binding time schedule, are public knowledge from the outset. Predictability, hope and prospect create a strong dynamism. The sui generis track creates letargy, uncertainty, economic regression and social misery.
- Whatever track is chosen it shall be based on an **ambitious vision of the future**. Loose ideas cannot generate an inclusive vision. This vision also reflects on the strategic intermediate steps timing at the mental preparation of elites and peoples and the implementation of needed action. Progress shall not be measured in terms of institutional progress alone. The change in thinking by the elites will be another core assignment for European federalists. That involves as much effort as institutional progress. This progress will imply a change to current political and economic paradigms.
- An ambitious vision is needed in order to **set out a clear direction** in which all efforts by European federalists will be focused. Action based on unformulated long term objectives equals free-wheeling. This type of action will not yield durable effects. Effective action requires the implementation of strategic choices that are on a par with the intended goals.

Chapter 4

Which preliminary conditions to differentiated integration?

These conditions are twofold: political and methodological:

- Political conditions:

- A strong joint political will shall animate European leaders, focusing on a joint goal: a Political Union based on a post-national federation.
- See joint assumptions for a post-national federation formulated in 'Which Europe?' Series, number 52, pages 7 to 16. (www.europadebat.be under ESIC/publicaties)
- Above implies the **exclusion** of any reference to intergovernmentalism, short sighted national interests and decisions by unanimity.
- Differentiated integration **shall not be impeded** by Member States that believe the spearhead group could possibly harm their interests or discriminate them. Actually non-participating EU-countries to the euro area should obtain no direct neither indirect veto over decisions in the spearhead group.
- The spearhead group will take on board the **needed federalist principles** in its project in order to gradually achieve an effective and democratic project.
- As soon as the spearhead group generates **positive dynamism**, it will soon become as a pole of attraction to EU-countries of the free-trade group.
- The spearhead group remains open to non-Member States, if they meet the conditions to adhere. Non-Member States animated with negative motives which want to join the spearhead group can be excluded. The preconditions to a successful EMU are severe, therefore adhesion to the euro area shall no longer be automatic, but be selective. Non-compliance of joint rules of the euro area will lead to temporary exclusion from the euro area working and to severe monitoring.

- Methodological conditions, including the objectives of the spearhead group:

- A new polity for the spearhead group will:
 - (1) be capable to solve most societal issues;
 - (2) be an inclusive political project, leaving no aspects unattended;
 - (3) maintain a perfect balance between the national and the group's interests;
 - (4) create a new method of government capable of implementing intended objectives and avail needed tools to face every situation;
 - (5) implement this new polity gradually;
 - (6) seek to overcome (on term) the structural asymmetries between its Member States in order to grow progressively towards a real Union in terms of convergence, efficiency, enforceability and legitimation.
- See joint objectives of a post-national federation formulated in 'Which Europe?' Series, number 53, pages 8 to 10. (www.europadebat.be under esic/publicaties)

Chapter 5

Deficiencies in the working of the euro area

- The **euro area is not capable** to stand up for its legitimate interests. Intergovernmentalism leaves too much power with Member States, that nurture national priorities.

- **'The way the Greek crisis was dealt with**, shows that, while fear for financial contamination receded, fear for political contamination increased. What will be the reaction of population (read electorate) to that type of deals? Extremist parties playing the card of fear can bring the traditional parties in serious danger. Reflection on new forms of political organisation of the euro area is confronted with a real sense of urgency'. (adapted from Luuk Middelaar - De Tijd - 25/07/2015)

- The euro area **lacks rules and mechanisms to face serious crisis situations**. These uncharted situations endanger the euro area. Ensuing ad-hoc and partial remedies are often perceived to be too remote and impersonal, unjust, too little or partisan and create feelings of distrust or rage in large parts of population.

- In the euro area the **right policy is often missing** due to coordination problems', Koen Schoors, prof. University of Ghent, said. (De Tijd - 3/06/2015) A Political Union will imply much more multi-level policy coordination and decision-making (vertically as well as horizontally). Policy coordination should replace fragmented decision-making. Efficient political coordination is but possible at European level. This coordination will not make things easier, but will on the contrary be more legitimate and enforceable.

- **'Uncertainty and lack of confidence** in the euro area's capabilities have in recent years heavily impacted on economic growth', prof. Gert Peersman, University of Ghent, said. (De Standaard - 30/06/2015) This leads to a negative growth spiral and ultimately to regression.

- **'Widely different levels of unemployment** in the eurozone endanger the Monetary and Economic Union', Mario Draghi, chairman of ECB, said. Prof. Tito Boeri, of the Bocconi-University in Milan, said 'the European Commission made serious misjudgements: the Commission imposed a drastic reduction of fiscal deficits during economic recession. That is contraproductive. Moreover she advised to dismiss people, which was another mistake'. Draghi warned that 'without reforms structural unemployment in the euro area would continue to exceed 10 percent. Stimulation of jobcreation by monetary or fiscal incentives yields little effect. Specialists expect a lot of structural reforms, especially in the labour market'. 'Economic recovery creates almost ideal circumstances for governments to carry out structural reforms', prof. Boeri said. (De Tijd - W. Vervenne - 26/05/2015)

- The **euro failed to create prosperity**. European countries don't need the euro to improve their lagging prosperity. On the contrary. The so-called 'convergence' that the euro was expected to create didn't materialize. According to a ECB-paper the euro created a false impression of prosperity. Cost of money lowered, but generating many unproductive investments. That destroyed a lot of wealth. The Member States failed to create circumstances where the euro could demonstrate its added value. Restrictive regulations were not scaled down, inefficient authorities were not made more efficient, labour fraud was not tackled. An overregulated labour market and weak competitiveness in a number of economic sectors (countries) continued to prevail. The ECB keeps on repeating Member States should do their homework. (De Standaard - R. Mooijman - 30/07/2015)

- In order to reach monetary, financial, economic and social convergence a performant polity is needed. This convergence is needed to **optimize the potential of the euro area**. Until now the political, for all supranational approach, has been excluded. This misjudgement shall be exposed publicly and be brought to the attention of the elites in Europe. Lack of political will by European and national leaders to redress damaging situations should become a core message of European federalists.

- 'The **agreement with Greece** (of early July 2015) has affirmed the principle that the maintenance of absolute national sovereignty is incompatible with membership of a single currency, as clearly explained Sabino Cassese (Corriere della Sera, July 15). As Cassese pointed out, a government that has freely decided - a choice that then becomes binding - to become part of a community that shares the same currency and thus also shares a set of values and principles, as well as common political and economic policies, is no longer accountable only to the electorate at home, but also to the new community it has joined'. (European Letter n. 65, of August 2015 published by the Luciano Bolis Foundation, Pavia)

- 'All **those raising their voices** in protest over the perceived insult to Greek democracy fail to consider the fact that that Europe and, in particular, the single currency are fundamental dimensions of the political life of the countries that have opted to be part of it, dimensions that it is not possible to ignore, pretending that they do not constitute an irreversible step towards shared sovereignty. The point is, if anything, that this sharing of sovereignty must now be rendered explicit (publically) and clear to all, and must be supported by the creation of a democratic European supranational system.' (European Letter n. 65, of August 2015 published by the Luciano Bolis Foundation, Pavia)

Chapter 6

Which proposals were formulated recently?

- Recently formulated political ideas have not been **listed here by order of increasing ambition**. Each initiative will be identified by the name of its author. This list is not exhaustive, but is representative. Each idea will be clarified by: (1) its core ideas; (2) comments; (3) federal features needed in terms of effectivity and legitimacy.

- **Joschka Fischer** in 'If Europe fails?' (Kiepenhauer & Witsch - 2014):

- Core ideas:

- An agreement within EU-28 being impossible, just a reform of the euro area will be considered.
- Reform by means of an intergovernmental treaty or enhanced cooperation.
- Transformation of the European Council into a government for the eurozone and the creation of a Parliament for the euro area.
- This reform would be cast in an international (or intergovernmental) treaty and be legitimized by a referendum in all Member States that are involved.
- If full integration in next decade, at least in the euro area, fails to materialize the whole set-up of the EU will be impaired, or lapses or loses attractiveness.
- Full integration means i.e. a joint fiscal policy and a common mechanism of shared debts, an energy union, a common security and defense policy and an authentic European democracy involving its people, in other words a federal state.

- Comments:

- Federal governance will not emerge from an intergovernmental treaty or enhanced cooperation. Intergovernmentalism is not a preliminary stage.

- A federal state can be an ultimate goal for Fischer, but he does not mention any intermediary steps. Neither is outlined how the transition from an inter-governmental polity towards a federal polity will be made.
- Is there a time schedule?

- Needed federalist features:

- A democratic European Convention should be convened, in which European Parliament and European Council have equal power.
- Both institutions will establish together the mandate of the Convention, an open agenda and the rules of decision on the Convention's conclusions.
- Political parties launch a public debate about the goals of the euro area.

- **Valéry Giscard d'Estaing** in 'A last chance for Europe' (XO Editions 2014):

- Core ideas:

- Proposes a new set-up for the union, especially for the eurozone.
- Since no unanimity can possibly be reached among the 19 Member States of the euro area, he proposes that a first nucleus, consisting of the founding countries of the EEC invites other interested Member States of the euro area, which are economically and politically ready, to join in.
- This project, called by Giscard 'Europa', will create a monetary, a fiscal and a tax union, with a Public Treasury and a mechanism of financial solidarity.
- A founding meeting of 'Europa' would take place in Strasbourg, future seat of a 'Directoire' for Europa, including all heads of state or prime ministers of the euro area.
- Strasbourg will be the seat of a Congress of People of Europe, that brings Members of the European Parliament (MEP) and of national representatives of 'Europa' together. Strasbourg and Frankfurt (ECB) become the seats of the activities of 'Europa'.
- Brussels will remain the seat of EU-28.
- At the end of an integration process the euro area would become a 'Federation of Nation States'.
- Control of the joint currency by the ECB will be subject to a regulatory body monitoring banking activities of the euro area.
- The Council of the euro area will propose and approve the budget of the euro area. This competence is stripped from the European Commission.
- A time-schedule for the harmonisation of taxation in the euro area will be set, especially income and property taxation, except regional or local taxation. Social security premiums will not be included. As soon as convergence is reached joint public loans can be issued by the euro area.

- Comments:

- Giscard's proposal is clearly an intergovernmental steering formula. A 'directoire' is even a relapse compared to current community method. A directoire will consolidate the domination of Germany and France over the other Member States of the euro area.
- Giscard makes operational proposals which can be qualified as being federal. Political intergovernmental steering of federal tools looks

like an serious contradiction.

- Establishing the seat of the euro area in Strasbourg ignores the express will of the majority of the Members of European Parliament to locate the seats of the executive and the legislative powers in Brussels. A split would imply an important transfer of civil servants out of Brussels.

- Needed federalist features:

- The seat of the euro area shall be Brussels for reasons of proximity. Delocation would render cooperation between the euro area and the EU-28 more difficult, inefficient and costly.
- A true government of the euro area shall render account to the European Parliament for the euro area. The euro area government (European Commission competent for the euro area) will propose the euro area budget, and the Council (senate) and Parliament of the euro area will establish together the budget.
- A democratic and legitimized polity for the euro area will be based on federal principles.

- **Andrew Duff**, former MEP and chairman of the UEF, in 'Pandora, Penelope, Polity - How to change the European Union?' (John Harper Publishing, 2014):

- Core ideas:

- *Projet Pénélope, l'Etude de faisabilité - Contribution à un avant-projet de Constitution de l'Union européenne* (2002), made on the demand of president Prodi by a working group chaired by François Lamoureux.
- 'A Fundamental Law of the European Union' is the result of the collaboration between the Spinelli-Group and the Bertelsmann Stiftung (2013).
- 'Those who believe in deeper unity and a stronger federal Europe have yet to make their case. A Fundamental Law does this by offering a prospectus for radical reform. It amends the Lisbon Treaty to make the government of the EU more powerful and democratic. It embraces the banking and fiscal Union while showing the way forward to a legitimate settlement of Europe's constitutional dilemma' (from the intro by the Bertelsmann Stiftung).
- The reinvention of a Federal Union through a new Convention. When? Around 2017, after the British referendum (Brexit) and after the French and German elections, and two years ahead of the end of current European mandate of the leaders of European institutions.
- The central idea of the 'Fundamental Law' is the procedure to change the European Treaties. An intergovernmental conference will decide on the modification by a 3/4 majority of Member States, while European Parliament will acquire the right of assent. The amendments will become effective when ratified by 4/5 of Member States, representing the majority of population of the Union or after a pan-European referendum (simple majority).

- Comments:

- The idea of amending existing treaties is intended to reflect political realism. In many instances these steps are still too far-reaching for most EU

Member States.

- The Treaty change procedure is the most important provision of the Fundamental Law for the Union. Will this adaptation apply to all 28 Member States or to the euro area only?
- How commendable this initiative is, it should be recognized that it requires the same effort to 'sell' the temporary amendments as it requires to 'sell' federal ideas spread over various intermediate steps.
- This project puts simultaneously a large number of issues on the table. Opponents can therefore qualify this Fundamental Law as too ambitious or unrealistic in spite of being an intermediate step. Which are the other steps?
- In the EU too many projects, such as the Lisbon Agenda, have failed since proposing too many (vague) not binding objectives lacking the institutional tools to deal with these issues.

- Needed federalist features:

- The 'Fundamental Law' shall not stand on its own, but shall spring from an overall long term vision and a strategy and not the reverse. An inclusive vision and strategy shall be formulated prior to a Fundamental Law.

- **Guy Verhofstadt** in 'An EU for full members only' (Politico - May 7, 2015):

- Core ideas:

- 'Not only 'The Brits' or 'The' eurosceptics, but also pro-Europeans are fed up with the institutional deadlock. (...) The European Union is a hodgepodge of opt-ins, opt-outs, rebates, and a laundry list of other exceptions. Furthermore, the Union is stuck with fundamental contradictions'. There are two realities: the first one being (that) a British renegotiation will most certainly lead to a major treaty change. The second reality is that following the Treaty change, everybody will have to play by the same rules'.
- 'In order to reconcile these two situations, we have to create a system of two types of European membership. The first type is 'full membership' that goes all the way. (...) This means the EU will be given the necessary means to turn the euro into a true reserve currency and to give the Union clout on the world stage'. (...)
- The European countries that think full membership is not their cup of tea can apply for the second type: 'associate membership'. This gives access to the internal market with its free movement of goods, services, capital and people. Obviously, that means they would no longer have full representation and corresponding voting rights at EU level. (...) This 'black and white' dilemma between full and associate membership is absolutely necessary'.

- Comments:

- Is the distinction between two types of membership sufficient to stimulate differentiated integration? It implies for all more a political will, more ambitious objectives and effective institutional tools.
- Fundamental is how the euro area will operate inside the European institutions. Full membership can mean two different approaches, i.e. an euro area incorporated in current policies of the EU-28 and governed by

one central European executive. In this case reluctant Member States can still impede the euro area to proceed. On the other hand the euro area can assume its own autonomy in all matters that relate to the single currency and in 'internal market plus' matters. Internal homogeneity of objectives will doubtless benefit economic government and effectivity in the euro area.

- Differentiated integration will ultimately boost joint well-fare, employment and growth in the euro area.

- Needed federal features:

- Economic government (meaning much more than just economy), legitimated decisions and a post-national Federal Union are implied messages, though not explicitated here.

- Katharine Gnath (Bertelsmann Stiftung) and Jörg Haas (Delors Institut, Berlin)

Waiting for the Five Presidents' Report on the Future of the Monetary Union (N. 6, June 2015):

- Core ideas:

- 'There is general agreement on the need for reforms within the euro area. In the long run the retention of the current institutional structure is not a viable proposition'.
- 'It is true that a great deal has already been achieved. (...) However, the reform process seems to have come to a standstill. Structural reforms are behind schedule. Jean-Claude Juncker and Mario Draghi now seem determined to introduce further reforms. (...) Nowadays Member States do not seem to be very interested in reform'.
- 'There is a fundamental lack of consensus in two areas. Are the existing rules and institutions (theoretically) sufficient to promote economic convergence? And do they provide enough protection when there is a crisis? The Member States also disagree when it comes to the timing of reforms and the way in which they are introduced. There are three groups of countries'.
- Group 1: 'A number of Member States believe that the euro area does not need more change'.
- Group 2: 'Other Member States have suggested minor modifications of existing procedures such as the European Semester in order to improve structural reforms, i.e. by means of recommendations that focus on fewer priority targets. A recent Franco-German initiative points in this direction.
- Group 3 is in agreement with the Commission and the European Parliament and believes that far-reaching steps are needed in order to ensure the long-term survival of the common currency'.
- Three scenarios offer themselves.
- 'Scenario 1: Unambitious proposals followed by a lengthy consultation process. A gradualist approach could have a very positive effect. Estimated likelihood: 20%.
- Scenario 2: The report (of the Five presidents) as a starting-point for far-reaching reforms. Estimated likelihood: 20%.
- Scenario 3: An ambitious initiative that quickly fades away and is forgotten. Estimated likelihood: 60%'.

- Comments:

- The affirmation 'Member States are not very interested in reform' should be nuanced. It is common knowledge that Germany and France together can initiate a political initiative regarding the euro area and set the general orientation of a reform. Shall we assume that absence of initiative by these two Member States would point at dissension regarding the objectives to be reached or the instruments needed?
- Regarding 'Group 3' the European Commission will never launch ambitious ideas (besides uncommitting prospects) that go far ahead (of the majority) of Member States' expectations.
- It is remarkable that both researchers exclude the federalist scenario from their overview and just call it an 'ambitious initiative'. 'F'-word as a taboo?

- Needed federal features:

- This analysis, in advance of the publication of the Five Presidents' report, is not intended to formulate any inclusive proposal.
- This analysis contains however no reference to a post-national Federal Union or to an end goal or to intermediate stages.
- Reference to needed joint assumptions or objectives is missing.

- **Jean-Claude Juncker and four Presidents** formulated in close cooperation, 'Completing Europe's Economic and Monetary Union or Report on Next Steps on Better Economic Governance in the Euro Area' (June 25, 2015):

- Preliminary comments:

- 'This report reflects the personal deliberations and discussions of the five Presidents: Juncker, Draghi, Dijsselbloem, Tusk and Schulz. It focuses on the euro area. The aim of this report is two-fold: to lay out the first steps that will launch this process today, and to provide a clear orientation for the longer-term measures'.
- 'The Euro Summit of October 2014 underlined the fact that 'closer coordination of economic policies is essential to ensure the smooth functioning of the Economic and Monetary Union (EMU)'.
- 'The Summit called for work to continue to develop concrete mechanisms for stronger economic policy coordination, convergence and solidarity' and 'to prepare next steps on better economic governance in the euro area'.

- Core ideas:

- 'The process towards a deeper EMU is nonetheless open to all EU Members. It should be transparent and preserve the integrity of the Single market in all aspects'.
- 'A complete EMU is not an end in itself. It is a means to create a better and fairer life for all citizens, to prepare the Union for the future global challenges and to enable each of its members to prosper'.
- 'Quick fixes of recent years need to be turned into a lasting, fair and democratically legitimated basis for the future. (...) The euro is more than just a currency. It is a political and economic project. (...) A common destiny

requires solidarity in times of crisis and respect for commonly agreed rules from all members’.

- ‘Countries have to take steps, both individually and collectively, to compensate for the national adjustment tools they gave up on entry’.
- ‘For all economies to be permanently better off inside the euro area, they also need to be able to share the impact of shocks through risk-sharing within the EMU. In the short term this risk-sharing can be achieved through integrated financial and capital markets combined with the necessary common backstops (last resort financial safety net). In the medium term public risk-sharing should be enhanced through a mechanism of fiscal stabilisation for the euro area as a whole’.
- ‘Progress must happen on four fronts: first, towards a genuine Economic Union; second, towards a Financial Union; third, towards a Fiscal Union; and finally, towards a Political Union’.
- ‘All four Unions depend on each other. Therefore, they must be developed in parallel and all euro area Member States must participate in all Unions’.
- ‘For the euro area to gradually evolve towards a genuine Economic and Monetary Union, it will need to shift from a system of rules and guidelines for national economic policy-making to a system of further sovereignty sharing within common institutions, most of which already exist and can progressively fulfil this task. In practice, this would require Member States to accept increasingly joint decision-making on elements of their respective national budgets and economic policies. Such a stage-based approach is necessary as some more ambitious measures require change to current EU legal framework’.
- Timing: ‘Stage 1 (from July 1, 2015 to June 30, 2017): the EU institutions and euro area Member States would build on existing instruments and make best possible use of existing Treaties. Economic Union entails boosting competitiveness, structural convergence, focus on employment and stronger coordination of economic policies. The Financial Union: complete the Banking Union, launch the Capital markets Union and reinforce the European Risk Board. Fiscal Union: a new advisory European Fiscal Board. Democratic accountability, legitimacy and institutional strengthening: revamp the European Semester and enforce parliamentary control as part of the European Semester.
- Stage 2: (finalized latest by 2025) called ‘completing the EMU architecture’. Economic Union: formulate and make the convergence process more binding. Fiscal Union: set up a macroeconomic stabilisation function for the euro area. Democratic accountability, legitimacy and institutional strengthening: integrate the European Stability Mechanism into the EU law framework and set up an Euro Treasury accountable at the European level.

- Comments:

- The Commission (EC) continues to insist on unicity, even more: the euro area should not fracture the EU. That is EC’s responsibility in current treaty context, but is less obvious within the framework of differentiated integration where it can look like a contradiction and a serious problem towards a European Political Union (at least in the euro area).
- This presentation is perhaps meant to appease a number of non-euro Member States. Vagueness creates, especially in stage 2, potential confusion about the scope of the reform of current polity.

- There is a gulf between generous and clearly objectives and concrete suggestions formulated by the 'five Presidents' paper regarding needed tools. It looks as if the presidents were scared of their own ideas while writing the paper.
- Additional coordination reminds us of the failures of the Lisbon Agenda and the Euro Plus Pact of 2011. Additional or enhanced cooperation is too weak a tool to achieve the objectives formulated in the outset of their paper.
- Phased timing is a good idea. Though it shall not be forgotten that current generation wants to see results prior to 2025. Unless the package of phased decisions is irrevocable and clearly spelled out in advance it cannot generate optimism and dynamism.
- The relations, in terms of mutual interdependence, among the EU-28 and the euro area are not specified.
- About this report can be said: the analysis of the situation is excellent, however the proposed ideas will never be able to resolve current pending issues, especially the political ones

- Needed federalist features:

- A federalist end-goal is not formulated, at best the Community Method was reverted to but is not put forward as the minimum standard. This would mean European institutions will continue to operate along intergovernmental principles. The objectives of the 'five Presidents' can but work out if the intergovernmental modi operandi are systematically and in phased manner replaced by a federal polity.
- The five Presidents possibly find new ideas more important than to upgrade decision-making, legitimation and enforceability in the euro area. These operational characteristics are deferred for an undefined period of time.
- An overall plan covering all transition stages towards an end-goal is missing. This is possibly done on purpose in order to circumvent criticism on the completion of the EMU.

- **Policy Brief No 1/2015** by David Martinez Garcia and Paolo Vacca (UEF International):

- Core ideas:

- 'This policy brief analyses the possibilities that the Treaty of Lisbon offers in order to deepen and strengthen the Economic and Monetary Union and improve its democratic legitimacy and effectiveness'.
- 'The basis of a future economic and fiscal government of the euro area could be created by concentrating key prerogatives and capabilities on these matters and by merging the positions of president of the eurogroup and Vice-president of the Commission into a de facto 'EMU Finance Minister'.
- 'An own budget for the eurozone would allow the implementation of macro-economic convergence and investment policies aimed at improving growth in the euro area and increasing resilience'.
- 'The potential degree of financial autonomy of the Union or the EMU is restricted by their lack of powers for tax collection or for issuance of sovereign debt and limited spending power'.
- 'The inexistence of European political accountability when it comes to politics decided through the intergovernmental method is the major obstacle

- to democracy, effectiveness and enforceability’.
- ‘Sooner rather than later the Treaties would need to be revised to reach a definitive settlement in these areas and secure a sustainable future for the EMU’.
- The deficiencies of the EMU’s functioning are subdivided in four chapters and are addressed by 25 UEF-proposals (only some general comments from three chapters are reproduced here):
 - ‘Strengthening the EMU governance framework’:
 - ‘The intergovernmental method has proved ineffective for the adoption of binding decisions in all policy fields where it has been used, and the EMU is proving to be no exception’.
 - ‘Because of the largely intergovernmental nature of the European Semester, the political responsibility for EMU policies is widely spread between the Commission, the President of the European Council, the president of the Eurogroup and the Member States’.
 - ‘The euro area lacks the tools, powers and resources for implementing effective economic policies at the European level’.
 - ‘Solutions could be sought in order to allow more flexibility in the configuration and way of working of the European Parliament when it comes to the EMU’.
 - ‘The EMU would need a variety of policy instruments to directly support the economy of the euro area and make it more resistant, particularly in case of asymmetric shocks’.
 - ‘The own resources of the EU or the EMU’:
 - ‘As long as the EMU continues to rely on the Member States’ will to finance its policies, the efforts made to increase democratic legitimacy and political accountability would remain a dead letter’.
 - ‘Income financed mostly by Member State contributions would hinder the redistributive capacity of the EMU economic and fiscal policies’.
 - ‘Shifting EMU-policies from a rule-based approach to positive economic and fiscal policy making’:
 - ‘In the short to medium term, the rule-based system of the European Semester constitutes a zero-sum game by design, since it does not provide for any positive effect compared to the situation prior to the implementation of the excessive imbalance procedure’.
 - ‘The strategy for macroeconomic convergence in the EMU would provide political guidance for the medium term and would constitute the basis for the Single Economic and Fiscal Policy’.
 - ‘In order to cope with such asymmetric shocks, mature currency unions within established federal states have put different types of stabilisers in place, which could be taken as a model by the EMU’.
- Conclusions of the Policy Brief:
 - ‘In order to increase democratic accountability, it is urgent to clearly define responsibilities for decisions on and the conduct of EMU policies. Assigning

political responsibility first requires a concentration of decision-making powers and capacities in the hands of a limited number of positions to prevent the capacity-expectation gap from growing further’.

- ‘Reform of the EMU and its further development into a governance structure for the implementation of a Single Economic and Fiscal Policy would require a two-step approach’.
- ‘First it could already be significantly improved through the adoption and modification of EU secondary legislation. The implementation of the proposals formulated in this paper would result in the strengthening of the EMU executive and its parliamentary counterparts’.
- ‘In a second stage, treaty revision is required. Although this is beyond the scope of this paper, the limitations identified suggest that any revision of the constitutional framework of the EU as regards the EMU should consider the conferral of crucial powers and tools for the effective functioning of the currency union (...) as well as corresponding reforms of the institutions towards a fully-fledged federal parliamentary democracy’.
- ‘The intergovernmental and community dimensions of the EMU governance are virtually impossible to disentangle without treaty change’.

- Comments:

- The end-goal for the UEF is clearly formulated in its conclusions.
- The paper is very matter of fact and formulates systematically what can and should be done within the limits of today’s Treaties.
- It complements the paper of the ‘five Presidents’, stage 1, that focuses on what could be done without treaty change.

-Needed federalist features/action:

- Democratic and institutional deficiencies should be at the centre of further political action by UEF.
- UEF shall use this Policy Brief in order to formulate ensuing political themes and action/campaigns.

- **Other initiatives or limited proposals:**

- **France and Germany** have already launched various loose and possibly complementary ideas, which bearing can hardly be assessed at this time.
- ‘On the German side the design that seems to be taking shape (...) is that of seeking to continue down the Fiscal Union route by the appointment of an Eurozone Treasury minister, accountable to the European Parliament, meeting in a restricted composition. The Treasury minister would be invested with the power to intervene in cases of violation by Member States of the budgetary constraints that are necessary in any monetary union, and also with the power to manage an autonomous Eurozone budget financed with a share of the Member States’ VAT or corporate income tax revenue. As remarked by the president of the German think tank DIW, this would in fact create an ‘ability to tax and borrow. That could be limited to two purposes: i.e. to provide unemployment insurance and to support investment’. (Marcel Fratzscher, in the Financial Times of 27/07/2015 in European Letter n. 65, of August 2015 published by the Luciano Bolis Foundation).
- After meeting prime minister Cameron (on May 29, 2015), federal chancellor

Merkel said a revision of the Treaties could be considered provided the 'content' of the British request for renegotiation would be 'right'. Is this meant to appease, leaving the door open to renegotiation and to keep the UK in the EU? Or would this imply a fundamental repositioning of the EU-28, for the sole sake of keeping the UK in the EU?

- President Hollande insisted on an economic government and a Parliament for the euro area. This idea is new for France, but remains vague.
- Both proposals were not formulated within the framework of an inclusive project and therefore possibly lack the capacity to initiate a negotiation process among the 'willing' Member States.
- Rumors circulate that Germany and France will soon come forward with a common project, that will be open for discussion to the other euro area Member States. However, in which context will these proposals be discussed? Will European Parliament play an active role in these negotiations?
- It is known for long that both countries are very nervous at granting the European Commission more executive power. On the other hand Schäuble, German minister of Finance, is convinced Europe can be saved 'by deepening the integration with Member States that want it, but moreover can prove they are able to do so'. Will the outcome of bilateral negotiations (G/F) be a listing of mutual concessions? Germany conceding less democratic legitimation against the introduction of a number of binding new tools for the euro area? Will the whole new package be based on intergovernmental institutions and tools? Is this the maximum that is politically achievable now?
- Will this so-called 'progress' in a 'core-Europe' open the door towards a more dynamic euro area? Will the non-participating Member States continue to play an important role in decision-making of the euro area?

Chapter 7

How can differentiated integration be implemented?

- Two alternatives present themselves:

- Alternative (1) is an ambitious step forward that implements the integration in one move. This is politically not feasible, even in a coalition of the willing.

- Alternative (2) is a phased implementation. This alternative is more realistic and can be worked out in two manners:

(a) The starting point being agreed upon, the further steps are the result of maturing opinions of the moment; no end-goal neither deadline for completion are defined from the start (*sui generis* approach). This approach has a number of severe flaws that can ultimately impede continuation towards an undefined end-goal.

(b) As from the start the end-goal, a time schedule and intermediate stages are formulated. The implementation of these stages proceeds gradually. The gradual approach will appease and reassure the leaders of Europe and the national parliaments. The gradual implementation will project a powerful message to the stakeholders. Its impetus will create confidence in

the opportunities generated by the project. This positive message of trust and faith will create needed dynamics towards economic recovery and will strengthen the idea of political integration (at least in the euro area).

- The introduction of differentiated integration for the euro area should proceed along an institutional procedure that is not foreseen in European Treaties. This initiative actually breaks with current intergovernmental governance principles. This political initiative equals a refoundation build on a set of new assumptions and federal principles. Playing down the importance of these assumptions and principles incapacitates a new start for the euro area and the EMU.

Chapter 8

How shall European federalists react to the proposals of chapter 6?

- European federalists will **leave no political initiative** towards a Political Union **unscrutinized**.
- **Joint initiatives by Germany and France** shall receive special attention by European federalists. The federalists will formulate complementary ideas that set out the subsequent steps towards a stronger federal polity and will bring these ideas to the knowledge of the elites that decide over the Political Union of the euro area. Linking up with official initiatives helps the European federalists to catch proper attention from the media and from the targetted elites.
- Any reason or momentum shall be seized by the European federalists to **boost the public debate on a Political Union for the euro area**. When presented properly mass-media will report the ideas developed by the European federalists, especially when linked to unresolved issues of the public and/or individual interests of people of Europe.
- European federalists will confront the public sphere **along the lines of a strategic plan**. This plan will encompass all stages of a pre-defined track. This plan will bring forward specific messages in each of the subsequent stages of this track.
- European federalists will focus especially on political initiatives that bring forward **inclusive projects**. Incomplete projects are most of the time useless since their whereabouts are not clear and their assumptions remain open to speculation.
- European federalists will especially **follow up ideas that** focus on democracy, legitimacy, efficiency, enforceability and transparency and that **enrich the federalist line of thinking**.
- European federalists shall acknowledge **population is potentially more interested** in reform than its national representatives. Population possibly wants a (swifter) change for the better without knowing how to proceed. Peoples of this generation are impatient. UEF shall seek to translate these demands in effective political messages that cannot be ignored by European leaders.
- European federalists will not indulge themselves to **do nothing or too little** because the context would not be positive. The federalists' vocation and mission would be misunderstood. Good opportunities shall be responded to immediately. Postponing a

reaction equals making its own ideas irrelevant when the momentum will be gone.

- European federalists should be recognized by mass-media and its targeted audiences as the **benchmark of federalist reflection and needed European integration**.
- European federalists shall **try to induce the political parties** to come forward with projects for a European polity and Political Union capable of dealing efficiently with our main societal challenges, even if these challenges are limited to the euro area.
- Many European federalists restrict their political action to mere analysis of current defaulting situations. **Ambitious objectives and an inclusive European project** are too often missing. Too little attention goes to the subsequent stages the political integration process will have to go.

Interim conclusions

- According to Roger Van Campenhout following two opinions are pretty sure (9/03/2015):
 - (1) **A status-quo is no option:**
Which option will possibly be retained, it shall have to demonstrate the Union's institutions will generate more democracy, more solidarity and more effectiveness.
 - (2) **Before the institutions are reformed** the Union should have progressed towards a revitalised economy, improved means to fight the crises and unemployment, climate change, international terrorism, violations of international law in our neighbourhood, etc. That shall happen within the limits of current Treaties.
- European decision-makers shall **seriously consider differentiated integration** since it reconciles conflicting political objectives of two more homogeneous groups of Member States in the EU.
- European federalists shall make **differentiated integration a central theme** that shall first be discussed internally before going public with an inclusive project of Political Union for the euro area.
- European federalists shall **handle the theme of differentiated integration with priority** in order not to miss the momentum that will be created when European leaders will deal with it in October 2015 or later and the European Parliament report by end of 2015 on where Guy Verhofstadt is the rapporteur. Title of the report: The Institutional Future of the European Union Beyond the Treaty of Lisbon.
- **No federal objectives** can be achieved without federal tools and institutions.

What is ESIC?

Established 1963 in Antwerp by European federalists, after successful participation in two Free European Elections by the Congress of European People (an initiative of A. Spinelli). The Europees Studie- en Informatiecentrum or European Study and Information Center (ESIC) is a non-profit organisation with a library and documentation center, two publications, a website www.europadebat.be ©, 'Café-Europa' © debates with students, an annual academic cycle 'Federalism, Democracy, Europe' ©, training sessions and lectures on European themes. ESIC avails free of charge advise.

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ESIC publications

- Numbers 41 up to 55 in the Series 'Which Europe?'© are available in Dutch and English. Missing translations are forthcoming. These papers can be consulted on ESIC website: www.europadebat.be © , see ESIC/Publicaties. The same applies to ESIC Nieuwsbrief (Newsletter, only in Dutch).

- Number 41: 'The European federalists confronted with themselves' (c), (2010)
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