

## **Future prospects *Vademecum* to address EU policy and political challenges**

**David Natali**

The EU is still trying to find a way out of its multidimensional crisis. The year 2012 has seen efforts to develop a coherent exit strategy, but long-term challenges still exist, and more efforts are needed to address them effectively. This concluding chapter provides, on the basis of the main findings of the present edition of *Social developments in the European Union*, some further reflections on the future of the European Union.

As stressed by Natali and Vanhercke in the Foreword to this volume, the crisis is changing again, and nowadays much of the stress is of a political nature. The EU is in need of a new roadmap addressing persistent policy imbalances (with some Member States still trapped in austerity) and resurgent political problems. Section one below, looks at these tensions, drawing a distinction between their policy and political dimensions. The policy aspects have to do with the policy problems now facing the EU, and especially the eurozone (persistent fragility of the policy-mix proposed by the EU and of the economic governance to implement it) as well as the increased geographical divide between different European regions (the 'North-South divide' and beyond). The political tensions boil down to the apparent paradox of the urgent need for more integration and the seeming impossibility of this. The legitimacy and popularity of the EU seem to be at their lowest ebb (with a vicious circle of technocratic solutions and populist movements), while Europeans desperately need more integration. Section two describes the proposals made by EU leaders: we refer in particular to the four presidents' report (Towards a Genuine Economic and Monetary Union), presented in its final version at the EU summit in December 2012. Section three provides an alternative map. Drawing on a summary

of the proposals coming from stakeholders (cf. the Social Compact proposed by the ETUC) and analysts we developed a four step ‘*vademecum*’ for the future of the European Union.

We examined the literature provided by analysts and commentators, and in the following passages we summarise two different sets of contributions. Firstly, we consider the more political contributions, coming from European think tanks (such as the European Council of Foreign Relations, Policy Network, Notre Europe, the European Institute of Washington, etc.) and from political figures (cf. Cohn-Bendit and Verhofstadt, Delors) who have expressed their concerns as to the future of the EU. We also discuss analyses which give a more economics-based reading of the situation (from commentators and think tanks of different politico-ideological colours, such as Bruegel, the Centre for European Policy Studies, Social Europe, Vox.eu, etc.). The *vademecum* introduced in section three is not to be viewed as a comprehensive set of solutions to the problems faced by Europe, but rather as a menu of potential policy and political measures to further develop intellectual and political debate (in which the trade union movement should be one of the key actors). It is a roadmap for policymakers, stakeholders and intellectuals, to contribute to their future dialogue.

## **Policy and political challenges facing Europe**

Analysts agree that the risks facing the EU are huge. Two main sets of issues are now at the top of the European agenda: policy challenges (economic imbalances and the related increased geographical divide between rich and poor countries), and political challenges (the pressing need for more integration while political conditions seem far from allowing such deeper trends).

The policy challenges: the persistent weakness of EU recovery and the geographical divide

Economists tell us that the major deficiencies of EU policymaking (monetary, fiscal and economic policies) remain, despite huge efforts to renew the integration project (cf. De Grauwe, 2011; Ha-Joon, 2012). In

---

the words of Leonard and Zielonka (2012), the EU demands austerity while prohibiting central bank interventions, and does not protect citizens and national policymakers from the financial markets.

We list here the main flaws in EU economic strategy and governance, reflecting a policy plan that has proved insufficient, quoting the ECB and its critical look at the European decisions taken so far (cf. Coeuré, 2012). While we do not share all the diagnoses made, this is a good summary of what is lacking in the EU.

A first challenge is related to the fragmentation of the eurozone banking system. Beyond the immediate short term, there is an obvious need to put in place a solid European banking supervision and resolution framework (Darvas *et al.*, 2011). Ineffective stress tests for the European banks, counterproductive bail-in measures (see the most recent Cypriot crisis) all prove the need for a true EU banking union. As stressed by Aiginger *et al.* (2012), despite the decisions taken in the last months, EMU is still far from being a banking union: there is no European deposit insurance and no bank resolution scheme to enable the taking into account of cross-border risks.

A banking union, including resolution and deposit insurance, needs a fiscal union (Coeuré, 2012). 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. The completion of banking and fiscal union would ensure that the Union is able to respond to shocks: cyclical shocks, exogenous asymmetric shocks, and shocks arising from the banking system.

Weak economic coordination is another problem. 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 (Aiginger *et al.*, 2012, 4). If left unaddressed, this either results in prolonged economic divergence or in permanent fiscal transfers (Coeuré, 2012). Here again, many innovations have been introduced. Examples are the new Macroeconomic Imbalance Procedure (MIP) – with the objective of preventing and correcting divergences in competitiveness –

and the Euro Plus Pact, more intergovernmental in nature. Many experts, however, have interpreted these as partial measures, which have not properly addressed the risk of imposing an excessive burden on crisis-hit countries while treating surplus countries more lightly (Liddle *et al.*, 2012: 8). This is very much related to what Dervis (2012: 25) stressed in terms of the risk of ongoing austerity: without short-term support for aggregate demand, many countries in crisis could face a downward spiral (cutbacks, reduced output, higher unemployment, and even greater deficits).

As stressed by Natali (2012), a more fundamental criticism can be levelled at the normative place of solidarity in the building of the EU. Each milestone in the integration process has marked a (renewed) 'solidarity deal' between the Member States to redistribute risks and opportunities. The Common Agriculture Policy was the first example in the integration project of a policy with elements of solidarity. It was followed by territorial solidarity (through the use of structural funds aimed at promoting financial transfers between countries and territories) and solidarity through the more recent European Globalisation Adjustment Fund (to compensate workers who are victims of company relocations). The EU now needs new tools for solidarity. In the words of Degryse (2012), if solidarity is not pursued at EU level, the alternative for national governments is to use the social domain as the adjustment variable for managing the crisis (*ibidem*, 72). In such a context, the EU social dimension (especially through soft coordination) seems insufficient, as stressed by Peña-Casas and Vanhercke in their chapters. Yet Thillaye (2012: 10) has advanced a more nuanced assessment as to the potential role of the new EU budget for 2014-20. For this author, substantial efforts have been made to increase its role in favouring growth and 'social investments': funding for agriculture has been cut by 12% while credits for 'growth and jobs' have been increased by 38%, and climate action objectives will represent at least 20% of EU spending in the future years.

## The geographical divide

Some of the most striking evidence of the chapters included in *Social developments in the European Union* (cf. De Grauwe, Agostini and Capano, and Schulten and Müller) is of the growing divide between

European countries. Many studies have talked of the ‘North-South divide’<sup>1</sup> (Martin, 2013). What we see here are the growing gaps between three European regions: Northern and Continental Europe, Central-Eastern Europe, and Southern Europe. A recent extensive report from the World Bank (WB) (Gill and Raiser, 2012) has provided an interesting picture. As the authors explain, the EU economy can be viewed as three lanes of traffic, a slow-speed lane in Western Europe, a high-speed lane in Eastern Europe and a third lane, the South – ‘where cars are going in reverse’<sup>2</sup>.

This rather blunt conclusion needs some qualification but is a useful starting point for our reflection. It is interesting to consider the most recent publication by the Commission on the state of EU economic, social and employment conditions (European Commission, 2012a and 2012b). Looking at GDP growth since 2007, some Member States are richer than before the crisis, many are back to pre-crisis levels and some are much poorer. In the period 2007-2012, many of the newer Member States showed healthy economic trends, with Slovakia and Poland outperforming others (with real GDP increases of over 13 % and 19 %, respectively, over the period). The Baltic countries, very much affected in the early phase of the crisis, have also shown signs of recovery in recent years. Among the old Member States, the clearest divergence is between the North and the South and periphery: Greece, Italy, Portugal (and also Ireland) all experienced output drops in 2008-09 and a negative trend since then.

As stressed by Martin (2013), the interest rate gap between the Northern states, which are enjoying extremely low borrowing costs, and Southern debtor countries provides further evidence of this division<sup>3</sup>. For example, Italy’s 5.972% yield on 10-year bonds towers over Germany’s 1.215% interest rate on 10-year bonds. Moreover, the

- 
1. An interesting publication on the subject is *Benchmarking Europe*, 2013 published by the European Trade Union Institute (ETUI).
  2. For the WB, this pattern is partly explained by the financial flows from the South of Europe, which shares a low productivity profile, especially in Greece and Italy, towards Eastern countries where the privatisation of state-owned industries offered opportunities for investors there (European Affairs, 2012).
  3. Divergent interest rate trends mean very different conditions for business. Due to divergent rates, employers in southern countries have more problems than their competitors in richer countries in accessing loans and financial aid from banks.

Southern European states are also burdened by high public debt: 159.1% of GDP for Greece, 119.6% for Italy and 110.1% for Portugal – more than the EU average (82.2% of GDP). Finally, the Southern European states are also suffering from a loss of competitiveness as a consequence of the increases in labour costs and limited productivity gains in the last decade.

Social and employment figures confirm the picture. As stressed by the Commission (2012a), the average unemployment rate of the group made up of Cyprus, Estonia, Greece, Ireland, Italy, Malta, Portugal, Slovakia, Slovenia and Spain, after converging in the years up to 2004, in favour of southern and peripheral eurozone members, is now higher than the average rate for Austria, Belgium, Finland, France, Germany, Luxembourg and the Netherlands<sup>4</sup>. In 2011, the gap was an unprecedented 7.5 percentage points: the average unemployment rate for the northern countries was 7.0 %, as against 14.5 % in the south and periphery of the eurozone. This gap was ‘only’ 3.5 percentage points in 2000 (*ibidem*). What is more, while youth unemployment in the European Union has risen to an average of 22.6%, Southern Europe has been particularly hard-hit, with Greece and Spain reporting rates of over 50%. The gap may be explained in part by a higher education gap between Southern and Northern European nations, which has resulted in an oversupply of labour for low skill vacancies in Southern Europe, at a time when manufacturing jobs are moving to cheaper markets like China or India (Martin, 2013). There is also growing divergence in terms of living conditions. The decrease in household disposable income has been most significant (above 4 %) in the Southern countries, Ireland, Hungary and the Baltic States. This is in stark contrast to the situation observed in Northern and Continental countries. In the latter, the combined effect of robust automatic stabilisers and more resilient labour markets in general helped mitigate the impact of the recession.

The geographical divide, however, has also re-launched old stereotypes. The idea of hard-working northern countries versus the lazy South appears from time to time in the European Union’s policy debate over economic and budgetary crisis. Yet a closer look at various statistical

---

4. Further evidence, as stressed by Schulten and Müller in this edition and Meardi (2012), comes from an analysis of social dialogue trends in the Member States.

indicators robustly counters many of the politically expedient stereotypes. Greeks work on average 42 hours a week. Spain and Portugal are not far behind, with a working week of around 39 hours, while in the Netherlands workers work 31 hours a week (Dalton, 2012).

To sum up, economic and social trends provide evidence of a significant cleavage between North and South. Bridging that gap in performance and conflicting perceptions is a major challenge for the EU.

### Political challenges: Europe and its democratic deficit (both national and EU)

All the policy (and institutional) tensions mentioned above have clear political implications and are often heightened by additional political risks. Mark Leonard (2011: 1), in a recent essay, summarises the EU political challenge as ‘the necessity and impossibility of integration’. Monetary union was a step towards a more in-depth integration with extraordinary political implications and consequences. The crisis has highlighted the need to be consistent with this first step: more economic and political integration is needed to make the eurozone work (Cohn-Bendit and Verhofstadt, 2012; Diamantopoulou, 2012). In the words of Coeuré (2012: 3), ‘any form of European control over national policies must be based on political legitimacy and strict accountability (...) For there to be a single market, there must be a legislative body that establishes the rules and a judiciary that can enforce them. What is not yet entirely clear is who exactly will execute these powers, and to whom it will be accountable’.

Many analysts point to the need to rethink the integration process originally designed by Jean Monnet. The technocratic path – ‘integration by stealth’ in the words of Majone – now seems not to be the right approach, for many reasons, although in the past it delivered good results. This is output legitimacy – judged in terms of the effectiveness of the EU’s policy outcomes for the people (Schmidt, 2010). In the golden age of European integration, public opinions were sufficiently reassured by its extraordinary results: peace, reduced conflicts, and ongoing economic growth. Such an output legitimacy now seems lacking. As stressed in the Foreword by Natali and Vanhercke to this issue, all Member States now seem disappointed with the EU. The rich countries are unhappy because they are being asked to help poor

partners, and risk paying a cost in terms of additional sacrifices, thus fuelling risks of moral hazard. The poor Member States see their poor economic performances and the persistent attacks by global financial markets to be the result of EMU, which, among other things, eliminated competitive monetary devaluation as a cheap strategy to address economic shocks. As a consequence, output legitimacy no longer works. Secondly, the EU project needs both input legitimacy, in terms of the EU's responsiveness to citizen concerns as a result of participation by and representativeness of the people, and throughput legitimacy, in terms of the accountability, transparency and efficiency of the EU's decision-making processes along with their openness to pluralist consultation with the people (Schmidt, 2010). But in both respects, the recent score has been meager. Key decisions since the crisis have been the result of French-German leadership or, in a better scenario, of initiatives from a small number of Member States. But the return of inter-governmentalism has sidelined both the Commission and the Parliament, with negative effects on both transparency and accountability<sup>5</sup>.

All these shortcomings have led to two opposed tendencies: the apparent reinforcement of technocracy (with a shift from the EU to national policymaking) and populist reactions at national level (Leonard and Zielonka, 2012). As regards the first trend, the technocratic style that has characterised EU policymaking since the origin of the process seems to have contaminated some Member States. This is the case in Greece and Italy, where political governments gave way to technocratic executives once the economic and debt crisis became too risky to be managed by policymakers and political parties. What is important here is that the attempt of technocrats to address policy crisis via the legitimacy derived from the Commission seems to have largely failed. On the other hand, populism is spreading in many countries. As stressed by Trechsel and Wagemann in their chapter, anti-EU movements are on the rise. The Italian elections in early 2013 are a supreme example of this. The 'old' populism of Berlusconi (even if mixed with more traditional right-wing positions) and new anti-European sentiments proposed by Grillo and his 5 stars movement attracted 2/3 of the electorate, showing the increased dissatisfaction of

---

5. Leonard (2011) spoke of the risk of shifting the logic of the EU from a 'rules-based' to a 'power-based' approach.

the southern public opinions with the euro and the EU. Both elements converge into a democratic fatigue with our institutions at all levels (Bertoncini, 2011; Bertoncini and Kreilinger, 2013).

It is thus evident that the recent revision of EU governance has meant a shift of political power from the Member States to the EU (whatever the integration method used for this). But this has a number of political consequences. The euro crisis has in fact resulted in a massive transfer of power. As stressed by Degryse (2012), the 'European Semester' (2010) gives the European Commission the capacity to monitor and potentially veto national budgets before they are approved by national parliaments. The 'Euro Plus Pact' (2011) opened up ample room for EU intervention in key national policies such as labour markets, pensions, and taxation. At the same time the 'Six-pack' (2011) strengthened both the preventive and corrective arm of Commission and Eurogroup powers to monitor fiscal deficits and macroeconomic imbalances in Member States, and the 'Two-pack' (2012) further strengthened the European Commission's capacity to monitor national budgets. Finally, the so-called Fiscal Compact obliged Member States to change their national constitutions to introduce debt-brake provisions.

As stressed in the chapter by Schulten and Müller, the crisis has provided further evidence of the increased tensions between the EU and national institutions, and some Member States have been constrained in their economic and social policies. This is primarily the case of those countries subject to a so-called *Memorandum of Understanding*. Greece is the paramount example of the growing involvement of the Commission and the ECB (together with the International Monetary Fund) in shaping macro-economic policy and structural reforms (from pension cutbacks to increased flexibility of the labour market). But something similar has occurred with Italy and Spain, which have been the target of direct intervention by the Commission and the ECB through letters including detailed reform programmes. All this seems to short-circuit normal political channels: national policymakers who are legitimised through elections are increasingly constrained by supranational 'guidelines', while supranational leaders who clearly take decisions as to the future of European citizens lack any democratic support (or have, at the most, indirect and weak backing). This situation is also related to the fact that the political architecture of the European Union has remained largely unchanged (Dullien and Torreblanca, 2012).

## The Four Presidents' Report to save the EU

What has been the response from EU headquarters to both policy and political challenges? Here we refer to the so-called 'Four Presidents' Report'<sup>6</sup>. The heads of the ECB, the Commission, the European Council and the Eurogroup were tasked by the EU leaders on June 29<sup>th</sup> to prepare a detailed road map for a genuine EMU by the end of the year. Their mission was to work on four sets of measures to promote deeper integration: banking union, fiscal union, economic union and political union (Leonard and Zielonka, 2012).

The final report of the four presidents – published in December 2012 - sees the eurozone turning into a more 'genuine' economic and monetary union (EMU) in three stages, with a common budget, a bank resolution fund, a deposit guarantee scheme, a single system for bank supervision and enhanced accountability. It calls for 'arrangements of a contractual nature' between countries using the euro and EU institutions to carry out structural reforms, a capacity to 'take rapid executive decisions' for the single currency and a 'unified' external representation of the new Union. The document marks an acceleration towards a two-tier Europe, with the eurozone countries at its core (Marini, 2012).

The report provides for many of the attributes that the European Union already has, taking further the idea of a specific 'fiscal capacity' for the EMU: a sort of 'eurozone budget'. It also recommends that countries enter into arrangements of a contractual nature with EU institutions on the reforms they commit to undertake and their implementation. Reforms could be supported by the new financial capacity, in particular in the field of taxation and employment (EurActiv, 2012). These reforms would be mandatory for eurozone members and voluntary for countries outside the group. The new financial facility would be used to facilitate adjustment to economic shocks in some specific countries, through a central set-up. The financial resources for the new fiscal capacity are expected to be taken from national contributions, autonomous resources such as a value added tax (VAT) or financial transaction tax,

---

6. Other reports have been put forward by the so-called Westervelle Group, and remarks made by the Commission and the Bundesbank President Jens Weidmann (cf. Dullien and Torreblanca, 2012 for a review).

or a combination of both. The establishment of a treasury function for the new budget is also foreseen (Van Rompuy *et al.*, 2012).

As stressed above, the report envisages three stages for the further integration of Member States:

- Stage 1 (2012-2013) involves the full implementation of the Six-pack, the Fiscal Compact, and the Two-pack. Implementation should be further reinforced through a framework for ex-ante coordination of economic reforms (as envisaged in the Fiscal Compact). A Single Supervisory Mechanism (SSM) should be established for the banking sector, and agreement should be reached on harmonisation of the frameworks for bank resolution through the permanent rescue fund of the eurozone (European Stability Mechanism, ESM);
- Stage 2 (2013-2014) should cover completion of the integrated financial framework and a mechanism for closer coordination. National responsibilities for financial stability are assumed to be contrary to the very high degree of integration in the eurozone and at the origin of the fragilities of the sovereign state and the vulnerability of the banking sector;
- Stage 3 (beginning in 2014) consists of the culmination of the reform process ‘toward a genuine economic and monetary union’. The main purpose of this stage is to improve EMU sustainability by providing for some degree of shock-absorption at the central level. The fiscal capacity will be a supplement to the contractual-type arrangements for reform from stage 2. According to the four Presidents, an integrated approach will motivate eurozone Member States to pursue sound fiscal and structural policies.

As regards democratic legitimacy and accountability, European Parliament participation will ensure the accountability of decisions taken at European level, while national parliaments will keep their pivotal role. As far as the integrated financial framework is concerned, the ECB is expected to be accountable as a single supervisor at European level, but with the assistance of strong mechanisms to provide information, reporting and transparency to the national parliaments of the participating countries.

Analysts (and national political leaders) have been sceptical as to the capacity of the report to trace the right strategy to ‘save’ the EU. In parallel, reform proposals included in the report are still to be agreed on

at the Council level (the next step is June 2013), and some other measures have already been sidelined from the debate (see Baker, 2012).

## **An alternative path: four lines of action**

After this summary of the flaws of the EU system and the first plan designed by the EU leaders, we now look at the more promising ideas proposed by certain analysts, scholars and policymakers. We focus on four key lines of action (much in line with the policy and political challenges mentioned above): a more balanced road map for growth, a more effective strategy to address the geographical divide, key steps to improve EU democratic legitimacy, and a new vision for Europe.

### A more balanced road map for growth

Two measures are often proposed to make the EU policy-mix more balanced and more favourable to economic growth: providing more financial resources to the EU (and/or eurozone) budget, and extending/revising the powers of the ECB. Both are expected to improve EU capacity to address asymmetrical shocks.

Mobilising new resources for growth at the EU level means first of all a better and more efficient use of what is already in the EU budget. This is what has been proposed by Marzinotto (2011): to allocate Structural and Cohesion Fund resources that are still outstanding and/or uncommitted. Of the total allocation of the 2007-2013 Multiannual Financial Framework of around 350 billion euros, around 270 billion euros are still outstanding and 134 billion euros uncommitted<sup>7</sup>. To improve absorption rates, one possibility would be the direct involvement of the Commission through direct management of certain types of project. This could be a source of help for those Member States still in recession.

---

7. According to Marzinotto (2011), the outstanding funds for Greece were about 7% of GDP over the programme period, for Portugal 9.3% and for Spain 2.5%.

Another way of increasing the EU resources for growth could be the implementation of a Financial Transactions Tax at EMU level. This would increase resources for growth-enhancing measures in the short-term and reduce taxes on business and labour in the long term (cf. Aiginger *et al.*, 2012). A further possibility would be to stimulate investment through the European Investment Bank and investment projects, but this kind of approach also needs time to be rightly implemented and produce effects on growth.

The ECB should have a broader mandate. This is the second point to be stressed in order to enhance the European growth potential. The Central Bank should be able to protect indebted Member States. Highly indebted countries cannot survive attacks from the financial markets without protection from Europe. Another key aspect is to add growth priorities to stability priorities: for instance, by adding employment as another statutory goal along with price stability. This would bring the ECB in line with the US Federal Reserve. This should be done in a way that does not question the main responsibility of governments and the European Commission in tackling unemployment.

An additional push for economic growth could come from a more 'intelligent' (discretionary) interpretation of the Stability and Growth Pact, which would make it possible to distinguish between investment spending and current expenditure. The former, if well designed, can lay the foundations for longer-term growth (Dervis, 2012).

### A more effective strategy to address the geographical divide

As proposed by De Grauwe in this volume, the problem needs a two-step strategy. Short-term measures are needed to address the issue itself, while longer-lasting measures could be introduced to ensure more stable development between Member States. In the short run, the priority is how to stabilise the economy. That can only be done by increasing the aggregate demand in the system. In the northern and continental part of Europe, Member States should be allowed to spend more, which would quickly have positive effects on the potential growth of the EU. Germans still think that their economy is doing quite well. Unemployment is relatively low and even slightly falling. 'We are running a trade surplus, why should we change the way we run our economy?' But sooner or later

all this negative growth in the eurozone will feed back into Germany, and then the negative growth and financial crisis in Europe will affect public opinion in other parts of the world (Ha-Joon, 2012).

For some analysts, a regime of automatic transfers, as part of EMU, could help to address divergent cyclical positions and make adjustments smoother. One example would be the union-wide unemployment insurance (with some national obligations remaining to prevent moral hazard) proposed by Aidinger *et al.* (2012: 10), and the EU minimum income guarantee proposed by the European Anti Poverty Network (cf. Vandenbroucke *et al.*, 2012). These regimes could be established outside the EU budget in a transfer fund which would be balanced over the business cycle. What we have stressed in these first points is largely consistent with a more 'social dimension' of the EU (in line with the proposed Social Compact (ETUC, 2012) and a more social investment strategy).

### Key steps to improve EU democratic legitimacy

The EU democratic deficit has for a long time been at the core of various analytical reflections. In the context of the EU crisis, this debate has regained momentum (cf. Degryse and Pochet, 2011). Here we consider three different and complementary strategies to address the problem.

The first strategy consists of electing leading EU officials. One possibility would be the direct election of the Commission President (at some point in the future) or election to this post via competitive European elections (the potential Presidents being the candidates heading the list for every European political party) (Vesnic-Alujevic and Castro Nacarino, 2012). This measure would increase the European Commission's democratic legitimacy and enhance the interest in European elections. At the same time it would reinforce the role of the Commission as a 'government' and the strong link that exists between this institution and the European Parliament (Leonard, 2011).

A second measure could be to give the European Parliament the right to initiate legislative proposals. This right has been, until now, a privilege reserved for the Commission. In the view of Vesnic-Alujevic and Castro Nacarino (2012: 7) this is a serious democratic anomaly if we compare

the European political system with that of any of its Member States. A clear treaty change would be required. Giving the European Parliament (and the Council, which can be seen as the upper chamber in the EU political system) the right of initiative would not exclude the Commission from continuing to elaborate proposals: this happens in many Member States, where the government shares this task with the parliament. Moreover, the European Parliament should also be able to take part in the decision-making process for economic policies.

A third possible route would be to involve national parliaments more closely through complex multi-level arrangements (Duff, 2010). One proposal has been, for example, that national parliaments should have more control over the European Council. This is what has been proposed by Heffler *et al.* (2013) in a recent study. A number of ways have been suggested to achieve this more advanced interaction: opening up the European Parliament to national MPs and viceversa, 'using' the European political parties as a means to improve dialogue between national MPs and MEPs, and the setting up of an Inter-parliamentary Conference on economic and budgetary issues.

A fourth possible strategy would be to increase European citizens' participation in decision-making processes through consultations (especially via the internet). Many scholars (cf. again Vesnic-Alujevic and Castro Nacarino, 2012) now agree that citizens need to participate in democratic processes in order both to give these legitimacy and, at the same time, to bring democratic processes closer to citizens. The advantage of deliberative democracy is its capacity to strengthen the representative democratic system, especially in a supranational context such as the European Union. The possibilities for deliberation in the European Union can be further fostered through the internet, which brings new possibilities for deliberation.

## A new vision for Europe

What we have seen above is not just a matter of incremental changes. European leaders need to provide a long-term vision of a stable EU guaranteeing high levels of employment and well-being. To achieve this, the shortcomings of the EMU have to be addressed and corrected. As outlined by Diamantoupolou (2012), the prolonged austerity imposed on

the citizens of ailing economies and the burden put upon taxpayers of richer countries to the benefit of weaker ones generate anti-European sentiment. Income-levels and living conditions are still diverging dangerously between Member States. All these factors, if left unchallenged, could lead to the disintegration of the European Union. The major challenge for EU leaders is how to provide a new narrative for Europe. One potential way of doing this is to highlight the basic principles at the core of the European social and economic model: the defence of social (and industrial relations) rights, a unique degree of social protection and high standards of well-being. Strangely, international organisations (from the ILO to the World Bank) and foreign observers seem keener than Europeans to treat these as virtues rather than vices.

The Social Compact proposed by the ETUC (2012) provides examples of the measures that could be implemented to reach the goal of a more inclusive economic growth. Structural reforms should consist of investments in sustainable infrastructure, research and development, and technological innovation (see also Agostini and Capano in this volume and the role education and training may play). These measures could be financed through extra resources, raised from the European structural funds, the European Investment Bank, project bonds, and an adequately engineered financial transaction tax. Young people and women should be the target of initiatives like the ‘Youth Guarantee’ to give youth more opportunities for decent work and life chances. Social dialogue (in line with indications from the ILO) could be an effective tool for designing and implementing such new strategy.

These measures could be at the basis of a large consensus among stakeholders and policymakers in the attempt to improve the EU growth potential by increasing productivity: investing in people rather than weakening social rights.

## References

- Aiginger K., Cramme O., Ederer S., Liddle R. and Thillaye R. (2012) Reconciling the short and the long run: governance reforms to solve the crisis and beyond, European Policy brief WWW.ForEurope project, No.1 ([http://www.foreurope.eu/fileadmin/documents/pdf/Policybriefs/WWWforEurope\\_PB\\_no01\\_D404.1.pdf](http://www.foreurope.eu/fileadmin/documents/pdf/Policybriefs/WWWforEurope_PB_no01_D404.1.pdf)).
- Baker L. (2012) Analysis: EU looks for bold steps, but what about voters? (<http://www.reuters.com/article/2012/06/27/us-eu-summit-voters-idUSBRE85Q0MH20120627>).
- Bertoncini Y. (2011) UE, Une Légitimité encore en devenir, Tribune, Notre Europe, November 2011.
- Bertoncini Y. and Kreiling V. (2013) Réflexions sur l'Union Politique, Synthèse de la réunion du Comité européen d'orientation, Notre Europe – Institut Jacques Delors, January 2013.
- Coeuré B. (2012) Towards a consistent, coherent and complete Economic and Monetary Union, Speech at the conference 'Financial stability and the Single Market – the keys to growth in Europe' on the occasion of the 20<sup>th</sup> anniversary of the Single Market, European Commission, Brussels, 19 November 2012.
- Cohn-Bendit D. and Verhofstadt G. (eds.) (2012) For Europe. Manifesto for a post-national revolution in Europe, Milano, Mondadori.
- Dalton M. (2012) Busting North-South Stereotypes, The Wall Street Journal (<http://blogs.wsj.com/brussels/2011/02/14/busting-north-south-stereotypes/>).
- Darvas Z., Pisani-Ferry J. and Sapir A. (2011) A Comprehensive Approach to the Euro-Area Debt Crisis, Brueghel Policy brief, 1/2011.
- De Grauwe P. (2011) Balanced Budget Fundamentalism, CEPS Commentary, Centre for European Policy Studies, 5 September 2011 (<http://www.ceps.be/book/balanced-budget-fundamentalism>).
- Dervis K. (2012) Can There Be Austere Growth?, Towards a European Growth Strategy, Social Europe Report, February 2013 (<http://www.social-europe.eu/wp-content/uploads/2013/01/eBook.pdf>).
- Diamantopoulou A. (2012) Europe Needs Leadership With Vision, Towards a European Growth Strategy, Social Europe Report, February 2013 (<http://www.social-europe.eu/wp-content/uploads/2013/01/eBook.pdf>).
- Degryse C. (2012) The New European Economic Governance, ETUI working paper series, 14/12, Brussels, ETUI.
- Degryse C. and Pochet P. (2011) Monetary Union, economic coordination and democratic legitimacy, Policy Brief, Issue 5/2011, Brussels, ETUI <http://www.etui.org/Publications2/Policy-Briefs/European-Social-Policy/Monetary-Union-economic-coordination-and-democratic-legitimacy>

- Duff A. (2010) Post-national democracy and the reform of the European Parliament, Policy paper, 42, Notre Europe, Paris (<http://www.notre-europe.eu/media/postnationaldemocracy-democratiepostnationaleduffneoct10.pdf>).
- Dullien S. and Torreblanca J.I. (2012) What is political union?, ECFR Policy brief, 70, European Council on Foreign Relations, London, December 2012.
- ETUC (2012) A Social Compact for Europe, ETUC resolution adopted by the Executive Committee at its meeting on 5-6 June 2012 (<http://www.etuc.org/IMG/pdf/EN-A-social-compact-for-Europe.pdf>).
- EurActiv (2012) Van Rompuy fleshes out plans for two-tier Europe, eurozone budget (<http://www.euractiv.com/priorities/van-rompuy-tables-key-report-ahe-news-516495>).
- European Affairs (2012) Fresh Air from World Bank on Europe's much-maligned Economic Model, April 2012 (<http://www.europeaninstitute.org/EA-April-2012/fresh-air-from-world-bank-on-europes-much-maligned-economic-model.html>).
- European Commission (2012a) Main Employment and Social Challenges 2013, Issue Paper.
- European Commission (2012b) Employment and Social Developments in Europe 2012, Luxembourg, Publications Office of the European Union ([http://ec.europa.eu/employment\\_social/esde/2011](http://ec.europa.eu/employment_social/esde/2011)).
- Gill I. and Raiser M. (2012) Golden Growth. Restoring the lustre of the European economic model, Washington, D.C., the World Bank ([http://siteresources.worldbank.org/INTECA/Resources/gg\\_overview.pdf](http://siteresources.worldbank.org/INTECA/Resources/gg_overview.pdf)).
- Ha-Joon C (2013) Eurozone Politics And Growth, Towards a European Growth Strategy, Social Europe Report, February 2013 (<http://www.social-europe.eu/wp-content/uploads/2013/01/eBook.pdf>).
- Hefftlar C., Kreilinger V., Rozemberg O. and Wessels W. (2013) Parlements nationaux: L'émergence d'un contrôle du conseil européen, Policy paper, 89, Notre Europe, Paris (<http://www.notre-europe.eu/media/controleparlementaire-hefftlarkreilingerrozenbergwessels-ne-ijd-mar13.pdf>).
- Leonard M. (2011) Four Scenarios For the Reinvention of Europe, ECFR essays, 43, European Council on Foreign Relations, London, November 2011 ([http://www.ecfr.eu/page/-/ECFR43\\_REINVENTION\\_OF\\_EUROPE\\_ESSAY\\_AW1.pdf](http://www.ecfr.eu/page/-/ECFR43_REINVENTION_OF_EUROPE_ESSAY_AW1.pdf)).
- Leonard M. and Zielonka J. (2012) A Europe of incentives: how to regain the trust of citizens and markets, ECFR working paper, European Council on Foreign Relations, London ([http://ecfr.eu/page/-/ECFR58\\_EUROPE\\_INCENTIVES\\_REPORT\\_AW.pdf](http://ecfr.eu/page/-/ECFR58_EUROPE_INCENTIVES_REPORT_AW.pdf)).
- Liddle R., Cramme O. and Thillaye R. (2012) Where next for eurozone governance?, Policy Network Policy brief (<http://www.policy-network.net/publications/4222/Where-Next-for-Eurozone-Governance>).

- Marini A. (2012) Will Herman Van Rompuy's Economic and Monetary Union Be Genuine? (<http://www.euinside.eu/en/news/will-herman-van-rompuy-economic-and-monetary-union-be-genuine>).
- Martin G. (2013) Europe's North-South divide – A Stubborn Chasm (<http://www.europeaninstitute.org/EA-August-2012/europes-north-south-dividea-stubborn-chasm.html>).
- Marzinotto B. (2011) A European Fund for Economic Revival in Crisis Countries, Policy contribution, 2011/01, Bruegel, Brussels.
- Meardi G. (2012) Employment relations under external pressure: Italian and Spanish reforms in 2010-12, Paper presented at the International Labour Process Conference, Stockholm, 27-29 March 2012.
- Natali D. (2012) Future Prospects. Has the European Social Model really 'gone?', in Natali D. and Vanhercke B. (2012) Social developments in the European Union 2011, Brussels, ETUI/OSE, 237-250.
- Schmidt V. (2010) Democracy and Legitimacy in the European Union Revisited. Input, Output and Throughput, KfG Working Paper Vol. 21, November 2010 ([http://userpage.fu-berlin.de/kfgeu/kfgwp/wpseries/WorkingPaperKfG\\_21.pdf](http://userpage.fu-berlin.de/kfgeu/kfgwp/wpseries/WorkingPaperKfG_21.pdf)).
- Thillaye R. (2012) Gearing EU Governance towards Future Growth, The side-lining of Europe 2020 and its worrying consequences, Policy Network paper, 14 March 2013.
- Vandenbroucke F., Cantillon B., Van Mechelen N., Goedemé T. and Van Lancker A. (2012) The EU and minimum Income protection: clarifying the policy conundrum, Open Access publications from Katholieke Universiteit Leuven urn:hdl:123456789/349388, Katholieke Universiteit Leuven.
- Van Rompuy H. in collaboration with Barroso J.M., Juncker J.C. and Draghi M. (2012) Towards a genuine economic and monetary union, 5 December 2012 ([http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/134069.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/134069.pdf)).
- Vesnic-Alujevic L. and Castro Nacarino R. (2012) The EU and its democratic deficit: problems and (possible) solutions, European View, 11/1, 63-70.