

Clingendael State of the Union 2018: towards better European integration

Margriet Drent, Martin Holderied, Adriaan Schout, Hussein Kassim, Rem Korteweg, Yuri van Loon, Michiel Luining, Jasper Lukkezen, Fransje Molenaar, Christian Schwieter, Frank Vandenbroucke & Wouter Zweers

Clingendael Report



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Netherlands Institute of International Relations



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Introduction

Adriaan Schout and Wouter Zweers

Every year is special and challenging when it comes to European integration. The highlights of 2017 were a number of high-level strategy papers and speeches such as the European Commission White Paper on the Future of Europe, the State of the Union Address by Commission President Juncker, French President Macron's Initiative for Europe, and the Future of Europe report by President of the European Parliament Tajani. These papers and speeches all pave the way for the discussions on improving and deepening the European Union in the months towards the European elections in spring 2019. The upcoming EP elections will be different from earlier elections as the current discussions aim to offer political choices to ensure the elections are content-based.

Whereas politicians and policy makers are in the business of finding compromises, this volume, as can be expected from a think tank, aims to stand back from daily negotiations and assesses underlying trends, the implications of initiatives, and possible alternatives. As regards topics, we had to be both selective and pragmatic. One general conclusion emerging from this volume is that the abovementioned speeches and strategy papers emphasise weaknesses and challenges at the EU level, whereas this volume clearly identifies two levels at which action is needed: the EU and national levels. Taking an eclectic look at the chapters, two sets of themes can be identified: (1) the tasks and obligations of the member states, and (2) the added value of the European policies, even though member states differ in many and in major ways on what EU specific steps should be taken.

Starting with the member state level, trends include the important question of 'the' (non-)emerging **European narrative**. As it appears, narratives differ significantly from one member state to another. This differentiation calls for, on the one hand, caution in defending one type of EU over the other – given the danger of feeding oppositions. On the other hand, this volume also offers some new perspectives on thinking on the European narrative. As appears from the contributions on **public support** and **convergence**, next to discussions on deepening integration, better European integration cannot be seen in isolation from continued weaknesses in the member states. Therefore, one part of the European narrative has to be connected to the role of member states and to what is expected from them. In addition, as may be concluded from the chapter on **rule of law**, strengthening national capacities demands bottom-up capacity-building processes whereas the EU's rule of law policy is mostly

top-down. Lessons can be drawn from the successes of building the internal market where different kinds of national and European checks and balances have been created through bottom-up capacity-building initiatives. Similarly, the contributions on **social policy** and national **fiscal councils and productivity boards** underline the extent to which a better and deeper union depends on sound national policies and institutions. Here too, a bottom-up capacity-building agenda has to be developed.

As regards the EU level, this volume shows that major differences between member states stand in the way of the EU ambitions for swift responses and, hence, calls for a cautionary approach. The EU is confronted with a ring of instability in its **neighbourhood** for which it still has neither instruments nor a narrative. Similarly, European **irregular migration** policies continue to be nationally-driven and caught in an East-West divide as well as preferences for brokering unilateral deals instead of a unified migration policy. Differences in perspectives also characterise the **EMU** debates as appears from the discussion on the politicisation of the **ECB**, highlighting that the Central Bank has been forced to act because of continued national differences in the European Council. And the start of the discussions on the long-term **EU budget (MFF)** is marked by profound differences too. The chapter on the MFF challenges the EU's emphasis on 'European Added Value' and argues that 'Better Spending' should be the starting point for the budget discussions. On **trade** policy, a dilemma has emerged: more trade deals are coming the EU's way, but more tension between the EU, national governments and EU citizens could be the result. As far as this volume is concerned, the area where better and deeper integration seems to move swiftly is **defence cooperation** even though, as always, the proof of the pudding will be in the eating.

Despite political pressures to exploit windows of opportunities for deepening European integration, 2018 calls for caution. Deeper and better European integration can only be successful if national and European ambitions are in tune and if ambitions are matched by national and European capacities to deliver. The agenda for 2018 therefore needs to result in development of the Union as well as of the member states. Progress is called for at different levels of governance but haste has to be avoided.

European Added Value narrows EU budget reform discussions

Yuri van Loon and Adriaan Schout

Introduction

The EU's Multi-Annual Financial Framework (MFF) post-2020 will – once more – be a major political hurdle. There is indeed significant reason to be critical of the EU budget. In the words of Kristalina Georgieva, the former budget Commissioner, “the MFF is a 7-year peace treaty” no-one is really satisfied with. Call for reforms are abound as the pressures on the EU are higher than ever. Yet, former revisions of the budget show that budget negotiations are tough and that high reform ambitions generally collide with the logic of incrementalism. As in previous MFF negotiations,¹ the European Added Value (EAV) is presented as a core concept to guide the budget discussions and to help communicate EU expenditure decisions to citizens. EAV is already an old concept and was reintroduced by the Commission in the previous round of budget negotiations in 2011 to describe whether spending of a euro at EU level “means a better deal for citizens than spending [it] at national level”.² The Commission underlined that EU spending should only be used if it is more efficient, effective or synergetic compared to national spending. At face value, EAV is a reasonable approach to defining the size and the components of the EU budget. However, as argued here, the ‘Added Value’ concept narrows the debate by presupposing budgetary expenditures and by not questioning whether expenditures are necessary in the first place. Instead, the EU should focus on ‘Better Spending’ principles.

MFF negotiations in a volatile political context

With mounting public tensions concerning European integration, the EU budget, in whatever form or shape, will have to withstand public scrutiny with little acceptance for latitude. Poorly argued suggestions for ‘more Europe’ or additional expenditures may

1 Rubio, E. (2011), *The “added value” in EU budgetary debates: one concept, four meanings*, Paris: Notre Europe.

2 Ibidem.

damage public support. There is a desire among citizens to ‘take back control’ as well as to make sense of the political processes. Evidently, the EU budget can be a divisive topic. Yet, this does not mean fears for public support should restrict options. It is important that the final result is not merely a compromise but a justifiable set of choices that are individually defensible. As formulated by Klaus-Heiner Lehne, the President of the European Court of Auditors: “People cannot even begin to trust the EU institutions if they do not believe we are looking after their money properly.”³

Given the sensitive political context, fiscal transfers from more affluent member states to poorer regions are defensible only if budget expenditures are substantiated. A recent Clingendael report indicated that while (Dutch) citizens accept EU interventions, they are more reluctant to increase expenditures on the EU level compared to spending on other levels of government.⁴ Hence the quality of arguments to defend EU budgetary expenditures is of the essence.

The many arrangements of the EU budget regarding revenues, rebates, expenditures, and (shared and national) implementation make it more difficult to hold the policy actors accountable. A simplification, following clear guiding principles, may help explain how the budget (and hence the EU) generates added value. At the same time, any change or ‘simplification’ as to resources (e.g. forms of taxation) or management of the EU budget is bound to affect the institutional balance. Therefore, as regards changes in the EU budget, also the institutional consequences have to be made specific.

From EAV to ‘Better Spending’

In the presentation of the Commission, EAV seems reasonable but in the eyes of member states it may be regarded as a technocratic approach to overrule political preferences. EAV tends to narrow the debate on the role of the EU budget as it largely revolves around the question whether the available money should be best spent on the national or the EU level. Similar to the European investment fund (EFSI), the EU budget appears to be aimed at spending (and leveraging additional finances). A wider, and more profound, question is whether spending money is the appropriate instrument in the first place.

Path dependency and vested interests play an important role in the MFF negotiations, but in order to truly explain the expenses to an increasingly skeptical population the EU budget should become part of the overall discussions on the added value of the EU. This includes a thorough assessment of the proper tools the EU should use to achieve

3 European Court of Auditors (2016), *Press release 13 October 2016*, Luxembourg: ECA.

4 Van Loon, Y., M. Luining, & A. Schout (2017), *Burger ziet EU als sociale bedreiging; niet als oplossing*, Den Haag: Clingendael.

its goals as well as so-called ‘sunset clauses’ for policies that may have served their purpose in the past but are no longer effective in meeting EU’s objectives.

The Better Regulation framework and its underlying methodology for impact assessments⁵ offer a starting point for discussions on the next MFF. Without aiming for radical and comprehensive spending reviews, agreeing on guiding principles would be a first step in these discussions. Better Regulation leads to insights into questions about: institutional consequences, instrumentation, subsidiarity, proportionality, costs, and, hence, added value.

Better Regulation principles (or ‘Better Spending’) have a specific focus on the principle of subsidiarity and of proportionality and thus relate to Treaty provisions⁶ and the concept of EAV. However, where EAV takes the budget as a given, the Better Spending framework as proposed here provides a set of principles for assessing EU spending and prevents discussions on EAV from becoming a shortcut for defending the budget as an instrument. It is important to first examine what the objectives are before choosing the instrument.

‘Better Spending’ : broadening the question of instrumentation

A rigorous assessment of EU budget proposals should not start with EAV discussions. The proportionality principle underlines that interventions have to match the size and nature of the identified problem. It includes a preference for lighter instruments (such as information tools or light forms of regulation) unless considerations for impacts and consistency point to the need to work with heavier instruments (regulation or economic tools). Generally, instrumentation involves packages (‘hybrid solutions’). Any discussion on budget lines should therefore be viewed in relation to the broader question of instrumentation.

There are major new policy claims and expectations related to e.g. defence, migration, investments, and social policies. ‘Better Spending’ imposes the need to carefully argue effectiveness (results), costs (administrative burdens), proportionality (instrumentation vis-à-vis effectiveness) and subsidiarity of EU actions. For example, the Italian response to the migration crisis could entail budgetary support from the EU budget, but if the Italian government fails to register (illegal) migrants the effectiveness of budgetary support is undermined. A demand for budgetary intervention requires a multi-layered

5 European Commission (2015), Better Regulation “Toolbox”, Brussels: http://ec.europa.eu/smart-regulation/guidelines/docs/br_toolbox_en.pdf.

6 Article 4,5 TEU and Protocol (no 2).

assessment of the obligations of a member state and the effectiveness of additional instrumentation at the EU level.

‘Better spending’ and budget functions

Cold thinking regarding instrumentation and EAV also involves economic *rationales*. Public expenditures have redistributive, allocative and stabilising functions. Considerations as to whether certain policies concern redistributive, allocative or stabilising functions are inherently political, but the options should be carefully analysed. Redistributive parts of the budget, e.g. the Common Agricultural Policy (CAP) and Cohesion funds, resemble permanent transfers and are hard to defend. In particular the direct CAP payments and the regional competitiveness funds (part of the Cohesion funds) lack normative (fiscal-federalist) and positive (political economy) justifications for these EU expenditures.⁷ Secondly, EU-wide redistributive payments are seldom temporary; they often become ‘entitlements’ without achieving the underlying goals. For example, Poland and Hungary received EU funds worth 1,98 respectively 3,57 per cent of their GNI.⁸

CAP and Cohesion funds should, instead, be regarded as allocations to support convergence, with their effectiveness at the heart of the discussions. The benefits and effectiveness of these funds in generating convergence are doubtful at present.⁹ Increased macro-economic conditionality linked to the Country-Specific Recommendations of the European Semester is floated as a solution to the lack of structural reforms. However, the funds in itself are too small to function as a credible stick or carrot.

Most EU funds should therefore be subject to regular reviews, including ‘sunset clauses’. These funds should be reviewed or terminated when they are not properly allocated, for instance if investments flow to richer member states and regions. Such reviews will avoid ineffective use of funds and encourage stakeholders to ensure that funds generate the best possible effects rather than being considered entitlements.

Allocations also include European public goods (EPGs), i.e. goods where the EU is more effective, efficient and able to create synergies.¹⁰ Public goods are non-excludable,

7 Ecorys, CPB, IFO (2008), *A Study on EU Spending*, Rotterdam: Ecorys.

8 European Commission, EU expenditure and revenue 2014–2020. Retrieved from http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

9 European Commission (2011), *The added value of the EU budget - Commission staff working paper*, Brussels: EC.

10 Definition by the European Commission (2011), *The added value of the EU budget*, Brussels: European Commission.

non-rivalrous and in theory applicable to all European citizens. Nevertheless, the provision of public goods often occurs at the national or subnational levels, in relation to domestic demands. The allocation of EU funds should therefore focus on EPGs that are within the competencies and goals of the EU and fulfill the conditions of an EU public good. Examples of areas where the EPG argument is more convincing include security, defence, environmental protection and EU mobility (through infrastructure or education funds).¹¹ However, the EPG argument is debatable when member states are poorly equipped to provide the public goods effectively. It has to be clear why member states fail to deliver results themselves. If member states are unable or unwilling to spend funds effectively and efficiently, covering structural problems through the EU budget will not offer lasting solutions, with the result that other, or complementary, resources and instruments have to be considered as part of the larger instrumentation package.

Stabilisation was an objective of the MFF to defend a flow of investments and (agricultural) support in case national accounts suffer from a downturn. Calls for increased flexibility of the EU budget seek to increase the budget's effectiveness by making it easier to reallocate funds, circumventing the initial MFF design. Flexibility is also sought in the form of financial instruments and satellite funds outside the EU budget, increasing its 'clout'. These different tracks complicate the discourse on the EU budget, and reduce accountability. To illustrate, the launch of the European Fund for Strategic Investments (EFSI) without a proper impact assessment and premature claims of successes may be a form of 'budgetary creep' and could harm trust in instruments and objectives. The EU's investment fund (EFSO) may have some added value, but it may not pass the test of proportionality and other instruments may be more appropriate to address the EU's investment deficits.

Conclusion

Added Value is, once again, explored as a guiding principle in the discussions on the EU's Multi-annual Financial Framework. The advantage of the concept of EU Added Value is that it specifies the gains of EU spending for the EU public. However, EAV as a starting point for discussions on budgetary reforms limits the reform ambitions. EAV also allows actors to claim added value to protect their political interests. Similarly, arguments such as 'efficiency' or 'public goods' sound deceptively convincing but should be used with care. The EAV concept prevents discussions on causes of, and genuine solutions to, different policy challenges. Moreover, a higher EU budget should and will not cover weaknesses at national levels.

11 Collignon, S., 'The Governance of European Public Goods', in: D. Tarschys (2011), *The EU Budget: What Should Go In? What Should Go Out?* (pp. 42-57), Stockholm: SIEPS.

'Better Spending' principles offer a richer framework to assess the combination of instruments required. Like the EAV, these principles warrant reconsiderations of the current EU budget. Going further, it would broaden budgetary reform discussion by putting expenditures as one (complementary) option amongst a wide range of policy instruments. Expenditures in CAP and regional funds are difficult to defend considering their disappointing outcomes, but are also difficult to alter due to the tendency for member states to defend their *juste retour*. The EAV principle will not eliminate *juste retour* discussions: member states will simply recalculate their net contributions and returns and continue to disagree on proper calculations of EAV. 'Better Spending' forces a more fundamental discussion of objectives and matching instruments. Its logic may take time to fully take root in MFF "peace treaty negotiations" but keeping the overall expenditures modest would be a first step to ensure effective allocation within a 'Better Spending' incentive framework.

State-of-Defence: all stars aligned?

Margriet Drent

After more than a decade of relative standstill, defence cooperation in the European Union has recently shifted into a higher gear. Geopolitical shifts, a deteriorating security environment, the United States pressing Europe to take care of its own security and the Brexit have created a window of opportunity for the EU and its member states to get serious about its own security and defence. Particularly European Commission President Jean-Claude Juncker has made the issue into one of his priority policies since he entered the Berlaymont building. His State of the Union address of 2016 is the best example: “Europe needs to toughen up. Nowhere is this truer than in our defence policy. Europe can no longer afford to piggy-back on the military might of others or let France alone defend its honour in Mali.”¹ This was followed by the concrete statement in his 2017 address: “By 2025 we need a fully-fledged European Defence Union.”² The promise of *‘l’Europe qui protège’* has been turned into one of the central planks of the EU’s legitimacy, adding physical security to the social, economic and cultural connotations of protection.

Although strengthening the EU’s Common Security and Defence Policy (CSDP) was already one of the central themes at the European Council meetings in December 2013 and 2015, it was only propelled to the top of the agenda with the *Implementation Plan on Security and Defence* and the Commission’s *EU Defence Action Plan* that followed the launch of the EU Global Strategy in June 2016. As the 2017 election year generated results that kept the Netherlands, France and – later on – Germany on pro-EU courses, these plans could gain momentum. During his Sorbonne speech, the French President Macron spoke about the historic progress that has been made on what he called “the foundation of any political community” and laid out his ambitions for a “Europe of Defence”. He proposed to establish a common intervention force, a common defence budget, and a common doctrine for action.³ There is a remarkable 75% of respondents

1 Jean-Claude Juncker, *State of the Union address. Towards a better Europe - a Europe that protects, empowers and defends*, Brussels, 2016, http://europa.eu/rapid/press-release_SPEECH-16-3043_en.htm

2 Jean-Claude Juncker, *State of the Union address*, Brussels, 13 September 2017, http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm

3 Emmanuel Macron, *Initiative for Europe*, Speech at the Sorbonne, Paris, 26 September 2017.

that supports a common defence and security policy among EU member states. This high percentage has been stable since 2004 (varying between 71% and 78% only during the whole period).⁴

Amidst all these speeches, policy documents and initiatives, the question remains what it all amounts to. What is the 'state of defence' and how to assess the swift developments that have taken place on defence cooperation in the EU?

As regards European defence it is notoriously difficult to distinguish between rhetoric and action. Ever since the Franco-British Summit at St. Malo, now almost two decades ago, periods of optimism where a 'strategically autonomous' EU seemed to be around the corner, have alternated (and sometimes even coincided) with years of stagnation where EU member states could or would not contribute to even the smallest CSDP missions. Even now, when the stars all seem to align to take meaningful steps towards a more mature EU defence, progress is still reversible.⁵ The main turnarounds have been the decision of the June 2017 European Council to launch permanent structured cooperation (Pesco) before the end of 2017 and the debut of the European Commission as an active player in promoting and financing collaborative defence research and capability development through the European Defence Fund.⁶

Both developments address two of the core problems that have slowed down a meaningful EU defence until now: a lack of (political) commitment and a lack of the right capabilities. Defence policy as the bulwark of sovereignty has so far been ring-fenced firmly in the intergovernmental zone. By awakening clause 42.6 in the EU Treaty on permanent structured cooperation, core groups can be formed. Signing up for Pesco means an end to voluntarism in defence. Failing to comply with the conditions entails that member states can be suspended by the Council. This is unprecedented in the field of European security and defence: Pesco would for the first time offer an enforceable legal instrument to keep member states from back-tracking on their commitments.

While Pesco can be a decisive breakthrough for an *avant garde* on defence and may in the long term develop into a European Defence Union, the actual implementation appears to fall short of that. Suspension of a Pesco participant seems revolutionary, but as it is a last resort sanction and there are no other sanction possibilities available, the actual enforcement of that sanction in case of non-compliance seems remote. That means more 'business-as-usual' in CSDP. Pesco is one of the crown jewels of the German-French

4 European Commission, Special Eurobarometer 461, 'Designing Europe's Future: Security and Defence, April 2017, p. 12, at: <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/ResultDoc/download/DocumentKy/78778>

5 Arnaud Danjean, 'Défense européenne. Attention à céder à l'euphorie', *Bruxelles 2*, 6 October 2017.

6 Dick Zandee, 2017: a turning point for European defence?, Clingendael, The Hague, July 2017, https://www.clingendael.org/sites/default/files/2017-07/2017_A_turning_point_for_European_defence_DZ.pdf

proposals of June and September 2016.⁷ While the kick-started German-French tandem was instrumental in making Pesco possible at all, the widely disparate views on defence between Berlin and Paris might also rid Pesco of its potential. Pesco will remain 'inclusive' on the insistence of Germany, that fears a divided Europe. Berlin and Paris are now after an 'inclusive and ambitious' Pesco, which seems like a *contradictio in terminis*, rendering it less effective as a mechanism for more commitment and for a more operationally able European defence. At the expected launch of Pesco in December 2017 creative officials could still contemplate to add an extra speed to a Pesco for ambitious member states only, thereby *de facto* creating a core group within Pesco.

The enduring problem of Europe's shortfalls in military capabilities is addressed by the European Commission with its European Defence Action Plan (EDAP) of November 2016. It announced future financing of defence research by the Union budget and offered financial incentives for capability programmes of the member states. In June 2017, the Commission launched the European Defence Fund (EDF), a further elaboration of the financial proposals of the EDAP. With the EDF, the Commission wants to stimulate collaborative capability development by offering funding and other incentives to the member states. At the same time, the EDF aims at retaining key technologies and industrial capacities in Europe in order to underpin the ambition of the Global Strategy that the EU should become an autonomous security actor.

Altogether, the Commission proposes to invest €1.5 billion annually in the defence sector post-2020. This is a breakthrough – previously the Commission excluded defence from EU financing – and a game changer in terms of providing financial incentives for defence collaboration to the member states.⁸ The EDF is not an EU defence budget as meant by, for instance, President Macron and the European Parliament. Its purpose is not to finance CSDP operations or EU-owned capabilities. The EDF and its instruments provide a carrot that could help in closing deals on collaborative defence procurement projects by member states that would have stranded otherwise.

Despite the recognition that the Commission's involvement is just the incentive that defence research, the defence industry and member states' defence investments need, it is by no means clear that the EDF is going to be created as proposed. Agreeing to the next EU Multi-Annual Financial Framework (2021-2027) without the UK's contribution is already going to be a tight affair, let alone if room has to be made for another budget

7 Joint contribution by Foreign Ministers Jean-Marc Ayrault and Frank-Walter Steinmeier, 'A strong Europe in a world of uncertainties', 27 June 2016. See also: Joint Position by Defence Ministers Ursula von der Leyen and Jean Yves le Drian, *Revitalizing CSDP: towards a comprehensive, realistic and credible Defence in the EU*, 11 September 2016, https://www.senato.it/japp/bgt/showdoc/17/DOSSIER/990802/3_propositions-franco-allemandes-sur-la-defense.pdf

8 Dick Zandee, *New kid on the block – The European Commission and European defence*, Clingendael Policy Brief, December 2016; Margriet Drent & Dick Zandee, *European defence: action and commitment*, Clingendael Policy Brief, March 2017.

line for defence. Moreover, the battle of wills between those countries with substantial defence-industrial interests (i.e. Germany, France, Italy, Sweden, Spain and Britain) and the Commission could turn out to sour the intended impetus for a more efficient European defence market.

There is no denying that major developments have taken place in the area of EU defence. Since June 2016 this has led to a Military Planning and Conduct Capability (MPCC), a Coordinated Annual Review on Defence (CARD) and a beefing up of funds available for CSDP operations through the Athena mechanism. MPCC, CARD and Athena are considerable accomplishments, but the way they turned out is clearly the result of difficult compromises and still leaves much to be desired. The MPCC is not an EU operational headquarters, CARD is still based on the principle of voluntarism and Athena still covers only a small part of the costs of military operations. Furthermore, it should not be forgotten that the most important initiatives still have the status of promises. Invoking Art. 42.6 (Pesco) and creating a substantial EU Defence Fund are potential game changers, but ambitious implementation is still pending.

Apart from these steps in the direction of a more capable defence, there is a question that remains unanswered: what role will the EU take in European defence? The Implementation Plan of the EU Global Strategy has carved out an ambitious role, including three core tasks as far as defence is concerned that the EU should be able to carry out autonomously: a. intervention in and stabilisation of external crises; b. capacity building of partners; and c. protection of the Union and its citizens.⁹ So far, this new level of ambition has not been defined very precisely, with the crucial issue of what autonomy in defence means for the EU, NATO or the relationship with the United States open to interpretation. Chancellor Angela Merkel's remarks that "Europeans have to take their fate into their own hands, (...), in friendship with the US and Great Britain"¹⁰ were made in the heat of a German election campaign, but are still exemplary of the uncertainty that has crept into the state of transatlantic relations.

Recent years saw acceleration in initiatives on EU defence, and it is undoubtedly the case that the issue has momentum. The sense that the EU could be left to its own devices in a deteriorating security environment, is currently aligning a lot of stars. However, it is still unclear whether the all too familiar gravitational pull of short-term national interests and divergence of strategic cultures will continue to hinder an effective European defence.

9 HR of CFSP/CSDP, *Implementation Plan on Security and Defence*, Brussels, 14 November 2016, https://eeas.europa.eu/sites/eeas/files/eugs_implementation_plan_st14392.en16_0.pdf

10 <http://www.zeit.de/video/2017-05/5451383425001/angela-merkel-europa-muss-sein-schicksal-in-die-eigene-hand-nehmen>, 28 May 2017.

EMU resilience through convergence

Yuri van Loon

Introduction

The Euro would have been the crown upon the European internal market and a symbol for European unity. Already in its inception, economists were skeptical about the ability of the newfound Economic and Monetary Union (EMU) to absorb economic shocks and develop resilient institutions in case of economic crises.¹ Thinking about the EMU is dominated by the theory of Optimum Currency Area (OCA) with its prerequisites of (fiscal) risk sharing, capital mobility, labour mobility and business cycle synchronization.² In line with that, prominent economists are currently arguing that the EMU needs to further integrate, break apart, or anything in between (e.g. a differentiated Euro).^{3,4,5} One way or the other there appears to be a consensus that the EMU in its current state is not resilient. With an ambitious deepening of the Eurozone now on the agenda, we once more see an old divide over the order of deepening EMU first or whether first convergence should take place.

Several recent papers⁶ have argued that economic convergence has not sufficiently taken place in the EMU. Large (institutional) differences remain in key areas. Nevertheless, some progress has been made, notably in current account balances

1 Bayoumi, T. & Eichengreen, B. (1992), *Shocking aspects of the European monetary unification*, University of Berkeley Economic Working Paper, pp. 92-187.

2 De Grauwe, P. (2006), 'What have we learnt about monetary integration since the Maastricht Treaty?', *Journal of Common Market Studies*, 44(4), pp. 711-730.

3 Sandbu, M. (2015), *Europe's Orphan: The Future of the Euro and the Politics of Debt*, Princeton: Princeton University Press.

4 Scharpf, F.W. (2016), *Forced Structural Convergence in the Eurozone – Or a Differentiated European Monetary Community*, Cologne: Max Planck Institute for the Study of Societies.

5 Stiglitz, J.E. (2016), *The Euro: How a Common Currency Threatens the Future of Europe*, New York: W.W. Norton & Company.

6 E.g. Adviesraad voor Internationale Vraagstukken (2017), *Is de Eurozone Stormbestendig? Over verdieping en versterking van de EMU*, Den Haag: AIV.

and the government balances.⁷ However, an accommodating monetary policy has undoubtedly contributed to improving these balances, thereby questioning the structural recovery of European economies. On December 6th, the European Commission has launched its EMU policy package.⁸ Initiatives such as the launch of a European Monetary Fund (EMF) and the introduction of a European economy and finance minister are initiatives in line with the idea that deepening of the EMU would increase its resilience.⁹ In the meantime, despite optimism and calls for momentum, the reform drive of Southern member states has abated and the fundamental health of certain Eurozone economies remains disquieting.¹⁰

This calls for an assessment on the need of convergence by identifying the underlying mechanisms and initiatives currently in place that would induce convergence. In other words, the type of deepening economic governance as is now on the agenda may not solve the lack of convergence, and might (again) too swiftly lead to the conclusion that a leap forward is necessary. Current policy discussions would benefit from a stronger diagnosis on the issue of convergence and the need for a multi-level institutional toolbox. This short contribution aims at assessing to what extent convergence has taken place in recent years. In doing so it will pay particular attention to convergence indicators related to economic structures and the functioning of labour markets and capital markets, that according to OCA are key components of a well-functioning monetary union.

Analysis: convergence in economic structures

The concept of convergence is buzzing around in policy discussions on the EMU. However, types of convergence as well as their indicators are interrelated and as such often entangled in discussions on (the need of) convergence. In a literature review on the concept of convergence three main types of convergence can be identified: real, nominal and cyclical convergence.¹¹ The discussion of convergence and resilience of the EMU is often limited to convergence on income (real convergence) or government

7 Van Loon, Y. (2017), *Economic convergence as the cornerstone of EMU resilience? Indicators, institutions, and instruments*. Clingendael: Report.

8 European Commission (2017), *Completing Europe's Economic and Monetary Union- policy package*. Brussels: EC.

9 EPSC (2017), *Two Visions, One Direction*, Brussels: EC.

10 The Lisbon Council (2017), *The 2017 Euro Plus Monitor: Into a Higher Gear*. Retrieved from, <http://www.lisboncouncil.net/publication/publication/145-the-2017-euro-plus-monitor-into-a-higher-gear-.html>

11 See Auf dem Brinke, Anna, Henrik Enderlein, and Joachim Fritz-Vannahme (2015), *What kind of convergence does the euro area need?*, Gütersloh: Bertelsmann Stiftung und Jacques Delors Institut – Berlin.

balances (nominal convergence). The idea that nominal convergence (in the form of the Maastricht criteria) would lead to real convergence (income convergence) has been highly criticized and a search for alternative solutions and an alternative agenda is well under way. In light of that, an important fourth category is gaining ground, i.e. convergence in economic structures.¹² That is not to say convergence in the other categories is not desirable, far from it, but they seem to neglect national economic institutions, and instead tend to focus on output rather than institutions (in the broad sense) and related (effective) policies. Convergence of economic structures implies a more direct focus on the fundamental health of national economies and the role of the EU and its internal market. Resilient economic structures would prevent macroeconomic imbalances and would be more capable of addressing economic crises. In addition, a well-functioning European market would provide important, if not essential, shock absorbers through increased capital and labour mobility.

This contribution distinguishes between national institutions and government finances, representing national economic institutions and environments on the one hand and internal market indicators on the other. An important aspect of a well-functioning monetary union is the ability for markets to absorb part of the economic downturn, for example through capital flows or labour mobility. Apart from more open capital and labour markets, it requires good national institutions and a stable macroeconomic environment. As such, this contribution examines these (national) economic structures by looking at five indicators of the Global Competitiveness Index (GCI): the quality of institutions; macroeconomic environment; financial market development; goods market efficiency; and labour market efficiency. The GCI measures the competitiveness of 137 countries along the lines of twelve policy domains with over 150 components. It does so by conducting surveys among experts, in combination with data selection from databases such as the IMF and the OECD. The selection made here is far from providing a comprehensive set of indicators to assess the degree of convergence or competitiveness, the selected indicators give a first glance at the economic structures and the development of important market functions of several Eurozone member states.

Quality of national institutions and government finances indicators

Quality of institutions

The quality of institutions (figure 1), the legal administrative framework in which individuals, firms and governments interact, is considered a strong determinant for

12 European Political Strategy Centre (2017), *Reinventing Convergence: Towards Resilient Economic Structures*, Brussels: High-level Policy Conference. https://ec.europa.eu/epsc/events/reinventing-convergence-toward-resilient-economic-structures_en

the overall competitiveness of a country.¹³ As main subcategories the GCI includes the level of property rights, ethics and corruption within public organization, judicial independence, but also overall public-sector performance such as government spending or regulatory burden. Private institutions through corporate culture are taken into consideration as well. To put the scores in a global context: in 2017-2018 Finland is the highest ranked country in the Eurozone and worldwide. Also the Netherlands (7th) and, to a lesser extent, Germany (21st), Belgium (25th) and France (31st) score relatively high in this category. Portugal (43rd), Spain (54th), Greece (89th) and Italy (95th) have the lowest score of the selected countries. All these countries, with Greece and Italy at the forefront, suffer from a particularly low public sector performance.

Macroeconomic environment

The macroeconomic environment (figure 2) looks at government budget balance, national savings and inflation, but also at government debts (and interest rates or credit ratings). As such it focusses more on the results of government policies and the (underlying health of) individual economies. Germany is the highest ranked country in the Eurozone and 12th worldwide; The Netherlands (14th) and Finland (33rd) too have a stable macroeconomic environment. Belgium (59th) and France (63rd) show average scores, mainly due to their relatively high public debts and their budget balances. Spain (90th), Italy (96th), Portugal (105th) and Greece (117th) score low on all subcategories concerning macroeconomic environment.

Internal market indicators

Financial market development

The financial market development (figure 3) indicates the efficiency of the financial sector. That includes financial availability or the transparency of the banking sector and appropriate regulation. Sub-indicators are based around efficiency (easy access, venture capital availability) and trustworthiness (regulation and legal rights/bankruptcy laws). Finland is the best performing country in the Eurozone and ranks 4th in the world. Germany (12th), Belgium (26th), the Netherlands (28th) and France (33rd) score relatively well, although none of them has recovered to pre-crisis levels. Although Spain's (68th) situation is less dire, Portugal (116th), Italy (126th), Greece (133rd) all perform poorly, showing a severe reduction of their financial markets during the crisis.

Goods market efficiency

Goods market efficiency (figure 4) can force companies, particularly in an open European market, to become more innovative and customer oriented and it, furthermore, imposes market discipline. Components the GCI looks at are domestic and foreign

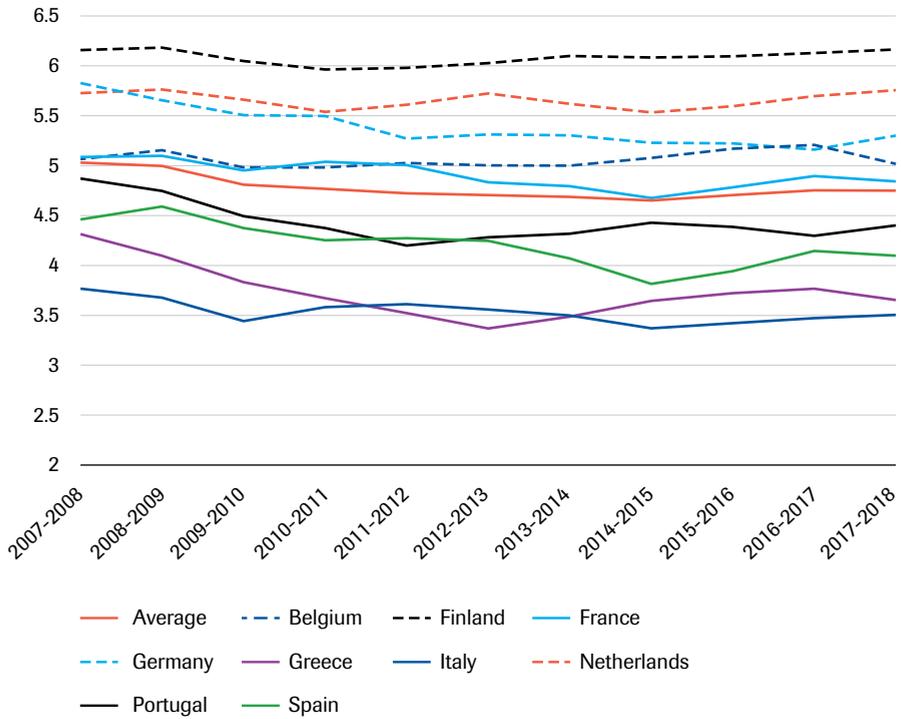
13 World Economic Forum (2017). *The Global Competitiveness Report 2017-2018*. Retrieved from, <http://reports.weforum.org/global-competitiveness-index-2017-2018/>

competition between companies (e.g. the existence of trade barriers), anti-monopoly policy, but also buyer sophistication. The Netherlands is the best performing in the Eurozone and ranked 5th in the world. Germany (11th), Belgium (16th) and Finland (17th) also score high. Portugal (34th) and France (36th) show relatively high scores in global comparison, with Spain (49th), Italy (60th) and Greece (93rd) slightly above or below the global average. Overall, the quality of demand (e.g. buyer sophistication) is high in all countries. In southern Eurozone countries the protection of incumbent companies is rather high, making market entry more difficult. Moreover, the competition of the market differs significantly in both domestic and foreign competition. This is contrary to the general principles underpinning the EU's internal market.

Labour market efficiency

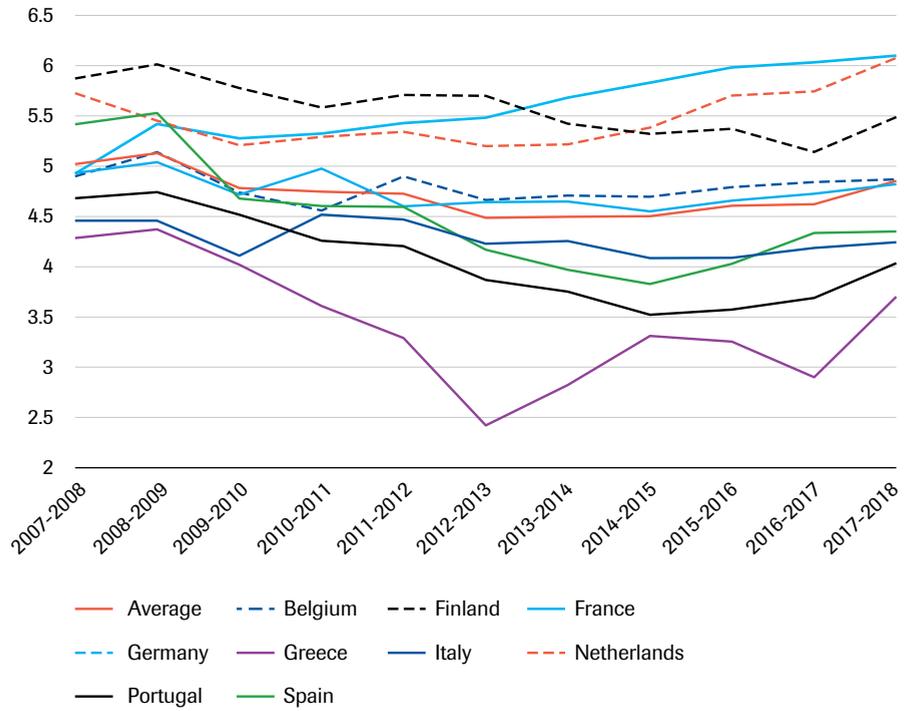
Labor market efficiency (figure 5) is critical to ensure workers are allocated to their most effective use in the economy. The GCI looks at the flexibility of the labour market (hiring and firing practices, wage flexibility, etc.) and the efficient use of talent, such as whether salaries reflect productivity and the related country's capability to attract and retain talent. The Netherlands is the best performing country in the Eurozone and ranked 13th globally. Germany (14th) and Finland (23rd) score high as well. Belgium (44th), Portugal (55th), France (56th) and Spain (70th) continue to score above the global average, but Greece (110th) and Italy (116th) show significantly lower scores. All countries, with the exception of Greece and Italy, score rather well in their 'efficient use of talent'; however, the flexibility of the selected countries' labour markets is comparatively low.

Figure 1 Quality of institutions from 2007-2008 until 2017-2018



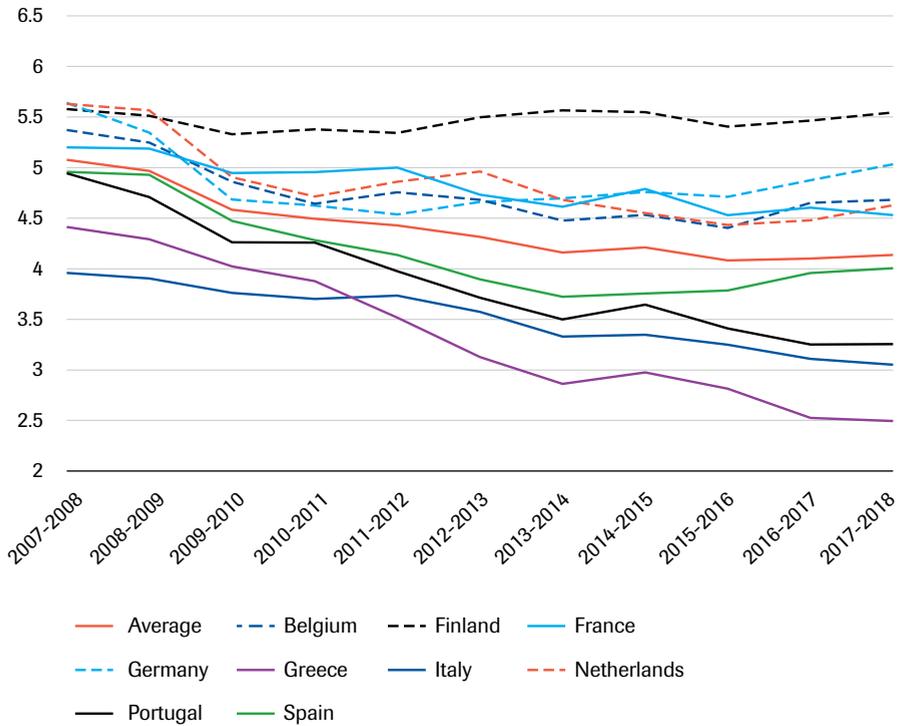
Source: GCI, World Economic Forum. Adapted by author. 1 = lowest, 7 = highest.

Figure 2 Macroeconomic environment from 2007-2008 until 2017-2018



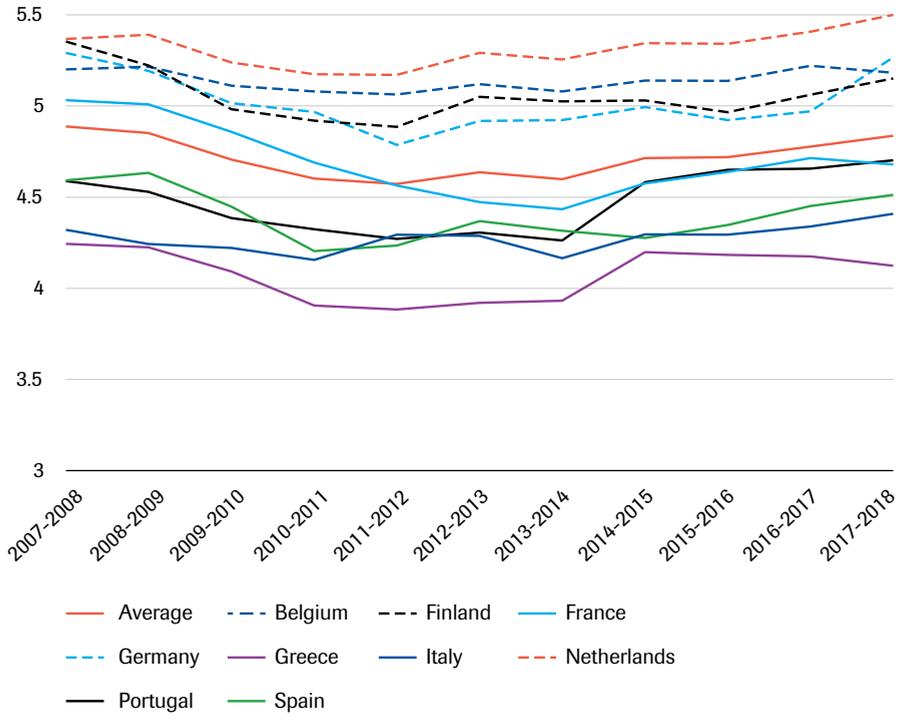
Source: GCI, World Economic Forum. Adapted by author. 1 = lowest, 7 = highest.

Figure 3 Financial market development from 2007-2008 until 2017-2018



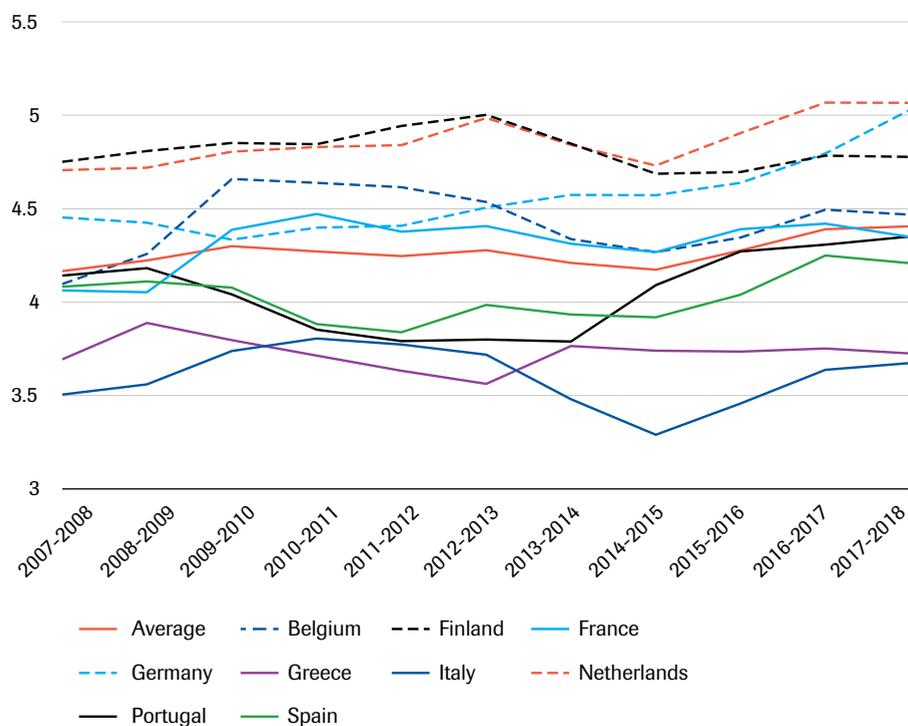
Source: GCI, World Economic Forum. Adapted by author. 1 = lowest, 7 = highest.

Figure 4 Goods market efficiency from 2007-2008 until 2017-2018



Source: GCI, World Economic Forum. Adapted by author. 1 = lowest, 7 = highest.

Figure 5 Labor market efficiency from 2007-2008 until 2017-2018



Source: GCI, World Economic Forum. Adapted by author. 1 = lowest, 7 = highest.

Divergence between and within subgroups

Figures 1 to 5 show significant differences between the member states. In the specific categories both high-performers and low-performers can be identified. Striking is that in the different graphs three subgroups can be identified:

- Group 1 – The Netherlands, Germany and Finland (Germanic/Scandinavian)
- Group 2 – Belgium, France and Portugal to some extent (Napoleonic)
- Group 3 – Portugal, Spain, Italy, Greece (Southern¹⁴)

Literature on varieties of capitalism or administrative tradition literature have long identified these different (economic) institutions in countries. The persisting differences

14 As identified in Sotiropoulos, D. A. (2009), Southern European Public Bureaucracies in Comparative Perspective, *West European Politics*, 27(3), pp. 405 - 422.

as well as the fact that overall, especially with regard to the quality of institutions, little progress is made in these categories seems to confirm the ‘stickiness’ of institutions and the difficulty to implement meaningful and lasting reforms. Table 1 shows the degree of convergence of the selected countries. In all categories the standard deviation has increased, indicating divergence. Particularly noticeable is the increased standard deviation in the financial market development, macroeconomic environment and the quality of institutions.

Table 1 Standard deviation of selected indicators.

Red = divergence, green = convergence.

	Quality of Institutions	Macro-economic environment	Financial market development	Goods market efficiency	Labor market efficiency
2007 – 2008	0.7788953	0.5463647	0.5809693	0.4530902	0.4181672
2008 – 2009	0.8088458	0.5373515	0.5683274	0.4494555	0.3918233
2009 – 2010	0.8593052	0.5628758	0.498324	0.422011	0.4159464
2010 – 2011	0.8447559	0.6144045	0.5237073	0.463524	0.4594172
2011 – 2012	0.8652202	0.7327914	0.6190201	0.4329612	0.4987448
2012 – 2013	0.9184198	0.9900335	0.7696766	0.4686725	0.5361705
2013 – 2014	0.9163334	0.9043496	0.854405	0.4744394	0.4936456
2014 – 2015	0.918611	0.8840618	0.8249526	0.422442	0.4733083
2015 – 2016	0.9021409	0.949724	0.8230353	0.4002132	0.4663917
2016 – 2017	0.8919059	0.9794686	0.9599005	0.417297	0.4735015
2017 – 2018	0.9149495	0.8714584	1.009167	0.4586246	0.5017041
Difference 2007 – 2017 EU-9	+ 0.1360542	+ 0.3250937	+ 0.4281977	+ 0.0055344	+ 0.0835369
Difference 2007 – 2017 EU-28	- 0.0009167	- 0.2758253	+ 0.0845747	+ 0.067101	- 0.0369428

Source: GCI, World Economic Forum. Computed by author.

In the macroeconomic environment the members of group 1 and group 3 respectively are becoming more similar, after having diverged in the crisis, and the gap between North and South in this aspect has widened. But when looking more in-depth at the overall data, there is not just a North-South divide, as is often portrayed.¹⁵ *Within* the identified groups there is also divergence taking place. Regarding the quality of

15 Adviesraad Internationale Vraagstukken (2017), *op. cit.*

institutions, all the subgroups show divergence as well. In other words, Finland, the Netherlands and Germany, while having more similar performances, are diverging from each other as well. In the financial market as well as the goods and labour markets there is an overall divergence both among all the selected countries and within the subgroups. One exception is that group 1 appears to marginally converge in their labour markets, particularly noticeable are the similarities of Germany and the Netherlands in this. The data shows that on some core issues regarding the fundamental health of national economies through the quality of institutions and the macroeconomic environment (although improving), no convergence is taking place. Other important pillars of a well-functioning monetary union, namely the basic framework to induce capital and labour mobility, also appears to have deteriorated and the markets remain highly fragmented or even underdeveloped.

On a final note, while convergence in a monetary union in the selected indicators is desirable by itself, it is more than noteworthy to mention that overall in the EU-28 the standard deviation of three of the five indicators has become smaller over the same period. This has a variety of factors (including the method) that cannot only be attributed to the EMU. For example, Eastern European countries (incl. the Euro countries such as the Baltics) have made significant progress on these areas in recent years. Nevertheless, the fact that for more than a decade the selected countries have shown little to no convergence, is a cause for concern. The different developments suggest that the current EMU multi-level institutional framework is not inducing convergence. Rather, other (domestic) factors might play a far more significant role that is worth exploring further.

Conclusion

This short contribution has set out to discuss the level of convergence in the Eurozone. The macroeconomic environment might have improved but the different institutions and economic structures continue on their divergent path, despite initiatives such as the European Semester and the Macroeconomic Imbalances Procedure. Claims are made that the Euro exacerbates the differences between North and South, but in general there appears to be no convergence *within* the North or South either. The differences and the diverging trends as discussed here seem to support the need to reform the EMU, but what kind of reforms? The political choices to overcome the economic and institutional differences, while aiming for a resilient Economic and Monetary Union, are mounting. The new reforms of the EMU as currently on the table appear to neglect, or avoid, the continuing divergence and seem to insufficiently address and analyze underlying problems: weak national institutions and fragmented, inefficient, capital and labor markets.

The establishment of a European minister of economy and finance and the establishment of a 'European Monetary Fund', besides the question of whether it's politically attainable, could further complicate accountability and responsibility of what are fundamentally national economic problems.¹⁶ In addition, it is unclear to what extent these initiatives will increase the resilience of the EMU. Member States need to continue to reform and address the fundamental health as well as openness of their capital and labor markets. Further reforms in the fragmented capital and labor markets should be on the table. The use of the EU budget and the enhancement of the Structural Reform Support Service to encourage and support the member states is a step forward. Yet, it does not tackle the continuing (political and institutional) differences and some fundamental national economic issues. To conclude, varieties of capitalism and administrative tradition literature might provide interesting venues for further exploration on (domestic) institutional change and the resilience of the EMU on the basis of convergence and competitive national economies. Three sets of questions might be particularly interesting and currently deserve more attention as to potentially help guide current discussions on EMU resilience.

- 1) How can the internal market, through increased labor and capital mobility, aid in increasing the fundamental health of individual member states? To what extent can the market alleviate shocks?
- 2) How can we best incentivize the reform process of Member States? What are potential policy levers to induce national reform? What can be the role of the EU budget? And what is the role of national ownership and accountability in these new initiatives?
- 3) Taking into consideration a more critical European population, how can the political union of the EU, in the form of further coordinating (national) economic policies, take further shape to enhance EMU resilience? What role should convergence standards play?

16 European Commission (2017), *Completing Europe's Economic and Monetary Union- policy package*. Retrieved from, https://ec.europa.eu/info/publications/economy-finance/completing-europes-economic-and-monetary-union-policy-package_en

The EMU has no design flaws

A Critique of the European Commission's Reflection Paper on the Deepening of the EMU¹

Adriaan Schout

Introduction: towards a shared vision of the deepening of the EMU

In May 2017, the European Commission presented its Reflection Paper² to steer the debate about the deepening of the European and Monetary Union (EMU). Additionally, in his speech at the Sorbonne, the French President Macron presented a long list of proposals that, amongst other things, targeted the reform of the EMU.³ In his State of the Union-speech, European Commission President Juncker emphasised that there is now a 'window of opportunity'. Furthermore, in the Netherlands, a report from the Advisory Council on International Affairs takes a similar view.

These, and other, papers and speeches claim first of all that the EMU is not yet complete, which is why the euro remains a major risk, why growth remains sluggish and why unemployment in the South threatens the entire European Union. Secondly, they argue that a debate is necessary to get everyone back on the same page when it comes to deepening the EMU, and thirdly, that there is now both economic and political leeway to act decisively: "It is time to let a pragmatic approach prevail over dogmas, time to build bridges and time to relinquish individual mistrust" (COM (2017) 291, p. 31).

It is clear that the Commission's Reflection Paper comes at a time when thinking about EMU reform is high on the European agenda and many of the assumptions and recommendations in the Paper are widely shared. This article provides a brief critique

1 This article builds on Schout, A. (2017), 'De EMU heeft geen weeffouten', *Beleid & Maatschappij*, No. 42017.

2 European Commission (2017), Reflection Paper on the Deepening of the EMU, Brussels: May, COM (2017) 291.

3 Speech by the President of the French Republic – Initiative for Europe, La Sorbonne, Paris, 26 September 2017.

of the Reflection Paper, outlines an alternative diagnosis for the European crises, and suggests a number of measures to strengthen the euro that are not mentioned in the Paper.

Diagnosis of disagreements

In the Reflection Paper the Commission makes far-reaching proposals about what is necessary in the long term, including the appointment of a European Minister for Economics and Finance, who will be accountable to the European Parliament (EP); increased resources at the EU level, plus European taxes and tax harmonisation; a European Monetary Fund (EMF); further steps towards a social union; the introduction of Eurobonds; and a fund for the liquidation of failed banks. In addition, the Commission now wants to introduce the principle of joint liability (i.e. risk-sharing).

These proposals represent major shifts away from the existing EMU rules. The euro was set up on the basis of euro criteria that implied that countries must have their own budgets in order, that they must limit their national debt to 60% of GDP, and that they must not expect financial bailouts from other countries.⁴ Moving away from the no-bailout, the Commission's proposals represent a movement towards a system of governance that includes an economic and finance minister and in which the EP becomes a more fully-fledged parliament that also has the right to approve and amend budgetary policy.

The question is, however, whether this is necessary. The first thing that needs to be done in order to have a meaningful discussion about the measures to strengthen the EMU is to be clear about the roots of the problems the euro is facing.

In its analysis, the Commission stresses the risks posed by external shocks and advocates the implementation of European shock absorbers. Outside the Commission, many argue that the no-bailout approach must be adhered to, and that ultimately member states have to stand on their own feet. An important factor in this regard is the doubts about the significance of external shocks. An external shock is often a great deal less 'external' than the term implies because shocks are often caused by insufficient supervision in member states, by delayed reforms, missed growth opportunities, and accumulation of unsustainable debt. In the case of Italy, Portugal and France, any external 'shock' quickly becomes an existential threat simply because these countries have little or no financial leeway of their own to counteract it. If a country respects

⁴ See, e.g., Articles 119-126 and Protocol (Nr. 12) regarding the procedure in the event of excessive deficits, Abridged version of the Treaty on the European Union and of the Treaty on the Functioning of the European Union (2016/C 202/01).

the Stability and Growth Pact rule of national debt below 60% of GDP it would be able to deal with substantial shocks. This also means that more leniency can be shown temporarily after such a shock or in the face of disappointing economic growth. To make the EU a resilient system, the various components (i.e. the member states) ought to have their own primary cushioning and recovery mechanisms.

As it now stands, weak countries want to reform the EMU whereas strong countries want to reform the member states. It will be hard to arrive at shared perceptions of weaknesses or of ways forward.

Disagreements over short-term solutions

Aside from the lack of a common diagnosis, there is no agreement as to the way to deal with the existing problems. There are at least two main problems in the short term, namely the debt overhang in Southern Europe and the delayed economic reforms, which have led to sluggish economic growth and disappointing unemployment figures. In a move intended to create stability, the Commission is advocating the completion of the banking union through the expansion of both the deposit guarantee scheme and the 'backstop' mechanism for failing banks. The Commission further proposes to aggregate debt from weak and strong countries into what are called 'safe assets', i.e. packages of debt securities from various countries that together would create a European market for the spreading of debt risk. Economically, this makes them somewhat comparable to the subprime mortgage junk bonds in the United States.

Those who wish to return to the no-bailout system usually have no better short-term response on offer than to argue that growth is necessary to solve the current problems. Debt write-offs are discussable, but this begs the question of whether there would be guarantees to ensure that member states would be, and would remain, reform-minded. The creation of a political union should help to solve the problems in the short term, but it leaves pressing questions unanswered. For instance, how will Italy and Portugal in particular get rid of their excessive debt burdens? Is an effective system of 'bad banks' possible or will debt write-offs be necessary? Furthermore, there is probably no backup plan in place should Italy get into trouble after all, for example as the result of an interest rate hike. Would this then be followed by another process of 'too little too late' that would leave both Italy and the Eurozone as a whole worse off? Can Italy, given its size, actually become a European IMF 'programme country'? Is it realistic to offer 'safe assets' in exchange for renewed promises of reform?

There is agreement on the need for growth. However, this requires the implementation of a broad range of reforms. The hoped-for structural convergence envisaged since the commencement of the Euro project in 1992 has still not arrived.⁵ Structural indicators of the quality of the institutions in member states⁶ indicate that the Netherlands and Germany score very high in terms of the quality of government, the quality of regulation, combatting corruption, and so on. Belgium and France are in the middle, while Southern and Eastern European member states figure lower in the rankings.⁷ The question remains as to how countries can be induced to reform themselves.

Alternatives for a political union: market forces and managing reforms

The Commission's proposals are a move towards 'more Europe'. These measures may be viewed as necessary from a social point of view in order to regain the general public's trust in those countries with high unemployment or with a view to increasing confidence in banks quickly. However, the Commission's proposals (e.g. the 'safe-assets') can also be viewed as distorting market forces.

An alternative way to strengthen the EMU could be to rekindle market forces and (policy) competition between states. As it stands, already for a long time the EU's internal market has been more harmonised than the markets in the USA and Canada,⁸ and current EMU plans threaten to move the EU further down the road of endless harmonisation. Strengthening different kinds of competition may offer an approach towards structural reforms in member states.

Market forces and policy competition

The key question a market-driven approach must answer is how risks can remain with those parties that both assume the risk and hope to reap the benefits. One priority should be to factor in risks relating to government debt. When member states still had their own currencies and central banks, government debt was reasonably secure.⁹

5 European Central Bank (ECB), 'Real Convergence in the Euro Area: Evidence, Theory and Policy Implications', *ECB Economic Bulletin*, No. 5/2015 (July 2015).

6 Schout, A. (2017), 'The EU's existential threat: demands for flexibility in an EU based on rules', in: Pirozzi, N. (ed.) *EU60: Re-founding Europe; The responsibility to propose*, Rome: IAI (<https://www.clingendael.org/publication/eus-existential-threat>).

7 Van Loon, Y. & A. Schout, *Convergence indicators: a review*, Clingendael (forthcoming).

8 Breton, A. (1998), *Competitive governments*, Cambridge: Cambridge University Press.

9 De Grauwe, P. (2011), 'The European Central Bank as a lender of last resort', Voxeu.org, 18 August.

With a single European Central Bank this is no longer the case. The road ahead to sustainable public debt management is still unclear, given the major risks that banks are running (especially in Italy), the consequences of a risk premium for countries that already have high government debts, and the level of political resistance to risk pricing (particularly in the South). One possible solution is that, over the next 20 years, a certain percentage of government debt held on the books is assigned a risk premium each year. If government debt is given a risk weighting, then banks will immediately have to pay more attention to spreading their investments in government debt over more countries.

The market mechanism could also be deployed to a greater extent when it comes to calls for a banking union and the deposit guarantee scheme. During the banking crisis, the Irish government raised the level of savings deposits that were guaranteed to 100,000 euros and other countries had to follow suit to stop savings deposits moving towards Ireland. This represents a substantial subsidised guarantee of private risks. Market forces and risk awareness can be reintroduced by lowering deposit guarantees.

Also at odds with the mechanism of competition are the proposals for a Europeanisation of social and tax models. Within the EU, and particularly in the discussions about the EMU, little attention has been paid to the benefits of policy competition. The EU has always made great efforts to achieve harmonisation. In the words of Majone: “Unfortunately, [...] centralized, top-down harmonization has been practised much more than inter-jurisdictional competition.”¹⁰

Structural convergence

The Commission emphasises the potentially important role the EU budget plays in encouraging structural convergence. The question here is whether member states will set in motion very far-reaching and painful changes in their national institutions merely because they have been given (relatively small) financial incentives to do so. The EU budget is too slim to produce credible incentives and even in some Eastern European countries, where the EU budget represents about 4% of the national economy, financial pressures to reform have had little result (cf. Hungary).

To facilitate reform processes that stand a greater chance of success we may look at past measures that have improved poorly functioning sectors in the internal market. Aviation safety, food safety, and environmental policy are examples of domains where much progress has been made through networks of independent European and national

10 Majone, G. (2012), *Europe as the would-be power*, Cambridge: Cambridge University Press, p. 85.

agencies.¹¹ When it comes to the EMU, however, it is difficult to get the debate about independent supervisory bodies off the ground (see the chapter on rule of law in this volume), also because the Commission keeps economic supervision and Eurostat within the own organisation.

The European Commission is due for major reforms

Juncker's statement in 2016 that France cannot be brought to book about its repeated budget overruns "because it is France"¹², and his hope to run a "very political Commission"¹³ underlines the tendency at EU level to think in terms of a political union rather than in terms of strengthening independent supervisory bodies. Highly developed democracies cannot function without decentralising tasks to independent bodies to ensure check and balances. The proposals put forward by the European Commission in the Reflection Paper include additional competencies for the Commission. The combination of policy tasks, including policy preparation, implementation, supervision and enforcement, is becoming unavoidably incompatible – particularly if the Commission is also trying to be more political. Hence the Commission as an organisation needs to be reformed. The administrative traditions in the Scandinavian countries, based on small central governments and major independent implementation and inspection bodies, could serve as a point of reference to strengthen checks and balances.

11 Kassim, H., 'Revisiting the management deficit', in: Ongaro, E., *Multi-Level Governance: The Missing Linkages*, Bingley: Emerald, 2015; Schout, A., 'Framework for assessing the added value of an EU agency', *Journal of Public Policy*, Volume 31 (3) (2011): pp. 363–384.

12 <http://uk.reuters.com/article/uk-eu-deficit-france/eu-gives-budget-leeway-to-france-because-it-is-france-juncker-idUKKCN0YM1N0>

13 Schout, A., Commission President Juncker: 'Good intentions but wrong profile', *International Spectator*, July 2017 (<https://www.internationalespectator.nl/article/eu-commission-president-juncker-good-intentions-wrong-profile>).

National Fiscal Councils, the European Fiscal Board and National Productivity Boards: New EMU independent bodies without much prospect

Christian Schwieter and Adriaan Schout

Introduction

The Euro crisis brought home the message that the economies of member states have not converged and that they remain far from shock-proof.¹ The stickiness of (weak) economic institutions is evident. To improve the implementation of the Stability and Growth Pact, and hence the resilience of the Euro area economies, (new) independent economic bodies were created in Member States and at the EU-level. These are:

- The **National Fiscal Councils**, or Independent Fiscal Institutions (IFIs), to monitor the macroeconomic (fiscal) policies in the Member States;
- The **National Productivity Boards** (NPBs) to monitor the microeconomic reforms relating to productivity and competitiveness; and
- The **European Fiscal Board** (EFB) to monitor the Recommendations of the European Commission to Member States throughout the European Semester.

These independent bodies are considered essential additions to the European Semester by creating ownership for the objectives of the Stability and Growth Pact (hereinafter SGP).² Rather than solely relying on the Commission, the independent monitoring at the national level of fiscal policies and competitiveness should result in

1 See the contributions of Van Loon and of Schout and Luining in this volume.

2 Larch, M. & Braendle, T. (2017), 'Independent Fiscal Councils: Neglected Siblings of Independent Central Banks? An EU Perspective', *Journal of Common Market Studies*, DOI: 10.1111/jcms.12577; Horvath, M. (2017), 'EU Independent Fiscal Institutions: An Assessment of Potential Effectiveness', *Journal of Common Market Studies*, DOI: 10.1111/jcms.12631; Claeys, G., Darvas, Z. & Leandro, A. (2016), 'A proposal to revive the European fiscal framework', Policy Contribution (March), *Bruegel*.

a sharper understanding of local reform priorities and a reliable voice in the national discourse on fiscal and productivity policies. Given its long-standing reliance on comparable independent economic institutions, the Netherlands has been one of the major proponents of these new EMU bodies. The importance of the European Fiscal Board to ensure independent enforcement of the EU fiscal rules was even highlighted in the recent coalition agreement of the new Rutte Government.³ Furthermore, interviews conducted with stakeholders from a variety of Member States show that the expectations for these new governance bodies are high throughout the EU.

However, based on a review of trends in European governance, including independent national and European agency-type bodies and their European networks, we can conclude that the level of success of such arrangements varies considerably, and that in many cases their functional independence has remained inadequate.⁴ Moreover, there is a tendency that EU-agencies and their networks become dependent on the (increasingly political) European Commission.⁵

In light of the recent state-of-play reports on IFIs,⁶ the publication of the first annual report of the EFB,⁷ and the March 2018 deadline for Member States on the implementation of NPBs, this article goes beyond mere stocktaking and instead examines whether the new EMU bodies, in their current design, are promising innovations in economic governance. On the basis of 25 stakeholder interviews conducted between February 2016 and December 2017, this article firstly identifies the political rational and institutional evolution of IFIs, the EFB and NPBs. The key findings are then summarised in the second section, and the article concludes with recommendations based on the identified shortcomings of the institutional set-up of the EMU agencies.

3 *Vertrouwen in de toekomst*, Regeerakkoord 2017 – 2021 VVD, CDA, D66 en ChristenUnie, p. 50.

4 See A. Schout (forthcoming), 'Drifting EU governance. An administrative assessment of the creation of new networks and agencies in the EU', *Clingendael Institute*.

5 Levi-Faur, D. (2011), 'Regulatory Networks and Regulatory Agencification: Towards a Single European Regulatory Space', *Journal of European Public Policy*, Vol. 18 (6): 810–29.

6 Jankovics, L. & Sherwood, M. (2017), 'Independent Fiscal Institutions in the EU Member States: The Early Years', Discussion Paper 067 (July), *European Commission*; Angerer, J., Copeland, H. & Japunt ~~ET~~. (2017), 'The role of national fiscal bodies: State of play', Economic Governance Support Unit (November). *European Parliament*.

7 *Annual Report 2017*. European Fiscal Board. Available at https://ec.europa.eu/info/sites/info/files/2017_efb_annual_report_en_0.pdf

The political rationale of IFIs, the EFB and NPBs

Although the Commission under Juncker seems to drift towards increasingly flexible and political decision-making when it comes to the implementation of the Stability and Growth Pact,⁸ the most recent reinforcement of the SGP in 2011 and 2013 through the Six-Pack and the Two-pack called for “enhanced national ownership” of economic reforms recommended under the European Semester through independent national bodies.⁹ The new EMU bodies created¹⁰ have two objectives: (1) to ensure national ownership of economic reforms; and (2) to allow for independent scrutiny at national level (IFIs and NPBs) and EU level (the EFB). Together these agencies should result in a stronger, more integrated multi-level economic governance system for the Euro area and thus help Member States to uphold the no-bail out clause of the Treaty.

On member state level, successive Dutch governments have been among the most vocal supporters of strengthening independent macro- and microeconomic supervision. The new Rutte government reiterated that independent national and European institutions should be a key priority to reinforce the checks and balances at the national and EU level. Similarly, many policy discussions, most prominently headed by Daniel Gros and Cinzia Alcidi, highlight the importance of monitoring Country Specific Recommendations (CSRs) of the European Semester through ‘operationally independent’ national bodies. They show that the implementation of CSRs has been low and continuously decreasing since the end of the Euro crisis,¹¹ due, in part, to a lack of national ownership of the necessary reforms.¹² External peer pressure does not appear to yield sufficient tangible

8 See the recent Commission plans: ‘Commission sets out Roadmap for deepening Europe’s Economic and Monetary Union’, 6 December 2017, *European Commission*; See also Schout, A. (2017), ‘De EMU heeft geen weeffouten’, *Beleid & Maatschappij*, No. 42017.

9 E.g. Directive 2011/85/EU Recital 1; see also Recital 16.

10 The European guidelines on the creation of National Fiscal Councils (IFIs) emerged between 2011 and 2013 on the basis of the legally binding Six-Pack (specifically Directive 2011/85/EU), Two Pack (specifically Regulation 473/2013) and the Fiscal Compact (The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union), formally concluded on 2 March 2012 and entered into force on 1 January 2013. The European Fiscal Board was created through a Commission decision (2015/1937; 21 Oct 2015); see also Five-Presidents Report (June 2015). The National Productivity Boards were decided upon in 2016 via a Council Recommendation (20 September 2016).

11 Alcidi, C. & Gros, D. (2017), ‘In-Depth analysis: How to further strengthen the European Semester?’, Economic Governance Support Unit (November), *European Parliament*, p. 14.

12 This is very much reminiscent of the diagnosis of Kok, W. et al. (2004). ‘Facing the challenge: The Lisbon strategy for growth and employment’. Report from the High-Level Group (November), *European Commission*. In the publication, the lack of ‘home ownership’ was found to be a key limiting factor for the success of the Lisbon strategy. It appears that, more than a decade later, the same diagnosis holds true for the European Semester.

results in ‘non-crisis’ times.¹³ As argued by, among others, Charles Wyplosz, greater reliance on national expert decision-making is therefore essential because complex, centralised rules cannot produce fiscal discipline and that, instead, “the solution must come from within”.¹⁴

National Fiscal Councils (IFIs)

The IFIs were set up as “independent bodies or bodies endowed with functional autonomy *vis-à-vis* the fiscal authorities of the Member States” as part of the wider initiative of “strengthening national ownership” within the European Semester.¹⁵ The Directive stresses the need to counteract political abuse of (pro-cyclical) fiscal policy and to improve overall macroeconomic stability within the Union. The IFIs’ tasks are threefold: a) endorsing the macroeconomic forecast produced by the authorities; b) monitoring compliance with numerical fiscal rules; and c) providing public assessments of fiscal rules relating to the activation of the correction mechanism.¹⁶

As can be expected with agency-type arrangements in the EU, IFIs do not stand on their own, but are interconnected in two networks at EU-level: the Commission-run biannual EUNIFI meeting established by DG ECFIN in November 2013, and the self-organised and independent Network of EUIFIs established in September 2015.¹⁷ These networks, and particularly the former, were often referred to in interviews as light “platforms”, suggesting there is some reluctance to engage in formal network arrangements. The latter platform represents the IFIs *vis-à-vis* the Commission and produces position papers on EU fiscal initiatives and minimum standards for IFIs. It currently counts 25 IFIs from 23 Member States as its members.¹⁸

European Fiscal Board (EFB)

The EFB was supposed to be the European equivalent of the IFIs by offering the independent checks and balances to the way in which the European Commission monitors national budgets and ought to have worked on the basis of the same ‘comply-or-explain’ principle that national IFIs apply to the national government.

13 Gros, D. & Alcidi, C. (2015), p. 13; Alcidi, D. & Gros, C. (2017), *op.cit.* note 11, p. 24.

14 Wyplosz, C. (2015), ‘The Centralization - Decentralization Issue’, Discussion Paper 014 (September), *European Commission*, p. 18.

15 Directive 2011/85/EU, Article 6 (1b) and EU Recital 1 (see also Recital 16).

16 Regulation 473/2013.

17 While we are aware of the existence of the OECD network of PBOs & IFIs, the focus of this article is on EU-specific developments.

18 Poland has not yet established an IFI, while the IFI-type body in Belgium had not joined the network at the time this study was concluded.

Initially, as defined in the Five-Presidents Report, the board – among other tasks – was supposed to (1) coordinate the network of national fiscal councils while abiding to the same standard of independence as its national counterparts; and (2) evaluate and advise on the Commission’s implementation of the SGP.¹⁹

However, the final EC decision of October 2015 substantially differed from the initial plans. As the interviews underlined, the IFIs did not accept a European ‘coordinating’ role and the member states were wary of a European monitoring of a fiscal stance (as this hints towards the subordination of the national control of the SGP to a broader European fiscal stance). The tasks of the EFB are now limited to (1) evaluating how the Commission monitors the member states; (2) giving advice to the Commission on the prospective fiscal stance for the entire euro area (and no longer on the national level as well); (3) provide ad-hoc advice to the Commission; and (4) *cooperate* with national IFIs.²⁰ However, as the interviews have shown, the latter task has been of the lowest priority to the Board thus far and little progress is visible in this regard. As a result, the EFB is closely connected to the European Commission and largely disconnected from the IFIs.

National Productivity Boards (NPBs)

The most recent addition to the EU’s economic governance structure are the National Productivity Boards. NPBs were initially described as “structurally independent” bodies grounded in national legislature with the “capacity to communicate publicly in a timely manner”²¹ about developments as far as the productivity and competitiveness of member states is concerned. As set out in the Five-Presidents Report, member states were to have “national competitiveness authorities” to assess wage developments from a comparative perspective, i.e. across member states and main trading partners.²² However, due to political sensitivities, the Council objected to wage comparisons and further watered down the final Recommendation by dropping the reference to

19 Juncker, J.-C., Tusk, D., Dijsselbloem, J. & Schulz, M. (2015), *Completing Europe’s Economic and Monetary Union*, ‘Annex 3’, p. 23.

20 In addition, the reference to mirroring the independence of the national fiscal councils was dropped. Instead, the Board is officially referred to as the “independent advisory European Fiscal Board” (which allows for a close affiliation to the Commission). The Chair of the EFB and one member is directly chosen by the Commission, while the other three members are chosen by the Commission after consulting with the national fiscal councils, the EFB and the Eurogroup. The EFB’s Secretariat is part of the Secretariat-General of the Commission. A February 2016 amendment of the October 2015 decision also gave the Commission further discretion in its choice for the Head of Secretariat by establishing the Secretariat of the board shall be appointed by the Commission in consultation with the Board’s Chair.

21 European Commission, *Recommendation for a Council Recommendation on the establishment of National Competitiveness Boards within the Euro Area* (21 October 2015).

22 Juncker, J.-C., Tusk, D., Dijsselbloem, J. & Schulz, M. (2015), *op.cit.* note 19, pp. 7-8.

'adequate resources' as well as the recommendation to ground these bodies in national legislature.²³ Furthermore, whereas IFIs are based on a directive and regulations and hence are obligatory, the NPBs were set up through a non-binding Council Recommendation.

Findings

Three main hurdles can be distinguished that inhibit the development of the new independent EMU bodies. The most evident impediments relate to practical constraints but task ambiguities and lack of attention for creating functioning EU networks are equally disruptive.

Practical constraints. Lack of resources, major differences between IFIs in terms of political-administrative traditions, varying working methods and access to information have attracted considerable attention.²⁴ National institutional idiosyncrasies make it hard for the smaller IFIs to play an independent role and to be a nationally visible player. Practical constraints are even more pertinent when it comes to the NPBs: with three months left, only 7 NPBs have been created. As regards the EFB, it also suffers from lack of human resources (board members are expected to work 10 days a year)²⁵ and independent staff. Generally, the bodies are under-resourced and too dependent on parent departments to offer credible checks and balances. As regards independence, the European Commission does not set the right example by limiting the time of EFB board members and by supporting it through the Commission's Secretariat-General.

Task ambiguities. While the first task of IFIs regarding the endorsement of the national macroeconomic forecast is fairly straightforward, a role duplication emerges in terms of the second task of national IFIs: both the national bodies and the Commission supervise member states' implementation of the fiscal rules and their Recommendations have

23 Compare European Commission, *Recommendation for a Council Recommendation on the establishment of National Competitiveness Boards within the Euro Area* (21.10.2015) with European Council, *Council Recommendation on the establishment of National Productivity Boards* (20th September 2016).

24 See Jankovics, L. & Sherwood, M. (2017), op.cit. note 6 ; Angerer, J., Copeland, H. & Japuntet, J. (2017), op.cit. note 6.

25 "It is expected that the Chair will dedicate around 20 full days per year and the Members around 10 full days per year to their respective responsibilities." See 'Call for expressions of interest for the selection of the members of the European Fiscal Board', 21 April 2016. *European Commission*

been shown to clash in the past.²⁶ At EU level, the EFB assesses the Commission's monitoring of the member states and discusses the overall fiscal stance of the Euro area. This is done without input from the IFIs who also monitor the member states. On the other hand, the Commission continues monitoring the member states just as before even though new national bodies have emerged. Hence, the relevance of setting up a subsidiarity-based monitoring system is ignored.²⁷

As regards the NPBs, it is still unclear to stakeholders what the tasks of these boards would be. As explained by an NPB official, a thorough assessment of productivity developments in member states demands analyses of a wide set of policy areas ranging from education to social policy. The fact that the reference to 'adequate resources' was removed by the Council before adopting the Commission's Recommendation makes it unlikely that the NPBs will possess sufficient staff and budgets to cover this wide array of policy areas. Generally speaking, a subsidiarity-based system of monitoring competitiveness in which a major role is reserved for national bodies with national ownership is not on the agenda.

Network deficiencies. Most stakeholders involved in the new EMU bodies seem to have little idea of how to design effective governance networks. In fact, we found little awareness among those involved of why networks are important. Little thought has been put in designing an effective EU network in which the national and EU bodies cooperate and engage in mutual inspections (also with a view to foster mutual learning and creating a sense of professional values). The IFI and NPB networks, at this stage, appear underdeveloped, and there is no inspection mechanism to guarantee the proper functioning of the national bodies.

In terms of the NPBs, a similar trend is visible as the Council rejected the Commission's plan to make the Commission the interlocutor for NPBs, instead calling for "regular discussions with the Economic Policy Committee"²⁸ within the Council. Given the experience of IFIs, it seems unlikely that the NPBs can expect sufficient support from the Council to set up a strong European node to support their work. On the other hand,

26 The case of the Irish IFI suggests that, if disagreements between the national body and the Commission emerge, the latter's view enjoys seniority. The Irish Fiscal Advisory Council Report of November 2016 identified an 'ex ante non-compliance with the expenditure benchmark' for 2017. The Irish Finance Minister responded that "the European Commission, which has ultimate responsibility for assessing overall compliance with the fiscal rules, has indicated that our 2017 Draft Budgetary Plan is broadly compliant with the provisions of the SGP." See Jankovics, L. & Sherwood, M. (2017), op.cit. note 6, p. 29.

27 Mijs, A. (2016), 'The Unsustainability of Independent Fiscal Institutions'. Policy Brief (April), *Clingendael Institute*, p. 13.

28 European Council, *Council Recommendation on the establishment of National Productivity Boards* (20th September 2016).

national actors seem to purposely avoid coordination with EU institutions because they want to safeguard their national ownership and independence. The Commission is not putting much effort in creating effective multi-level structures either as it does not want to be perceived as interfering in the national institutional setup (but it may also have reservations given its existing monitoring role).

Lastly, there is little interest among MEPs as regards IFIs and the European Parliament is side-lined when it comes to the EFB and the NPBs, given that the ordinary legislative procedure has not been used in their set-up. This ultimately creates the paradox that, while the new bodies are intended to create ownership in a multi-level system, in fact no-one wants take responsibility for the development towards such a system of monitoring bodies.

Recommendations

The question of why IFIs and the EFB are important has not been translated into a framework of how they would operate as a multi-level system to reinforce the SGP. To overcome the practical constraints and task ambiguities, it would be appropriate to shift, as was suggested among others by Alcidi and Gros, from “a centralised system of coordination under the auspices of the Commission” towards “a decentralised system of monitoring and surveillance”.²⁹ Given the aim of creating ownership, it would be sensible if the IFIs would take over the monitoring role of the Commission and that the EFB would assume the independent quality control of the IFIs within (and with support of) the IFI network. This network, headed by the EFB, could subsequently assume the role of independent monitor of the fiscal stance for the Eurozone.

This network arrangement would ensure tasks are clear and follow the normal pattern of first order control and second order control of EU legislation: national bodies control member state’s implementation, while the Commission, supported by the EFB, controls the national systems. This is the case in successful EU-networks (the ECB network was referred to in interviews as a model). The NPBs would benefit from a similar system, but the non-committal implementation and Council alterations of the initial recommendation underline reserved positions all around. As the discussion of the findings above indicates, the new national EMU bodies cannot contribute to the required ownership of reforms if they are not embedded within a subsidiarity-based multi-level system with clear task allocations at each level. At this stage, it is therefore not possible to conclude that IFIs, NPBs or the EFB are promising innovations in terms of European economic governance.

29 Alcidi, C. & Gros, D. (2017), op.cit. note 11, p. 8.

It's the politicians' move now, not the ECB's

The ECB's rescuing of the currency union is not a fundamental solution

Jasper Lukkezen

Time after time in recent years, the ECB has prevented the European economy from collapsing. These interventions gave politicians time to solve fundamental governance issues but this also fuelled financial bubbles, led to wealth redistribution without a political mandate and the politicisation of the central bank. As these issues will increase with each successive intervention in the future, the politicians really have to solve the next crisis themselves.

In recent years, the European Central Bank (ECB) has intervened on multiple occasions to keep the currency union together. The ECB has generously provided loans to commercial banks since 2008. In 2012, the ECB reconfirmed its commitment by declaring it would support countries should this prove necessary.¹

With these measures, the Central Bank bought time for the politicians to sort things out – time the politicians desperately needed, because they lacked the tools to enact a swift resolution. A proper safety net for member states in budgetary difficulties was not in place, nobody had a really clear overview of the health of the systematically important banks in Europe, and no-one had the authority to intervene on the basis of this information. These flaws in the governance of the currency union led to a situation where a default of Greece, a country that accounts for just 2 percent of the total eurozone GDP, could lead to the dissolution of the eurozone.

¹ Speech by Mario Draghi, President of the European Central Bank, at the Global Investment Conference in London, 26 July 2012.

Neither the national governments nor the European Commission could solve the issue. In an incomplete union where the member states are in charge, these governance flaws cannot be solved by an executive order. Responsibilities have to be negotiated and demarcated, institutions have to be set up and organised at an European level, and the member states have to find their own place in, and accept, the new reality.

The ECB was really the only institution capable of intervening in order to keep the currency union together. As ECB's President Mario Draghi put it: "I do not think we are unbiased observers, we think the euro is irreversible."² Nevertheless, the Central Bank has always motivated its interventions by the need to have financial conditions in which monetary policy help to stabilise prices in the real economy. This is the Bank's mandate and it is on this basis it should operate.

Inadequate utilisation of this respite period

This period of respite was put to some good use: the European Stability Mechanism can save small member states; supervision at a European level of the systematically important banks was assigned to the ECB; and the Eurogroup was made permanent in nature.

However, the steps taken are not sufficient. A safety net for the larger member states is lacking, the banking union has not been completed – for instance, there is no European deposit insurance scheme and it is unclear who acts as the lender of last resort – and, more important in terms of European budgetary policy, there is no stabilisation mechanism.

Due to the insufficiency of the steps taken, a debt-deflationary spiral became likely in early 2015. Had the governments of the member states set up a proper safety net, a banking union and a European stabilisation mechanism, they would have created room for private-sector growth. Without these measures European households and firms felt compelled to reduce their expenditures respectively their investments in order to create the means to service their debt obligations. This reduction in economic demand led to a downward pressure on prices and accordingly to an increase of the debt obligations in real terms.³

2 Ibid.

3 See e.g. Lukkezen, J, B. Jacobs and C. Kool (2016), 'Macro-economics of balance sheet problems and the liquidity trap', CPB Background document, August 2016.

Side effects of quantitative easing

In response, the ECB stepped in once more: it bought time by providing very generous levels of liquidity. Once more, the ECB's policy was successful, as a debt-deflationary spiral is no longer a threat. However, it did so at substantial cost: in the Bank's latest intervention, the time that had been bought was not accompanied by political action. As a result, since 2015 the macro-economic governance of the Union has seen little improvement.

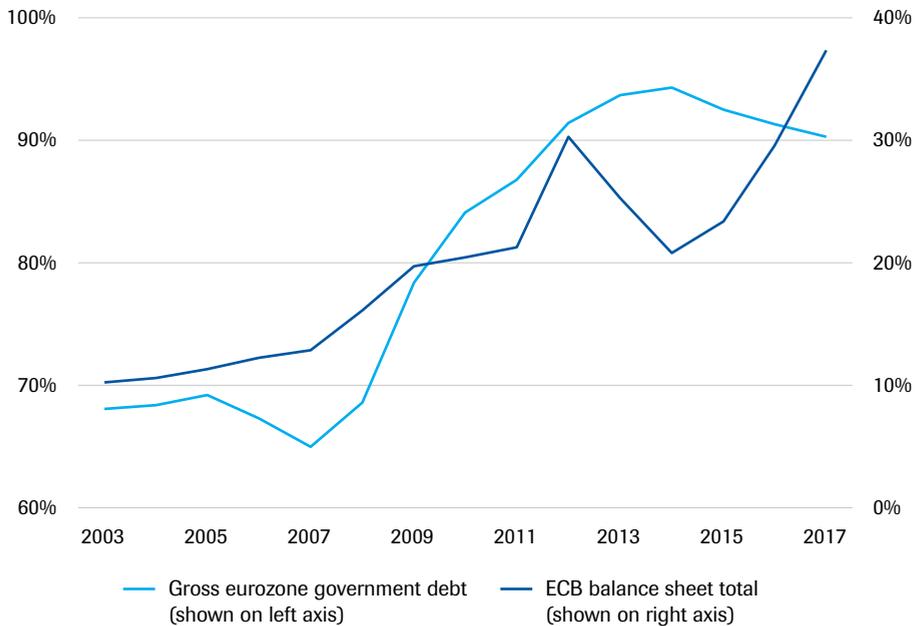
Quantitative easing (QE) has however had significant side effects. It laid the foundations for new financial and economic problems since the low interest rates and the abundant liquidity are forcing investors to take more risk. As a result, the prices for real estate, shares and bonds are rising to record highs. The question is: do these prices rely on economic fundamentals or has a financial bubble been created? While bubbles can only be identified with certainty in retrospect, the risk is very real.

What's more, a political narrative supporting current policy is lacking. This is dangerous. The artificially low interest rates are putting pension benefits under pressure, which provide a fertile ground for 50Plus, the pensioners political party in the Netherlands; the lack of risk sharing in the currency union ensures that the narratives put forward by Syriza in Greece and the Front National in France attract larger audiences; and in addition the growing wealth inequalities – fuelled by the rise in asset prices – is providing ammunition for populists on both sides of the political spectrum.

Consequences for the Central Bank

The ECB is actually providing monetary financing. This is not altered by the fact that the ECB has not bought government bonds from the member states directly. Figure 1 below illustrates that from 2003 onwards, both the gross national debt of the Eurozone countries and the ECB's balance sheet total have risen by an amount equal to 25 percentage points of the Eurozone's total GDP, and have done so at about the same speed. This illustration would have looked just the same if the eurozone countries had sold these bonds directly to the ECB.

Figure 1 ECB’s balance sheet total and gross national debt of the eurozone



Note: Figures for debt and balance sheet total are annual averages.
 Source: Gross national debt and GDP figures are from Eurostat, balance sheet total figures are from the ECB.

Monetary financing is risky. First, it makes the Central Bank part of the European political process. In practice, the ECB can now decide the political future of member states. A shining example of this, is the letter that ECB President Trichet sent in 2011 to the Italian government. It ultimately led to Berlusconi’s departure.⁴

Secondly, monetary financing is, also at the national level, no longer ‘neutral’. In other words, a central bank that deploys monetary financing must take decisions that are traditionally reserved for politicians, even though central bankers have no electoral mandate to do so. A shining example of this is the increase in asset prices due to QE and subsequent wealth redistribution.

Both issues emerge in monetary financing. Which (corporate or other and from what country) bonds will the ECB buy and which will it not buy, and what are the consequences of this?

4 Letter from the ECB to Italy on 5th August 2011 (<http://www.voltairenet.org/article171574.html>).

In this respect the main danger lies in the consequences this might have for its independence and thus for its credibility and for its options as far as restraining inflation in the medium term is concerned. By the way, while this spectre haunts the more ordoliberal-oriented economists, central bankers seem less concerned.⁵

Doing nothing is not an option

So, what would be the sensible thing to do now? There are three obvious options: Doing nothing; accelerated reduction of government debt and central bank balances; and taking political responsibility. Let's look at all three in turn.

Currently, the economy is recovering strongly in the eurozone. This is why doing nothing and biding one's time may seem a good strategy. If the eurozone succeeds in unwinding its balance sheets of QE in an orderly fashion and if member states use their improved financial position to repay their debts then the ECB's balance sheet total and debt levels can return to the pre-crisis positions.

However, biding one's time is not a good strategy. It would take a very long time for the size of the balance sheet to contract. Given 1.75 percent economic growth and 2 percent inflation per year it would take until the year 2046 before the economy has grown so much that the balance sheet total of the ECB relative to GDP will reach its pre-crisis level.⁶

Well before 2046, a recession might be due, which might be accompanied by a financial crisis. Recessions generally occur every four to eight years and recessions accompanied by a financial crisis every fifteen to twenty years.⁷ The financial crisis occurred in 2007 and the 'double dip' in 2013.

In the event of a new recession, the member states' governments and the ECB will be able to do little apart from creating more debt to be financed directly or indirectly by means of monetary financing. The interest rate, which was lowered when the economy needed to be stimulated up to 2008, is unavailable as a tool for macroeconomic stabilisation. It currently stand at zero percent and cannot be reduced further.

5 Blinder, A.S., M. Ehrmann, J. de Haan and D.-J. Jansen (2017), 'Necessity as the mother of invention: monetary policy after the crisis', *Economic Policy*, 32(92), pp. 707-755.

6 Own calculation, details available to those interested.

7 Drehmann, M., C. Borio and K. Tsatsaronis (2012), Characterising the financial cycle: don't lose sight of the medium term!, BIS Working Paper, 380; Koopman, S.J., R. Lit and A. Lucas (2016), 'Model-based business cycle and financial cycle decomposition for Europe and the U.S.', Tinbergen Institute Discussion Paper, 16-051/IV.

Moreover, the neutral interest rate (i.e. the rate in an economy that is neither depressed nor booming) has been declining for many years now, making it unlikely that the interest rate will be positive even if the economy would perform very well in the future.⁸

Additional QE will feed the flames of a financial bubble and will further increase political pressure. The latter will become pressing when the ECB has bought the government bonds that are available for sale. Will it buy risky corporate bonds or shares and, if so, of which companies and from which member states? Given the large effects on the value of those assets if the ECB does buy them, these will be important questions.

Difficult to achieve a sufficiently rapid reduction

An economically advisable solution would be an accelerated reduction of both the size of the ECB's balance sheet and the national debts in the Eurozone, and to link this to measures that eliminate the effective lower bound for the Central Bank interest rate. This allows the rate to be reduced further should this prove necessary to stimulate the economy.

I doubt whether this reduction can proceed quickly enough. A comparison with the United States helps to illustrate this point. Last November, the Federal Reserve (Fed) started its own programme of reduction. According to the current plan,⁹ in five and a half years' time its balance sheet total will again be at its pre-crisis level (see Figure 2).

In contrast, in Europe the size of the balance sheet is still increasing – note that QE was recently slowed down, not halted,¹⁰ and that in Europe, unlike in the US, political considerations can delay this reduction process. The decision to start with the QE programme has been influenced by the stabilising effect the programme was supposed to have on Southern Europe, and this will likely be the case for any discussion about ending this programme too.

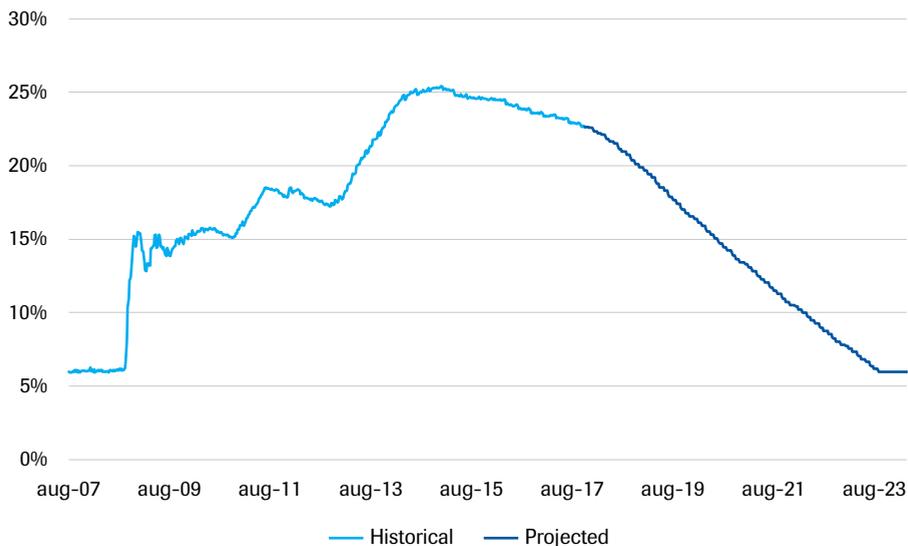
8 Schoot, D.S. van, and E. de Groot (2017), 'Low wage growth in the Eurozone to limit the ECB's upside', Rabobank Special, July 2017 (can be found at www.economie.rabobank.com); Cecchetti, S. and K. L. Schoenholtz (2016), 'How Low Can They Go?' (<http://www.moneyandbanking.com/commentary/2016/2/28/how-low-can-they-go>); Borio, C. and B. Hofmann (2017), 'Is monetary policy less effective when interest rates are persistently low?', BIS Working Paper No. 628.

9 Fed (2017), 'Decisions regarding monetary policy implementation'. Press release dated 20 September 2017 (can be found at www.federalreserve.gov).

10 ECB (2017), 'Monetary Policy Decisions', Press release dated 26 October 2017 (can be found at www.ecb.europa.eu).

A rapid reduction plan in Europe would thus likely take a lot more than five and a half years. In the meantime, a recession could derail both the economy and the aforementioned reductions ‘just like that’, thereby leading to adverse effects such as the blowing of financial bubbles, the lack of political narrative and the risks posed to the Central Bank’s autonomy.

Figure 2 Projected balance sheet total for the Federal Reserve (as a % of the US’s GDP)



Source: data from FRB (Federal Reserve Bank of) St. Louis + own calculations (details available).

Political responsibility

Hence an economic solution is unlikely to succeed, and this is because the downside of the current policy mix originates from the fact that it was the Central Bank – and not politicians – which had to defuse the crisis. To accomplish this task the ECB used the tools at its disposal, which do not include risk-sharing between countries or the remission (i.e. forgiving) of household debt. Had these options been chosen, the Union’s economy would probably be in much better shape. These, however, were decisions that could only have been taken by politicians, not by central bankers.

Opting for a political solution may be late, but it is not too late. A political solution entails that politicians take responsibility for macro-economic policy, i.e. organize macro-economic governance at a European level, and pledge to use it to stabilise the Union when the next crisis occurs. If they do so, it will be the politicians who will have to decide

on the degree of risk sharing, on the degree to which incomes are distributed and on the way in which this has to be implemented in practice.¹¹

There is a clear economic benefit to this. In the hands of politicians, options such as risk sharing between countries and the remission of household debt will be given equal consideration to issuing more public debt and financing it monetary. The consequence of all this would however be that the politicians involved would also have to bear responsibility for the policies that are pursued now as well as in the future.¹²

This has both economic and political benefits. The electorate will find it harder to vote for populists if elected politicians can actually implement their economic policies. A vote ensuing more consequences will be cast after more serious consideration. What's more, the debate about the politicisation of the ECB will become obsolete, if the politicians do their job.

Depoliticisation of the ECB is good for price stabilisation. The ECB is currently pursuing policies on its own authority that have a major impact on the real economy. While it is true the ECB is pursuing these policies with the implicit support of the majority of the member states, a political climate change might turn this support into opposition. Were this to happen, the ECB would be dealt a blow from which it may have a hard time recovering. It is likely this impacts price stability as well.

11 It is therefore unwise that the Third (Dutch) Rutte Cabinet Coalition Agreement stipulates that there will be no changes in the European financial and economic relationships. In fact, it would have been better if the Coalition Agreement wouldn't have mentioned the topic at all.

12 The relationship between the political world and the Central Bank will have to be reimagined in this regard. A system in which an independent central bank is the solution to a welfare maximization problem, is a system in which exceptional monetary policy and its side effects do not exist. This is not saying that a *dependent* central bank is a good idea, but it *is* saying that the easy solutions from the past are no longer available.

Irregular migration to the EU

Fransje Molenaar

In his 2017 State of the Union Speech, European Commission President Juncker forcefully argued that “Europe is and must remain the continent of solidarity where those fleeing persecution can find refuge.”¹ These words ring hollow when compared to contemporary European irregular migration policies,² which are characterised by a lack of solidarity and intra-European disunity. The policy process has become fragmented and is marked by states taking unilateral actions to protect their domestic (political) interests against the perceived threats posed by irregular migration – oftentimes at the detriment of the European Union (EU) as a whole. In addition, the Union and its member states are challenged to balance their commitment to international norms and values against the political pressure exerted by extreme right political parties and disgruntled electorates. The EU’s pragmatic solution has become the manufacturing of ever-higher barriers that attempt to lower the number of irregular migrants arriving on European shores, while tacitly reinterpreting the fundamental norms and duties that apply to the irregular migrants that do make it to Europe.

Fragmentation and disunity during the 2015 refugee surge

The EU’s fragmentation regarding the issue of migration surfaced most clearly during the 2015 refugee surge and largely centred on the implementation of the Common European Asylum System (CEAS). Part of the dispute resulted from the Dublin Regulation,³ under which the member state where irregular migrants first

1 http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm

2 Irregular migration flows are integrated by ‘temporary and reversible movements’ [short-term migration], ‘long-term migration’, and ‘forced migration [refugees].’ Guilmoto, C.Z., and Sandron F. 2003. *Migration et développement*, Paris, La Documentation Française. African irregular migration flows consist of economic migrants, human trafficking victims, and migrants pushed out of Libya due to the massive human rights abuses taking place there, as well as refugees. When looking at irregular migrants from the Horn of Africa, for example, more than 50 percent are granted (temporal) protection in Europe.

3 Regulation (EU) No 604/2013.

enter the EU is generally responsible for processing asylum applications.⁴ Common countries of irregular entry, such as Italy and Greece, have always balked at the unfair burden they perceive this to put on their countries – even up to the point of quietly permitting irregular migrants to travel onwards without passing through the proper legal procedures. At the height of the refugee surge, the strain put on these countries increased to unprecedented levels.

At the same time, and largely responding to Chancellor Merkel's open invitation to (Syrian) refugees to find refuge in Germany, northbound irregular migration flows created severe discord within other EU countries that did not look favourable upon irregular migrants' presence in their countries. In response to increasing numbers of irregular migrants passing through their territories, the Austro-Balkan group advocated and partially implemented the reinstatement of national borders. Countries such as Germany, France and the Netherlands sought to bridge the gap between entry and transit countries by advocating a more welcoming approach combined with EU burden sharing.⁵ In the end, the externalisation of asylum procedures through the EU-Turkey agreement appeared as a pragmatic policy measure that could take pressure off of the EU without substantially addressing these internal divisions.

Fragmentation and disunity in the reform of the CEAS

Fragmentation and a lack of solidarity are also visible in the implementation of the Emergency Relocation Scheme that saw the light in September 2015. In this scheme, the EU committed to relocate up to 160,000 refugees from Italy and Greece to other EU member states for the processing of their asylum claims. Countries such as Slovakia and Hungary voted against the adoption of an extended relocation decision in the Council, however, and turned to the Court of Justice of the European Union to annul the decision on 2 and 3 December 2015 respectively.⁶ In the face of lacklustre willingness and even flat-out refusal to cooperate with resettlement, the scheme failed to achieve its stated aims. Only 29,144 eligible individuals – a mere 18.2 per cent of the total planned target – were relocated when the scheme concluded in September 2017.⁷ Although Eastern

4 <http://www.egmontinstitute.be/content/uploads/2017/03/EPB-A-Dublin-IV-recast-A-new-and-improved-system-new.pdf?type=pdf>

5 http://www.ecfr.eu/publications/summary/bear_any_burden_how_eu_governments_can_manage_the_refugee_crisis

6 The Czech Republic and Romania also voted against the extension of the Emergency Relocation Scheme from 40,000 to 160,000 refugees. The Court dismissed the actions on 6 September 2017. See Judgment in Joined Cases C-643/15 and C-647/15 Slovakia and Hungary v Council.

7 https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20170927_factsheet_relocation_sharing_responsibility_en.pdf

European countries such as the Czech Republic, Hungary and Poland proved particularly reticent about relocation – up to the point that the Commission has now launched infringement procedures against them⁸ – more than 20 member states relocated less than 50 per cent of their pledges.⁹

A Commission proposal tabled on 4 May 2016 seeks to remedy some of the Dublin Regulation's problems.¹⁰ However, the proposed reforms do not address the fact that the Dublin system “reinforces the idea that asylum applications are a national competence” and that “sudden inflows are a problem for other governments to deal with”.¹¹

The fragmentation between member states that has hijacked the EU migration debate more generally stands in the way of a substantial overhaul of the migration system that would allow for the more efficient and better regulated processing of irregular migrants arriving in Europe.¹² The proposed reforms thereby fail to address the foundational flaws of the Dublin system, which contribute to a lack of responsibility-sharing, and ignore the “volumes of national and European jurisprudence, academic commentary, policy analysis and research that have exposed the multifaceted deficiencies of the EU's responsibility-allocation mechanism”.¹³ The CEAS can therefore be expected to perpetuate inefficiency and intra-EU tensions, and discontent over the management of irregular migration.

8 https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/20170927_factsheet_relocation_sharing_responsibility_en.pdf An important question is how the implementation of these infringement procedures will affect the general balance of power and the relations between member states within the EU.

9 <https://www.opendemocracy.net/can-europe-make-it/solon-ardittis/live-and-let-die-end-of-eu-migrant-relocation-programme>

10 http://europa.eu/rapid/press-release_IP-16-1620_en.htm

11 <http://www.egmontinstitute.be/content/uploads/2017/03/EPB-A-Dublin-IV-recast-A-new-and-improved-system-new.pdf?type=pdf>

12 Entry countries oppose measures that seek to solidify a procedure in which irregular migrants' asylum claims are processed by entry countries only (such as accelerated procedures as a sanction for applicants that have undertaken secondary movement within the EU or the rule that member states responsible for examining an applicant will remain responsible for examining future applications of that same applicant), whereas the Austro-Balkan bloc opposes the creation of a corrective allocation mechanism to support member states facing asylum pressures. <https://www.robert-schuman.eu/en/european-issues/0434-dublin-and-schengen-restoring-confidence-and-strengthening-solidarity-between-member-states-of>

13 <https://www.ecre.org/wp-content/uploads/2016/10/ECRE-Comments-Dublin-IV.pdf>

Pragmatism at work: border externalization and the re-interpretation of norms

In all likelihood, the failure to address the Dublin system's lack of burden sharing will contribute to the persistence of current (perceptions of) unregulated intra-European migration flows with two important – and interrelated – consequences for future migration policies. One consequence is that domestic politics are increasingly taken over by a fear of the other. In a telling statement, the Italian Interior Minister Marco Minniti recently noted that it is his duty “to be close to those who are afraid, to reassure them, to liberate them from fear”, adding that “the left can no longer afford to ignore or look down on people scared by immigration or terrorism.”¹⁴ Migration has become an issue that can decide elections and politicians have jumped on the migration bandwagon for electoral purposes. In the process, an image of uncontrolled migration flows is perpetuated – even though the EU-Turkey agreement has been quite successful at bringing down the number of irregular migrants entering the EU.

A second consequence is that EU migration policies are increasingly characterised by unilateral actions where EU member states seek to solve the current perceived migration crisis at its point of origin: Africa. Indeed, after the Austro-Balkan states unilaterally re-instated border controls, efforts of individual member states to manage irregular migration have largely turned southwards. This is visible most clearly in the Italian government's efforts to accelerate forced returns, such as through bilateral return and readmission agreements with the migrants' home and transit countries.¹⁵ In addition, Italy actively outsources its border control, such as through the signature of a memorandum with the leader of Libya's UN-recognized government, Fayed al-Serraj, which scaled up the cooperation between the Libyan coastguard and the Italian government. Behind the scenes, the Italian government has made substantial efforts to reach an agreement with tribes in South-Libya, as well as communities on the Libyan coast, to bring irregular migration to a halt.¹⁶ Although these efforts contribute to human rights abuses and basically entail paying smugglers to stop smuggling migrants,¹⁷ both Juncker and Merkel have praised Italy for its taming of irregular migration flows.¹⁸

14 <https://www.nytimes.com/2017/08/04/world/europe/italy-marco-minniti-migration.html>

15 A memorandum of understanding with Sudan was signed, for example, in August 2016.

16 <https://www.theguardian.com/world/2017/sep/07/italian-minister-migrants-libya-marco-minniti>

17 https://www.clingendael.org/pub/2017/turning_the_tide/ An additional danger is that these efforts contribute to the prolongation and/or outbreak of conflict in the region because they are implemented in a way that is insensitive to local power and conflict dynamics. They may thereby contribute to more irregular migration in the longer term. https://www.clingendael.org/sustainable_migration_management_Agadez/

18 http://europa.eu/rapid/press-release_SPEECH-17-3165_en.htm and <https://www.osw.waw.pl/en/publikacje/analyses/2017-09-06/germany-favour-further-limiting-migration-north-africa>

The effective management of irregular migration has thereby become a synonym for reducing migrant numbers at any cost.

A new development on the EU scenery is that French president Macron has taken it upon himself to expand the strategy of externalising EU borders even further. A recent high-level meeting on 28 August 17, including Chancellor Merkel, the Italian and Spanish prime ministers, the presidents of Chad and Niger and Libya's prime minister and the High Representative of the European Union for Foreign Affairs and Security Policy, resulted in the presentation of a plan to resettle irregular migrants in North Africa.¹⁹ Not unlike the EU-Turkey agreement, this plan would entail the combination of some legal resettlement in Europe with high investments to keep the majority of irregular migrants in 'safe third countries'. The silent assumption behind this strategy appears to be that it is easier to manage irregular migration in Africa than it is to achieve sustainable management and control of irregular migration within a divided EU. A second silent assumption is that it is easier for individual member states to broker deals unilaterally than for the EU to take the lead in a unified migration policy.²⁰

The biggest stumbling block standing in the way of this strategy is the normative and human rights framework that is the fundament of EU migration policies. To address the limiting effect of this framework on migration policies, a process is visible in which EU politicians and political leaders – as well as their member states – increasingly seek to renegotiate fundamental norms and duties through the reinterpretation of crucial concepts. The redefinition of Turkey as a safe third country within the EU-Turkey statement is a clear case in point.²¹ The recent Dutch coalition agreement similarly puts a lot of emphasis on the 'safe third country' concept as a focal point for future migration policies and also states that it will investigate possibilities to update the 1951 Refugee Convention so that it can provide "a sustainable legal framework for future-oriented international refugee policies".²² Given the length of the European Court of

19 <https://www.osw.waw.pl/en/publikacje/analyses/2017-09-06/germany-favour-further-limiting-migration-north-africa>

20 In part, this is because not all countries of origin want to work with the EU whereas they are willing to negotiate on a bilateral basis with individual member states.

21 See, e.g., the European Stability Initiative's paper that advocates calling Turkey a 'safe third country' for refugees despite the fact that Turkey is not necessarily a 'safe country of origin' due to its human rights record. <http://www.esiweb.org/pdf/ESI%20-%20Turkey%20as%20a%20safe%20third%20country%20-%202017%20October%202015.pdf> The Asylum Procedures Directive (Directive 2013/32/EU of the European Parliament and of the Council of 26 June 2013) set the parameters for the concept of 'safe third countries'. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0032&from=en>

22 <https://www.kabinetformatie2017.nl/binaries/kabinetformatie/documenten/publicaties/2017/10/10/regeerakkoord-vertouwen-in-de-toekomst/Regeerakkoord+2017-2021.pdf>

Human Rights' (ECHR) procedures,²³ and given that examples from Greece and Hungary show that policy makers simultaneously seek to limit the national judicial branch's room for manoeuvre to protect these fundamental norms and values, legal institutional safeguards seem insufficient to stop this development.²⁴

The way ahead

No reason exists to expect a major shift in EU migration policies in the foreseeable future. Member states such as Germany, France and Italy have taken the lead in the externalisation of borders and asylum processes to Africa with the aim of taking pressure off of Italy as a main first-entry country. One positive silver lining of this process may be that the need to broker deals with African countries may reinforce the development of legal pathways to Europe. Given that the frame that 'irregular migration needs to be stopped' has become dominant in many member states' public and political discourse, however, and in light of recent right-wing and anti-establishment election outcomes in Austria and the Czech Republic, an even harder and more divided policy stance as to the CEAS is to be expected in the years to come. Migration policies continue to be a nationally driven divisor rather than a unifier for the European Union – meaning that Juncker's "continent of solidarity where those fleeing persecution can find refuge" will likely remain a utopian dream.

23 It took the ECHR three years, for example, to rule that Italy had violated international human rights laws when it intercepted migrants adrift in the Mediterranean in 2009 and returned them to Libya. [https://hudoc.echr.coe.int/eng-press#{"display":\["1"\],"dmdocnumber":\["901572"\]}](https://hudoc.echr.coe.int/eng-press#{)

24 The Greek Parliament amended its asylum law to modify the composition of the Appeals Committees and the right of asylum seekers to be heard in appeals against negative decisions after several Appeals Committees rebutted the 'safe third country' presumption regarding Turkey. <http://www.asylumineurope.org/news/02-03-2017/greece-appeal-rules-amended-after-rebuttal-turkeys-safety> In Hungary, the Parliament has adopted a set of amendments to the regulations pertaining migration and asylum (8 March 2017) that allows for the creation of transit areas in border regions, where asylum seekers can be *de facto* detained without a judicial order and/or recourse to the judiciary. http://www.helsinki.hu/wp-content/uploads/Bill_No-13976_20-February-2017.pdf

From European narrative to managing European expectations

Adriaan Schout and Hussein Kassim

Introduction: why discussing the European narrative now?

Narrating is a part of the essential story-telling and myth-making by leading politicians that social constructions such as nation states and the European Union need. It is part of the fabric that keeps it together. It involves much more than simply 'communicating' the EU and includes appealing to emotions and creating a sense of ownership among citizens. Politicians face an immense task: how to ensure that citizens feel involved?

The EU agenda is now packed with major policy questions including measures following the eurocrisis, different expectations regarding trade agreements, the consequences of migration policies, the inevitability of labour mobility, deepening military cooperation, inroads towards EU tax policies, etc. Yet the growing relevance of the 'Union' has not been matched by the development of a European identity. Governments have to offer a narrative for why ambitious EU policies are needed if the spill-over mechanism from deeper integration to European identity fails.¹

A decade ago hardly anyone discussed the narrative of the EU. Opinion leaders concluded that the EU was the 'paragon of the international virtues', 'irresistibly attractive', and a 'beacon of light'.² Who needs a narrative when all is well? A decade later, the future of the EU seldom looked so uncertain. Deepening integration following the eurocrisis, Juncker's plea in his State of the Union (2017) to use the 'wind in the sails' of European integration, and perceived needs to step up actions in relation to employment, imply that the question of a suitable narrative seems here to stay.

1 Risse, Th. (2005), 'Neofunctionalism, European identity, and the puzzles of European integration', *Journal of European Public Policy*, 12:2, April 2005: 291–309.

2 Kassim, H., A. Schout (eds), *National EU Narratives in Europe's multilevel context*, forthcoming.

'The' European narrative raises a number of important questions: Do member states (still) have a convincing story about the need for deeper integration? Is it possible to formulate a European narrative that corresponds to the variegated national narratives? Are narratives in the member states converging or does 'Union' mean different things in different countries? This article reviews shifts in the EU narratives in four countries, i.e. the United Kingdom, France, Germany and The Netherlands.

Towards a European narrative?

In 2013, the then president of the Commission, Barroso tried to reinvent a European narrative centred around culture, cultural diversity and 'European values'. A review of the EU narrative debates indicates that, first of all, crisis and fears have dominated the EU discussions, ranging from concerns over competitive markets in the United States and Eastern Asia, to security threats. Negative stories may not be enough to create a positive bond. Secondly, with grave concerns over unemployment and doubts over the EU's borders, EU leaders have shifted towards the narrative of the EU as defender of values. Barroso stressed that "confidence in Europe needs to be regained. In light of the current global trends, the values of human dignity and democracy must be reaffirmed. Populist and nationalist narratives must not prevail".³ He also started to stress the rule of law and 'diversity'⁴ as European values. Yet current tensions, e.g. between the Commission and Poland, or between solidarity and conditionality, show that diversity and European values need not coexist easily. Similarly, it seems not very credible to assume the rule of law is equally applied to all countries when the Commission does not take France to court for breaking the 3% rule 'because it is France'.⁵ Juncker shifted tracks by avoiding discussions about visions and emphasised instead pragmatic solutions and a Europe that 'delivers'. As a senior Commission official explained in 2015: "no philosophies please; action is needed."

Discussions on the European narrative underline the tendency to expect governments to simply explain the importance of the EU. This however leaves open the question of what kind of narrative is required. Moreover, EU narrative discussions address what the Union *should be* and therefore fail to offer the fabric to accept what it *is*. Juncker's 'the EU has to deliver' and the many references to 'the EU that has to reform' (compare

3 *New Narrative for Europe*, Speech by President Barroso at the Opening of the Warsaw New Narrative for Europe General Assembly, 11 July 2013.

4 See also Lacroix, J. and Nicolaidis, K. (2011), *European Stories. Intellectual Debates on Europe in National Contexts*, Oxford: OUP.

5 <http://uk.reuters.com/article/uk-eu-deficit-france/eu-gives-budget-leeway-to-france-because-it-is-france-juncker-idUKKCNOYM1N0>

Macron's Sorbonne speech)⁶ bring the message home that the EU as it currently functions does not function. Hence, as far as there is a European narrative, it includes threats, crises, pragmatism and frustration about what the EU is not. This may not offer a positive narrative.

National EU narratives

As often stated, governments must have a narrative of the EU that better resonates with the concerns of the citizens. Apart from the impressions that governments abuse the EU by 'blaming Brussels'⁷, what narratives do we see in the member states?

United Kingdom

Starting with the United Kingdom, the endless discussions over the EU and the outcome of the Brexit referendum suggest the UK would have needed most of all a narrative adapted to changing European conditions (including the fall of the Iron Curtain). Cameron and his government had the rational proof derived from 32 reports that the EU was beneficial. Rationally, Cameron presented membership as functional, but he did not create a national EU narrative pertaining to current conditions. Setting aside the problem that the credibility of Cameron's support for 'Remain' was tempered by the history of his own public ambivalence to the EU, Cameron subscribed to a myth of British exceptionalism that appeals to the free institutions and common law traditions of the isles stretching back a thousand years.

Echoing Churchill, the great narrator of English-speaking peoples, this vision placed the UK at the centre of three circles of influence; the special relationship with the USA, the British Commonwealth and Europe (in that order). The fall of the Iron Curtain weakened this British narrative because the third concentric circle (Europe) became less needed strategically. Enlargement was seen by Thatcher not as a threat to the EU's integrity or values but as an economic opportunity as much as globalisation offered new economic global perspectives outside 'Europe'. Consecutive British governments failed to develop a new narrative pertaining to the EU's changing conditions.

6 <http://www.elysee.fr/declarations/article/initiative-pour-l-europe-discours-d-emmanuel-macron-pour-une-europe-souveraine-unie-democratique/>

7 Schout, A., M. Luining (2017), 'Rutte en de Europese januskop', *Internationale Spectator*, no.71/2. https://spectator.clingendael.org/pub/2017/2/rutte_en_de_europese_januskop/

France

Quite different was the development of the framing of European integration in *France*. France's traditional self-image of being the leading European nation that, with German support, would work towards a political union. De Gaulle formalised the French-German relations with the Élysée Treaty (1963) to symbolise that intense cooperation at political, administrative and societal levels was needed. Macron recently announced to deepen the Élysée Treaty; a strong symbolic signal. Also, symbolic defence cooperation has served the purpose to transmit the message that France's greatness and prestige depend on European cooperation (Europe as *multiplicateur de puissance*).⁸ This frame included an element of controlling (West-) Germany politically and economically.

Peace as well as economic protection have figured strongly in the French perspectives (*L'Europe qui protège*). This also serves to underline it is not pro-internationalisation or -liberalisation. Hence, the French narrative has been ambiguous: integration to defend the French position in the international ranks on the one hand, and, on the other, to offer protection against foreign investments and (wage) competition, e.g. resulting from intra-EU mobility of labour and services. Similarly, the euro was presented as a mixed project to safeguard France's strengths and to influence the Deutsche Mark.

The French perspective thus combines emotional and nationalistic arguments, as underlined by Hollande's 'a strong Europe to guarantee our sovereignty'. Hence, the French frame relates to power and not to rules and regulatory details that are necessary for the well-functioning of the internal market or euro. Reform of the EU and of the euro rules, a political union, and flexible integration have been favourite themes of French Presidents. Macron in many ways continues the narrative of *L'Europe puissance*, *L'Europe qui protège*, and – we may add – *L'Europe qui doit changer*.

The resemblance between the French narrative and discussions in other Southern EU countries such as Italy, Greece, Portugal and Spain is striking. Governments have remained highly pro-EU (and pro-euro). However, Tsipras and Renzi, among others, have underlined the EU has to go back to its roots and to the original ambitions of creating a political union based on solidarity. Southern leaders tend to see themselves as rescuers of the European dream and want to reform the EU.

8 Rozenberg, O., 'French narratives of the EU; the many ends of indifference', in: Kassim, H., A. Schout (eds), *National EU Narratives in Europe's multilevel context*, forthcoming.

Germany

The German EU narrative has been persistently integrationist, yet modifications are in the air. After World War II the framing was closely linked to its economic and political rehabilitation. Germany emits the impression of being a middle-sized country that is highly dependent on its European partners. Merkel and her Finance Minister Schäuble have regarded it as their duty to keep the EU together. However, they also live the tale of a rule-based Europe (stability Union). Yet they are highly compromise-oriented and willing to pay high prices for integration (giving up the *Deutschmark*, accepting bailouts through the newly created European Stability Mechanism, etc.). While doing this, German leaders stress that European partners have to adhere to rules and to accept independent monitoring of rules.

Yet, also for legal reasons, and given the tense discussion in Germany over transfers between *Bundesländer*, open-ended financial commitments are not accepted. The EU cannot become a transfer union. The end of German patience has also been displayed, for example, in the insistence of including the IMF out of distrust of the European Commission, and by Schäuble's flirtations with euro-exits. Germany seems to become more outspoken on the terms on which EU policies are accepted. Contrary to the French political union, Germany tends towards a legal union.

The Netherlands

The Dutch narrative has been rather sober but seems to tend towards becoming the narrative of a small country. Rutte (2013) stated rather traditionally that “[integration] was an economic project from the very beginning” and underlined that “European Union is a pragmatic partnership between countries”. There was a strong sense of economic benefits and a dislike of EU visions (“people with visions need to see a doctor”).⁹ Nevertheless, Rutte's vision was clear: the EU as a limited confederation centred around the internal market. The eurocrisis, the migration crisis and the successful Dutch presidency in 2016 have modified the narrative towards a more positive presentation of the need to work through the EU, e.g. to maximize influence in neighbouring regions.¹⁰ The framing has changed from economic project towards accepting the steps that need to be taken to strengthen borders, defence cooperation and the euro.

This regained pro-integrationist framing, however, also seems to be pragmatic because what happens in the EU largely depends on others; not on Dutch visions. This pragmatism was underlined in 2015 when the third rescue package to Greece – despite

9 <https://spectator.clingendael.org/nl/publicatie/hoer-premier-rutte-europa-even-veroverde>

10 Schout, A. (2017) 'The Dutch EU Presidency: The Continuing Relevance of the Rotating Presidency in a Political Union', *Journal of Common Market Studies*, Vol 55, pp. 54–63.

the election promise in 2012 of ‘no more money to Greece’ – was defended by ‘we could not stop it’. A small country has little room for manoeuvre or for visions. A narrative makes little sense when so many are involved in collective decision-making.

Conclusions and implications: From overtaxed European narrative to managing expectations

The EU is on a course towards deeper integration. The Union’s growing importance also highlighted the divergence in the European narratives whereas convergence would have been helpful. The UK stuck to its ‘we have special relations’, Germany’s self-awareness and focus on rules seem to become more pronounced, weak member states and Commission President Juncker emphasize it is the EU that needs reforming, and a small country like the Netherlands has few other options but to rely on pragmatism.

Although all leaders are faced with split societies over European integration, their responses are remarkably different. Merkel seems to become extra careful, Rutte opts for pragmatism and Macron chooses a *fuite en avant*. This review of narratives also suggests a difference between Northern countries that expect member states to reform and Southern member states that are more concerned with reforming the EU.

Even though some form of European public sphere is developing as can be seen, for instance, by the interest in elections in the member states, a convincing European narrative is proving elusive. This analysis has a number of consequences. First, London is not alone in lacking a narrative – all governments are struggling. Secondly, expectation management is in order. Lowering expectations in the narrative as regards what the EU is or can offer might be the less frustrating option for all concerned. Juncker’s insistence on an ‘EU that delivers’, Macron’s high ambitions and the Bratislava process create resistance towards deeper integration in some countries and frustrations over an EU that underperforms in others. Yet avoiding discussions about the EU’s future also carries dangers. Thirdly, deepening integration that is now on the agenda demands a narrative to assert ownership. In the present circumstances, deeper integration might result in a polarisation of the national narratives.

The State of EU relations with Russia and the Eastern Neighbourhood

Wouter Zweers

Introduction

Stabilisation, resilience and security - these are the keywords of the latest of a series of European Neighbourhood Policy (ENP) reviews, aiming to 'respond to the new challenges of an evolving neighbourhood'.¹ Such challenges increasingly result from geopolitical tensions over the Eastern Neighbourhood between the European Union (EU) and Russia, and come on top of the EU's continuous struggle to fight corruption and promote its norms regarding human rights, democracy and the rule of law in the countries to its Eastern vicinity. The EU recognises that geopolitical competition from Russia increasingly thwarts its own policy agenda towards its neighbours. However, the ENP's renewed focus on security, with its increased attention to information resilience and cybersecurity, has not yet proven to be capable of addressing these issues. Politically, the EU is struggling to develop a unitary and comprehensive answer to Russian assertiveness in the region. The Union constantly needs to balance between constructive engagement (e.g. through dialogue) and credible deterrence (e.g. by means of sanctions). Meanwhile, individual Member States continue to pursue bilateral policies based on their individual interests. These differences mean the EU faces a number of pressing challenges for its current and future agenda towards the East, which include coping with the Donbass conflict, extending the sanctions regime towards Russia, and finding more effective ways to give the EU's normative disposition in the region new momentum.

1 European Commission Press Release, 18 May 2017, http://europa.eu/rapid/press-release_IP-17-1334_en.htm.

The Donbass war and Minsk agreements

The Donbass war is entering its fifth year and continues to claim casualties, hinder EU relations with Russia and thwart stability in Ukraine. Russia has an increasing interest to turn it into yet another protracted conflict to stall Ukraine's development and the implementation of the Ukraine-EU Association Agreement. In that way, Moscow tests EU commitment to restoring peace, which it considers weak.² So far, however, the EU is only marginally involved in the Minsk peace process, with the OSCE, France and Germany taking active roles through the so-called Normandy format instead. Yet, the absence of this issue on the EU-wide agenda makes momentum in the peace process dependent on individual countries, who can be preoccupied by domestic political priorities, such as is now the case in Germany as a result of its elections outcomes.³ The absence of EU ownership of the conflict could moreover harm consensus within the EU on the issue. Russia considers the cases of Brexit and the Catalanian push for independence just as the latest examples of fragile EU unity, and is believed – although at a decentralised level – to actively pursue a divide-and-conquer strategy among European electorates and Member States.⁴

A greater commitment from the side of the EU would not only increase the Union's internal unity, but also enhance the international legitimacy of the peace efforts, and possibly alter the calculations of the parties involved. So far, Russia's own calculation is that non-resolution is in its best interest. The International Peacekeeping Mission unexpectedly put forward by President Putin in September 2017 is, in the form as proposed by Moscow, nothing more than a poisoned chalice actually contributing to 'freezing' the conflict by legitimizing it internationally instead of settling it.⁵ Through its proposal Russia has aimed to put the ball back into the court of Ukraine, which has neglected to implement the political provisions of Minsk – i.e., local elections in the Donbass region and a special status for the Donbass in the Ukrainian constitution – arguing that military provisions should be implemented first. Russia's and Ukraine's contradictory understanding on the sequencing of the Minsk II Provisions has been a

2 Kostanyan, H. & Meister, S. (2016), 'Ukraine, Russia and the EU Breaking the deadlock in the Minsk process', CEPS Working Document No. 423 / June 2016, p. 10.

3 Sasse, G. (2017), 'High Time to End the War in Ukraine', Carnegie Europe, 4 December 2017, <http://carnegieeurope.eu/strategieurope/74897>

4 Liik, K. (2017), 'What does Russia Want', ECFR Commentary, 26 May 2017, http://www.ecfr.eu/article/commentary_what_does_russia_want_7297.

5 Bildt, C. (2017), 'Is peace in Donbas possible?', ECFR Commentary, 12 October 2017, http://www.ecfr.eu/article/commentary_is_peace_in_donbas_possible.

major reason for the current stalemate, a situation which the ‘Steinmeier formula’ has sought, but not succeeded, to overcome.⁶

An effective peacekeeping mission capable of breaking this deadlock would require a comprehensive mandate. This mandate should allow for ensuring the ceasefire and the withdrawal of the Russian military as well as Ukraine’s sovereignty over the region, while simultaneously supporting local governance and the organisation of elections. European leaders should thereby make clear to Moscow that this is also for its own benefit. After all, the prospect of carrying the costs of yet another separatist region led by semi-criminal nationalists primarily interested in rent-seeking from Moscow is not a rosy one for the Kremlin. In addition to the sanctions imposed by the EU and the United States, which continue to directly damage the Russian economy, the harm to its international status and relations with the West might lead Russia to acknowledge its interest in settlement, and agree to a wider mandate than initially proposed.

EU sanctions towards Russia / EU internal dimensions

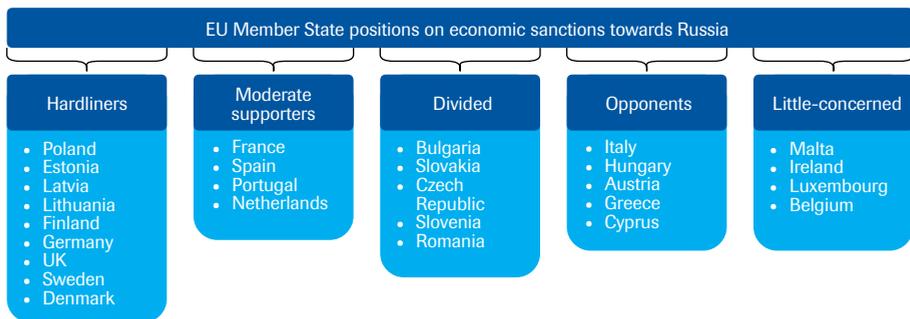
The EU has conditioned lifting its sanctions upon the implementation of the Minsk provisions, and in light of the absence of progress noted above, extended them every six months – the latest extension lasting until 31 July 2018.⁷ The initial agreement in March 2014 is largely believed to stem from a common view among the Member States on the unacceptability of the breach of Ukrainian sovereignty and territorial integrity.⁸ Yet, the current positions of the EU Member States on the issue are determined by a wider number of factors, including the economic harm of (counter)sanctions due to economic interdependence with Russia, geopolitical/security considerations due to a combination of geographic proximity to Russia and historical experiences, the level of dependency from Russian energy supplies, the (historic and current) political ties between their governments and Russia, as well as diverging understandings about the objectives of the sanctions regime. Geopolitical concerns lead Poland, the Baltic states and Finland to support strict sanctions, with Germany, the United Kingdom, Sweden and

6 Put forward in 2016 by Frank-Walter Steinmeier, the then German Minister of Foreign Affairs, the ‘Steinmeier-formula’ entailed organising local elections in Luhansk and Donetsk under the auspices of the OSCE. Upon confirmation of the legality of the elections by the OSCE, the special status for the two entities in the Ukrainian constitution would enter into force. See Boulègue, M. (2016), ‘The political and military implications of the Minsk 2 agreements’, France Stratégie note no. 11/2016, 19 May 2016, <https://www.frstrategie.org/publications/notes/the-political-and-military-implications-of-the-minsk-2-agreements-11-2016>

7 See EU Press Release, 21-12-2017, <http://www.consilium.europa.eu/en/press/press-releases/2017/12/21/russia-eu-prolongs-economic-sanctions-by-six-months/>

8 Sjursen, H. & Rosén, G. (2017), ‘Arguing Sanctions. On the EU’s Response to the Crisis in Ukraine’, JCMS 55(1), p. 29.

Denmark aligning with these hardliners. More moderate supporters of the sanctions regime are France, Spain, Portugal and the Netherlands – although, due to the MH/17 downing, the latter has in the past years taken a tougher position than before. Economic ties with Russia, but also the geopolitical risks Moscow poses, splits Bulgaria, Romania, Slovakia, the Czech Republic and Slovenia internally. Member States that have stronger economic and political ties with Russia and oppose the prolongation of sanctions are Italy, Hungary, Austria, Greece and Cyprus. A last group of Member states is formed by countries less economically connected to and geographically more distant from Russia, comprising Malta, Ireland, Luxembourg and Belgium.⁹



Is the rather unprecedented unity among the EU Member states under the surface starting to show the first signs of dissolution? Some developments would suggest so. Austria and the Czech Republic have in the past year seen electoral successes of right-wing parties more strongly connected to Russia. In the more critical Member States such as Hungary, the sanctions are increasingly considered ineffective while at the same time economically harming the EU itself given the countermeasures from Russia.¹⁰ It is important to note here that, while trade with Russia has deteriorated between 2014 and 2017, only a small fragment thereof can be attributed to sanctions, and EU exports have largely been redirected.¹¹ Also, politically, the sanctions appear rather unsuccessful, given the implementation of Minsk II has not taken off yet. The broader impact of EU sanctions has been to contribute to curb the war in the Donbass and prevent Russia

9 Shagina, M. (2017), *Friend or Foe? Mapping the positions of EU Member States on Russia sanctions*, European Leadership Network commentary, 28 June 2017, <https://www.europeanleadershipnetwork.org/commentary/friend-or-foe-mapping-the-positions-of-eu-member-states-on-russia-sanctions/>.

10 CNBC, 4 October 2017, *Sanctions on Russia don't work, says Hungary's foreign minister*, <https://www.cnbcm.com/2017/10/04/russian-sanctions-dont-work-says-hungary.html>.

11 Gros, D. & Di Salvo, M. (2017), 'Revisiting Sanctions on Russia and Counter-Sanctions on the EU: The economic impact three years later', CEPS Commentary, 13 July 2017, p. 5.

from escalating the conflict further.¹² Should the sanctions be lifted as a result of a breakdown in consensus within the Union, EU credibility, leverage vis-à-vis Russia and perceived commitment to international law would be highly damaged, and the future effectiveness of the instrument of sanctions harmed.¹³ Without further progress in the Donbass, the EU should therefore maintain the sanctions, and continue to highlight that lifting them is fully dependent on the implementation of Minsk II. It should thereby signal in the run-up to a UN Security Council decision that the installment of a comprehensive UN peacekeeping mission in the Donbass would be the best way forward to achieve such progress.

Value diffusion and state-building in the neighbourhood

The current low-point in EU-Russia relations has strong implications for the EU approach towards its Eastern Neighbourhood. Although entrenched in the treaties as a policy framework aimed at spreading European norms and values, the failure in the past years to achieve the objectives of the consolidation of democracy and elimination of endemic corruption has forced the EU to take a more classic and pragmatic foreign-policy approach. Apart from the EU's underestimation of Russian influence in the region, the neighbourhood countries themselves have proven to be less inclined to adhere to EU norms than initially thought. Norm spreading in the fields of good governance and the Rule of Law, through working with ENP-country governing elites, faces harsh realities. It goes against the vested interests of those very same elites, who have – e.g. in the case of Moldova – often proven to be pro-European in name only.¹⁴ While the latest ENP review acknowledges that countries may not be willing to develop closer relations with the EU, and has taken a pragmatic turn more focused on EU interests than norms, the EU's normative discourse has remained. However, continuing such discourse is – under the current policies – obsolete and upholding it only harms EU credibility.¹⁵ The EU can hardly be regarded as a normative power, not only because of the failure of its policies to deliver, but also given internal developments such as the handling of the refugee crisis and EU Member States themselves being caught up in undemocratic reforms.

12 Fischer, S. (2017), 'A Permanent State of Sanctions?', SWP Comments, April 2017, <https://www.swp-berlin.org/en/publication/eu-russia-a-permanent-state-of-sanctions/>, p. 5.

13 See *The new deterrent? International sanctions against Russia over the Ukraine crisis*, the Graduate Institute Geneva, http://graduateinstitute.ch/lang/en/pid/11764/_/events/psig/the-new-deterrent-international; Kostanyan, H. & Meister, S. (2016), 'Ukraine, Russia and the EU Breaking the deadlock in the Minsk process', CEPS Working Document No. 423 / June 2016, p. 10.

14 Montesano, F.S., Van der Togt, T. & Zweers, W. (2016), 'The Europeanisation of Moldova: Is the EU on the Right Track?', Clingendael Report, 18 July 2016, p. 2.

15 Liik, K. (2017), 'How the EU needs to manage relations with its Eastern Neighbourhood', Task force U.S. Policy Toward Russia, Ukraine, and Eurasia White paper, Carnegie Europe, 23 August 2017, p. 7.

Hence the call for an honest discourse on the objectives and more in line with actual policies is justified.

The EU should first acknowledge that its idea that ‘the ENP is not aimed against any country’ does not match with current realities.¹⁶ Fact of the matter is that Russia perceives the ENP to threaten its sphere of influence, and continues to employ economic, political as well as security ties to influence neighbourhood countries, and effectively so (e.g. withholding Armenia from signing an Association Agreement (AA) with the EU in 2013). The EU has no effective response, neither politically nor policy-wise. The ENP’s renewed security focus fits the description of ‘too late, too little’. It has caused some authors to go as far as to conclude that the ENP is in suspended animation.¹⁷ Given the complexity of the challenges at hand, it would be unfair to hold the EU fully accountable for the current state of the neighbourhood. However, as the past decade has shown, achieving the ENP’s normative objectives is in any case impossible through working with the neighbourhood country’s elites. Rewarding them with partial EU integration in return for reforms will not accomplish the development towards sustainable and resilient democracies, as such reforms mostly go against the elites’ entrenched interests. Pursuing this strategy has caused discursive changes at best, as a side-effect spurring suspicion in the Russian Federation of seeking to pull the Neighbourhood into the EU’s own sphere of influence. If the EU wants to become serious about its normative ambitions, it should instead focus on creating conditions for societies to develop themselves. Indeed, the latest ENP reforms have brought increased attention to societal resilience. However, an overhaul greater than the past reforms of the ENP is needed, placing societal resilience, an honest and open discourse, as well as tailor-made approaches to individual neighbourhood societies at the heart of its considerations. Such an overhaul should include asking the question of whether a neighbourhood-wide policy framework like the current ENP is compatible with the EU’s normative aspirations.

16 EU Global Strategy, p. 25, http://europa.eu/globalstrategy/sites/globalstrategy/files/regions/files/eugs_review_web_0.pdf.

17 Blockmans, S. (2017), *The Obsolescence of the European Neighbourhood Policy*, Rowman and Littlefield International, London.

Public support for European Integration (and the lack of trust in the Eurobarometer)

Adriaan Schout and Martin Holderied

Introduction: Linking trust in the EU to trust in member states

Commission president Jean-Claude Juncker emphasized in his State of the Union¹ that people have to regain trust in the EU and underlined the need for the EU to ‘deliver’. Similarly, ECB president Mario Draghi called for an EU institution-based approach to get the European economy back on track² and contended it was thanks to the EU institutions that the economic crisis was being solved. As argued here, this EU-centered perspective on the EU’s trust crisis needs serious qualification. If the EU level is not the cause of the EU-trust crisis, then EU leaders should avoid creating the expectation that they are the prime solvers of this crisis.

Hence, first a diagnosis of the EU’s trust crisis is called for: at what level of government is this crisis created? The focus on ‘people losing trust in the EU’ and Juncker’s emphasis on ‘the EU needs to deliver’ may implicate a strong bias in the search for causes and solutions. Understandably, a lot of attention goes to the high unemployment levels in the EU and what the EU can do to create economic growth and jobs, but we need to unpack the causes for the EU’s trust crisis. As argued below, this discussion also raises the question whether the Eurobarometer is sufficiently equipped to assess the causes of this crisis.

Trust in, and support for, the European project have become major political challenges and require policy responses. Integration has moved far beyond technical market regulation. The fall-out of the eurocrisis, the refugee crisis and the social crises has underlined that public support is a serious challenge. Despite recent upswings in EU

1 J.-C. Juncker, ‘State of the Union Address 2016: Towards a better Europe – a Europe that protects, empowers and defends’, 14.9.2016.

2 M. Draghi, ‘Speech by the President at Süddeutsche Zeitung Finance Day 2015’, 16.3.2015.

support,³ the Brexit referendum and other referenda have shown that dissatisfaction can strongly affect integration. While deepening of European integration is widely accepted, trust in the EU and its institutions is a point of concern.

The discussion on public support has become repetitive, bordering on superficiality. It can be strengthened by distinguishing causes of dissatisfaction at different layers of government. This paper argues that, first, lack of trust is a much bigger problem at the national level than currently acknowledged in the EU debates. Secondly, issues regarding trust differ per member state – there is no silver bullet to create trust in the EU. Each layer has its own problems to fix. EU leaders should therefore be more modest in their ambitions to create trust at the Union level. European trust relates primarily to citizen's trust in their own country and to trust in other member states.

Trust and support: Long-term trends

The trust people have in the EU has diminished significantly. In 2016, 35 per cent of Europeans tended to trust the European Union, compared to 50 per cent in 2004. This may be regarded as a normalisation⁴ following earlier EU-euphoria created by successes with the internal market and the Eastern enlargement. Yet, the figures underline a trend that is decidedly worrying, also because emotional attachments to the EU have failed to develop⁵ and people do not distinguish between the EU and other international bodies.⁶ Moreover, although trust in the EU is recovering under the influence of an economic upswing, a historical perspective reveals that trust in the Union, the European Parliament, the Commission and the ECB has been low (see Figures 1 and 2).

3 Post-Brexit, Europeans More Favorable Toward EU, Pew Research Centre, June 2017.

<http://www.pewglobal.org/2017/06/15/post-brexit-europeansmore-favorable-toward-eu/>

4 Schout, A.; J. Rood (eds), *The Netherlands as an EU member state: a normal partner at last?*, Portland: Eleven International Publishing, 2013.

5 Sociaal en Cultureel Planbureau, COB, *Burgerperspectieven*, 2011/4, Den Haag, 2011.

6 Loon, Y. van; M. Luining; A. Schout, 'De valkuilen voor een sociaal Europa zijn groot', *Clingendael: Policy Paper*, 2017.

Figure 1 Trust in the European Union

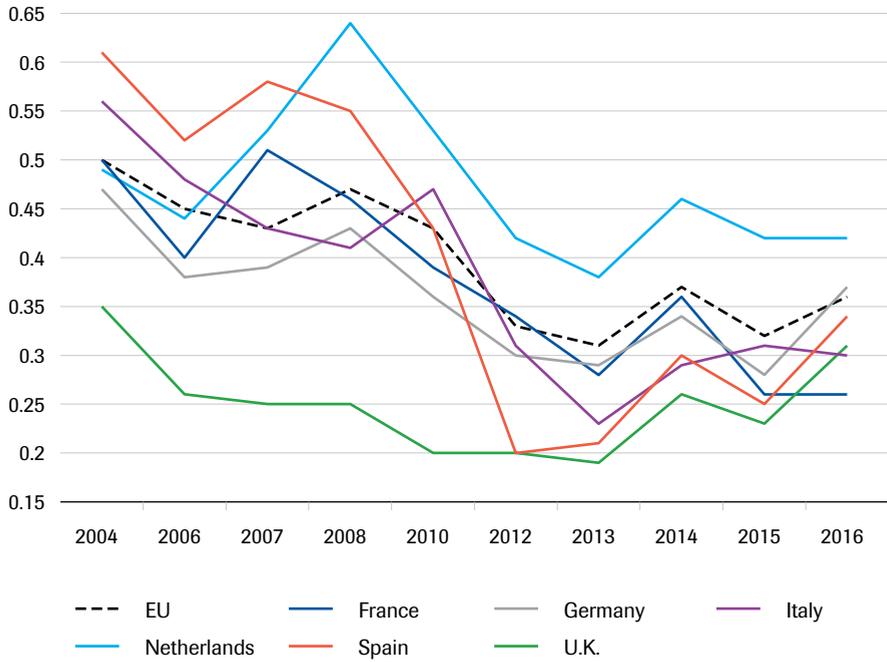


Figure 2 Trust in European Institutions

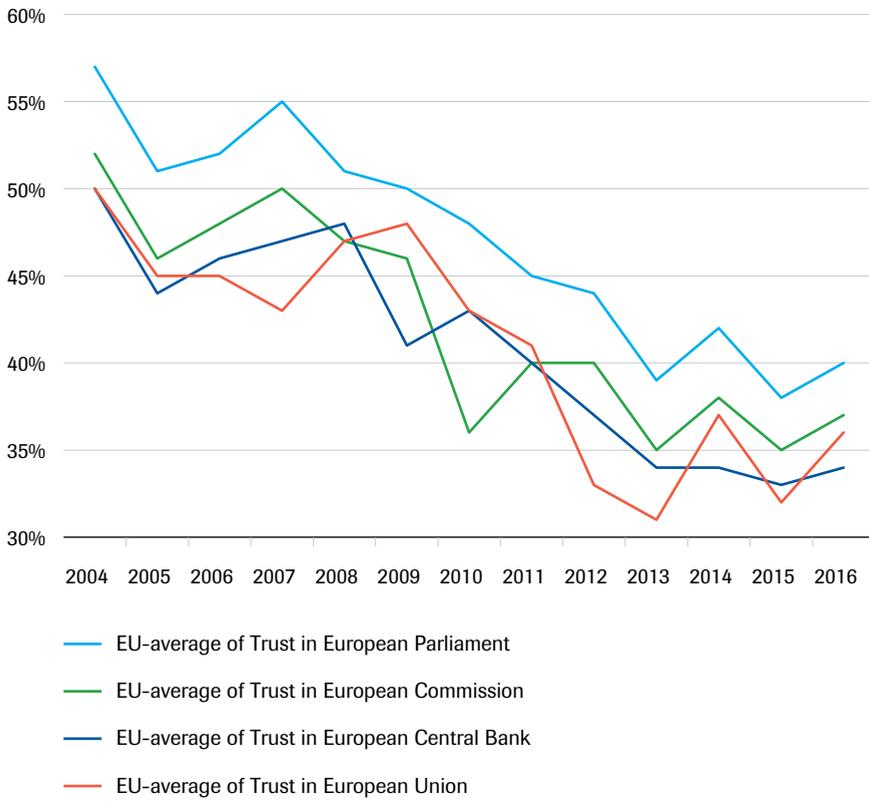
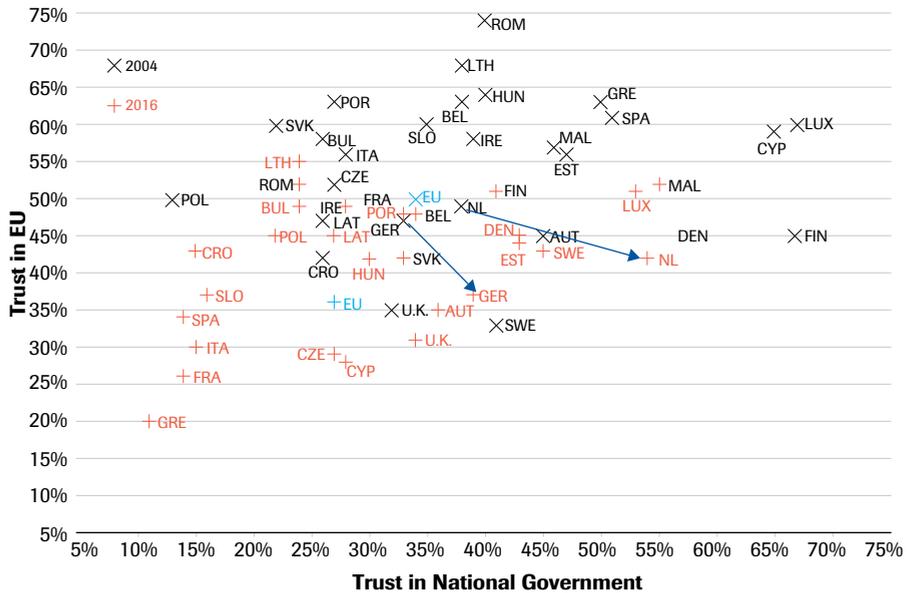


Figure 3 Trust in government, as compared to trust in the EU



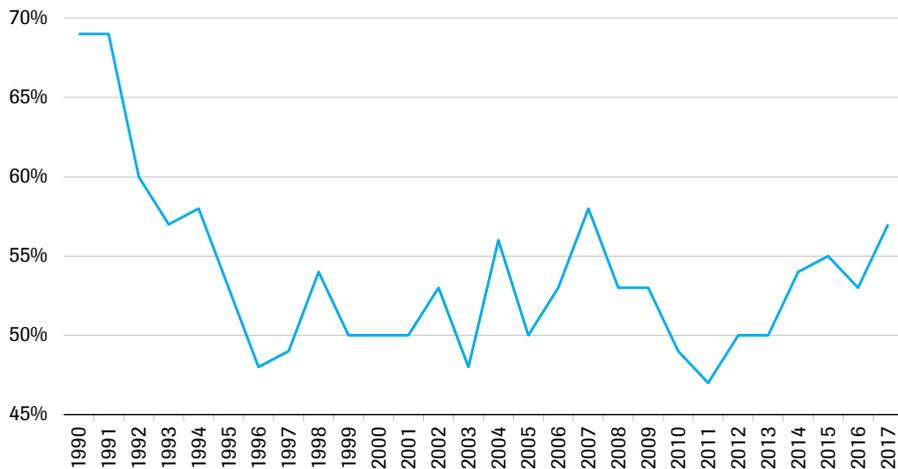
While the figures regarding the development of trust in the EU in specific member states (see Figure 3) are points of concern, the extent to which citizens trust their own governments is even more worrying. The 2004-2016 comparison reveals first of all that in only a few countries citizens trust their own governments: trust in the EU is generally (much) higher. Secondly, in France, Italy, Greece and Spain, trust in both the national government and the EU imploded. Thirdly, the difference between low- and high-trust countries increased. In economically strong countries (Germany and the Netherlands) trust in the national governments increased, whereas trust in the EU fell. Hence, countries that are weak in terms of trust (and in terms of economic performance) tend to have their hopes on the EU, whereas strong countries prefer to rely on themselves. A hypothesis to explore is that the drop in trust in the EU in Germany and the Netherlands is caused by the weaknesses in the other member states. Put differently, if most member states do not trust themselves, why would strong member states trust an EU that consists of weak countries? This would render any EU effort by Juncker to regain trust misplaced as EU activism may drive strong countries out even more. It seems that not the EU has to regain trust. Rather, most of the member states have to earn trust.

In this respect it is unfortunate that the Eurobarometer does not ask questions regarding trust Europeans have in each other. Due to its EU focus, the Eurobarometer hinders an understanding of national developments as far as trust is concerned. It should include – politically sensitive – questions on mutual trust.

The misleading support for EU policies

In view of this drop in trust in the EU, the continuous support for membership is a paradox. Support for membership has remained fairly stable, i.e. between 50 and 60 per cent over the last 27 years – with a dip around the economic crisis. With 57 per cent of the European population supporting membership, the recent trend is upward (See Figure 4.)

Figure 4 Support for EU-membership 1990-2016



As far as specific policies are concerned, we see that support for the Monetary Union is on the mend⁷ (close to 60 per cent on average). One of the core pillars of the EU, the free movement of people, is supported by almost 80 per cent of the European citizens. Moreover, 7 out of 10 Europeans back the establishment of a common migration policy, while a common foreign, defence and security policy is strongly supported as well. This broad support for (more) European policies can most likely be explained by the

7 U. Batsaikhan; Z. Darvas, 'European Spring – Trust in the EU and democracy is recovering', Bruegel, 24.3.2017.

combined effects of the election of Trump, the turmoil around Brexit, threats from Putin, Draghi's quantitative easing and the way the refugee crisis has been handled. The EU can credibly deliver the message of offering security and stability.

However, the figures as regards support for deeper integration must be qualified. Questions for policy support in the Eurobarometer are asked without additional questions, such as whether people are willing to pay for further integration, and whether they are willing to transfer additional competences to 'Brussels'. Thus support for social policy dropped considerably in our own questionnaire when asked whether people would be willing to pay a solidarity fee and to transfer powers to the Commission.⁸ Similarly, support for other EU policies, such as a Common European Defence, might also drop if the Eurobarometer had included questions about costs involved in transferring competences, such as EU taxes, Eurobonds, a higher EU budget, as well as more powers to the European Parliament. The relevance of the Eurobarometer is seriously compromised because in its questionnaires the institutional and economic costs are ignored.⁹ There is support for European integration, but figures about this support should be carefully related to support for the costs involved and for the institutional consequences of EU policies.

Trust in the EU and trust in member states

'Trust' in the EU is too often used as a generic term, thereby disregarding that member states have different expectations. Such difference as to trust in European integration is visible in the statements from Southern and Northern EU countries. Thus, Italian prime minister Matteo Renzi underlined that "this Europe" has to change and that the recent economic crisis was not a crisis of individual member states but a European crisis.¹⁰ Similarly, former prime minister Papandreou from Greece called for changing the EU through the creation of Eurobonds and debt mutualisation. These expectations from Southern EU member states are in stark contrast to those of the Netherlands and Germany, which emphasize that not the EU, but the member states lagging behind have to change.

8 Y. van Loon, A. Luining, A. Schout, 'De valkuilen voor een sociaal Europa zijn groot – Burger ziet EU als sociale bedreiging; niet als oplossing', *Clingendael Policy Brief*, May 2017. https://www.clingendael.nl/sites/default/files/PB_Valkuilen_voor_sociaal_Europa.pdf.

9 See also M. Höpner; B. Jurczyk, 'How the Eurobarometer Blurs the Line between Research and Propaganda', Max-Planck-Institut für Gesellschaftsforschung, Discussion Paper 15/6, Köln, 2015.

10 Program of the Italian Presidency of the European Council, 'Europa: un nuovo inizio: Programma della Presidenza Italiana del Consiglio dell'Unione Europea', Rome, 2014.

Yet, differences in the EU run deeper. Northern member states like Germany and the Netherlands have a rule-based political culture and expect the EU Commission to operate as a neutral supervisor of agreements. The Italian government however funded a project in the context of 'EU@60' to market the idea of more flexibility.¹¹ What people expect from the EU seems to depend on deeply-rooted cultural differences.

Overly ambitious projects like enlargement and monetary integration have made the widely different expectations and preferences of member states more pronounced so that major European compromises risk involving substantial welfare losses for all.¹² Differences in the extent to which Eurozone countries have reformed have widened the differences between member states even more (see the chapter on the EU narrative in this volume). Hence, any action at the EU level to 'regain trust' will inevitably lead to simultaneous disappointments over the EU doing too little and the EU doing too much.

Conclusions and policy recommendations

This analysis leads to a number of conclusions regarding trust in and support for the EU. First, the idea that EU support can be strengthened at the EU level disregards the fact that proper diagnoses are absent of why, and at what level, trust has been lacking. The EU is supported in many ways, but hesitations concerning European integration are probably strongly linked to the weakness of a range of member states and to the resulting lack of mutual trust between members. Juncker's 'EU has to deliver' or 'the EU that protects' are typically EU-centred slogans regarding the diagnosis of problems and the solutions proposed. The starting point for regaining trust seems to lie primarily at the level of the member states, not at the EU level.

Secondly, in light of the strong EU bias in diagnoses and solutions, suggestions for deeper integration, such as also included in the Bratislava agenda, have to be handled with care. Moreover, pleas for deeper integration are usually not matched by assessments of whether people will also accept the financial and institutional consequences.

This relates to the third conclusion, i.e. that the Eurobarometer is inadequate to analyse the political situations in the EU and the member states. The Eurobarometer should include assessments of whether people are willing to pay for deeper integration as well as questions on their trust in other member states. Currently, the Eurobarometer presents European integration as a free lunch and avoids questions about mutual trust

11 N. Pirozzi ; P. D. Tortola ; L. Vai, 'Differentiated Integration: A Way Forward for Europe', Istituto Affari Internazionali, 2017.

12 G. Majone, 'Europe as the Would-be World Power: The EU at Fifty', Cambridge, 2009.

that is needed for a proper diagnosis of the EU's trust crisis. Evidently these questions are politically sensitive; but so is European integration. Trust in the EU requires trust in the Eurobarometer. To this end, a first step in building lasting support for the EU is to make the Eurobarometer independent from the EU Commission, to ensure that facts are relevant and reliable.

Rule of law policy: ambitions without strong networks¹

Adriaan Schout and Michiel Luining

“ Nothing is possible without men, but nothing lasts without institutions.”
(Monnet)

Introduction

The conditions in EU member states as far as the rule of law is concerned remain problematic. The EU frantically searches for new instruments to ensure member states adhere to its rule of law ambitions. Some form of national capacity building, amongst a whole range of other instruments, has been on the agenda for a long time. However, little attention has been devoted to building the necessary European networks. These networks are important to institutionalise the required professional norms and values across the member states. Countries need to have well- functioning rule of law institutions so that check and balances are part of the national landscapes. These national institutions need to be embedded in the European multilevel system of checks and balances in order to further this aim. This requires the unpacking of rule of law so that it is clear which national institutions are involved. In addition, the EU has to move beyond naming and shaming and to start building dedicated EU networks (creating independent agencies at the national and EU level and setting up inspections of national agencies). The network-building approach has been successful in other EU policies – now is the time to apply it to rule of law.

Rule of law is a persistent problem in Central Eastern and Southern member states. The current political difficulties with Poland and Hungary attract considerable attention but (major) rule of law issues exist in (most) other member states as well. While the EU's rule of law instrumentation is developing, little attention is devoted to a multilevel public

1 This is a shortened version of Schout, A., M. Luining (2017), *The missing dimension in the rule of law policy: From EU policies to multi-level capacity building*, Clingendael: Policy Brief. See the long version for full details and statistics.

administration approach. A wide range of factors that play a role in ensuring the rule of law has been identified in the many expert and policy documents.² The core question to be addressed at this point in time is whether, in order to complement the current toolbox, the relevance of building European networks is explored in helping national institutions to become resilient.

European networks, agencies and multi-level governance

Introduction: waves of European institution building

In general, ambitious new policies demand careful attention to ensure that institutions are appropriately designed. In the context of the EU's multi-level administrative system, new EU policies need careful reflection on the quality of national and EU institutions, and of the networks in which the two levels operate. As has been noted before, the EU has a tendency to suffer from 'management deficits'.³ Policy makers tend to be less concerned with implementation and organisational design and within the Union it is generally a taboo to discuss each other's administrative structures.⁴ Moreover, ensuring EU policies are supported by the appropriate multilevel administrative systems is quite a challenge given the number of national and EU bodies involved and in light of the great many differences between the member states in terms of resources, qualities of administrations and political cultures.

Yet, the EU has quite a strong reputation when it comes to taking on ambitious tasks successfully. One of the explanations for the EU's successes is that the Union has been able to create the European institutions which in turn improve national institutions through subsidiarity-based networks in which weaknesses of national and European systems are actively addressed.⁵ EU integration demanded addressing complex problems for which solutions seemed improbable. When major advances were made in the 'completion' of internal market policies through the '1992-programme', the EU had to learn the hard way that further elaboration of market regulation and enforcement required new (multi-level) networks and institutions. The EU's internal market ambitions

2 See e.g. Adviesraad Internationale Vraagstukken, *De wil van het volk? Erosie van de democratische rechtsstaat in Europa*, No. 104, Juni 2017.

3 Metcalfe, L.M., 'Building capacities for integration; the future role of the Commission', *Eipascopes*, 1996/2: pp. 2-8.

4 Jordan, A., A. Schout, *The coordination of European Governance: exploring the capacities for networked governance*, Oxford: Oxford University Press, 2006.

5 Kassim, H., 'Revisiting the management deficit', in: E. Ongaro, *Multi-Level Governance: The Missing Linkages*, Bingley: Emerald, 2015; Schout, A., 'Framework for assessing the added value of an EU agency' *Journal of Public Policy*, Volume 31(3) (2011): pp. 363-384.

had overloaded the EU's abilities to act – up to the point that a serious credibility crisis emerged.⁶ For example, European competition policy became overburdened and had to be redesigned;⁷ re-regulation of public utilities such as energy and telecoms demanded new regulatory networks; institutions of food safety suffered major economic and trust crises;⁸ national statistical bureaus varied enormously in terms of quality;⁹ and regulation and enforcement in aviation safety fell far behind liberalisation of air traffic.¹⁰ The EU has been able to solve many of these challenges in the internal market through multi-level capacity building – i.e. setting up EU and national agencies and creating strong networks.¹¹

The creation of the euro resulted in a similar wave of governance challenges and resulted in a stream of new rules (e.g. Six and Two packs, the Fiscal Compact, the Banking Union) and new EU and national agencies such as the European Fiscal Board, Independent Fiscal Institutions, and National Productivity Boards¹², and existing networks have been reinforced (such as the network of statistical offices by formalising the independence of national offices in the Six Pack).¹³ The Eurozone may now be on its way towards effective multi-level governance.

The EU's eastward enlargement has highlighted a third wave of ambitions and this time concerning the quality of rule of law.¹⁴

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- 6 Majone, G., 'Nonmajoritarian Institutions and the Limits of Democratic Governance', *Journal of Economic and Theoretical Economics*, no.157 (2001): pp. 57-78.
- 7 Kassim, H., K. Wright, 'Network governance and the European Union: the case of the European Union competition network', paper for 'The Transformation of the Executive Branch of Government in Europe', ARENA Workshop, University of Oslo, 4-6 June 2009.
- 8 Vos, E., 'EU Food Safety Regulation in the Aftermath of the BSE Crisis', *Journal of Consumer Policy*, Volume 23.3 (September 2000): pp. 227-255.
- 9 Sverdrup, U., 'Administering Information: Eurostat and Statistical Integration', in M. Egeberg (ed.), *Multilevel Union Administration*, Palgrave, 2006.
- 10 Schout, A. (2011) 'Framework for assessing the added value of an EU agency' *Journal of Public Policy*, 31(3), 363-384; Kassim, H., and H. Stevens, (2010,) *Air transport and the European Union*, Palgrave Macmillan.
- 11 Kassim 2015, *ibid*.
- 12 Schout, A., A. Mijs, 'Wat de Europese CPB's zeggen over economic governance', *Internationale Spectator*, 69/2, 2015; Mijs, A., 'The unsustainability of independent fiscal institutions', *Clingendael Policy Brief*, April 2016.
- 13 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, O.J.L. 306.
- 14 As the First Vice-President of the European Commission, Frans Timmermans, stated: "the rule of law is not just an inspiration, it is also an aspiration; a principle that guides both our internal and external actions; it is what we are and what we want to be." The European Union and the Rule of Law - Keynote speech at Conference on the Rule of Law, Tilburg University, 31 August 2015.

EU governance and the relevance of agencies and agency networks

As underlined by the European Public Administration Network, “hundreds of networks among public administrations” exist to exchange good practices and experiences.¹⁵ However, the question is to what extent these networks are merely loosely coupled exchanges of information or structured networks with discipline and a bite. When it comes to upgrading national administrations, many reports are being produced that assess and share best practices.¹⁶ They give the impression of efforts to strengthen national administrations individually (through non-binding instruments) while paying little attention to building a multi-level system in which common problems and interdependencies are addressed. This voluntary governance of European networks may be insufficient to solve the EU’s rule of law management deficits. The effectiveness of EU policies depends on the quality and independence of numerous national institutions and on the European networks that bind member states and EU institutions together in the EU’s multi-level system.¹⁷

Ensuring multi-level capabilities involves, first, the setting up of independent institutions (‘agencies’¹⁸) that operate at national and at European levels. The advantage of agencies include distance to national governments, professional management of tasks, and longer-term time perspectives to overcome short-termism from which governments tend to suffer. Agencies enhance the credibility of governments¹⁹ that is essential for mutual trust between member states.²⁰ They are part of the checks and balances in national and EU governance. Secondly, in the EU’s multi-level context, national and EU agencies need to be interconnected in European networks and should cooperate across borders. Agency-networks serve to create communities of professional expertise that support the professional values required to be credible. These peer networks help to exchange information and enhance their independence vis-à-vis their national (political) environments.

15 EUPAN, *Thematic Paper: Enhancing institutional and administrative capacity*, 5 February 2015 http://www.eupan.eu/files/repository/20150205171037_RomeDG_-_13_-_Institutional_Capacity_Building.pdf, p12.

16 E.g. European Commission, *Quality of Public Administration – A Toolbox for Practitioners* (April 2015).

17 Everson, M., G. Majone, L. Metcalfe and A. Schout, *The Role of Specialised Agencies in Decentralising EU Governance*, Commission of the European Commission, 1999.; E. Vos (ed.), *European Risk Governance: its Science, its Inclusiveness and its Effectiveness*, Connex Book Series: Mannheim University Press, 2008.

18 Agencies can be defined as ‘a part of government that is generally independent in the exercise of its functions’. Majone, G., ‘Functional Interests: European Agencies’, in: J. Peterson and M. Shackleton (eds), *The Institutions of the European Union*, Oxford: Oxford University Press, 2002: pp. 292-325.

19 Majone, G., *Regulating Europe*, Routledge: New York, 1996.

20 Schout, A., M. Holderied, Public support for European integration: Not an EU problem, Clingendael, Policy Brief, July 2017.

However, such networks need to be managed. Managed networks perform better than voluntary networks.²¹ Network management involves setting up quality-control mechanisms, identifying weaknesses in national systems, ensuring transparency of inspections and decisions, facilitating information exchange, etc. Strong networks²² have well-established centres to support cooperation, they have budgets, Codes of Conduct, and can penalise continued lack of conformity. Essential for a strong network is the ability to organise independent inspections. A well-designed EU-network depends on national agencies with comparable tasks, resources and working methods ('isomorphology'²³). It is ultimately up to the Commission to assess whether the EU has the capacities (i.e. agencies and their networks) to manage its policy ambitions.²⁴

Two caveats are in order. First of all, agencies are often not very popular among politicians because the former's independence limits the latter's room of manoeuvre. More generally, 'technocracy' complements but also conflicts with democracy (even though agencies include democratic checks). Secondly, it has to be understood that administrative structures are only one of the many factors determining the outcomes of policies such as political leadership, economic circumstances, national cultures and resistances, personalities, etc. It is important to note here that even an established national agency can be the victim of political interferences. For example, illiberal governments have staffed rule of law agencies with party members and drastically cut their budgets.²⁵ Yet, such examples also underline the need of well-designed EU-networks to act as counterbalance by defending professional values, carrying out independent quality controls and by financially supporting national bodies in case member states suffer from deficiencies or by setting up EU-funded projects as happened in other EU networks.

21 Maccio, L., and D. Cristofoli, 'How to support the endurance of long-term networks: The pivotal role of the network manager', *Public Administration*. 2017;1-17.

22 Schout, A., and A. Jordan, 'Coordinated European governance: self-organising or centrally steered?', *Public Administration*, 83(1) (2005): pp. 201-220.

23 Sorensen, E., J. Torfing (2007), *Theories of Democratic Governance*, Palgrave/Macmillan.

24 Metcalfe, L. 'After 1992: Can the Commission Manage Europe', *Australian Journal for Public Administration* 51, no.1 (1992): pp. 117-30.

25 Bugarić B., *Protecting Democracy and the Rule of Law in the European Union: The Hungarian Challenge*, London: LSE discussion paper series. 79/2014.

The EU's rule of law debate and rule of law instruments

The EU Treaty defines the rule of law principles member states have to respect.²⁶ 'Rule of law' (*Rechtsstaat, État de droit* – compared to the more limited concept of 'legality') is not just an impersonal application of rules to government and citizens alike. More fundamentally, it is a system of checks and balances that is not up to a political entity (including a political majority), elite or individual to change at will. While mostly linked to independent judiciaries, the rule of law is intrinsically linked to democracy and fundamental rights. Broadly viewed, the rule of law is about political, democratic, legal and administrative, internal and external checks on all kinds of authorities. The aim of these checks and balances is to distribute decision-making and executive powers to ensure legitimate and credible governance.²⁷ In this way adherence can be supported to principles of good governance such as legality, integrity, transparency, accountability, fundamental rights, duty to state reasons, proportionality, and democracy.²⁸

Although rule of law principles are laid down in the Treaty and, for accession countries, in the Copenhagen criteria,²⁹ the application and elaboration have remained wanting. Conditionality was limited to the formal status of institutions and implementation of rules. EU-accession was mostly a highly political process in which actual compliance and political realities on the ground have been ignored. Since the 2004 enlargement, the EU's instrumentation concerning the rule of law has made major strides in several directions and included the creation of the Fundamental Rights Agency, even though its mandate has been limited in terms of rights themes and it is confined to an advisory role. The Annex shows the EU instruments that are now in place or on the agenda (see Schout and Luining for more details).³⁰ The Annex shows that, although some hierarchical supervision, dialogue, financial instruments and admonishment have been put in place, the toolbox consists mainly of peer-pressure processes (open method of

26 See e.g. Articles 2, 4.3 and 7 TEU, Charter of Fundamental Rights, and Hillion, C., 'Overseeing the rule of law in the European Union. Legal mandate and means', *SIEPS European Policy Analysis* (January 2016).

27 Kochenov, D., 'EU Law without the Rule of Law: Is the Veneration of Autonomy Worth It?', *Yearbook of European Law* (2015): pp. 1-23.; Everson, M., et al., *The Role of Specialised Agencies in Decentralising EU Governance*, Commission of the European Commission.

28 The rule of law is intrinsically linked with fundamental rights and democracy and as such implies good governance, see e.g. AIV, *De wil van het volk? Erosie van de democratische rechtsstaat in Europa*, No. 104 Juni 2017. This is also notable in linkages/overlap between rule of law and governance indices. Rule of law and good governance are often mentioned together in reports.

29 Elbasani, A. and S. Sabic, 'Rule of law, corruption and democratic accountability in the course of EU enlargement', *Journal of European Public Policy* (May 2017). The accession process has encouraged and (financially) supported judicial and public administration reform and the professionalisation of (autonomous) institutions.

30 Schout, A., M. Luining (2017), *The missing dimension in the rule of law policy: From EU policies to multi-level capacity building*, Clingendael: Policy Brief.

coordination). Furthermore, several (informal) European (EU and non-EU) network-type of arrangements have emerged, such as the European Judicial Network (EJN), European Public Administration Network (EUPAN), European Network of Integrity Practitioners (ENIP), and the European Network of Equality Bodies (Equinet). The European Parliament now seeks to unite these existing instruments in an inter-institutional framework. This proposed 'EU Pact on Democracy, the Rule of Law and Fundamental Rights'³¹ is to be based on a broad range of indicators that assess the quality of the rule of law.

Taken together, the EU's instruments that are being developed are mostly informal and include *ad hoc* top-down interventions. As such, the rule of law policy resembles the failed Lisbon Process and European Semester which were and are still designed to support the Economic and Monetary Union in the 2000s and 2010s.

Conclusions and recommendations

The EU has been creating quite an impressive range of instruments to strengthen rule of law in member states. However, these instruments fall mostly in the category of soft governance. We therefore argue in this article that the relevance of networks of agencies has to be explored to complement the EU's rule of law policies. A complementary public management approach is in order based on dedicated EU agencies and networks of national agencies. Such agency-based approaches have contributed to the success of the internal market and are now being developed in the context of EMU. This leads to the following recommendations:

- The limitations of benchmarking exercises or providing funds for national reforms have to be recognised. These instruments will remain weak if they are not part of wider institution-building efforts explicitly aimed at creating independent national agency arrangements and if the independent national institutions are not part and parcel of European agency networks in which the necessary professional values are monitored and defended.
- A commitment is needed to explore in a systematic way the usefulness of an EU-agency-based network. This will have consequences for the tasks and resources of Fundamental Rights Agency (FRA) and possible additional agencies are needed.
- A strong network requires independent quality controls and measures to address weaknesses.

31 'EU Pact on Democracy, the Rule of Law and Fundamental Rights', see e.g. <https://europa.d66.nl/content/uploads/sites/240/2016/04/EU-Pact-on-Democracy-Rule-of-Law-and-Fundamental-Rights.pdf> and <http://www.europarl.europa.eu/oeil-mobile/summary/1457350?t=e&l=en>

- Agency networks that can be used as aspiration for the further development of the governance of rule of law include the networks of competition authorities, of environment agencies and of food authorities.
- The Commission, or the FRA, needs to make a first assessment of the independent national agencies or institutions that are urgently required and/or that have to be reinforced in European networks.

Annex: EU Rule of law Toolbox

Instrument/policy	Description	Limitations/criticism
Enforcement (sanctions)		
Article 258-260 TFEU Infringement procedures.	Binding judgments by the European Court of Justice, including financial penalties with regard to specific violations of EU-law.	The narrow doctrinal interpretation of infringement procedures ignores trends, patterns and the combined effect of measures on the rule of law. ^a
Article 7 TEU procedure	Political condemnation and the possibility of sanctions, including the suspension of voting rights.	Unanimity has to be established by all member states to consider a breach of European values.
Evaluation and recommendations		
European Commission Rule of Law framework	<i>Ad-hoc</i> mechanism to assess rule of law threats and to take into account patterns and ongoing developments. Non-binding recommendations are issued while enforcement is based on infringement procedures and the threat of Article 7.	There are some definition issues, the dialogue is confidential, there are no clear deadlines and only the Commission can formally invoke the framework, thereby risking an image of arbitrariness. ^b
Cooperation and Verification Mechanism	Through benchmarking the mechanism supports and reports on effective administrative and judicial systems reforms.	Temporary mechanism and only applicable to Romania and Bulgaria. A more strategic involvement of civil society as a permanent partner of the EU has also been deemed desirable. ^c
European Semester	Country Specific Recommendations (CSRs) include issues relating to justice and public administration.	Non-binding and top-down in relation to central national governments.
Reports by the European Parliament	Annual reports on fundamental rights are issued. Specific resolutions are made in case of specific threats or country situations.	Ultimately decided by party politics (the large political families often do not condemn their own members in government). Since the suspension of the network of independent experts on fundamental rights there is no longer a systematic input about the rule of law in member states.

Instrument/policy	Description	Limitations/criticism
Evaluation of the Area of Freedom, Security and Justice; Schengen	Evaluations, with the involvement of Frontex, are based on how rules of the Schengen-acquis are implemented and how the responsible authorities function, including rule of law elements.	Until now evaluations have been conducted by member states (peer reviews) only.
Thematic evaluation within the framework of Justice and Home Affairs	Evaluation of the implementation on national level based on questionnaires and visitations. Evaluations are made public after discussion in the working committee.	Focuses primarily on the implementation at national level of international efforts to combat organised crime.
EU Anti-Corruption Report	The report provides a picture of corruption policies in each Member State: measures in place, outstanding issues, policies that are working and areas that could be improved.	The report has only been issued in 2014 and has been suspended in 2017 (the EU's own institutions were also supposed to be on the agenda for the suspended report).
Annual EU Council Rule of Law Dialogue	Annual rule of law dialogue on (thematic) rule of law related issues set by the EU's rotating presidency.	Limited to best practices exchange, prone to self-appraisal. Not systematically integrated within existing EU policies.
Monitoring (information provision)		
EU Agency for Fundamental Rights.	Reporting on several thematic fundamental rights issues in the EU, also on request. Sharing best practices and maintaining a network with human rights institutions and civil society.	Limited scope of issues, excluding the broader European values, including the rule of law.
Annual Media Pluralism Monitor	The Monitor assesses the risks for media pluralism based on a set of twenty indicators	The monitor is not linked to a concrete EU policy mechanism.
EU Justice Scoreboard.	Comparative overview of the quality, independence and efficiency of justice systems in the EU.	Mainly quantitative analysis. It does not include a qualitative examination of key factors as <i>de jure</i> and <i>de facto</i> independence of the judiciary. It focuses on civil matters, not penal, administrative and constitutional matters.

Instrument/policy	Description	Limitations/criticism
Support and capacity building		
Structural Reform Support Service and Structural Reform Support Programme (SRSP).	Provides targeted reform assistance to the Member States, at their request, to assist them with the design and implementation of institutional, structural and administrative reforms, including reforms that are recommended in CSRs.	Dependent on the application and political will of central (and sometimes regional) governments.
European Structural and Investment Funds.	Thematic objective 11 of the funds is: Enhancing institutional capacity of public authorities and stakeholders and efficient public administration. Member State can apply for funds with proposals.	Dependent on the application and political will of central (sometimes regional) governments.

- a See e.g. Pech, L. and K. L. Scheppele, 'Illiberalism Within: Rule of Law Backsliding in the EU' (August 23, 2017). Cambridge Yearbook of European Legal Studies, Forthcoming.
- b Kochenov, D. and L. Pech, 'Upholding the Rule of Law in the EU: On the Commission's 'Pre-Article 7 Procedure' as a Timid Step in the Right Direction', *European Constitutional Law Review* 11 (April 2015); pp. 512-540.
- c Dimitrova, A., 'The Effectiveness and Limitations of Political Integration in Central and Eastern European Member States: Lessons from Bulgaria and Romania', *MAXCAP Working Paper Series No. 10* (June 2015).

2017: a turning point in the development of the EU's social dimension?

Frank Vandembroucke

Will we look back on the year 2017 as a turning point for social policy at the EU level? In April, the European Commission launched its proposal to establish a *European Pillar of Social Rights*, and published a *Reflection Paper on the Social Dimension of Europe*. In May, the *Reflection Paper on the Deepening of the Economic and Monetary Union* affirmed that debates on the future of EMU cannot be dissociated from questions about social convergence. In October, a decision in the Council of Employment and Social Affairs Ministers and a vote in the European Parliament paved the way for a revision of the hotly contested Directive on Posted Workers, all this on the basis of Commission proposals. Importantly, a 'yellow card' procedure supported by parliaments in 11 Member States did not stop the Commission, and the Council decision was taken by qualified majority. Finally, in November at the Gothenburg Summit, the *European Pillar of Social Rights* has been formally proclaimed by the European Parliament, the Council and the Commission.

A paradigm shift

In fact, this succession of initiatives and decisions is part of a longer-term trend: over the last few years, the Commission steered away from an emphasis on austerity and competitiveness that came to be seen as one-sided. Already in 2013, the Commission's *Social Investment Package* signaled the need to broaden the agenda. 'Below the radar', social issues became gradually more important in the European Semester process.¹ It is my contention that the Eurozone crisis has triggered the beginning of a cautious

1 On social policy in the Semester, see J. Zeitlin and B. Vanhercke, 'Socializing the European Semester: EU social and economic policy co-ordination in crisis and beyond', *Journal of European Public Policy*, Published online: 30 August 2017.

paradigm shift, at least on the level of the Commission.² Will this paradigm shift be translated into operational policies and tangible results? To answer this question, I first elaborate on the paradigm shift and then I return to the problem of delivery.

The paradigm shift, as I see it, essentially signals a new attempt to answer the economic, employment and social policy challenges created by EMU. The upshot of the new thinking is that monetary unification imposes a degree of convergence in some key features of the participating Member States' social and employment policies; my emphasis is on 'convergence' (not: uniformity) and on 'some' (in some policy domains, not in all domains). Admittedly, the idea that there is a social policy corollary to monetary unification is not new. Already in the 1990s, reform in labour markets was justified by the advent of the monetary union. The 1997 European Employment Strategy emphasized supply-side flexibility: an agenda for flexible labour markets was interwoven with an agenda of investment in individual labour market opportunities and the development of 'enabling' policies; together, this would create 'flexicurity'. In the immediate aftermath of the financial crisis, the drive for convergence in the functioning of labour markets gained new momentum in the EU's policy discourse, as part of what is called 'structural reform'; one element of this was the repeated call on Member States to decentralize their systems of collective bargaining, which can be seen as yet another instance of the need for 'flexibility'.

In a nutshell, the new paradigm adds 'stability' as a desideratum to 'flexibility': stability both in terms of the avoidance of large financial and economic shocks, and of a stable development of the wage share in national income. I will elaborate upon the first understanding of 'stability', and then return briefly to the second understanding, the stability of the wage share.

Stability through insurance

A basic insight, that has gained prominence in the Commission's thinking, is that nearly all existing monetary unions are true 'insurance unions'. They not only centralize risk management with regard to banks, they also centralize unemployment insurance. EMU is the one exception, but it is gradually developing policies driven by the need for mutual insurance, notably in its progress towards a Banking Union. Next to Banking Union, the Commission argues that EMU also needs fiscal stabilisers; to achieve this, one of

2 I use the expression 'paradigm' in a loose way here, not with reference to a scientific paradigm or to a fully-fledged and complete policy paradigm. What follows is a short summary of a longer argument, developed in F. Vandenbroucke, 'Structural convergence versus systems competition: limits to the diversity of labour market policies in the European Economic and Monetary Union', *ECFIN discussion paper 065*, European Commission Directorate-General for Economic and Financial Affairs, Brussels, 20 July 2017.

the options would be the re-insurance of national unemployment benefit schemes at the Eurozone level. The reference to unemployment insurance is not happenstance: unemployment insurance supports purchasing power of citizens in an economic downturn, and is therefore an 'automatic stabiliser' *par excellence*. Existing monetary unions either opt for a downright centralisation of unemployment insurance (like in Canada or in Germany), or they demand some convergence in the organisation of unemployment insurance and provide a degree of reinsurance and centralisation when the need is really high (like in the US, which combine centralisation and decentralisation in unemployment insurance).

This is rational behaviour for two reasons. First, risk pooling enhances resilience against asymmetric shocks. The second reason also applies when shocks are symmetric across the whole Union and risk *pooling* across Member States has no added value *per se*. National insurance systems create an externality; a country that properly insures itself, also helps its neighbours. Therefore, the concern with the stability of the Eurozone entails a cluster of policy principles to sustain an effective stabilisation capacity in *each* Member State: sufficiently generous unemployment benefits, notably in the short-term; sufficient coverage rates of unemployment benefit schemes; no labour market segmentation that leaves part of the labour force poorly insured against unemployment; no proliferation of employment relations that are not integrated into systems of social insurance; effective activation of unemployed individuals; and the constitution of budgetary buffers in good times, so that the automatic stabilisers can do their work in bad times.

The social and employment policy principles mentioned above are part and parcel of the *European Pillar of Social Rights*. These principles become *a fortiori* imperative, as *quid pro quo*, if the Eurozone were equipped with reinsurance of national unemployment insurance systems; but even without that perspective, such 'stability-related' principles should figure on the Eurozone's agenda. This testifies to the coherence of the Commission's approach.

Resilient welfare states

However, the *Pillar* is not only about unemployment insurance and related policy issues. It defines 20 principles, organized in three categories: (1) equal opportunities and access to the labour market; (2) fair working conditions; and (3) social protection and inclusion. Some principles are well-known, as they have already been formulated in the context of earlier efforts to coordinate the Member States' policies. Other principles are relatively new at the European scene, such as the objective to ensure adequate minimum wages. The communication on the *Pillar* is ambitious: it is said to be about "delivering new and more effective rights for citizens", and Commission President Juncker called for agreement on the *Pillar* "to avoid social fragmentation and social dumping".

That message is clearly not confined to the Eurozone but applies to the EU at large. However, in the next paragraphs, I first return to the specific challenges of EMU.

Eurozone's Member States also need labour market institutions that can deliver on wage coordination, to sustain symmetry in wage cost developments and thus prevent divergence in competitiveness and macro-economic imbalances. With a view to wage coordination, totally decentralised and uncoordinated bargaining systems are an institutional liability rather than an asset. This insight is also re-emerging, witness a recent paper by the Director General of DG ECFIN, arguing in favour of coordinated bargaining in general, and higher wage growth in Germany and the Netherlands in particular; implicitly, what is called for is a set of policies that sustains a sufficiently stable wage share in national income.³ The one-sided insistence on decentralization of collective bargaining, that dominated the European policy discourse for a number of years, has been abandoned.

In short, the new thinking implies that a well-functioning EMU needs a consensus on labour market institutions that support both flexibility and stability. Flexibility was associated with 'enabling' policies: equipping people with adequate skills would empower them and thus recreate individual security. To achieve stability, one needs collective action: collective bargaining, but also the organisation of collective insurance devices. Stability requires instruments that typically protect vulnerable individuals: unemployment insurance stabilises the economy, because it protects the purchasing power of the unemployed. In other words, stability is intrinsically associated with collective action and 'protective' policies. Enabling and protective policies can be mutually reinforcing in creating *resilient* social systems.

In addition, the monetary union calls for integrated competitive markets for goods and services as well as for cross-border mobility of labour. This in turn entails a social corollary. For instance, next to reform in the regulation of posting, national minimum wage regimes should be transparent, predictable and universal in coverage. An upshot of the argument is that, on an analytical level, one should carefully distinguish between (i) the 'social corollary' of EMU, and (ii) the 'social corollary' of the Single Market; they partly overlap, but are also different. The *Reflection Paper on the Social Dimension of Europe* of April 2017 is insufficiently clear about this.⁴

3 M. Buti & A. Turrini, *Overcoming wage inertia* (<http://voxeu.org/article/overcoming-eurozone-wage-inertia>).

4 See F. Vandenbroucke, *op. cit.* note 2.

Important questions are still pending

Since a number of interrelated initiatives with regard to the EU's social dimension all reached the status of a formal proposition in 2017, this year may indeed be marked as a turning point. However, the jury is still out on the final delivery. Important questions are pending, both on the ideational level and on the level of practical politics.

Although the Commission's work can be interpreted as signaling a new paradigm about the relationship between economic and social aspects of European cooperation, the public debate remains handicapped by the absence of clear analytical thinking about the nature of a European Social Union, i.e. a European Union that is not itself a welfare state, but supports and facilitates the development of flourishing national welfare states. With reference to an expression sometimes used in developmental psychology, a Social Union creates a *holding environment*, which takes care of welfare states and is seen – by citizens – as taking care of welfare states and what they mean for individual citizens. Thus, a European Social Union answers the broad-felt need for a 'caring Europe'. Simultaneously, a European Social Union has to be a clear-cut institutional and normative concept: it requires clarity about the role the EU should play in social policy, and about the role it should *not* play in social policy.⁵ Also, with regard to the substance of the policies to be developed by Member States, more thinking is necessary about the way in which notions of 'social insurance' and notions of 'social investment' have to be combined.

A delicate political question, directly related to the analytical issues mentioned earlier, is whether the implementation of the *European Pillar of Social Rights* can proceed at a different speed in the Eurozone as opposed to the EU27. The Commission's statement that the *Pillar* is "primarily conceived for the euro area but applicable to all EU member states wishing to be part of it" is analytically coherent, but, politically, such a differentiation is not well received in a number of Member States.

5 For an exploration of the concept of a European Social Union and of the related normative, legal and political challenges, see F. Vandenbroucke, C. Barnard and G. De Baere (eds.), *A European Social Union after the Crisis*, Cambridge: Cambridge University Press, 2017. Anton Hemerijck uses the expression 'holding environment' to capture the idea of a 'Social Union'. In psychology and psychiatry a 'holding environment' has been defined as "a responsive, nurturing milieu for the developing child, including physical holding as well as the mother's or primary caregiver's preoccupation with the child and her ability to soothe, comfort, and reduce the tension in her infant. Ideally, the mother reflects back the child's worth and value and in other ways responds appropriately to his or her needs. Lack of such responsivity is often termed empathic failure." (J.E. Edgerton, *American Psychiatric Glossary, 7th Edition*, Washington, DC: American Psychiatric Press, 1994.) Coining a European Social Union as a 'holding environment' projects this beautiful notion onto the relationship between the EU and its Member States.

From the outset, launching the *Pillar* implied a huge political risk: although it is not formally about justiciable 'rights', the language of the *Pillar* speaks to individual citizens. If the EU does not deliver on the promise enshrined in the *Pillar*, the initiative will backfire and create frustration. Hence, it is important that the Commission, the Council and the Parliament develop a credible roadmap to deliver. Delivery presupposes that different instruments are combined to implement the *Pillar's* principles: EU legislation; policy coordination and benchmarking; and EU funding. These principles should play a tangible role in the European Semester and fiscal and macro-economic surveillance. A credible roadmap also requires the selection of priorities: a short list of priority actions that is fully implemented is much better than a long wish-list that is only implemented half-heartedly.

Finally, the key political question is whether the Member States will allow the EU to proceed on the basis of the new paradigm I sketched in this contribution, notably with regard to the completion of EMU. At the time of writing – waiting for a new German government – it is unclear what to expect from the Franco-German axis in the sensitive questions that are still pending with regard to the Eurozone. In this respect, the position defined in the new Dutch government's coalition agreement is worrying: rather than keeping options open, the coalition agreement explicitly excludes not only generic notions but also specific instruments that might fit in a deal on the completion of EMU, such as a 'fiscal capacity', 'common lending', etcetera. If the Netherlands wishes to play a creative role in Eurozone negotiations, this policy stance is counterproductive.⁶ In the end, keeping an open mind with a view to finding an agreement on the completion of EMU is in the national interest: for a highly competitive Member State that benefits enormously from an open international environment, such as the Netherlands, it is of vital importance that EMU provides a stable environment, as much as that is the case for any other Member State. Moreover, many of the issues tackled by the *European Pillar of Social Rights*, which can be seen as a social corollary of a completed monetary union, feature high in the domestic policy debate in the Netherlands.⁷ Therefore, smaller Member States, such as the Netherlands, might see the new framework created by the Commission as an opportunity rather than a threat.

6 This argument is developed at length in: Adviesraad Internationale Vraagstukken, *Is de Eurozone stormbestendig? Over verdieping en versterking van de EMU*, AIV No. 105, July 2017.

7 F. Vandenbroucke, *België en Nederland: kleine welvaartsstaten in Europa*, 34^{ste} Pacificatielezing, Breda, 2017.

Can the EU harness globalisation in 2018?

Rem Korteweg

The backlash against free trade and globalisation came in 2016. That year, Britain's vote to leave the European Union, the election of Donald Trump and the Walloon-inspired near-death experience suffered by the Canada-EU trade deal (CETA) all raised questions about the trajectory of global trade and the EU's role in it. But after this 'annus horribilis', the European Commission attempted in 2017 to reclaim the initiative. Spurred on by positive results in the French and Dutch elections, Commission President Jean-Claude Juncker declared in September that the EU had the "wind in its sails". On trade, the Commission agreed deals with Canada and Japan, and is now in talks with Mexico, Australia and the member-states of Mercosur. Others are lining up. Meanwhile, the US president has withdrawn from the Trans-Pacific Partnership (TPP), a mega-deal that included 12 Pacific Rim economies; challenged NAFTA; threatened to withdraw from the WTO; raised trade barriers against Canadian lumber and airplane imports; and has initiated trade investigations against China. In comparison, the EU looks in good shape. But despite the Union's positive momentum, a number of challenges lie ahead for 2018.

According to a Bertelsmann Stiftung survey from November 2016, 45 per cent of EU citizens - 40 per cent in the Netherlands - see globalisation as a threat. And support for globalisation is inextricably linked to support for the European Union. After all, the EU is an experiment in globalisation at a regional scale: an integrated market without tariffs or regulatory barriers but with freedom of movement of people and capital to facilitate the spread of ideas and economic opportunity. The free and fair exchange of goods, services and ideas lies at the heart of the EU project. Besides, trade tends to generate economic growth, strengthen ties between countries and cultivate a shared interest in the equal application and enforcement of mutually agreed rules, or global governance for short. And so, growing protectionist sentiment among European citizens sets off alarm bells in Brussels.

It is in this context that the European Commission in May 2017 published a reflection paper entitled 'harnessing globalisation'. In it, the Commission describes a number of steps by which it aims to "shape globalisation", addressing the concerns of those Europeans that feel 'left behind', and by doing so counter protectionist arguments put forward by Eurosceptic populist parties. The paper proposes, amongst other things,

stronger trade defence instruments and enhanced scrutiny of foreign investments, and it seeks to promote fair, not just free, trade. But more needs to be done. Three issues stand out.

Firstly, the EU is likely to sign more trade deals in the coming period, yet this will not likely translate into more public support for the EU. Quite possibly, it could undermine it. Arguably the most important development for EU trade policy in 2017 was the European Court of Justice's ruling on the division of competences in the EU-Singapore trade agreement. The Court ruled in May that most of the content of the agreement is an "exclusive competence" of the EU, meaning that it can be signed and ratified at the EU level only; by EU government leaders and the European Parliament. The Court said that only portfolio investment and investment protection, including investor-state dispute settlement, are 'mixed competences' that require national ratification.

Future EU trade negotiations will therefore likely be split into two parts; discussions on investment protection and non-direct foreign investment will be carved out, while the bulk of a trade deal can be agreed and adopted without mandatory scrutiny from national parliaments.

In 2016, the transatlantic trade negotiations (TTIP), CETA and the association agreement with Ukraine generated significant public resistance in countries such as France, Germany, Belgium and the Netherlands. Imagine how much easier it would be if trade agreements need only be ratified by one parliament, instead of 37 national and regional ones? The Singapore ruling now sets a precedent for future trade negotiations; it has certainly already helped the trade deal with Japan move ahead more quickly than expected.

But this comes at a cost. Trade liberalisation has distributive effects. It produces winners and losers. In addition, the empirical record on the ability of trade liberalisation to create jobs is unconvincing. Without adequate compensation, retraining or adjustment mechanisms, those that may already feel 'left behind' may be the most negatively affected by trade deals.

In itself this is not sufficient reason to abandon trade liberalisation, and the EU is right to have set up a Globalisation Adjustment Fund to help displaced workers. But the political effects can be more damaging if the distance between the average European citizen and the politicians that decide on the trade agreements that could put that citizen's job at risk increases. The Singapore ruling does that. The European Parliament will play an increasingly important role on trade, while the role of national parliaments becomes weaker still. A surge ahead on trade talks could backfire, making the EU vulnerable to populist arguments that the EU is steaming ahead without involving its citizens.

Fundamentally the problem is that many Europeans still feel little identification or loyalty with the European Parliament. Either it should become more active in engaging with national audiences on trade; or EU heads of government need to ensure that national parliaments have their role to play in scrutinising trade agreements. If this is not addressed, scepticism towards the EU and its trade policy could grow, regardless of the economic benefits that trade liberalisation brings. Member-states where the support for Eurosceptic parties has increased – or where they are in government – could also start challenging the principle that trade agreements are agreed on the basis of a qualified majority vote and demand unanimity, provoking greater institutional friction.

Secondly, the EU has taken a new approach to investment protection, but it may not be enough to satisfy the trade-sceptics. During the TTIP talks, the Investor-State Dispute Settlement (ISDS) came under heavy scrutiny. ISDS, an *ad-hoc* arbitration system through which companies can seek compensation in the event that government policy adversely affects their interests, has been standard practice in most bilateral trade agreements involving European states since the 1960's. But it was the main issue around which TTIP's critics rallied as it sparked questions about the limits of a country's sovereign right to regulate and the accountability of foreign companies. In order to break the deadlock, the Commission suggested a permanent multilateral investment court as an alternative to ISDS. It has been discussed with Singapore, Vietnam and Canada and the Commission referred to it in its 'harnessing globalisation' paper. The Court's Singapore ruling, however, has put progress on investment protection on ice.

This is welcome as it makes it less likely that trade deals collapse over an objection to an investment protection clause, as almost happened to CETA in October 2016. Most countries will still be interested to negotiate with Europe even if an investment protection clause is off the table; though for some this raises new questions. A UK-EU trade agreement following Brexit, for instance, will likely contain chapters on portfolio investment and investment protection, and therefore will be mixed. This could create delays during the ratification process, something UK and European firms should prepare for.

It remains to be seen how a multilateral investment court will develop and if it will ultimately convince its critics. What is certain, however, is that investment protection was not the only reason people objected to EU trade deals. Prior to its campaign against ISDS, the anti-TTIP lobby focused on the impact a transatlantic deal could have on Europe's audiovisual sector, EU geographic indicators and chlorinated chicken. ISDS was one of the lightning-rods in the TTIP talks. But it was not the only issue publics and parliaments were concerned about. It would be naïve to assume that carving investment protection out of future EU trade deals will silence well-funded, and well-organised anti-trade groups.

Thirdly, the EU can only go so far to achieve its objectives on global trade without the US. Trump's trade policies mean the US is no longer seen as the global champion of free trade and of the multilateral institutions on which it relies. On the face of it, this makes the European Union look good. Indeed, countries like Japan, Mexico and Australia have decided to fast-track their trade talks with Brussels. But ultimately, transatlantic cooperation is both desirable and necessary.

One of the key priorities,-- and mentioned in the Commission's 'harnessing globalisation' paper -- is the need to create a 'level playing field'. The Commission is right to push for a more fair global trading system. Chinese exporters undercut European producers with lower wages, generous state aid and less stringent labour or environmental protection standards. These unfair trade practices have a direct effect on popular European support for globalisation. If China is able to undercut European firms by relying on lower environmental and labour standards, this undermines support in the EU for free trade.

The Commission wants more trade defence measures to stop Chinese dumping. By agreeing higher trade standards through its deals with others, pressure is increased on Chinese exporters to follow them as well. TPP may continue without the United States, and more major economies may reach agreements with the EU, but will it be enough to persuade the Chinese to observe higher norms and standards of trade when the United States, the world's largest economy, chooses to go its own way? Besides, transatlantic discord on trade liberalisation harms the credibility of the EU as well as of the United States, and makes it more difficult for either one to play a leadership role on global economic issues.

On the face of it, the United States and Europe think increasingly alike on various trade issues. On trade defence, for instance, the European Commission's 'harnessing globalisation' paper says faster, more resilient and more effective trade measures are needed. In the United States, the Trump administration is challenging the WTO's dispute settlement mechanism on the same grounds. French president Emmanuel Macron has talked about a 'Buy European' act, just as the United States has long had a 'Buy American' act. The EU wants to emphasise reciprocity in its trade relations, and so does the US. The European Commission wants a framework to screen foreign direct investments while the US already has such a framework. Though similar, without better transatlantic coordination, this will reinforce the trend of greater transatlantic divergence on trade.

There are major disagreements between the US and Europe about the means to address global trade imbalances. The EU wants more multilateral governance and takes a 'softly, softly' approach. Trump is more 'bull in a china shop'. The White House's focus on reform of the appellate body at the World Trade Organisation could undermine the WTO, while the EU would like to see the WTO strengthened and abhors the prospect of a trade war.

These differences stand in the way of transatlantic cooperation. Yet it is also worth remembering what Trump has *not* done, as it has become very convenient for European politicians to point the finger at Washington. The TTIP transatlantic trade talks are not 'in the freezer' because of Donald Trump; he has kept quiet on TTIP since he came into office. Instead, this was a result of a decision by the French and German ministers of trade, both social-democrats, who eyed the elections of 2017 and feared they could not sell TTIP to their constituencies. Mathias Fekl and Sigmar Gabriel pulled the plug on the talks in late August 2016. At the time, not Trump, but Hillary Clinton was expected to become the new US president. This suggests that the door for cooperation with the White House on trade remains ajar, even though it may be deeply unpopular at home for a European politician to walk through it.

Nevertheless, the EU should explore options to work with the US to push back against Chinese dumping and move global free and fair trade forward. Not only does the EU share Washington's sense of urgency, but a trade war precipitated by US unilateral action could wreak havoc on the global trade system. The EU and its member-states have an interest to avoid this from happening. Whether the US is willing to listen is a different matter entirely. The inconvenient truth is that Europe's ability to harness globalisation may ultimately depend on Washington as much as on Brussels.