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Abstract

The solution of current crisis of the EU and the high economic and political costs of inaction need fast actions in order to prevent the end of the European integration project. Even if the federalist perspective is difficult to carry over, a higher degree of integration is necessary because fundamental supranational public goods can be supplied only by supranational institutions endowed with adequate financial resources. The EU budget can be a useful tool of the European economic policy beyond what it is commonly assumed provided the Commission can play a stronger role in the EU decision making mechanism. Large reforms of the EU Treaties are not viable at the moment but it is possible to use the enhanced co-operation clause of the Lisbon Treaty to improve governance in the eurozone improving the Maastricht rules for the management of the economic and monetary union.

Keywords: supranational policies, reform, European union
JEL codes: E62, F15, F55

1. **Introduction**

After decades of continuous progress of the European integration process which produced the the single market, the Economic and Monetary Union (EMU) and the enlargement to Central-Eastern Europe countries, the cohesion and of the EU is now threatened by the effects of the global financial crisis, the sovereign debt crisis and the controversies about the management of the flow of immigrants and war refugees from North Africa and Middle Est.

In 2010, EU institutions and governments were clearly not well equipped to face the challenges raised by the sovereign debt crisis. The reaction to the Greek crisis was initially slow and hesitant so that the troubles of a country representing less than two per cent of EU GDP become a crisis of the Eurozone so severe as to threaten the survival of the EMU. Bad institutional design, the wrong answer of generalised austerity (Fiorentini and Montani 2013, 2014) and the lack of fiscal union and solidarity largely explains the troubled period the EU is living in today

So far the response to the crisis of the EU has been based on a "sense of survival" rather than a "sense of common purpose" (Fernandes and Maslauskaite, 2013; Pisani-Ferry, 2013). The "sense of survival" is important to manage a crisis in the short run, but without a "long-term" vision of what the EU should finally become, the viability of the EU project is not certain. After the completion of the EMU and the last enlargement rounds, EU governments seem to have lost a "sense of common purpose" and, because of the social and economic costs of austerity, European citizens are increasingly asking themselves what benefits they have obtained from the EU and the EMU. The growth of euro-sceptical and anti-euro parties and movements is a clear sign of disaffection and discontent with current EU policies. In our view, a new "sense of common purpose" should be based on the long-term project of a prosperous Europe in which economic growth and mutual solidarity is the basis for the preservation of the main features of national welfare systems which made the EU unique in the world.

The EU is a complex and unique experiment which has been able to grant a very long period of peace, prosperity and economic growth but its institutional and governance limits are now evident. Since the creation of the European Economic Community in 1960, two different approaches contributed to the shaping of the EU: and the functionalist approach (Masini, 2015; Preda, 2015). The federalist approach pioneered by Spinelli and Monnet aims at the creation of a united European political federation while functionalists prefer a less bold approach and believe that supranational institutions are needed only when they are necessary to solve common problems and grant the well-functioning of a large integrated economic market (Masini, 2015). Nowadays, the EU features a very high degree of economic integration among member states and presents elements of federal or supranational institutions such as the European Parliament, the European Central Bank and the European Court of Justice. According to the Lisbon Treaty the Europa policy decision mechanism requires the interaction between the Commission, the Council and the European Parliament. However, since the Greek crisis, the co-decision mechanism among European institutions has given way to a stronger role of the European Council which represent the member states. The so called “inter-governmental” method has taken over the “communitair method” and almost all the recent policy decisions taken to deal with the sovereign debt crisis were approved by the Council mainly upon proposals of the German government. So far the role of the Parliament and the Commission in the management of the euro crisis has been rather passive.

The prevalence of the role of national government over common European institutions and the negative economic and social effects of fiscal austerity (Calcagno, 2012; Fiorentini and Montani , 2014) policies goes hand in hand with the growing discontent of European citizens with the EU, the rise of nationalistic and Eurosceptic movement in most European countries and the weakening of solidarity among member states. A clear sign of this negative trend is the ongoing discussion over the possibility to suspend the Schengen treaty in order to stop the intra UE flow of war refugees from the Middle Est and Africa. Should this happen, not only Southern European countries such as Greece, Italy and Malta would in an unfair way bear the entire burden of the management of the refugees" crisis but also one important pillar of the EU, the free circulation of citizens, would be destroyed. The risk of a dramatic stop of the economic and political European integration is high.

An agreement on the final goal of the European integration project is necessary in order to identify the institutional reforms necessary to keep alive and relaunch the EU. The status quo is not an option since it is precisely the current institutional setting which is leading the EU toward a fatal crisis. Inevitable consequence of inaction is the dissolution of the UE as it is today.

On the ground, the solution of a serious relaunch of the federalist project remains intact even if huge obstacles are working against it. In the public discourse, the call for "more Europe" as a solution to the current problems is very common, but in practice neither member states nor a large part of the public opinion are currently willing to transfer other pieces of their national sovereignty to EU supranational institutions and changes of the changes to the Treaties necessary to enlarge the federal nature of the EU are very difficult and nowadays are not on the political agenda.

A less known but interesting alternative can be the acknowledgment of the confederal nature of the EU (McCormick, 2015). In practice, the EU has many features of confederations since it can be seen as an "association of independent states that cooperates where it makes the most sense, retain those powers best reserved for themselves, and work together in cooperative institutions where the interest of citizens are mainly represented indirectly through national governments" (McCormick, 2015: 77).

McCormick outlines three areas where the EU shows typical confederal qualities. The first is the fact that residents of the EU have a direct political relationship with their national government but an indirect one with EU supranational institution. Furthermore, the EU is based on a set of treaties developed in intergovernmental conferences and lacks a European constitution adopted by member states.

The second is that we have a system of governance (Commission, Council, Parliament, the high representative for external relations and trade commissioner) but not a proper EU government.

The third is that the EU is a free association where exit is possible and member states retains separate legal identities and can sign bilateral agreement with non-EU third parties.

According to McCormick, one advantage of stressing the confederalist rather than the federalist nature of the EU is that it could help answering the growing number of those who fear an excessive concentration of power in Brussels may lead to a loss of state and national identity because in a confederation the bulk of power clearly remains at the units level. In the same time, a clear confederal solution would outline the division of powers among states and Brussels better than in the current hybrid arrangement (McCormik, 2015: 78).

Federalist could accept a confederal stage of the EU integration as a compromise and an intermedium step toward the final goal of the European Federation. Reinforcing the confederal aspects of the EU could be an easier task than the re-proposal of a federation "tout court" and could help inverting the current negative trend leaving intact the perspective of the EU as a federation. After all, confederations may eventually become federations.

In any case, whatever perspective we may prefer, federal or confederal (and we are on the federalist side), we must move fast in the direction of a greater integration today before disgregating forces prevails in the EU.

2. **Supranational public goods and the costs of "Non Europe"**

A powerful argument in favour of a deeper European integration as a way out of the current crisis is the supranational public goods one (Fiorentini and Montani, 2012 chapters 5 and 6). Economic globalization has been reducing the power of nation states to answer their citizen"s needs. National government fiscal capacity has been weakened by the international distribution of production chains which made it difficult to raise taxes on multinational and transnational corporations with the consequence that the fiscal burdern has moved from profits and rents onto wages and labour incomes (ILO, 2008). This is one of the causes of the recent worldwide sharp increase in income distribution inequality (Fiorentini and Montani, 2012; Piketty 2014)
With the global dimension of markets and government"s intervention limited to the national sphere the switch to a supranational dimension of economic policy is necessary (Fiorentini and Montani, 2015). As Rodrick (2011) pointed out, democracy, national sovereignty and globalization cannot simultaneously coexist and a choice between two alternatives has to be done. In order to keep the economic benefit of globalization and democracy, we have to give up national sovereignity and device new forms of supranational democracy. Alternatively, the preference for democracy and national sovereignty implies the abandonment of globalization, as nationalistic and Eurosceptic movements propose. However, the idea that the latter solution of the Rodrik dilemma can improve the welfare of European citizens is an illusion. We cannot forget that it was the EU project with its common institutions and growing economic and political integration that granted the longest period of peace and prosperity in Europe. The disintegration of the EU would weaken

rather than strengthen the capability of the small European states to face the challenges coming from a global market where new big competitors are very aggressive.

According to the European Parliament the cost of "non Europe" is very high if we take in account the gains from the completion of several EU economic projects we shall loose in the case of inaction (table 1). The European Parliament (2015) estimats potential gains around € 1,600 billions, 12% of the EU GDP.

In the single European market, essential public goods such as economic monetary and financial stability, defence, and continental infrastructures can be efficiently supplied only at the supranational level. A common defence system would be more efficient and less costly than the current fragmentation of national army. A common surveillance system of EU external borders would allow a better management and control of the dramatic problem of war refugees. Investments in continental communication infrastructures could be done at the EU level only. Inaction or slow action is costly also in political term as the difficult management of the Greek crisis showed.

Obviously, this kind of actions and investments raises the issue of the adequacy of the EU budget and the definition of appropriate rules and institutions in charge of the management of the common fiscal policy.

As far as a common fiscal policy union is concerned, the sovereign debt crisis gave rise to a debate about the establishment of a "true" fiscal union. The lesson of the crisis is certainly that the EMU needs to change and many now admit that creating a monetary union without a parallel fiscal union was a mistake. However, the label "fiscal union" may include very different ideas and projects. For some, fiscal union means a full political and federal union with a federal government and a federal budget. For others, fiscal union is simply a synonym for stricter mutual control and surveillance over national fiscal and economic policies under the current institutional set-up of the EU.

In recent years, interesting proposals for the creation of a "true" economic and fiscal union came from EU institutions. The so called "Five President Report" (Junker, 2015), "Four President Report" (Van Rompuy, 2012) and the Blueprint for a Deep and Genuine Economic and Monetary Union (Barroso, 2012) outlined some priorities such as the creation of a unified banking supervisions system and the creation of a common budgetary framework as a prerequisite for the issuing of common debt. All Reports discuss the transfer of political power from the national to the European level with the eventual establishment of a euro area treasury office. The strengthening of the political role of the Commission is also discussed. However, in practice nothing has been done in this direction and what we have now is the creation of a stronger mutual surveillance system (Two Pack, Six Pack) rather than the establishment of a true supranational level of fiscal policy decisions endowed with adequate resources.

We think that steps in the latter direction are to be taken and this leads us to the problem of the dimension and viability of an European (supranational) budget. On the basis of the historical experience of existing federal unions, critics maintain that in order to be effective the EU federal budget should be at least 30% of the EU GDP and that this dimension cannot be realistically achieved both for economic and political reasons.

The discussion around the optimum dimension of the EU budget is not new. Several years ago, in 1977 the MacDougall Report made it clear that a smaller dimension can be sufficient for dealing with the management of EU public goods. The Report estimated a 2% of the EU GDP in a pre-federal stage and 5-7% in the case the EU would become a full-fledged federal union with a limited federal public sector. A dimension of 2% of the EU GDP is feasible and would represent a large improvement over the current situation where the EU budgets is just at 1% of the EU GDP. In another paper (Fiorentini and Montani, 2014) we showed that increasing the current EU budget by a small 0.19%, it would be possible to boost aggregate demand in Europe by 2% exploiting innovative financial tool such as project bonds (EIB, 2012) issued in order to finance investments in supranational infrastructures and social projects[1]. This increase not only would be feasible but would send the important political message that the EU budget could be an important tools of European economic policy beyond what it is currently admitted.

3. Policies for enhancing EU cohesion and solidarity

As is well-known, goals of the EU are:

"…to promote peace, its values and the well-being of its peoples… work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress… promote economic, social and territorial cohesion, and solidarity among Member States". In order to pursue its goals, "The Union shall establish an economic and monetary union whose currency is the euro" and "shall pursue its objectives by appropriate means commensurate with the competences which are conferred upon it in the Treaties." (Art 3 of the Consolidated Version of the Treaty of the European Union)

So far the EU has been unable to fully pursue those goals on the basis of the "open method of coordination" in which member states are individually responsible for the implementation of common tasks. We believe that both closer cooperation among EU governments and the strengthening of the role of EU supranational institutions are necessary.

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1 The Junker investment plan moves along lines similar to those outlined in Fiorentini and Montani (2012, 2014)

The macroeconomic function of stabilizing the economy should be centralized at the European level because of externalities. “In an open economy, some proportion of the net local government expenditure will flow through into higher net imports, so the benefit of such expenditure will partly benefit non-residents, whereas the local government will in general have to impose the higher future taxes (to service the higher debt) solely on residents. The consequence is likely to be that governments in small, open economies are likely to feel incapable of undertaking as much stabilization as would be optimal if all externalities were to be internalized” (Goodhart and Smith, 1993: 423).

In the economic field, more effective and growth-oriented fiscal coordination requires supranational fiscal union along with some form of debt sharing and anti-cyclical collective insurance mechanisms. As to monetary policy, the ECB mandate should change to include more general macroeconomic stabilization targets. On the basis of the so-called “horizontal clause”[2], the social effects of common economic policy decisions should always be evaluated before their adoption, after consultation from the outset with the European Parliament, representing European citizens, and its involvement in the decision-making process.

Several policies for enhancing the sense of solidarity in the EU and close the gap between EU institutions and citizens are feasible in the present institutional setting.

To preserve social cohesion and stabilize the economy, a cyclical adjustment fund, such as the European Employment Stabilization Fund (EESF) aimed at helping European workers could be set up (Fiorentini and Montani, 2014). An interesting feature of such a proposal is that it would be directly targeted at individual European citizens and would require the temporary rather than

2 “In defining and implementing its policies and activities, the Union shall take into account requirements linked to the promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health”, Art. 9 of the Consolidated Version of the Treaty on the Functioning of the European Union

permanent transfer of resources among EU countries. It is feasible in the short run because it is based on the expansion of the already existing European Globalisation Adjustment programme whose aim is to reintegrate workers into the labour market providing services such as job-search assistance, career guidance, outplacement assistance, tailor-made training and the promotion of entrepreneurship.

The new EESF should provide European solidarity in cases of economic downturn for extraordinary short term unemployment and would provide aid to redundant workers more automatically and more generally than the present EGF. It is important to note that the EESF would not generate permanent transfers because if the displaced worker finds a new job the Fund can be refinanced. Another interesting proposal very close to the EESF is the Common Unemployment Insurance System (CUIS) put forworth by Dullen and Ficthner (2013). The CUIS is targeted at directly help individual European workers in the case they lose their job without creating permanent transfer of funds from one European country to another. According to this proposal, workers would directly pay a part of their wages into the common European fund without incurring in additional burdens because the new insurance would partly substitute for contributions to existing national systems. Of course, national government could always offer additional level of protection beyond the one granted by the CUIS. The common insurance fund would pay in case of short term unemployment (up to one year) and according to the proponents it would have a significant stabilization effects on the EU economy because it would result in income transfer to households which usually have a high propensity to consume.

A move in the direction of the establishment of a social pillar in the EU could be the exclusion of public social investment from budget targets, which would also help to reduce the pressure on national welfare systems (Vanderbroucke et al., 2011). Also important are measures to facilitate labour mobility in the EU, the increasing transfer of pension rights and the improved dissemination of information about job opportunities in European countries (Fernandes and Maslauskaite, 2013). Mutualisation and co-management of sovereign debt is another hotly debated issue. In our opinion, several factors argue in favour of creating a large common market for sovereign debt in the Eurozone. The first is that it would help the management and transmission of monetary policy in the EMU, improving the effectiveness of open market operations by the ECB. The second is that it would be a decisive step in the establishment of a large and liquid continental financial market under the co-responsibility of all member countries, and this would make any new speculative attack on sovereign debt in the EMU very costly.

Several proposals already exist, from Blue Bonds and Eurobonds (Delpla and von Weizsacker, 2010; Jones, 2010; Jones, 2012) to the European Redemption Pact proposed by the German Council of Economic Experts (Doluca et al., 2012). What they share is the strong opposition of the German government, officially because of moral hazard and the fear of a permanent unidirectional transfer of fund from Germany to southern highly-indebted European countries. Yet, it is hard to imagine a federal fiscal union in a large monetary area such as the EMU without some form of Eurobonds. Financial stability is an important supranational public good which the EMU should provide and a Eurobond market would be a very useful tool for that goal. True, initially the yield on Eurobonds would be higher than on similar German bonds but even Germany, which currently pays very low interest rates on its debt, would greatly benefit from stronger financial stability of the Eurozone in the medium and long run. Financial stability in a stronger EMU would make healthy economic growth easier for everybody to achieve.

Insofar as the moral hazard problem is concerned, we believe that it can be minimized by mutual insurance schemes. As already observed, critics of the proposal of a fiscal union based on the pooling of common resources believe that it risks becoming a “transfer union” characterized by the permanent transfer of funds from one state to another, creating problems of moral hazard. In other words, the fear is that in the presence of permanent transfers, highly indebted countries have no incentive to follow “sound” budgetary policies. However, it is not necessary to create a “transfer union” in order to have a good supranational stabilization tool in the Eurozone. For example, a “collective insurance fund” could work by countries with a positive output gap depositing a certain percentage of the difference between their actual and potential output into a common fund, and countries with a negative output gap being allowed to freely withdraw funds up to a given threshold. Withdrawals beyond that amount would be subject to the approval of other EMU governments and, in this case, made conditional on the adoption of appropriate economic policies. Persistent not compliance with the agreed policies would cost a loss of sovereignty over the management of domestic economic policy. Since, in general, the economic cycles of member states are not synchronized, the benefit of such a scheme is that every country knows that, sooner or later, it can count on the insurance fund in the case of idiosyncratic negative shocks, so none could complain that it is the “net lender”. In fact, when the economic cycle picks up, the former borrower contributes to the insurance fund, becoming a lender (Tommaso Padoa-Schioppa Group, 2012). With this type of mutual insurance scheme, moral hazard would be minimized, solidarity among EMU member states would be enhanced and citizens would have a positive perception of European institutions.

4. What Institutional reforms for effective EU policies

In the previous section we outlined some feasible European policy which could help overcoming the current period of crisis of the EU narrowing the gap between EU institution and EU citizens and stabilizing the economic environment in an expansive way. In this final section we want to briefly discuss the topic of the institutional reforms which are necessary to keep alive and move ahead the European integration project. We already explained why we cannot stay still. Inaction is the way for the failure of the entire EU experiment. A short list of what would be necessary has to includes the return of the “communitaire method” as the “standard” method for taking decisions about supranational policies in the EU leaving the inter-governative method just an extraordinary and limited role. The current Treaties already speak of co-decisions between the Council, the Commission and the Parliament but as we know it was the Council that has been dominant among EU institutions in the post Greek crisis period. Enhancing the Commission and Parliament role in the EU policy decision making mechanism is therefore necessary. The Commission, because Article 17(1) of TEU gives it the promotion of the general interest of the Union and the duty to execute the EU’s budget and to manage its programmes. The Parliament because it directly represents EU citizens and is the only democratically elected supranational institution in the EU.

Above we showed that the EU budget can be used as a tool for stabilizing the EU economy. The Commission is the natural candidate for the management of supranational European policies and therefore should be endowed with sufficient resources and responsibility in the implementation of common policies. The need of a true fiscal capacity at the supranational level is also compelling. Insofar as the Brussels institution depends on transfer of funds from the member states, the position of the Commission with respect to the Council is inherently weak.

If the Commission obtains a role closer to a supranational government of the EU, then the Parliament needs wider competences and control power over the Commission.

How can all this be done? Ambitious treaty reform proposals such as the one by put forward by The Spinelli Group (2013) already exist but neither a constitutional project nor a new EU Treaty is currently viable and in any case it would take too long before it is eventually approved by all 28 member states. We do not have so much time. Duff (2015) recently proposed a less ambitious but interesting solution which exploits the enhanced cooperation clause of the Lisbon Treaty. That clause allows a group of member states to strengthen mutual cooperation in several areas which are not under the exclusive competence of EU institutions (such as monetary policy which is under the competence of the ECB). In Duff's proposal, the Eurozone countries could use this possibility to "…re-engineering the Maastricht arrangements for the economic and monetary union. It will be applicable directly to the states of the Eurozone and only indirectly to the non-euro states. Because this Eurozone treaty may be seen as a prelude to a later, bigger revision of the EU treaties, it should do as little as possible to disturb the status quo while doing everything that is basically necessary to allow confident steps to be taken to fiscal union" (Duff, 2015:21-22). In practice, Duff proposes to add a protocol to the existing treaties in order to establish "…a credible authority in the Commission, giving it a Treasury, and endowing it with the latitude to shape the fiscal stance of the EU and to steer the direction of its economic policy" (Duff, 2015: 23). Those steps would simplify the current complicated decision making process of the EU and are exactly what we think is necessary and feasible to pull the EU out of the current crisis. Doing it is just a matter of political will by the European leader. Our hope is that among European policymaker a renewed true sense of common purpose prevails. It would be unforgivable if our leaders would allow the end of the European integration project because of short run myopic electoral convenience.

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