

**GRASPE**

**Groupe de Réflexion sur l'avenir du Service Public Européen**  
**Reflection Group on the Future of the European Civil Service**

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*Changer l'état des choses est aisé,  
l'améliorer est très difficile*  
ERASME

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## Éditorial

Ce numéro de GRASPE marque le onzième anniversaire de cette aventure de réflexion collective et individuelle que représente cette revue, bien commun de tous ceux d'entre nous qui s'interrogent sur le sens de leur choix – de leur vocation, pour certains— professionnel, et aussi sur les différentes manières de dessiner l'avenir du projet européen.

Ce numéro esquisse aussi un bilan, certes partiel, de l'année écoulée et trace quelques pistes encore incertaines pour les mois à venir... voire parfois des perspectives plus lointaines.

Dans ce dernier registre, nous trouvons l'optimisme raisonné auquel nous invite Emma Bonino avec son concept de "Federation Lite" pour bâtir des Etats-Unis d'Europe aptes à répondre aux défis concrets et non à alimenter des rêves hors du temps... D'une solidarité contrainte ou subie, elle nous entraîne vers un réalisme positif, aussi éloigné de ces euro-réalistes sceptiques (trop proches des populismes identitaires pour être porteurs de quoi que ce soit) que des adeptes d'un Grand Etat Européen... Ce réalisme qui conduit à un "fédéralisme fiscal" répondant aux besoins communs de tous les peuples européens et peut-être ensuite, à partir des aspirations partagées de certains d'entre eux, vers une Union politique porteuse d'un destin enfin ressenti comme commun. Dans cet entre-deux, finies les politiques de saupoudrage inefficaces, marquées à la fois du sceau du clientélisme traditionnel et des arrière-pensées de "juste retour": place enfin aux choix stratégiques sur quelques axes d'action et d'investissements porteurs d'efficacité puis de solidarité collectives.

Mais la réalité immédiate reprend ses droits avec les incertitudes que provoque, à chaque époque, la combinaison du sentiment d'in-équité, du repli identitaire présenté comme solution, du constat – trop souvent fataliste—d'un déclin relatif que des décideurs trop proches d'intérêts privés (la City, par exemple) transforment en déclin absolu. L'absence de vision ne résulte pas d'une incapacité intrinsèque des leaders européens: elle tient plutôt à leur trop grande proximité avec des acteurs engagés dans le court-terme....

C'est cette défaillance collective, non pas des élites mais des cercles de pouvoir, qui provoque et amplifie ce sentiment de déréliction morale, tant collective qu'individuelle, parmi les peuples

européens. Au point que l'on voit se multiplier des études sur les fondements et... les limites de la solidarité, comme celle du Secrétaire général de Notre-Europe ("La solidarité au sein de l'Union européenne: fondements politiques") ou celle de la Bertelsmann Stiftung, plus pragmatique mais aussi plus utilitariste ("Solidarity: For Sale? The social dimension of the New European Economic Governance")... Ces réflexions sont bienvenues au moment où la solidarité n'est plus d'actualité pour les gouvernants européens, ni au sein des Etats membres ni a fortiori entre Etats membres au niveau européen.

Cette absence de solidarité a deux effets.

Pour pouvoir préserver en situation de crise les rentes de situation des 1% face aux 99% , selon la formule des "Indignés" rassemblés devant Wall Street, il faut détourner l'attention des 99% en leur offrant ces dérivatifs intemporels que sont les boucs émissaires: les immigrés, les Roms et maintenant les Fonctionnaires européens que l'on présente comme des "privilegiés" pour mieux masquer les vrais.

Pour pouvoir préserver ces rentes de situation tout en préservant l'€uro comme bien commun des 1% et des 99%, les dirigeants européens ont fait chaque fois "trop peu, trop tard": le temps nécessaire pour que les 1% " redéployent" (!) leurs avoirs, le temps requis pour adopter les mesures visant à faire supporter le poids des adaptations nécessaires aux seuls 99%... La solution aurait dû être, aurait pu être, comme y invite l'étude de la Bertelsmann Stiftung, de chercher un équilibre équitable entre nouvelle gestion de la dette publique et réponse à la crise sociale, entre cohésion et solidarité entre et au sein des Etats membres, ainsi que de faire de la dimension sociale un atout d'efficacité sociétale et de compétitivité économique dans la nouvelle Gouvernance Economique Européenne...

Le choix d'un Traité "fiscal" intergouvernemental montre que d'autres priorités ont prévalu, sans le contrôle démocratique du Parlement européen, sans l'impartialité de la Commission pour assurer le respect des règles communes au regard de l'intérêt commun et non des seuls rapports de force...

Le dévoiement du principe de solidarité, principe inhérent dès l'origine au processus d'intégration, ce n'est pas l'Europe des peuples, ce n'est pas l'Union européenne... C'est autre chose, une forme de conglomérat européen des oligarchies nationales, l'organisation des 1% européens, un club de V.I.P. et happy few de la fortune rapide...Or Bruxelles n'est la banlieue ni de Wall Street ni de la City, pas plus que le sort de tout citoyen européen ne saurait

être réduit à celui de variable d'ajustement du calcul spéculatif de quelque trader ou gestionnaire de "hedge fund".

Faire ce constat sévère ne saurait pour autant conduire à proposer ou à accepter n'importe quoi dans l'urgence, comme le fait par exemple le think-tank Confrontations Europe –pourtant réputé favorable à la méthode communautaire—avec son Manifeste. Celui-ci considère en effet comme un acquis positif le choix de Traité intergouvernemental fait au Conseil européen du 9 décembre dernier et préconise, en conséquence, un "Ministère" européen de l'Economie et des Finances sur le modèle –efficace, comme chacun sait!—du Service Extérieur. Cette multiplication des rouages, outre qu'elle complexifie inutilement l'architecture institutionnelle européenne, nous ramène en arrière en effaçant la "dimension démocratique" de la construction européenne au profit d'un nouvel agrégat de bureaucraties nationales.

Cette "autre chose", ce conglomérat d'intérêts, suscitent une curiosité inquiète ...

C'est par exemple l'Institut Français des Relations Internationales (I.F.R.I.) qui organise un colloque sur "La déconstruction européenne?"... Un thème impensable il y a seulement quelques semaines, un thème qui illustre le désarroi croissant des élites européennes, en tout cas de celles que préoccupent encore l'intérêt commun... Autres thèmes qui, eux, sont déjà à l'ordre du jour depuis quelque temps: "La montée des Populismes en Europe", qui fait l'objet d'un colloque international à La Maison de l'Europe/Nouvelle Sorbonne pour examiner l'expansion géographique de ce phénomène, dans toutes les classes de la société désormais; quant à l'interrogation récurrente, "Quelles frontières pour l'Europe?", c'est au regard de nouveaux défis qu'elle est désormais posée au Centre Jean-Monnet de Rennes: quelles solidarités attendre au sein d'une Europe appelée (condamnée?) à fonctionner de plus en plus "à la carte" ou "à plusieurs vitesses"? Quelle identité commune envisager dans un espace aux contours sans cesse indéfinis?

C'est à un horizon plus immédiat qu'Hans Magnus Enzenberger, romancier, poète et essayiste allemand consacre sa lecture, sa critique surtout, des dérives bureaucratiques de la construction européenne. Dans son essai, "Le doux monstre de Bruxelles ou l'Europe sous tutelle", il dénonce la bureaucratie rampante qui, en voulant (trop) harmoniser, est en train de détruire l'idéal européen. Ce faisant, et bien que ce ne soit pas son objet, cette analyse rejoint en partie les interrogations plus structurelles ci-dessus. En effet, établies au service d'un projet d'intégration dont les décideurs politiques oublient désormais à la fois la "raison d'être" et les finalités politiques, les Institutions européennes --et ceux qui y

travaillent-- courent le risque d'être "dévoyées" par ces mêmes dirigeants nationaux, un dévoiement susceptible à terme d'en faire les dernières administrations de type soviétique où la norme tient lieu de réflexion, où la dépense budgétaire tient lieu de choix stratégique, où la solidarité ne fait même plus l'objet de discours convenus.

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## Conférence


# La crise : une opportunité pour mettre la solidarité au service d'un nouveau modèle social européen ?

La plateforme pour une Europe Solidaire et la revue GRASPE annoncent pour le 28 mars 2012 une [conférence](#) sur le thème :

*La crise : une opportunité pour mettre la solidarité au service d'un nouveau modèle social européen ?*

Elle se tiendra à la Commission européenne, grande salle du CCP, loi 80, 2ème étage. Entrée gratuite.

Le programme complet sera prochainement annoncé sur le [site de la Plateforme europe-solidarity.eu](http://europe-solidarity.eu).



## Václav Havel, la conscience morale de l'Europe est-elle partie avec lui?

*"Je me demande parfois si je ne me suis pas mis à écrire et à me battre pour surmonter cette expérience d'inappartenance, d'embarras, d'exclusion, bref d'absurdité"*  
Václav Havel, pour évoquer les discriminations dont sa famille fut victime et l'interdiction de poursuivre ses études dont il fut l'objet en raison de ses origines... "bourgeoises"!

*Le 18 décembre dernier, Václav Havel, le "premier président surréaliste du monde", selon le dramaturge américain Arthur Miller, a laissé orphelins les Européens de cœur, de réflexion, de principe et d'action. Il avait 75 ans, et avec lui s'en est allée une large part de la conscience européenne, de la morale politique de l'Europe aussi. Car il a été tout cela, ce dissident résolu mais pacifique face un régime totalitaire: auteur de théâtre dont l'œuvre est empreinte d'un humour souvent désespéré mais qui fut aussi homme d'action, responsable politique mais en même temps résolument fidèle à ses principes. Président, dissident, dramaturge, écrivain, machiniste, laborantin... Václav Havel aura vécu toutes ces vies en une seule. En se faisant "décidant", le "dissident" a su joindre le principe de responsabilité à l'éthique de conviction. Mais à cause de tout cela, parce qu'il est demeuré la conscience morale d'une Europe postcommuniste, d'abord, d'une Union européenne à laquelle il avait fait adhérer son pays, ensuite, il est resté jusqu'au bout ce qu'il a toujours été: un dissident.*

Ses pairs européens...en politique seulement (et encore!), l'y ont il est vrai beaucoup aidé..!

Il suffit d'évoquer ce bal des hypocrites ou cet hommage des vices à la vertu qu'a constitué le défilé des dirigeants européens à ses obsèques, chaque hommage le découpant en tranches comme pour le ramener à la médiocrité toute simple de leurs auteurs. Chacun a cherché à se l'annexer, tel le commis-voyageur de la City, David Cameron, évoquant la "dette profonde de l'Europe à l'égard d'un champion de la liberté...": de quelle liberté parlait-il? de celle des traders ou de celle des millions de chômeurs, condamnés à rester sans emploi pour payer la dette laissée par ces spéculateurs? En

tout cas, pas de la liberté du simple citoyen, de son "devoir de liberté" selon Václav Havel.

Par contre, tous ceux qui, comme lui, ont combattu le totalitarisme, tous ceux qui se sont reconnus en lui, ont rendu un véritable hommage à l'ensemble de son action, à l'homme paradoxal et complet qu'il fut dans chacune de ses actions "Son combat pour la liberté et la démocratie resteront aussi inoubliables que sa grande humanité. Nous, les Allemands, nous lui sommes particulièrement redevables" a ainsi déclaré la chancelière Angela Merkel qui a grandi dans la très communiste R.D.A. "Des gens comme lui n'apparaissent pas à chaque génération ni dans tous les pays. Nous avons Sakharov, le petit peuple tchèque avait Václav Havel", a pour sa part affirmé l'ex-dissidente soviétique et toujours militante russe des Droits de l'Homme, Ludmila Alexeeva... Tout aussi bouleversé, Jelio Jeleu, fondateur de l'opposition contre le régime communiste bulgare, devenu chef de l'Etat lors des premières élections libres, a évoqué "un homme si proche des gens et si aimé des simples citoyens. Nous partageons non seulement la conception de la transition pacifique, mais aussi des intérêts communs dans les domaines de la philosophie, de la culture et de l'art"... Lech Walesa, l'ancien syndicaliste et l'ex-président d'une Pologne enfin libre et souveraine dans son choix d'adhérer à l'Union européenne, a quant à lui souligné les "combats incertains partagés"

Ces derniers hommages illustrent à quel point la mort ébranle lorsqu'elle laisse en héritage aux vivants ce qui peut donner du sens à leur vie. Václav Havel ne fut pas seulement un dramaturge inspiré, un dissident qui risqua sa vie pour les autres, il fut aussi – surtout, serait-on tenté de dire lorsqu'on le compare aux politiciens européens actuels—un président conscient que le pouvoir peut être mortel parce que l'homme politique, prisonnier de sa fonction est, disait-il "rendu étranger à lui-même...et aux simples citoyens". Dès le début de sa dissidence jusqu'à ses fonctions de président de la Tchécoslovaquie d'abord, puis de la Tchéquie, sa conviction était en effet "qu'il ne peut y avoir de politique sans citoyens".

Que l'oppression procède de la police d'un régime totalitaire ou désormais du risque de perdre son emploi dans une Europe à l'économie financiarisée, "il faut inciter chacun à vaincre sa peur, à prendre la parole plutôt qu'à se taire, à se retrouver avec d'autres plutôt qu'à rester entre soi". Ce discours de résistance, il ne l'adressait pas seulement à ses concitoyens "pris dans la grisaille d'une existence qui se réduit à faire les courses", mais à tous les Européens, de l'Est comme de l'Ouest, "la grisaille et le vide la vie sont partout dans la société de consommation... dès lors que chacun est d'abord soucieux de préserver ses acquis". Pour conclure par cette formule sans appel, "Tout pouvoir est jusqu'à un certain



point l'œuvre de ceux qu'il régent". Autrement dit, la vie de la Cité dépend de nous, que ce soit au niveau européen ou dans les cadres nationaux et locaux, et le pouvoir se nourrit de l'incapacité des hommes à réagir quand il le faut contre le mensonge et l'injustice... Cette inertie lui paraît d'autant plus injustifiable qu'il y a "une force des sans-pouvoirs" : un propos toujours actuel dans une Europe confrontée simultanément à la perte de sens et à la remise en cause de toute solidarité, comme pour tous ceux qui résistent contre des régimes d'oppression, même lorsque la situation semble sans-espoir... L'une des dernières rencontres de Václav Havel a d'ailleurs été avec le Dalai-Lama....

Plus encore que la Charte 77 dont il fut l'un des trois inspirateurs et porte-parole en 1977, ce samizdat fondateur de 1978 (publié en français chez Calmann-Lévy en 1994), "Le Pouvoir des Sans-pouvoir", est le point de départ "officiel" de ses vies entremêlées d'homme engagé-dissident et d'auteur en prise avec l'ironie absurde des choses de la vie –que celle-ci soit collective ou personnelle.

Evoquer en quelques lignes sa vie, ses vies plutôt, serait réducteur. Mieux vaut s'attacher à mettre en relief les quelques leçons que nous devons en tirer, comme citoyens d'abord, mais aussi pour ces "Grands qui nous gouvernent" et ont oublié à la fois le bien commun des citoyens et la solidarité européenne.

Tout d'abord, il a permis la transition pacifique en définissant clairement le post-totalitarisme. Selon Václav Havel en effet, ce qui distingue le post-totalitarisme des années 70 et 80 du totalitarisme brutal et primaire des années antérieures peut se caractériser ainsi: l'idéologie reste un mode de légitimation ritualisé, mais il n'est plus question d'adhésion, seulement de comportement conforme. Le communisme des années 50 se voulait spartiate et faisait de la pénurie une vertu. Pour Vacláv Havel, le post-totalitarisme était par contre "la rencontre historique de la dictature et de la société de consommation": ajoutez "du marché" après "dictature", et vous obtenez la situation de l'immense majorité (les "99%") des citoyens de l'Europe d'aujourd'hui...

Mais chacun de nous est aussi responsable, selon Havel. Dans sa définition du post-totalitarisme, il relève que – à la différence de la situation dans les dictatures classiques-, la ligne de clivage ne passe plus seulement entre l'Etat-parti et la société, entre dominants et dominés, mais à l'intérieur de chaque individu. Insidieusement mais aussi par choix conditionné, celui-ci devient "à la fois victime et support du système". Ce ressort majeur des régimes communistes finissants explique, en partie, les difficultés qu'éprouvent depuis 1989 les sociétés de plusieurs nouveaux Etats membres à se

confronter à leur passé: la "dérive Orban" atteste de cette difficulté existentielle.

Deuxième grande leçon: l' "antipolitique" de Havel renvoie ainsi à la question du déficit de légitimité de la politique. La politique doit se légitimer par quelque chose qui la dépasse, par des valeurs éthiques et spirituelles. Les dissidents n'avaient pas l'ambition de conquérir le pouvoir et rejetaient "la politique comme technologie du pouvoir", mais cherchaient à devenir un contre-pouvoir: l'auto-organisation de la société comme conquête progressive et non-violente d'un espace public libre. Les populistes d'aujourd'hui, d'extrême-gauche comme d'extrême-droite ont détourné cette aspiration d'un nombre croissant de citoyens européens au profit d'objectifs identitaires et d'exclusion: c'est là désormais que se niche l'essentiel de l'eurosepticisme.

Ainsi, le primat de l'éthique et de la société civile favorisent l'émergence d'une culture civique sans laquelle "l'invention démocratique" d'après-1989 serait vouée à l'échec. Dans cette situation de crise financière devenue par contagion crise économique et sociale, on comprend alors pourquoi les nomenklaturas politico-administratives des Etats membres se sont toujours opposées à l'émergence puis à l'affirmation d'un tel primat: le cadre national leur paraît le plus sûr pour défendre les intérêts des "1%" dont ils sont les garants et loyaux serviteurs, la méthode intergouvernementale la plus appropriée pour assurer la solidarité entre tous les "1%" des pays européens. Ceux qui réfléchissent aujourd'hui à la crise du politique et de la représentation, comme ceux qui observent une Europe réunifiée dans la crise de la démocratie et les poussées populistes, devraient relire les discours d'Havel-président: son rappel des fondamentaux et des valeurs, mais aussi des thèmes et enjeux qui donnent un sens à l'engagement civique et à une communauté politique.

La troisième (et dernière ?) contribution majeure de Havel concerne l'Europe, la crise de sa civilisation et les déboires de sa Constitution.

En premier lieu, sa réflexion sur le totalitarisme et la démocratie ne se borne pas à opposer leurs régimes politiques. Havel en effet, ne considère pas la domination d'un pouvoir hypertrophié, bureaucratique et impersonnel comme une simple aberration du "despotisme oriental". Il y voit aussi un avatar de la modernité occidentale, "une image grotesquement agrandie de ses propres tendances" au scientisme, au fanatisme de l'abstraction (ah! les fameux modèles mathématiques financiers qui "optimisent" la spéculation, de la City à Wall Street, et mettent au chômage des millions de citoyens), à la poursuite effrénée de la consommation et de ce qu'il appelait "la croissance de la croissance"....

Comme l'écrivait Havel en 1984 dans *La Politique et la Conscience* (en 1984), "La plus grande faute que l'Europe occidentale pourrait commettre, serait de ne pas comprendre les régimes post-totalitaires tels qu'ils sont en dernière analyse: un miroir grossissant de la civilisation moderne en son entier". On comprend que les dirigeants occidentaux en général, européens en particulier, qu'ils se disent keynésiens ou soient des crypto-thatchériens, n'aient pas voulu l'écouter: le problème, c'est que la fin du communisme n'a pas fait disparaître la question.

En second lieu, la réflexion d'Havel sur la crise de notre civilisation après 1989 rejoint là la question de l'Europe, et plus particulièrement du "retour à l'Europe", qui ne doit pas se réduire à "l'élargissement de l'Union européenne" aux pays d'Europe centrale et orientale. Il fut ainsi le premier homme d'Etat européen, avant Joscha Fischer et quelques autres, à préconiser en 1999 une Constitution européenne. Il préconisait un texte court, inspiré (incluant les raisons d'être du projet européen, y compris son "fédéralisme"), intelligible à tous (y compris par "un lycéen de 14 ans"), qui inviterait à une "parlementarisation" et à une "fédéralisation" des Institutions européennes. Qui, au sein de la nomenklatura française, s'est inspiré du discours –parmi d'autres— qu'il prononça au Sénat français en mars 1999 à ce sujet?

Personne, puisque celle-ci collabora avec entrain à la rédaction d'un pensum confus, indigeste, de quelques centaines de pages définissant mieux ce que les nomenklaturas nationales ne voulaient pas faire ensemble que les solidarités européennes nouvelles à établir pour faire face ensemble aux défis du XXIème siècle...

Pour conclure, rappelons-nous qu'Havel a toujours "pensé global", en opposition en cela à son successeur à la tête de l'Etat tchèque. Aujourd'hui, les idées de son successeur, farouche défenseur de la seule identité nationale, n'ont pas seulement gagné ce pays: à la faveur de la crise économique, comme dans les années 30, elles sont en train de se propager partout en Europe...

Pourquoi les dirigeants européens d'alors n'ont-ils pas voulu écouter Havel en 1999? Peut-être parce qu'ils avaient la mémoire courte, tous comme leurs successeurs d'aujourd'hui ont une vision de si court terme qu'elle confine à la myopie. Parce qu'ils connaissent l'Histoire et parce qu'ils pensent l'avenir, ceux que l'on traite d'utopistes pour mieux les marginaliser, sont ceux qui sont les réalistes du présent et de demain. Ainsi était Václav Havel.

# Reorganising a DG: political expediency or learning from past errors?

## “Un saut dans l'inconnu”: The case of DG RTDI

*DG RTDI is a DG with 1700 staff in charge of the direct management of a) the Framework Programme (FP), b) the development of the European Research Area and c) innovation policy. It shares these policies with several other DGs (INFSO, ENTR in particular) but remains a key actor in them. In 2007, an important change in the management of the FP occurred with the creation of two agencies, one for a part of the scientific activities of the FP (ERCEA), the other for the management of some of the procedures of the FP (REA). However, in time of austerity when cuts in staff and economies are promised, many in the Commission hierarchy wonder how DG RTDI could better manage the budget of the Framework Programme which could increase from 50 to 80 Billion Euros.*

*Externalisation is in everybody's mind. It is certainly one interesting venue for improving management and deserves to be explored but one should advocate rationality rather than ideology. Externalisation may not be the only solution... not only because nobody has a clear idea of the real costs and benefits of ERCEA and REA so far but also because the risks of disruption of the management of such a large financial endeavour should not be under-estimated. The alternative is internal reform. But who has the courage and professional capacities to carry such an internal reform? In the end, if the internal capacity for change cannot be harnessed, it may be that externalisation is the only solution left for DG RTDI. “Un saut dans l'inconnu” might be the title for DG RTDI next reorganisation.*

## Yet again reorganisation

There are currently rumours (again) in DG Research and Innovation (RTDI) that reorganisation will soon take place. The last one took effect on 1 January 2011 and concerned about 500 staff directly, i.e. a quarter of the total staff. It had two main causes:

- One was that the new Commissioner and the new Director General, with all legitimacy, wanted to impress their new policies on innovation and the European Research Area on the flow chart.
- The second is less glamorous but nonetheless constraining: DG RTDI had to give back to DG HR two posts of Directors and several posts of Heads of Unit.

The reorganisation also entailed a pinch of individual matters as removing or moving staff always carries a whole series of potentially hard negotiations and curious solutions: the higher ranked and the most senior staff displeased by the proposed moves often asked for more tailor-made solutions to their seniority. The remaining staff was moved following deals between Directors and Heads of Unit but, if unhappy, individuals could always make their wish for mobility known to a “chambre d’écoute” which attempted to find adequate solutions. The “chambre d’écoute” was managed directly by the HR unit and was the place for a number of complex behind the door arrangements where it was never really clear who played what game: efficiency (for whom exactly?) rather than openness was the motto.

### **But more complex: externalisation as a target**

The next reorganisation will certainly not diverge much from this scenario. It might be further complicated by the following several new elements.

(1) The overall removal of DG RTDI from its historical headquarters at Square de Meûs to yet an unknown or two unknown locations in Brussels. Managing this symbolic change with due care has been well understood, it seems.

(2) The rush by senior management to meet the Commission minus 5% target in staff numbers: interestingly, senior management everywhere do not seem to resist this request but rather support and anticipate it. DG RTDI is no exception but is has the disadvantage of being an obvious casualty because it has more than 2000 staff and will find hard to justify such a high number of staff anyway: being big today often looks like a sign of poor efficiency.

(3) “Externalisation” is also on the agenda because it is meant to bring further cost reductions in the management of the European Framework Programme for Research. Several solutions for externalisation are already looked at by an internal group in DG

RTDI but it seems that the easiest solution is to create a new executive agency or broaden the remit of the existing ones called European Research Council Executive Agency (ERCEA) and Research Executive Agency (REA)<sup>1</sup>. It should be noted that, for the last 10 years, the number of staff working on FP management has already been drastically reduced while, at the same time, the number of staff working on policy development for the European Research Area (since 2000) and the various control functions of budgets and finance (planning, auditing, internal control standards...) (since the financial and budgetary reforms of the Commission in 2000) has increased a lot. This means that only a part of functions in DG RTDI could be "externalised"<sup>2</sup>. Or should the two functions of policy development and control of the FP be considered as good for externalisation as well?

Thus, all seems to indicate that the next reorganisation will be radical. The starting point is that economies should be made, efficiency should be gained and that all solutions in this regard should be looked at. It seems that an *a priori* decision has been made to use "externalisation". This should be called into question because:

- It is as if the current system was unable to change, therefore only "external" solutions are good. True, DG RTDI looks a bit like an old unchangeable dungeon but if you look at it more closely you'll see that it has succeeded in managing the rising costs of the FP with the same number or even less staff: in other words, DG RTDI has got bigger over the last 10 years because of the rising ERA policy and the "need" to increase the audit activities over the FP management, not because of FP management itself. It would thus be interesting to see the reasons for this "success", i.e. how the management of the FP has evolved over the last 10 years and which useful lessons could be drawn. However, no systematic external evaluation of FP management has been done (apart from the Court of Auditors numerous reports on "acceptable error rates" in financial management of declared costs, a useful but very limited view of the

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<sup>1</sup> Since 2007, DG RTDI and the wider research family DGs have also created 7 joint undertakings (like F4E for ITER, IMI, ARTEMIS, ENIAC, SESAR) which totaled a number of 390 staff by the end of 2010 for an authorized establishment plan of 505 posts. Joint Undertakings however are more independent than executive agencies, especially in terms of defining their own work programs, and there is obvious reluctance in DG RTDI to support this kind of externalisation.

<sup>2</sup> An internal working group on "The roles and tasks of Project Officers" reported in October 2008 that these Project Officers represented only 18,5% of the staff, thus reflecting that other functions outside FP management had greatly increased since 2000.

process<sup>3</sup>) and of course no internal evaluation has been made either, which, in a way, shows the rather low priority given now to FP management in DG RTDI. A number of internal working groups made up of experienced Heads of Units, Directors and other AD staff were appointed over the last 10 years but their conclusions were never taken into account<sup>4</sup>, thus adding to frustration but also to the general uneasy feeling that RTDI cannot be reformed from within because it is made up of independent kingdoms (i.e. Directorates)<sup>5</sup>.

- As a now abundant literature shows, even if the costs of contractual staff in executive agencies are allegedly significantly lower, the creation of the agency carries at the same time new costs in terms of: (1) duplication of central functions, (2) need for increased tools of coordination in case of good collaboration between the DG and the agency (“joined-up government”), (3) competition between the DG and its executive agency since the illusion of separating management from policy can significantly weaken the core policy tasks kept by the DG.

### **Is externalisation the only solution?**

Let’s see whether externalisation at DG RTDI can be handled intelligently and whether there are alternatives. The obvious area for economies and gains of efficiency in DG RTDI is the management of the Framework Programme (FP): in 2011, 10 billion Euros were managed by DG RTDI (1720 staff), ERCEA (360 staff) and REA (468 staff).

Let’s face a first difficulty: there is no public figure on which levels of economy or efficiency have been brought by the creation of ERC and REA since their creation at the beginning of FP7 back in 2007. Agencies are supposed to be cheaper because they use more contractual agents: but what if the total number of staff in agencies exceeds the original number of staff in DG RTDI? The creation of

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<sup>3</sup> And a very distorting one if one recalls that, after 2005, the impossibility for years by DG RTDI to get an acceptable evaluation by the Court of Auditors on this rate of error on declared costs pushed the then Director General to increase controls and recruit more auditors and therefore divert more staff from actual FP management. Nobody has ever thought that the services could improve and that this problem could also have been solved by other means like reorganization of services, simplification of rules, better recruitment and better use of competences for instance.

<sup>4</sup> The last report of such a group dates back to October 2008.

<sup>5</sup> The impossibility to work out a more objective distribution of staff across Directorates in the establishment plan is yet another symptom of this resistance to change.

the two agencies has meant the duplication of central functions, for instance three HR units and three IT units, hence duplication rather than rationalisation. And nothing is said about the impact of the agency work on the European researchers themselves. The first steps by the ERCEA and REA were marked by natural learning difficulties and since then, if things have been much better, there is no indication that their service has been any better (or cheaper) than the same services provided by DG RTDI in the past. A special Court of Auditors report of November 2009 on executive agencies presented generally positive findings but of course ERCEA and REA were too recent to be fully audited. Evaluations of ERCEA and REA are expected by mid or end of 2012. So far, it is thus rather assumed than proved that executive agencies are less costly than Commission services.

The second difficulty is how to delineate borders between the central DG and the executive agencies. The choice under FP7 was to have one procedural agency (REA) and one sectoral agency (ERCEA is a chunk of FP7 dealing with “excellence” in science; procedural matters such as evaluations, management of the ERC grants, are also taken care of by ERCEA itself and not by REA). One could for instance imagine that some chunks of Horizon 2020, such as the research on environment, the research on ageing for instance, could be hived off to new joint undertakings or executive agencies. But the multiplication in the number of such bodies would inevitably increase the complexity of the coordination and the duplication of common horizontal activities: gains from cheap labour would be rapidly offset by soaring structural costs. The alternative is to reinforce ERCEA and REA. The ERCEA is likely to see its budget grow under Horizon 2020 between 2014 and 2020 because it is considered as a success by everybody<sup>6</sup>. This means that the corresponding resources could be given but with some restriction as ERCEA would have to follow the same austerity rules as the other Commission services.

What about externalisation to REA? That could be done in two ways:

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<sup>6</sup> That it is a strictly European success is another matter since the ERC gives individual grants to excellent researchers. The definition of a European extra value in attributing the grant is largely non-existent. As such the ERC scheme is a major exception to the tradition of European cooperative research which makes the hallmark of the Framework Programme. What is European research? Not the areas of research or the disciplines of course but the way research is made, i.e. by teams of national researchers joining up in common research projects. The idea of mobility which (with redistribution and competition) is at the core of the European policies, in particular the research policy, is absent from the ERC scheme.



- Giving more competences to REA in terms of evaluations of proposals. REA is already very much in control of this procedure but its competences could still be expanded further in terms, for instance, of programmes, of management of expert evaluators with IT tools (EMI), of checks of conflicts of interest of experts, etc etc, which still need some resources in DG RTDI in Operational Units. In the same vein, more competences could be given to REA in terms of the management of all kinds of experts; DG RTDI also manages a lot of different kinds of experts for various kinds of meetings or tasks (such as reviews of projects, evaluations etc.). Altogether, in 2011 DG RTDI managed XXX such experts, implying a large number of assistants and secretaries in operational units and in the central budget unit.
- Giving more competences to REA in terms of negotiation and management of Framework Programme projects would bring much more impressive savings because it would enable the transfer of all competences from the Administrative and Financial Units (UAF) and some of the AST and contractual agents GFII and GF III competences of the Operational Units (UO) towards REA. In this case, we accept that the “scientific competence” of Project Officers currently posted in UOs would remain in DG RTDI because the motto of externalisation is that only “management” is hived off while core policy competences are kept centrally. To illustrate this, the AD or GF IV Project Officer in charge of a research portfolio on photovoltaic energy in an UO would remain in DG RTDI because his/her scientific competences in the domain remain essential for the development of energy policy, whereas the Legal and Financial Officers in the corresponding UAF and possibly his or her assistant in the UO could go to REA. We are talking here about a much bigger externalisation, potentially implying several hundred staff.

### **Theory and reality: what can be done without rocking the boat?**

This is the theory. What about the real world? Are such externalisation plans realistic? Previous large reorganisations like the one of DG RELEX and DG DEV into EEAS just prove that the Commission is ill-equipped to deal with such large exercises. In particular, the reorganisation is left to each DG to plan and implement but it is notorious that the competences for this kind of

exercise is non-existent in most DGs. Suffice it to say that the Directors for Resources and the Heads of Unit for HR in the DGs are seldom educated in and appointed for their competence in budgets or HR but rather for every other reason of old-style political and management expediency. In other words, most DGs HR matters are run by people who, even though they certainly have a lot of good will, have little idea whatsoever of what professional HR management means... Reorganising 1700 people should be based on some professional HR competence. In fact, reorganisations are inevitably delegated to some AD and AST staff with little hierarchical support... and often with little competence and resources too. In the case of the creation of ERCEA and REA back in 2007, these two agencies were largely left alone to develop their own tools and methods without much guidance or help by DG RTD. As a consequence they muddled through the mess thanks to then hefty budgets and early day enthusiasm. Besides, little memory of reorganisations procedures is left between each reorganisation since staff mobility in the HR units themselves has often killed administrative memory: the last reorganisation of DG RTD in 2011 is a glaring example of how good practices of past reorganisations had been lost. This means that if the next reorganisation of DG RTDI is simply seen as a routine exercise, using “les moyens du bord”, it will inevitably cause much disorganisation, whether externalisation or not.

Or could it be an opportunity for some deeper reordering and fixing of problems? There is no doubt that some rationalisation of tasks between DG RTDI and the executive agencies could achieve welcome economies: extending the role of REA for evaluation procedures and payment of all kinds of experts would make sense. But hiving off the negotiation and management of the FP projects would be quite another matter. Three problems deserve attention:

- The first is the risk of major disruptions in FP project negotiation and management given the poor quality of the management of change by central HR and budget departments in DG RTDI. The competences and the memory of these projects would have to go block to block to REA. Not easy to organise since the move is likely to trigger some panic among staff. Besides, if people move with their competences and memory, then economies become doubtful, since roughly the same number of people with the same Statute profile will continue to work at the Agency.
- The second is actually the mobility of core competences from DG RTDI to REA. It is often an illusion to think that if you externalise the management you keep a firm hand on

content. There are numerous contrary examples at the national level but also at the European level with decentralised agencies. Not to go very far, ERCEA has become a totally independent body with its own policy on which DG RTDI has now little to say because it knows so little about what ERCEA does and how.

- The third is the transaction cost problem, i.e. how do we manage technical issues, such as for instance a difficult amendment to a project, between two separate administrative bodies. Relationships between UAF and UOs have not always been easy, far from it, what now between central and externalised services being also separated physically?

For all these risks an analysis should be made. But has anybody the will and capacity to order such an analysis in DG RTDI? Little time is left.

### **Some suggestions to improve efficiency**

This is why other internal alternatives should be studied and worked out carefully, taking into account (1) the organisation between UAF and central units (2) the impact of the reorganisation on the working of the administrative units; (3) the competences of the Project Officers. Let's see briefly how.

- (1) What is remarkable about DG RTDI is that, even though all people involved in FP management work with the same set of legal rules (that of the FP and its "rules of participation"), there is still very little agreement on the interpretation and application of these rules. In other words, much time is spent in each Directorate in wondering how rules should exactly apply. Of course it also means that the same rules can be applied differently in different parts of the FP and it is not rare to hear researchers complain about different solutions to the same problem in different Directorates of the DG. One can imagine how the slogan of "simplification" could become reality if all Directorates followed the same set of rules rather than inventing their own. As 10 operational Directorates are applying FP rules, it is obvious that some central effective mechanism should be available to solve such issues. It is notorious that the central legal unit in Directorate A does not do that job and communicates only at times on "big issues" and therefore leaves each decentralised UAF to muddle through: the result is an incredible waste of time and resources in each UAF to know what the rule exactly is. Another formidable example of such administrative

curiosity is the preparation of tenders in DG RTDI. It is left to each Directorate (UAF for the legal part and UO for the content part) to prepare the tenders and they are then controlled centrally through a complex series of internal bodies. The daunting reputation of the complexity of tenders is such that nobody wants to prepare them and it is not rare that they are prepared by the inexperienced new contractual agents who happen not to know much about this reputation. Lifting up all the preparation of tenders to the central budget unit in Directorate R with their competent staff (of course with the necessary cooperation from the UOs in terms of scientific content) would entail great efficiency gains.

- (2) A golden rule in reorganisations should be that you don't break what works. Precisely, you should leave together Units which have cooperated well and have had good results. That is obviously lost of sight when you start playing with all sorts of different criteria. The last reorganisation is a counter-example since two operational units from the former Directorate L were cut off from their UAF and associated to a new UAF with totally different practices, thus creating enormous problems and frustration internally and externally. Now, why is it that a UAF has totally different practices this is one mystery of DG RTDI as explained above in (1). Ideally you should have strong central mechanisms for the circulation of legal information and problem solving together with a fine attention to good working cooperation.
- (3) Staff in DG RTDI is not less competent than in other DGS but it can be used much better<sup>7</sup>, which would enhance motivation. Since years there have been thorny discussions in DG RTDI as to whether Project Officers have sufficient scientific skills (if so they should be relieved from management of projects) or not (if so they have to become managers of projects from A to Z). The reality is somewhat independent from that debate since in practice Project Officers have to do both management and policy development. But they end up doing both of it badly because they have often too few management skills (they have a scientific background which does not give them any

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<sup>7</sup> Here we leave aside the issue of recruitment of competent staff at the Commission which calls into question the overall recruitment process by the Commission. This would deserve a separate article in itself which would run from EPSO policies through the role of DG HR, the incredible lack of reliable and effectively linked IT tools, the lack of HR scanning and planning in DGs etc etc.

specific competence in management, a bit like the HR staff in the DG) and too little experience in policy development (since they spend a lot of time managing projects and not getting knowledgeable in other relevant Commission policies). If DG RTDI were coherent, it would use immediately the scientific competences of its Project Officers and then try to train them into more policy development skills. The basic surprise here is that DG RTDI is sitting on a golden mine of project research but that it is largely unable to dig the nuggets and feed them into policy. An internal group report observed in October 2008 that “Project Officers only use 10 to 15% of their working time to do policy work and the development of research strategy”. In other words, valorisation of research results is virtually non-existent because competences are not used nor developed adequately. However, such valorisation should be the bread and butter of DG RTDI in its European research policy. Conversely, if Project Officers were left to do such policy development, this means that the role of the UAF should be enhanced and rationalised to cover all FP procedures and that Project Officers would have to follow the management of procedures imposed by UAF.

These three suggestions are only examples and other ideas (on the role of IT or the role of internal audit, control and planning functions which also consume a lot of manpower) would certainly be worth considering. The main message is that rather than to turn blindly to externalisation as a magic fetish for savings and efficiency gains, some thought should be given to internal reform and reordering. Of course internal reordering is less easy because you deal with officials and established practices and habits rather than with contractual agents and situations that will be handled elsewhere by an executive agency. But externalisation might be equivalent to turning a blind eye to its own practices and that is never a good start for a sea change. Other DGs will soon be entering the same process: are we going to say in five year’s time like today, that reorganisations are systematically badly handled by the Commission or that there is hope on the horizon?

“Un saut dans l’inconnu”? Maybe but with 1700 staff potentially involved, one should rather analyse the risks of that strategy. Other DGs will soon be entering the same process: are we going to say in five year’s time like today that reorganisations are systematically poorly handled by the Commission or that there is hope on the horizon?

# Federation Lite, or what the United States of Europe might look like

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## Summary

The great economic contraction we are living through has revealed that political union is not just an optional feature, to be added at leisure, to a monetary union, but a vital prerequisite for the latter's continued existence in bad and good times. Terms that had been effectively expunged from the European political vocabulary – such as 'federation' and its adjective 'federal', or even 'United States of Europe' – have resurfaced to be employed at the highest intellectual and decision-making levels.

This paper attempts to apply the insights of fiscal federalism on how to apportion different functions of government, and the attendant resources, between Europe's states and an EU federal centre.

The results point to a European federal government that does relatively few things at a cost – 5% of EU GDP – that is one order of magnitude smaller of the resources currently absorbed by rich nation states. Since the functions of government to assign to the federal level would be transferred from member states, the resources would also be transferred, and thus no net increase of EU total general government expenditures would be needed.

The United States of Europe need not be at all the superstate dreaded by Euro-sceptics.

It would rather be a Federation Lite.

Its budget would nonetheless have sufficient resources to stimulate, when need be, Europe's economy without creating the collective action problems inherent in doing that via national spending programs. Macro-economic stabilization would be also helped by a limited re-distributive function and by taxation.

## Introduction

A precursor to this paper written in March 2010 was titled: *„Federation Lite: A Martian’s view of the European Union’*. Back then one had indeed to come from Mars to write a paper on what the budget of a hypothetical European federation might look like.

However, what a world of difference 21 months make. From the extraterrestrial issue it used to be, Europe’s political union has had a spectacular comeback to the forefront of the debate. As the first part of this paper will demonstrate, this is mainly due to the specific impact the second great contraction had on Europe, i.e. the sovereign debt crisis and the attendant cracks in European monetary union.

Actually, the inspiration for the old title had come from a cursory observation made by Iain Begg in 2007: *„A Martian starting with a blank sheet of paper would be unlikely to write down Common Agricultural Policy and cohesion as the most vital components of an EU budget for the 2010s’*<sup>8</sup> – CAP and cohesion make up more than  $\frac{3}{4}$  of the EU budget.

Our exercise thus consisted precisely of *„starting with a blank sheet of paper’*, totally ignoring the usual appeals to political realism and instead choosing to follow the insights of a theory, fiscal federalism, on how best to apportion different functions of government, and the attendant resources, to different levels of government.

The conclusions we reached following this approach are shown in the second part of this paper and point to a European federal government that does relatively few things at a cost – 5% of EU GDP – that is one order of magnitude smaller of the resources currently absorbed by member states. Since the functions of government to assign to the federal level are transferred from member states, the resources are also transferred, and thus no net increase of EU total general government expenditures would be needed.

It’s a federation, yes. But a Federation Lite.<sup>9</sup>

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<sup>8</sup> Iain Begg, *„The 2008/9 EU Budget Review’*, EU-Consent EU-Budget Working Paper No. 3, March 2007.

<sup>9</sup> If it recalls various household trademarks we are only happy and actually ready to suggest one ourselves, the Kraft cheese Philadelphia Light – the 1787 Philadelphia Convention drafted the U.S. Constitution.

Now, the idea that the United States of Europe may be anything but heavy runs counter to a slogan coined by Euro-sceptics decades ago, which over time became a self-evident truth all recognized everywhere, i.e. that a European federation would necessarily be a ‚superstate‘. It has now turned into a sort of Pavlovian conditional reflex.

Federation? Superstate!

It is particularly the British media that use it as an article of faith above discussion. But some first class British media, such as *The Financial Times* and *The Economist*, are unquestionably the opinion makers on EU matters.

Examples could be countless – and we insist, we are not referring to the tabloid press or those papers, such as *The Telegraph*, known to harbour strong reservations on Europe’s integration process.

Let’s take just one example from, in fact, a recent issue of *The Economist*. In a long article devoted to the euro crisis permeated by a sincere concern for the future of the currency union, the writer, desperate for solutions, suddenly throws out a cry for help: ‚But there must be ways for good governments to force bad ones to keep in line that do not require the building of a *huge new federal superstate*.‘<sup>10</sup>

Note that the federal state this particular writer has in mind is not only ‚super‘, is also ‚huge‘. Who needs such a state, however? Who advocates it? No one to our knowledge. Indeed, if anyone does, he/she has an extraordinary ability to leave no traces, no echo whatsoever in the current debate on European affairs.

On top of that, whoever is patient enough to think the issue through, as we tried to do, will reach the opposite conclusion: the United States of Europe federalists have always advocated is a ‚small new federal ministate‘.

In other words, a Federation Lite.

## 1. Europe and the Great Contraction

The worst financial and economic crisis since the 1930s hit the private sector in the United States with full force in the fall of 2008 and immediately spread to the rest of the world. Governments everywhere stepped in, both to save financial and non-financial firms from going bust and to prop up their economies, turning the

<sup>10</sup> ‚How the save the euro‘, 17 September 2011. Emphasis added.



crisis into a fiscal one, at least in Europe – a sovereign debt crisis, as it was termed.

An event of such magnitude – the Second Great Contraction, to use Carmen Reinhart and Kenneth Rogoff's expression<sup>11</sup> - could not fail to have a huge impact on the process of European integration for the simple reason that this process has been centred on the economy since its beginning.

Take the internal market. To this day it is what truly holds the different visions of Europe together. It is just a step toward an 'ever closer union' for Euro-enthusiasts. It is what Europe should be limited to, for Euro-sceptics. Exit the internal market and there is no longer an EU to speak of.

Also, the single most important transfer of sovereignty from member states to the European Community in history, i.e. monetary union, took place in the economic sphere.

Europe's arrangement is unique. Adhering states work together to make together the rules that allow goods, services, people and capitals to move and compete freely within the internal market; have these rules enforced by impartial referees of last instance, the European Commission and the Court of Justice; share the same currency, the euro, backed by a strong, independent, and centralized institution, the European Central Bank.

Joining the euro is not mandatory. *De jure* for the two countries, Denmark and the UK, which stipulated an opt-out. *De facto* for the others: to stay outside it only takes falling short of one or more convergence criteria for monetary union – as Sweden has been doing on purpose since 1998.

Fiscal policy – tax and spend – remains a national prerogative, the only constraint being common limits to national public borrowing – public borrowing at Community level is forbidden altogether.

The EU budget, limited to 1% of Europe's GNP, is basically made up of transfers from member states on the revenue side, and of subsidies to a variety of beneficiaries, plus administrative costs, on the expenditure side.

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<sup>11</sup> See their *This Time Is Different, Eight Centuries of Financial Folly* (Princeton: Princeton University Press, 2009). Reinhart is Senior Fellow at the Peterson Institute for International Economics in Washington, D.C. Rogoff is Professor of economics at the University of Harvard and a former Director of Research at the International Monetary Fund.

Outside their economies, and with the limitations just reviewed, Europeans share little. The resulting powers at the EU level – defence, diplomacy, justice – are weak, with a tendency to become stronger the closer they get to the economic core: the trade dimension of foreign relations, the immigration-labour dimension of justice and home affairs.

Up until mid-2008, this architecture might have satisfied Euro-sceptics and dissatisfied Euro-enthusiasts but both camps certainly found it robust enough – either as a ceiling to, or as a floor for, further integration.

Then, in the last quarter of 2008, the financial crisis exploded paving the way for the great contraction. This opened up profound cracks in this European architecture centred around the economy. We Europeans have suddenly discovered that ours is a fair weather construction, not guaranteed to hold during a storm.

We have perhaps also discovered that political union is not just an optional feature, to be added at leisure, to a monetary union, but a vital prerequisite for the latter's continued existence in bad and good times. Terms that had been effectively expunged from the well-mannered European political vocabulary and almost forgotten – such as 'federation' and its adjective 'federal', or even 'United States of Europe' – have resurfaced to be employed at the highest intellectual and decision-making levels.

The impact of the great contraction on Europe and its integration process can be divided into four phases.

The *first phase* was mainly a threat to the internal market. At the beginning of the crisis, European governments who made money available to recapitalize banks did it with the – sometimes explicit, sometime implicit – understanding that the recipients should then give credit preference to home customers. Similarly, some governments offered loans to their domestic car manufacturers with the proviso that they save jobs at home rather than in foreign subsidiaries. Couple national preference with state aid and you have killed the internal market.

Tariffs as a tool are too discredited for us to risk a repetition of the 1930 Smooth-Hawley act and its consequences. But both international trade and Europe's internal market have a lot to fear from state aid, protectionism's main guise in the 21st century.

In February 2009, Giuliano Amato and Emma Bonino suggested the creation in Brussels of two task forces, one on banks and the other on the automotive sector, chaired by the European

Commission and composed of member states' special representatives.<sup>12</sup> The idea was to try to ride the tide of State aid ex ante, rather than just attempt to stem it ex post - when, in fact, the political profile of certain measures may have become so high as to make them unstoppable.

Even though the Commission did not follow up on Amato-Bonino's idea, it seems in retrospect to have done a good job in keeping the internal market intact by reining in these initial protectionist tendencies, helped perhaps by the timid recovery which began in the second half of 2009.

A general weakness in the regulation of financial institutions and products all over the world has been a major factor explaining the crisis. In Europe – where banks turned out to be as exposed to sub-prime loans, complex derivatives and toxic assets as their American counterparts - this weakness was made more acute by its peculiar regulatory asymmetry: banks can and do operate throughout the Union, across its single market, but they are regulated and supervised at the national level.

When, in late 2008, the crisis made financial regulation a glaring problem the European Commission appointed a group of wise-men, chaired by Jacques de Larosière, with the task of coming up with reform ideas. These were eventually put into practice with the creation of several new pan-European financial institutions: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) the European Insurance and Occupational Pensions Authority (EIOPA), as well as the European Systemic Risk Board (ESRB) on macro-prudential policy. All became operational on 1 January 2011.

These new bodies, however, are still in the business of merely coordinating the work of national authorities: European financial institutions maintain their peculiar nature and no EU authority has, for example, the power to force a national government to use taxpayer money to bail out a bank.

In other words, three full years into the Great Contraction, we're still quite far from what Nicolas Véron has termed banking federalism, a ,federal euro area / EU framework for banking policy [implying] the consistent formulation and implementation of regulatory, supervisory, resolution, deposit guarantee, and

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<sup>12</sup> See G. Amato and E. Bonino, 'How to avoid the ruin of the European market', Financial Times, February 11, 2009.

competition policies'.<sup>13</sup> Farther still are we from a European Treasury.

The steep loss in value of so much sovereign euro zone debt in 2010-2011 has imperilled the solvency of the many European banks holding it and has made the lack of banking federalism, or of a European Treasury, a problem of truly dramatic proportions.

On top of that the euro zone has no lender of last resort and the EU Treaty forbids the bailout of member states. The whole idea behind the stability (and growth) pact was to avoid ever getting near to a public default of any of the member states.

Nonetheless, spreads between sovereign bond yields within the euro zone (with respect to the traditional benchmark represented by the yield on German bonds), negligible since the launch of the monetary union, suddenly jumped up in late 2008-early 2009, opening a *second phase*, in which the first signs of a threat to monetary union came into light.

This initial wave of rumours and talks of a euro break-up subsided when the then German finance minister, Peer Steinbrück, declared that 'The euro region treaties don't foresee any help for insolvent states, but in reality the others would have to rescue those running into difficulty.'<sup>14</sup> A few weeks later, Joaquín Almunia, then European commissioner for monetary affairs, compounded Steinbrück previous statement thus: 'If a crisis emerges in one euro zone country, there is a solution before visiting the IMF 'It's not clever to tell you in public the solution. But the solution exists.'<sup>15</sup>

Does it? – one now wonders. The same euro drama was, in fact, played out once again a year later as Europe's crisis entered its *third phase*, consisting of an open threat to monetary union through contagion from Greece to other euro zone member states.

Greece, whose public deficit ended up being 12.7% of GDP in 2009 – instead of the 5% that, thanks to Athens' dodgy accounting, was the official forecast before general elections in October of the same year - saw the spread between its bond yield and the Bund's reach the 400 basis points mark in late January 2010. From that

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<sup>13</sup> "Testimony on the European Debt and Financial Crisis", Bruegel Policy Contribution, September 2011.

<sup>14</sup> Quoted in A. Evans-Pritchard, 'Will Germany deliver on the Faustian bargain that created monetary union?', The Daily Telegraph, February 23, 2009.

<sup>15</sup> Quoted in T. Barber, 'Emergency eurozone aid signalled', Financial Times, March 4, 2009.

point onwards the crisis snowballed and the yield gap yawned - Greece's, then Ireland's and Portugal's.

Greece requested EU and IMF aid in April 2010, Ireland the following November and Portugal in May 2011 – obtaining respectively € 110 billion, € 85 billion and € 78 billion. The approval of these packages was marked by a flurry of euro zone summits, beginning on May 2, 2010, where new measures were announced and new mechanisms to solve the spiralling crisis were created.

In particular, on May 9 2010, at the Ecofin Council, euro zone member states launched the European Financial Stability Facility (EFSF) to provide loans to euro zone governments in financial distress. The EFSF is backed by guarantee commitments from the euro area member states for a total of € 780 billion and has a lending capacity of € 440 billion. These sums looked quite impressive back then, and certainly adequate to the task of calming markets' fears on Greece and avoiding contagion.

This, however, turned out not to be the case. After Ireland and Portugal, the yield gap plague struck Spain and then, in July 2011, Italy.<sup>16</sup> Spain and Italy are well beyond the means of the EFSF and are generally considered too big to be rescued. We have thus entered a *fourth phase* where it is no longer only Europe's monetary union to be threatened but much more: from global financial stability to the European Union itself, i.e the whole process of European integration that guaranteed peace after WW2.

Global financial stability is threatened because euro zone sovereign debt bonds have been bought by credit institutions all over the world. When their yield increases, the corresponding decrease in their value ends up having a negative impact on those institutions' balance sheet and on the volume of credit they may provide to households and firms.

With Spain and Italy in the picture, the order of magnitude moved from the hundreds of billions to trillions of euros. Here is how an economic journalist explained the mechanics of financial contagion from the euro zone to the U.S to American readers : „Europeans owe lots of money to one another and to other countries. For example, American banks own a lot of French debt, and French

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<sup>16</sup> The spread between Italy's ten-year bond, the BTP, and its German counterpart went over the 200 basis points mark in early July 2011 and this was taken as a clear sign of distress and contagion. It kept rising from that level, however, and it's hovering around 500 at the time of writing this in mid-November 2011. Greece, Ireland and Portugal requested aid when their yield gaps went over 400.

banks own a lot of Italian debt. If Italy defaults, French banks are in trouble. If those French banks then default, American banks are likewise compromised. With these banks insolvent (or at the very least illiquid) it becomes harder for American companies and consumers to borrow'.<sup>17</sup>

In 2008 it was Collateralized Debt Obligations, or CDOs, and other complex financial derivatives from the private sector that brought the world banking system close to meltdown. Now it is euro zone bonds from the public sector, but the (huge) risk is worryingly the same.

The EU itself is threatened in this fourth phase because monetary union could perhaps survive the exit of relatively small economies such as Greece, Ireland and Portugal, but not Spain's and Italy's. After reversing to national currencies their attendant devaluations would be so massive and competitively challenging to the rest of the union as to threaten the internal market. And, as noted above, the internal market is what holds the European Union itself together.

During this fourth and most worrisome phase, two meetings of the euro zone heads of state or government – one on July 21 and the other on October 26, 2011 - tried to come up with a package of measures aimed at calming the markets. Both failed, even though further aid to Greece was decided, private investors were nudged to take a 'voluntary' haircut on Greek bonds and banks to re-capitalize (with or without public money), while the EFSF was given a mandate to engage in various schemes of financial engineering dangerously reminiscent of those private sector derivatives that caused global havoc in 2008.

Three years into this euro mess a pattern seems to have been established whereby European summit after European summit fail to live up to mounting expectations of solving the crisis and reassuring the markets. When the game more or less started, in May 2010, the trick initially worked and fears subsided for a few weeks. But the last measures announced in October 2011 had practically no such effect, not even transient, and probably made the situation worse.

There is an intrinsic theatrical component in any meeting of the European council, or of the euro zone heads of state or government, or in the Franco-German summits that now regularly precede them

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<sup>17</sup> Catherine Rampell, 'The Eurozone Crisis and the U.S.: A Primer', the Economix Blog, The New York Times, November 14, 2011.

– a theatrical component that is bound to raise expectations and thus make the fall to the intractable reality of the crisis all harder. It is plain for all to see in these meetings how difficult it is to get 27 or 17 heads of state or government to agree. And how long and painful the process is to turn the announcements into reality, if only because this process is based on consensus and each participant has, therefore, a veto power.

Thus Mario Draghi, the ECB President on 18 November 2011 stated: ,We are more than one and a half years after the summit that launched the EFSF as part of a financial support package amounting to 750 billion euros or one trillion dollars; we are four months after the summit that decided to make the full EFSF guarantee volume available; and we are four weeks after the summit that agreed on leveraging of the resources by a factor of up to four or five and that declared the EFSF would be fully operational and that all its tools will be used in an effective way to ensure financial stability in the euro area. Where is the implementation of these long-standing decisions?'<sup>18</sup>

In mid-November 2011, at the time of this writing, the yield gap plague is continuing its advance, beginning to affect also French bonds – they briefly paid 200 basis points over the bund, before re-descending below that level. A loss of its triple A credit rating would be a further economic and political shock for France, for the euro and for Europe as a whole, given the leadership role the Franco-German duo gradually assumed in the course of the crisis, not only in political terms but also as ultimate guarantors of, for example, the credit rating of the EFSF itself.

Whether this happens or not, the king is naked: the future of Europe and global financial stability depends on Germany, as the strongest economy of the euro zone and the architect of monetary union. So far, the economic cure to the euro malaise championed by Berlin – limited, costly and slow-in-coming loans to Greece, Ireland and Portugal, some ,voluntary' loss on holders of Greek bonds, fiscal belt-tightening for all – has failed to work, i.e. to persuade markets.

As the crisis worsens, three alternatives are left: more funds to the EFSF, that Germany rejects on the grounds that it would make a ,transfer union' of the euro zone; jointly guaranteeing euro zone

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<sup>18</sup> Continuity, consistency and credibility, Introductory remarks by Mario Draghi, President of the ECB, at the 21st Frankfurt European Banking Congress ,The Big Shift', Frankfurt am Main, 18 November 2011. Draghi's remarks were meant mainly to dismiss calls to the ECB to do more to solve the sovereign debt crisis, and to turn attention instead to governments' responsibilities. His description is nonetheless factually correct.

public debts by issuing eurobonds,<sup>19</sup> a move that Germany rejects on the same grounds (here the transfer would be implicit, in the sense that the interest rate paid on the eurobonds would be lower than that on sovereign bonds for almost anyone in the euro zone and higher for Germany)<sup>20</sup>; letting the ECB act as a lender of last resort, standing ready to open-endedly buy euro zone sovereign debt or refinance the EFSF, that Germany rejects for fear of (future) inflation.

So much for the economy. Now to the politics of Europe in the great contraction.

There is no historical precedent showing a monetary union holding together for long without a political union. This was well-known at any stage of the creation of the European currency, by historians, economists and politicians alike. Some European politicians – Helmut Kohl for example – explicitly looked at monetary union mainly as a harbinger of political union.

If the second great contraction has had any merit, this was to show unequivocally that a monetary union with 17 sovereigns, and counting, works only in the absence of economic trouble. When trouble comes it is rarely symmetrical: no matter which jurisdiction one looks at, one will always find some constituent parts – states, regions, provinces, what have you – more, or much more, affected than others.

At that point, either you leave the laggards to their destiny and that's the end of the union, or you help them. Help normally comes

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<sup>19</sup> The most consistent advocate of Eurobonds through the crisis' numerous twists and turns has been the American financier George Soros. See his: 'The eurozone needs a government bond market', Financial Times, February 18, 2009; 'The euro will face bigger tests than Greece', Financial Times, 22 February 2010; 'Three steps to resolving the eurozone crisis', Financial Times, 15 August 2011. Germany's five independent economic advisors proposed the creation of a 'European redemption fund', a variation on the eurobonds' theme that would include on the part of participating euro zone countries 'an automatic debt rundown over time, by means of a fixed schedule of repayment obligations, and subject to restrictive conditions'. But even this failed to persuade the German government. See Quentin Peel, 'German economists urge vast euro debt fund', Financial Times, 9 November 2011. A couple of weeks later, on 23 November 2011, the European Commission launched a public consultation (deadline 8 January 2012) 'on the feasibility of introducing stability bonds' via a Green Paper thus entitled, COM (2011) 818 final.

<sup>20</sup> According to calculations made by the German Finance Ministry itself, the extra debt servicing costs to Berlin on an annual basis would be of around € 2.5 billion the first year, gradually raising the following years up to a maximum of € 25 billion after 10 years. These figures are respectively 0.1% and 1.0% of Germany's GNP in 2010. See 'Euro Bonds Would Cost Germany Billions', Spiegel Online, 22 August 2011. It should also be noted that the higher the borrowing costs of its euro zone partners, the lower the yields on Germany's bunds, - what is now happening, therefore, is a sort of reverse transfer.



only if there is a common feeling of belonging to the same entity, only if you have made *e pluribus unum*.

Taken as a whole the euro zone is not only richer but also economically sounder than most other countries or regions of the world. If one limits the comparison to the U.S., the euro zone as a whole, has less public debt, half the fiscal deficit, less private (households and non-financial enterprises) debt relative to the economy, far better current account and income distribution. Its economy has no more internal imbalances – it is no more heterogeneous – than the U.S.’ on key things like inflation, growth and productivity.<sup>21</sup>

The main threat to the euro is precisely the fact that, from a political point of view, Europe (or its euro zone) is not a whole and cannot be taken as such unless and until (a modicum of) political unity arrives that makes solidarity possible and even automatic when needed. How? Through a Federal Treasury with the power to tax and spend, capable to use this power, also for re-distribution and for smoothing the economic cycle. A Treasury acting as the indispensable counterpart to the Central Bank.

In other words, the main threat to the euro is that it needs a sovereign – one sovereign, not seventeen. This much the second great contraction has shown with great clarity, bringing the question of Europe’s political unity back to the fore.

Europe’s political union, the federalist solution, has been on the table since the end of WW2. Even though the EU Treaty itself says that the union is bound to be ‘ever closer’, notwithstanding the piling up of new competences and the increasing power of a directly elected Parliament, despite new high profile figures, such as a President of the Union and a Foreign Minister of sort, regardless of the very substantial transfer of sovereignty implied by monetary union – the federalist solution has been constantly losing ground in Europe’s political debate, from at least the nineteen-eighties onwards.

Warning: when one says ‘Europe’s political debate’, this means the debate of the European political elite. Euro-sceptics are right on this point: the ever closer union is an elitist project. No one knows what the public really thinks of most EU matters, arcane and boring as they are.

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<sup>21</sup> See Two continents compared, Keynote address by Jean-Claude Trichet, President of the ECB, at the ‘ECB and its Watchers XIII’ conference, Frankfurt am Main, 10 June 2011.

And even when one thinks one knows, this may have little impact on politics: ‚Surveys show that Germans are fed up with the euro. But neither the Christian Democrats’ opposition to Eurobonds nor the Free Democrats’ flirtation with more overt Euro-scepticism are winning them votes. By contrast, the Social Democrats and the Greens are making gains even though they want eurobonds that could merge ultra-safe German debt with Greek junk’.<sup>22</sup>

Popular vote for the European Parliament, and even those referenda that are called to ratify new versions of the Treaty, are won or lost mainly, if not exclusively, on national political issues. On the other hand, when the alternative ‚more or less unity’ is presented to the public in sufficiently generic terms, as is often the case with Euro-barometer polls, ‚more unity’ tends to prevail.

So, even if one often hears that Europeans love their nation-states and would reject further integration, in reality no one knows what would happen if they were ever called to a vote to decide on this matter. Much would obviously depend on the campaigns preceding such a vote and thus on the persuasive powers of the same political elite that actually has views, any views, on the future of Europe.

As noted above, however, within this elite the federalist solution has regained much of the ground lost over the last three decades. And this is due mainly to the second great contraction and the sovereign debt crisis. It has actually been on a crescendo as the crisis unfolded.

In early 2009, for example, two economists among the brightest commentators of things European, Jean Pisani-Ferry and André Sapir, both at the Bruegel think tank in Brussels, stated in very clear terms that ‚At the centre of the problem is the absence of a euro-area political body capable of taking appropriate financial and fiscal decisions in difficult times’.

What is noticeable, in retrospect, is how studiously they avoided the word ‚Treasury’ – the translation in plain language of ‚a euro-area political body capable of taking appropriate financial and fiscal decisions in difficult times’. But against the use of that word stood peremptory the very first sentence of their essay: ‚The Euro has been, is and *will remain* a currency without a state’.<sup>23</sup>

This taboo progressively crumbled and in more recent times there was George Soros writing that ‚There is no alternative but to give

<sup>22</sup> ‚Germany’s euro question’, *The Economist*, 10 September 2011.

<sup>23</sup> J. Pisani-Ferry and A. Sapir, ‚Weathering the storm’, Bruegel Policy Contribution, 2009/03, March 2009, available at [www.bruegel.org](http://www.bruegel.org). Emphasis added.

birth to the missing ingredient: a European Treasury with the power to tax and therefore to borrow'.<sup>24</sup> There was the International Monetary Fund lamenting, after its periodic review of the euro area, the lack of 'political union and ex ante fiscal risk sharing'.<sup>25</sup>

There was Jacques Attali, the founding president of the European Bank for Reconstruction and Development, calling for 'establishing a European Ministry of Finance'.<sup>26</sup> And the then President of the ECB, Jean Claude Trichet, saying that 'I think that European nations will create a confederation and we could then have a confederal finance minister'.<sup>27</sup>

In a previous speech Trichet had explained: 'Not necessarily a ministry of finance that administers a large federal budget. But a ministry of finance that would exert direct responsibilities in at least three domains: first, the surveillance of both fiscal policies and competitiveness policies; second, all the typical responsibilities of the executive branches as regards the union's integrated financial sector, so as to accompany the full integration of financial services; and third, the representation of the union confederation in international financial institutions'.<sup>28</sup>

It is perhaps indicative of this new para-federal climate how The New York Times in early September 2011 summarized to its readers what was then going in European fiscal affairs: 'As leaders in Europe try to contain a deepening financial crisis, they are also talking about making fundamental changes to the way their 17-nation economic union works. The idea is to create a central financial authority – with powers in areas like taxation, bond issuance and budget approval – that could eventually turn the euro zone into something resembling a United States of Europe'.<sup>29</sup>

U.S. economists have traditionally represented the community holding the strongest reservations toward the euro. One of them, the late Rudiger Dornbusch, classified U.S. attitudes to the euro in 2001 as falling into three camps: 'It can't happen', 'It's a bad idea' and 'It can't last'.<sup>30</sup>

<sup>24</sup> 'Does the Euro Have a Future?', The New York Review of Books, 15 September 2011.

<sup>25</sup> See Matthew Saltmarsh, 'I.M.F. Warns of New Austerity Measures Ahead', The New York Times, 21 June 2011.

<sup>26</sup> See his 'The Crisis Is in Brussels, Not Athens', The New York Times, 19 June 2011.

<sup>27</sup> Quoted in William Horobin and Nathalie Boschat, 'Trichet Urges Faster Bailout Action', The Wall Street Journal, 5 September 2011.

<sup>28</sup> Building Europe, building institutions, Speech by Jean-Claude Trichet, President of the ECB on receiving the Karlspreis 2011 in Aachen, 2 June 2011.

<sup>29</sup> Louise Story and Matthew Saltmarsh, 'Europeans Talk of Sharp Change in Fiscal Affairs', The New York Times, 5 September 2011.

<sup>30</sup> The main reason for this was that 'the thinking of U.S. economists was deeply influenced by the optimum currency area theory [whose] criteria as regards labor

Bad idea or not, the euro did happen and the only thing that remains to be seen is whether it will last. But while in the nineties this was merely a theoretical question, in 2010-11 it has acquired profoundly negative practical implications ranging from a meltdown of the global financial system to the dissolution of the European Union.

Probably this downside now looms so large in the minds of many American economists as to bring together what were once opposite camps. Paul Krugman, a Nobel prize winner in economics and an early hour pessimist on the euro, wrote: „So the only way out is forward. To make the Euro work, Europe needs to move much further toward political union, so that European nations start to function more like American states”.<sup>31</sup> While Barry Eichengreen, known as one of the few euro supporters on the other side of the Atlantic, wrote: „If Europe is serious about its monetary union, it will have to get over its past. It needs not just closer economic ties, but also closer political ties. The Greek crisis could be the Trojan horse that leads Europe toward deeper political integration. One can only hope”.<sup>32</sup>

Discussing the latest development of the sovereign debt crisis in late September 2011, another prominent American economist, Kenneth Rogoff, was blunt: „I don't think little steps are credible here. There needs to be a United States of Europe at the end of this. [The Europeans] were thinking they had 20 years to get there and instead they have 20 weeks”.<sup>33</sup>

Finally there is a growing number of European politicians. Some of them are retired, such as Helmut Schmidt, who took the opportunity at an event in Frankfurt to mark the end of Jean Claude Trichet's term as President of the ECB to declare „Anyone who considers his own nation more important than common Europe damages the fundamental interests of his own country” and, when it comes to making *e pluribus unum*, also said in very clear terms that „of course the strong should help the weak”.<sup>34</sup>

The Council for the Future of Europe, whose members include several former premiers – such as Tony Blair (UK), Felipe

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mobility, cross-border fiscal transfers, business cycle movements, incidence of shocks, etc.” were not fulfilled by the countries taking part to the European monetary union. Lars Jonung and Eoin Drea, „It Can't Happen, It's a Bad Idea, It Won't Last: U.S. Economists on the EMU and the Euro, 1989-2002”, *Econ Journal Watch*, January 2010.

<sup>31</sup> The making of a euromess”, *International Herald Tribune*, 16 February 2010.

<sup>32</sup> Quoted in Graham Bowley and Liz Alderman, „In European Crisis, Experts See Little Hope for a Quick Fix”, *The New York Times*, 29 September 2011.

<sup>33</sup> Quoted in Graham Bowley and Liz Alderman, „In European Crisis, Experts See Little Hope for a Quick Fix”, *The New York Times*, 29 September 2011.

<sup>34</sup> Quoted in Jack Ewing, Stephen Castle and Raphael Minder, „Pressure for decisive action on debt grows”, *International Herald Tribune*, 20 October 2011.

Gonzales (Spain), Gerard Schröder (Germany), Guy Verhofstadt (Belgium) – released a statement on 5 September 2011 saying: ‚It will be necessary to further lay out a vision of a Federation that goes beyond a fiscal and economic mandate to include a common security, energy, climate, immigration and foreign policy‘.<sup>35</sup>

Interviewed on the same day by the German weekly Der Spiegel, Schröder confirms that ‚The [European] Commission will have to be turned into a government that is controlled, in parliamentary terms, by the European Parliament. That translates into a United States of Europe [...] This crisis presents a great opportunity to create a real political union in Europe. I’m convinced that this has the majority appeal in the member states.‘<sup>36</sup>

Several other European politicians who in recent times have made stunning pro-federal declarations, however, are active and occupy government posts (or did when they made the relevant statements). Franco Frattini, then Italy’s Foreign Minister, declared on 14 September 2011 that ‚Italy is ready to give up all the sovereignty necessary to create a genuine European central government‘.<sup>37</sup>

Alain Juppé, the French Foreign Minister, during a TV debate on 29 September 2011, declared: ‚To let the euro zone break up would be a heavy responsibility before history. [...] To the contrary. I believe we have to go farther on the road of European solidarity. I am in favour of a true European federation because in the world in which we live we cannot tackle the challenges we face on our own‘.<sup>38</sup>

As far as we know, this is the first time ever a prominent member - the Foreign Minister, no less - of a French government in power, a public personality also known for his Gaullist background, openly recognizes the necessity of relinquishing further sovereignty to a European federation.

Also François Baroin, the French Finance Minister, is on record as saying that ‚If the question is ‘are we going toward more federalism?’, the answer is ‘yes’ and the Gaullist that I am is not the least afraid of the expression‘.<sup>39</sup>

<sup>35</sup> See Andreu Missé, ‚El Consejo para el Futuro de Europa pide más integración frente a la crisis‘, El País, 5 September 2011.

<sup>36</sup> ‚Europe Needs to Wake Up‘, Spiegel Online, 5 September 2011.

<sup>37</sup> Stefan Kornelius, ‚Italien ist bereit Souveränität abzugeben‘ Süddeutsche Zeitung, 14 September 2011.

<sup>38</sup> 31 Des Paroles et Des Actes, magazine politique de France 2, 29 September 2011. Available also at <http://www.youtube.com/watch?v=DwsxbDH4QUs>.

<sup>39</sup> ‚La BCE est une réponse et probablement même un élément important de la réponse a cette crise‘, Les Echos, 16 November 2011.

In Germany, the employment minister, Ursula von der Layen, declared in an interview that her goal is 'The United States of Europe, modelled after federal states such as Switzerland, Germany or the United States'.<sup>40</sup>

In an interview to the New York Times on 18 November 2011, the Germany's finance minister, Wolfgang Schäuble, described the steps to create a centralized fiscal government for the euro zone as intermediate.

'The ultimate goal is a political union with a European president directly elected by the People [...] We can only achieve a political union if we have a crisis'.<sup>41</sup>

Only a few days earlier, the German Chancellor herself, Angela Merkel, whose distinctive tract through the euro crisis has been a good dose of prudence, told the delegates at her annual party Congress in Leipzig that 'It is now the task of our generation to complete the economic and currency union in Europe and to create, step by step, a political union'.<sup>42</sup>

## 2. Fiscal Federalism and the European Union

Whoever says that the EU – or the euro zone - needs a Treasury, or a finance minister, is really saying that the EU needs to be able to tax and spend. This is not the case today: the EU has practically no power to tax, its budget is made up on the revenue side almost exclusively of transfers from member states. And its expenditures, negligible as they are in the aggregate (around 1% of the EU GDP), serve almost no function of government: they are just subsidies, beginning with agricultural ones that constitute almost half of the total.

The primary reason to tax and spend, though, is nowhere, at no level of government, that of making a monetary union or a common market hold together and work. To set up a federal level of government empowered to tax Europeans and spend the money thus raised only for economic reasons, in order to support monetary union and the internal market would be the crowning oddity – if not absurdity – of the European integration process.

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<sup>40</sup> Markus von Dettmer and Michael Sauga, 'Euro: Wollen wir heiraten?', Der Spiegel, 29 August 2011.

<sup>41</sup> Nicholas Kulish and Jack Ewing, 'Seeing in Crisis the Last Best Chance To Unite Europe'.

<sup>42</sup> Nicolas Kulish, 'Merkel Urges More Unified Continent to Save Euro', The New York Times, 14 November 2011.

Taxes are raised in order to provide public goods, functions of government. At the level of government where they are best provided. Some of these functions may be economic in nature, but they certainly are not the central ones, those that can give a federation its *raison d'être*. In this sense we fully sympathize with the alleged German unwillingness to make of the EU a so-called 'transfer union'.

The same applies to several other, sometimes truly bizarre, definitions coined during the crisis – such as fiscal union, stability union, austerity union and so on.

So, a Treasury implies taxes and expenditures, which imply a budget. And if one re-thinks the EU budget with an open mind, then the right question should be, 'what for'? What is the optimal distribution of functions of government among the different European, national, regional/local levels?

The theory of fiscal federalism can help a great deal in finding the right answers. As developed by Richard A. Musgrave in 1959 and by Wallace E. Oates later on,<sup>43</sup> it centers around the spatial incidence of benefits: those who benefit from the supply of public goods at a certain level of government should be, as far as possible, those who bear the burden of financing it. Thus, functions such as national security (defence), external representation (diplomacy) and justice should be carried out by the central government, while transportation and sanitation, say, can be assigned to lower levels of government.

There are three main economic functions of government: stabilization, distribution and allocation.

Macroeconomic stabilization is quite obviously to be assigned to the central level of government: not only things like the money supply and the exchange rate, but also counter-cyclical fiscal policy. Similarly, income re-distribution is best carried out at the central level. Allocation can instead be subdivided across the different levels of government following the coincidence criterion between beneficiaries and taxpayers.

A division of labour between different levels of government for the supply of public goods is justified by the territorially diverging preferences within a large jurisdiction such as a federation. Some

<sup>43</sup> See Richard A. Musgrave, *The Theory of public finance* (New York: McGraw-Hill, 1959). Of Wallace E. Oates, see 'An Essay on Fiscal Federalism', *Journal of Economic Literature*, September 1999.

goods and services provide territorially circumscribed benefits. In these cases, a de-centralized supply allows local jurisdictions to provide quantities that correspond to specific costs and preferences.

As a corollary, taxation of highly mobile factors, such as capital gains and profits, should be assigned mainly to the central level of government. Labour is also mobile, albeit to a more limited extent. Its taxation is linked to social security, a function of government carried out at federal level in the U.S. and at member state level in the EU. Consumption taxes as well as estate taxes, on the contrary, are best left to lower levels of government.

The theory of fiscal federalism was applied mainly to existing states. It once inspired, though, a serious attempt to look at the evolution of the European Community into a Federation.<sup>44</sup> As noted in the previous chapter, this evolution is precisely what the second great contraction seems to have put back on the agenda.

The EU can be looked at through the lenses of fiscal federalism even in its present form, since it is nonetheless a specific level of government for Europe as a whole – arguably the highest as testified by, among other things, the precedence community law has with respect to the laws of member states. It contributes to Europe's macroeconomic stabilization via its monetary policy and via its admittedly limited spending policy.<sup>45</sup> It complements member states in carrying out a redistributive function via the Common Agricultural Policy (CAP), the structural funds and other programs from its budget.

It complements member states in the provision of some public goods that fiscal federalism typically assign to the central level of government: defence, particularly peace-keeping; diplomacy, particularly development and humanitarian aid; scientific research.<sup>46</sup> Finally, as an 'ever closer union' it is a jurisdiction in

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<sup>44</sup> We are referring to the 1977 Report to the European commission on 'The Role of Public Finance in European Integration' by a Study Group chaired by Donald MacDougall – who was at that time the Chief Economic Adviser of the Confederation of the British Industry. The full text of the report plus several individual contributions, including one by Wallace E. Oates, who was a member of the Study Group, can be found on the website of the Directorate General for Economic and Financial Affairs of the European Commission at the following address.  
[http://ec.europa.eu/economy\\_finance/emu\\_history/documentation/documentation\\_chapter8.htm](http://ec.europa.eu/economy_finance/emu_history/documentation/documentation_chapter8.htm).

<sup>45</sup> At the end of 2008, the EU launched the European Economic Recovery Plan, a stimulus package equivalent to about 1.5% the Union's GNP. About one fifth of it, or € 30 billion, were resources coming from the EU budget.

<sup>46</sup> The Lisbon Treaty has equipped the EU with: a High Representative for Foreign Affairs and Security Policy, currently Ms. Catherine Ashton; a European External Action Service (or diplomatic corps); a European Defence Agency (focused on common arms procurement). The latter began functioning well before the entry into force of the treaty in December 2009.



flux that may be given new functions of government, or may remain the same or even be downsized – all cases in which fiscal federalism would have a lot to say on how to optimize its taxing and spending.

On the other hand, the theory of fiscal federalism may have its best ally in the principle of subsidiarity, spelt out in the EU Treaty. It reads: ,the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level.<sup>47</sup>

Although the principle of subsidiarity is quoted more often by those who think that the Union’s competences are already too many and would be better circumscribed, the letter of it leaves the door open to a cold-minded reappraisal of who should do what in Europe. In particular, the words ,by reason of scale or effects’ evoke the importance given by fiscal federalism to externalities and spillover effects.

The budget of the U.S. federal government is a real world example of fiscal federalism in practice. It is sketched below as a percentage of U.S. GDP (the year is ante-great contraction 2007).

	% of U.S. GDP
Defence	4.0
Social Security	4.3
Medicare and Medicaid	4.9
Unemployment and Welfare	2.6
Interest on the Debt	1.7
Everything else	3.2
Total	20.7

Using the U.S. federal budget as a benchmark may help giving a rough idea of what an EU federal budget may look like. Let’s consider first what is in the U.S. budget that couldn’t or shouldn’t be in the EU one.

On social security, particularly pensions, there coexist many different national preferences in Europe, due to different

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<sup>47</sup> See art. 5 of the (Lisbon) Treaty on the European Union. The principle of subsidiarity applies to the many areas in which competences are shared between the Union and member states. Member states can, of course, confer upon the Union whole new competences through further treaty changes.

demographic trends and varying degrees of influence on the part of different interest groups. Many of these groups would actively oppose the transfer to Brussels of this function of government.

On top of these collective action hurdles, national pension systems in Europe are mostly based on 'pay as you go' (active workers' contributions are used to pay retirees) and have such diverging degrees of fiscal liabilities as to make the change over to a centralized, federal system next to impossible from a public finance point of view.

Intractable in today's Europe, the transition might perhaps become possible one day, especially if there is an EU-wide, prolonged effort to make the current national systems sustainable and convergent. A European federal social security system would greatly help labour mobility within the internal market, which in its turn would make monetary union more robust.

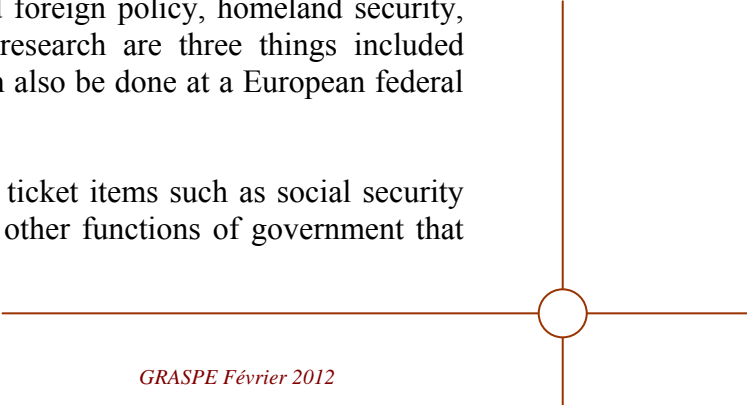
On the other hand, a federal system of unemployment subsidies to complement national ones would be far easier to set up and finance in the short term. It would probably involve very small amounts on the scale of the European economy, being at the same time extremely helpful in making the effects of booms and busts more symmetrical by providing support to states and regions most in need.

Welfare (including health care) and income re-distribution to individuals and households should also be left to member states in today's Europe, whatever the U.S. may do in this regard or what fiscal federalism may recommend. National preferences and traditions vary across the continent, member states have hugely different degrees of generosity/expectation in the supply/demand of these public goods and their convergence may still require a lot of time or simply never happen.

Unless the decision to issue eurobonds is eventually taken, the EU has no debt of its own and thus no interest to pay on it. Thus this item need not be applied to the European case.

The last item in the U.S. budget sketched here, 'everything else', contains many important functions of government at lower levels of expenditure. Diplomacy and foreign policy, homeland security, federal support for scientific research are three things included there that should in our opinion also be done at a European federal level.

In the end, even excluding big ticket items such as social security and welfare, there still remain other functions of government that



according to fiscal federalism, subsidiarity and common sense, would be best assigned to the central, EU level of government.

These are:

- security and defence;
- diplomacy and foreign policy (including development and humanitarian aid);
- border control (the equivalent of homeland security in the U.S.);
- infrastructural projects with European-wide network effects;
- large-scale Research & Development (R&D) projects;
- social and regional re-distribution.

Defence and foreign policy are perhaps the ultimate taboos of state sovereignty. However, the diminishing impact that even the bigger European nations have on their own in world affairs is increasingly clear to all (including the foreign minister of France), the efforts done by EU member states in Brussels to come up with a EU stance on most global issues is so continuous and pervasive, that the inclusion here of these functions of government need no lengthy explanation.

Instead of looking at ourselves from the inside, it is perhaps more useful to try and assume the perspective of non-Europeans. A couple of decades ago, when China, India, Russia were outside the world market economy and Mexico, Brazil, South Africa and others too underdeveloped to count much, it might have been understandable that each European nation, especially the biggest ones, wanted their own seat at whatever table. Today it is becoming increasingly ridiculous and unsustainable.

The solution clearly does not lie in diluting forum after forum – in making of every G-8 a G-20. Who's going to make room in the UN system – from the Security Council to the Bretton Woods institutions – to the nations quoted above if not France, the UK, Italy and Germany?

These are the obvious candidates not only because, having long been overtaken in terms of population, they will soon be surpassed also in terms of GDP, but also because they have an alternative and this is to be collectively represented by the European Union.

The alternative has demonstrated that it serves the interests of Europe's member states better and at the same time is very much appreciated by non-Europeans, who obviously prefer to deal with one in lieu of several, and the effectiveness flowing from it.

World trade is the classical example. Global challenges such as the environment or nuclear non-proliferation point in the same direction. The great contraction also brought to the fore monetary

policy. The European Central Bank has not only acted early (since August 9, 2007), imaginatively and courageously in the financial crisis, but perhaps more importantly has acted as a single entity and the main counterpart to the other Central Banks, from the Federal Reserve to the Bank of Japan.

Re-distribution, the last item in our list of functions of government to assign at EU federal level has two components, social and regional. The former would consist of the federal program of unemployment subsidies quoted above. The latter would be kept for as long as needed to help the countries that joined the EU in 2004-2007, and others that may join in the future, closing the gap in living standard with the rest of Europe. Note that more than one third of the current EU budget is already devoted to these kinds of subsidies.

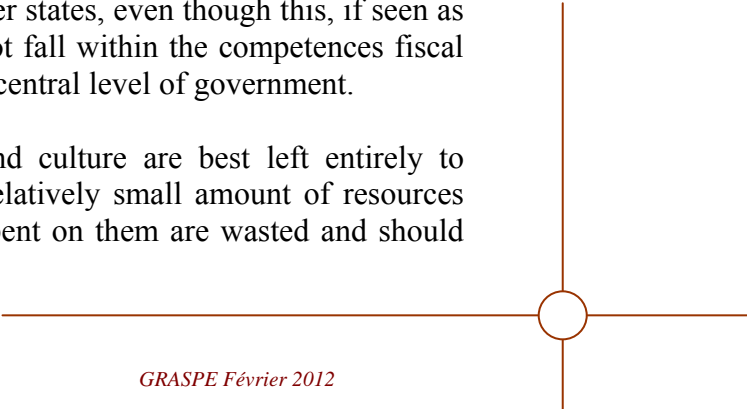
Resources under this heading would go to richer member states only occasionally, to counter specific emergencies such as the current one in Greek public finances. In such situations the relevant funds could be made to work in conjunction with the EFSF successor, i.e. the European Stability Mechanism (ESM).

Since the provisions of all these functions of government would entail a substantially bigger budget relative to the European economy as a whole than it is currently the case, the kind of macro-economic stabilization at federal level recalled above should become possible. Brussels would finally have the ability to transfer a sizeable amount of resources from states doing better to states doing worse taxing the former more, and spending more in the latter.

The provision of other public goods would be best left where it largely is now, at member state level, in order to satisfy the different underlying preferences. Examples include education, culture, health, transport etc. In these and other cases the EU should simply divest itself of what it does today, except regulating through an internal market mandate, or coordinating national actions when needed.

To give an example: its regulatory powers on the food chain enable the Commission to legislate on veterinary controls and monitor their implementation by member states, even though this, if seen as a public health issue, would not fall within the competences fiscal federalism would assign to the central level of government.

On the contrary, education and culture are best left entirely to member states and even the relatively small amount of resources from the current EU budget spent on them are wasted and should



be eliminated altogether. Doing little things here and there, even outside its core and most logical competences, is precisely what makes the EU vulnerable to the charge of ‘creeping federalism’ – and, worse, inefficiency. To use the British conservatives’ jargon, let’s repatriate these (pseudo) powers.

Let’s also repatriate Agricultural Policy. Its subsidies represent 43% of the current budget of the EU and are its biggest single item. There is an immense literature harshly criticizing them for their negative effects on resource allocation, domestic and international prices, world trade, food quality and the environment. Their continued existence is testimony to the lobbying strength of European farmers in shaping the allocation of the few resources assigned to the EU budget.

Ignoring the farm lobby and designing an EU budget with zero resources for the Common Agriculture Policy (CAP) would not necessarily entail its death. Reforms already undertaken are shifting in any case the emphasis from production and price fixing subsidies, to the direct support of farm income. To the extent this support does not create market distortions, it can be then carried out by the single member states according to their own national preferences, leaving for the European Commission a role as coordinator of, and watchdog for, commonly agreed rules – as already happens in a number of policy fields.

The current budget of the EU includes some funds for scientific research: about € 9 billion in 2011. R&D spending in the 27 EU members, at about 2% of their combined GDP, should be more than € 250 billion for the same year. In other words, on any given euro spent on R&D in the EU, 97 cents come from member states and 3 cents from Brussels.

To put things in perspective the federal government funds about half of all research in the United States and 17 % of development.<sup>48</sup>

Whatever is spent from the EU budget, moreover, cannot be concentrated anywhere or be focussed on anything, but it must be spread far and wide among 27 member states and dozens of different projects. Nonetheless, these funds are very much sought after, further contributing to a public perception of the EU as a cash cow. This happens partly because there are in fact very few American-style foundations in Europe that support cultural, scientific and social activities. And partly because ‘showing the

<sup>48</sup> See The Congress of the United States, Congressional Budget Office, Federal Support for Research and Development, CBO Study, June 2007.

blue flag' of being EU-funded, even if for trivial amounts, is often considered prestigious, especially in Southern Europe or in the new member states.

It would make much more sense to put the EU in charge of truly pan-European scientific projects on a scale beyond what even the biggest member states can now afford on their own. Here the logical parallel is with the U.S. and its space programs or its national security-related research efforts – all run at the federal level. Having the EU level of government take care of defence would, of course, greatly facilitate running ambitious space, aeronautics and defence-related research projects on a European scale.

The transfer of certain functions of government from the national to the European level should entail no net increase of public expenditures in the EU as a whole, and possibly a net decrease, due in fact to economies of scale. Take defence: a single organization is likely to produce a 'bigger bang for the buck' than 27 different ones. On top of that, as the NATO cold war experience shows, efforts to coordinate independent defence establishments have always produced disappointing results and lots of free riding at the expense of the richest suppliers of the public good.

Nick Witney, the former head of the European Defence Agency, wrote the most knowledgeable and persuasive indictment of Europe's security and defence policy as it stands today.

'Nearly two decades after the end of the Cold War – he wrote – most European armies are still geared towards an all-out warfare on the inner German border rather than keeping the peace in Chad or supporting security and development in Afghanistan. This failure to modernize means that much of the € 200 billion that Europe spends on defence each year is simply wasted. The EU's individual Member States, even France and Britain, have lost and will never regain the ability to finance all the necessary new capabilities by themselves'.<sup>49</sup>

If this is the diagnosis, and if several years spent improving coordination and cooperation among different national defence organizations have failed as a cure, wouldn't the creation of an EU army be the most logical step to pursue? Note that precisely because the mission of Europe's military force has so profoundly changed, it is in principle much easier to start a new army from scratch – manpower, equipment, doctrines and all – rather than

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<sup>49</sup> N. Witney, 'Re-energising Europe's Security and Defence Policy', European Council on Foreign Relations, July 2008, available at [www.ecfr.eu](http://www.ecfr.eu).

persevering in the futile attempt to convert existing ones to new missions trying at the same time to increase their cooperation. Why is it possible to create from scratch a new currency and a new central bank and not a new army?

Diplomacy, a relative inexpensive item in the budgets of present day nation states, would nonetheless cost a lot less if centralized at the European level. The European commission already has delegations in more than a hundred capitals, the head of the delegation often accorded the rank of ambassador. Member states embassies around the world that would become redundant are in the order of thousands. Simple arithmetic tells us that only the intra-UE embassies are in the order of several hundreds ( $26 \times 27 = 702$ ). Some of the biggest member states' embassies are in other members states, such as Italy's in Berlin.

Development aid and humanitarian aid - things that the European Commission already does on a substantial scale (it is the first world donor of the latter, for example) - would still be done, but not only on an even larger scale, but also and for the first time in coherence with the overall goals of an EU foreign policy. Today, the lack of this - as opposed to the very existence of 27 distinct member states' foreign policies - has led the EU to disburse its humanitarian aid under the hypocritical assumption, particularly in situations of conflict, of being politically neutral.

The European Union is first of all a customs union. Customs is an exclusive EU competence<sup>50</sup>: member states no longer have any intra-EU border control; they share a common external border and implement the same customs code, together with other regulations concerning, for example, the control of exports of dual use goods or the implementation of UN resolutions on arms embargo.

Despite this, the EU still anachronistically relies on 27 separate national customs organizations. Given also the growing importance of new security missions (anti-proliferation, anti-terrorism, health and food security etc.) at the expense of the traditional tax collecting mission, EU customs is a prime candidate for integration at the central level of government on a model that may very well follow the U.S. Department of Homeland Security.

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<sup>50</sup> See art. 3 of the 'Treaty on the functioning of the European Union' (Lisbon Treaty).

Let's now look, first, at the composition of the current EU budget.

Figures in percentage of Europe's GDP. <sup>51</sup>	% of EU GDP
Agricultural subsidies	0.43
Social and regional re-distribution (structural funds)	0.35
Internal policies	0.10
External policies	0.06
Administration	0.06
Total	1.00

Below are the EU functions of government we have been sketching here, together with a ballpark quantification of their cost, again as a percentage of Europe's GDP.<sup>52</sup>

	% of EU GDP
Defence	1.0
Diplomacy (incl. Development and Humanitarian Aid)	1.0
Research and Development	1.0
Social and Regional re-distribution	0.7
Border Control	0.5
Trans-European Networks (TENs)	0.5
Administration	0.3
Total	5.0

Why these figures?

In 2009, EU member states defence spending ranged from Ireland 0.6% of GDP to Greece 2.5%. Figures for big member states were as follows: France 2.0%, Germany 1.5%, Italy 1.4%, Poland 1.7%, Spain 1.2%, the UK 2.6%. Collectively, they spent 1.7% of Europe's GDP, or € 194 billion.<sup>53</sup>

<sup>51</sup> With small roundings, these figures represent the expenditures (commitment appropriations) foreseen in the EU Financial perspective 2007-2013.

<sup>52</sup> Eurostat 2011 forecast for EU 27 GDP is € 12.650 trillion, for the euro area is € 9.433 trillion. Thus, 1 % corresponds respectively to € 126 and 94 billion, 5% to € 630 and 470 billion.

<sup>53</sup> European Defence Agency, Defence Data of EDA participating Member States in 2009, 31 March 2011. Denmark, which opted out of EU defence cooperation, is not included in this calculation



A hypothetical EU defence spending in the order of 1.0 % of GDP may therefore seem low. It corresponds, though, to almost € 130 billion, which would automatically make of the EU armed forces an effective military organization, second only to the United States and with 3 to 5 times the resources available to powers such as Russia, China or Japan. Nonetheless, it still would imply € 60-70 billion of savings with respect to the current situation, more than half a percentage point of Europe's GDP.<sup>54</sup>

The diplomatic function includes development/humanitarian aid. There exists an international commitment taken by the rich countries at the UN Assembly in 1970 to devote 0.7% of their GDP to development, more recently confirmed in the UN millennium goals. Three EU member states – Luxembourg, Denmark and Sweden – are above that target, but the rest are way below, so much so that even 0.5% of the EU GDP, or some € 63 billion, would be a leap forward from the 2008 figure of € 48.6 billion (European Commission plus member states). The other half percent would pay humanitarian aid and the functioning of the EU diplomatic service.

All in all, 1% of Europe's GDP is a high sum to devote to its foreign relations if compared, for example, to the U.S. But it is also in line with the EU self-styled characterization as a 'soft power' on the world scene, and with its present and future commitments.

As for R&D, Europe currently spends slightly more than 2% of GDP here, almost all from member states' sources, both public and private. One major goal of the Lisbon strategy on growth and jobs agreed upon by member states in 2000 and confirmed in Europe 2020 is to reach a level of 3% of GDP. Here we simply assume that the gap be filled at the central, federal level of government.

The order of magnitude envisaged here for the re-distributive function is double that currently envisaged by structural funds, but it includes a European wide system of unemployment benefits. The traditional, regional part would, instead, be focussed on the new member states and go to the richer ones only in emergencies.

The resources available to the U.S. Department of Homeland Security corresponded in 2007 to about 0.3% of the U.S. GDP. The territory of the European Union has longer and more problematic borders, more ports and airports, more residents to protect. Thus a

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<sup>54</sup> The transition to an EU standing army would certainly be more expensive and elaborate than that leading to the creation of the ECB, if only for the sheer amount of hardware involved. Once completed, it is perhaps conceivable that member states so willing would be free to maintain on their own national forces for territorial defence or other duties, in analogy to the National Guard in the U.S.

figure of 0.5 % of GDP looks reasonable. Detailed studies are of course needed, but it should be fair to assume that at present 27 separate organizations cost Europe more.

In our hypothetical budget TENs would get far more than what is provided in the present EU budget. This new level of resources would, however, substitute for, instead of coming on top of, what members states now spend at national level to increase the connectivity and interoperability of European transport, energy and telecommunications networks, receiving little money and much coordination from Brussels.

Moreover, this is perhaps the most effective way of stimulating the EU economy through federal spending at times of crisis.<sup>55</sup>

Lastly, administrative expenses would absorb five times the current amount, but they would support a much larger overall budget, armed forces, a diplomatic corps, large federal programs of scientific research, an EU border control organization.

On the revenue side there are several options to finance a budget of this order of magnitude. Before pointing to some of them, however, it is important to reaffirm the principle that an EU federal level of government, with these functions to carry out, must have the power to directly tax European citizens, doing away altogether with transfers from member states that currently cover 87% of the budget.<sup>56</sup>

Some of the options available on the revenue side have come to the fore in recent times, as public powers all over the world try to compensate for a host of negative externalities created by manufacturing or finance. Proposals have been made to feed the EU budget via an energy tax, a financial transaction tax, a charge

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<sup>55</sup> For the European economies, integrated as they are, growth is a public good. If (public) spending is needed to stimulate growth, either it exists as a pool of common resources (a federal EU budget), or all members of the group have to spend in some fair proportion – they have to contribute to the provision of the public good. Otherwise, either someone ends up free riding on the others, or the public good is simply not provided for. Noting that this resulted in Europe not providing enough stimulus to its (and the world) economy during the great contraction, Paul Krugman observed: ‘This is a major reason for the lack of fiscal action: there’s no government in a position to take responsibility for the European economy as a whole. What Europe has, instead, are national governments, each of which is reluctant to run up large debts to finance a stimulus that will convey many if not most of its benefits to voters in other countries.’ See his ‘A continent adrift’, *International Herald Tribune*, March 16, 2009.

<sup>56</sup> No taxation without representation, of course, and this implies complete parliamentary control of the budget process, revenues as well as expenditures, and a federal government expression of the popular vote. These are fundamental problems of a constitutional nature that are, however, largely outside the scope of this paper.

related to air transport, or the auctioning revenue from the EU Emission Trading System.<sup>57</sup>

None of these – nor probably the combination of all of them – would go very far in financing even a limited budget such as one sketched in this paper. The financial transaction tax, for example, would raise some € 45-50 billion.

In our opinion two methods to finance the EU budget stand out. The first would be the corporate income tax. In a manner consistent with the theory of fiscal federalism, this is levied at federal level in the U.S. Europe should do the same. Indeed, whatever the critics of tax harmonization may say – most of whom, however, are also happy to stay outside monetary union, let alone a United States of Europe - a single corporate income tax would greatly help making a level playing field of the internal market.

The corporate income tax represented 10 percent of total tax revenue in 2008 in the Organization for Economic Cooperation and Development (OECD). By the rule of thumb, it should thus be able to finance a European federal budget of 5% of GDP almost entirely.

The second resource we recommend would be a single Value Added Tax (VAT) on all imports. If one assumes, as we did, the creation of a federal customs organization, then the tax collector finally identifies with the beneficiary, the federal treasury – which is obviously not the case today: member states' customs collect duties on behalf of EU coffers for a fee (25% of the revenues). This would also eliminate potential distortions in the flow of trade – and therefore of VAT income - due to the unequal application of the same customs code on the part of 27 independent national agencies.

According to a specific study on this subject, the VAT on imported goods raised the equivalent of 1.6% of the EU GDP in 2006. A low-growth scenario projection to 2014 would bring this figure to almost 2%.<sup>58</sup> Thus, this source could cover almost half of the budget we proposed. In conclusion, we cannot but emphasize that given the limited amounts to be financed it is also possible to limit the sources to 1-2 taxes, leaving all the rest in the hands of member states.

<sup>57</sup> These options and others are discussed in European Commission, 'Financing the EU budget: report on the operation of the own resources system', Commission staff working paper, Brussels 27 October 2011, SEC(2011) 876 final/2. See also from the same source the 'Proposal for a Council Regulation on the methods and procedure for making available the own resource based on the financial transaction tax', Brussels 9 November 2011, COM(2011), 738 final.

<sup>58</sup> See Claudia Bornico, 'Studio di una nuova fonte di finanziamento nell'ambito del bilancio dell'Unione Europea', Associazione Universitaria di Studi Europei, Pavia, Italy, January 2006.

Even though public expenditures have a tendency to constantly grow and seldom contract, we believe the indicative figure of 5% of Europe's GDP put forward for the functions of governments here assigned to the EU is realistic and perhaps also downwardly flexible: regional cohesion is supposed to be limited in time and the same may apply, hopefully, to development aid; TENs have physical limits; armed forces exclusively conceived for peace-keeping and stabilization missions can be very effective even below the level of spending suggested here, especially if the EU other arm, its soft power, is successful, helping to make the world a better place.

On the other hand, the EU budget suggested here would have sufficient resources to stimulate, when need be, Europe's economy without creating the collective action problems inherent in doing that via national spending programs experienced in the great contraction. Macro-economic stabilization would also be helped by the social re-distributive function and by taxation: countries or regions in recession import less, make less profits and end up contributing less to a federal budget.

Finally, by transferring whole functions of governments to the federal level one ensures that the attendant expenditures be substitutive, rather than additional, to national ones. In some cases, such as defence and border control, economies of scale are also implied. And where we foresaw net increases, such as in scientific research, this is the product of a long standing political choice, taken by the EU but never implemented.<sup>59</sup>

To give an idea of how small the EU budget sketched here is - hardly the stuff of a super-state! - the table below shows the current size of European total general government expenditures :

Public expenditures as % of GDP (year 2010)	
EU-27	50.6
Germany	47.9
France	56.6
Italy	50.3
Poland	45.4
Spain	45.6
UK	50.4
<i>United States</i>	42.3
<i>Japan</i>	40.7

Sources: Eurostat for EU and EU member states; OECD for the U.S. and Japan.

<sup>59</sup> Note however that the 1% of EU GDP that we assign here to R&D would be financed entirely by the savings in defence expenditures and the elimination of agricultural subsidies.

Nation states in Europe and elsewhere are the real superstates, it is fair to say. They are the ones that made a habit of living beyond their means, that become addicted to borrowing and ultimately created the gigantic sovereign debt mess that Europe is desperately trying to survive.

This is not the first time in history that heavy nation states wreak havoc in Europe. Let's hope that it be the first that a Federation Lite restores sanity, peace and prosperity.

## Conclusions

As the first part of this paper has shown, there is a growing consensus that the EU can survive the present crisis and prosper only if it moves rapidly toward political union.

Since Europeans have always done this in bits and pieces, by small incremental steps – the ‘ever closer union’ - there is a risk that, under the pressure of the events, we come up with something that resembles a federation without really being one. A strange Frankenstein's creature, i.e. a monster.

If we end up, for example, with a Europe that still has the current budget, negligible and wasteful at the same time, but shoulders (via Eurobonds) the biggest public debt in the world; a Europe that equips itself with a Minister of Finance who is not at all a real Minister of Finance but only the Managing Director of the European Monetary Fund (the ESM); a Europe that formally leaves member states in control of the public purse but in practice has the power to dictate fiscal policy to them and even place them, in extreme cases, under its receivership; a Europe that still does not have an executive power which is the expression of popular vote, nor a diplomacy, nor armed forces – but still has a directly elected parliament, a court of justice, a single currency *cum* central bank.

Well, this would in our opinion be not a federation but a political monster. And since in order to create such a monster, as the German government has made abundantly clear, we have in any case to change the treaty, let's use this opportunity to take more seriously what people as diverse as Gerard Schröder, Guy Verhofstadt, Franco Frattini, Alain Juppé, Wolfgang Schäuble and Kenneth Rogoff have been saying on Europe's political union and move toward a real European federation.

On our part we tried to show as well as we could that the United States of Europe need not at all be the superstate dreaded by Euro-skeptics, but a Federation Lite.

If it still looks unthinkable, please consider that very often the unthinkable turns out to be so perfectly thinkable that it was already thought.

The United States of Europe conceived in Altiero Spinelli and Ernesto Rossi's *Il Manifesto di Ventotene*, written in 1941, was made of a federal army, a federal foreign policy, monetary union, the four freedoms the internal market is based on, and direct representation of European citizens.<sup>60</sup> No superstate either.

In 1977, the MacDougall report on the role of Public Finance in European Integration thus concluded: 'It is possible to conceive, presumably at some distant date, a Federation in Europe in which federal public expenditure is around 20 - 25% of gross product as in the U.S.A. and the Federal Republic of Germany. An earlier stage would be a federation with a much smaller federal expenditure of the order of 5 - 7% of gross product, or roughly 7 ½ - 10 % if defence were included. An essential characteristic of such a federation would be that the supply of social and welfare services would nearly all remain at the national level'.

Note how uncontroversial the use of the term 'federal' or 'federation' was at the time if it was used in an expert group chaired by a British person. And note also the economic costs of defence (2 ½ - 3 % of GDP) during the cold war.

As for the rest of the quotation, we just hope that by now it looks familiar and reasonable to the reader of this paper.

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<sup>60</sup> Altiero Spinelli, Ernesto Rossi, *Il Manifesto di Ventotene*, (Milano: RCS Quotidiani SpA, 2010), p. 17 and p. 61.

## **EU responses to the crisis: From inadequate explanations to inefficient policy solutions?**

*This write-up is a further elaboration on the article from Joaquín Almunia, Vice-President of the Commission, Sept Points sur la crise, in Graspe n°17.*

The debt crisis saga continues, further demonstrating the inability of the European Union and its leaders to come to grip with solutions that could put an end to the devastating consequences it is having on the European Economy and by implication on workers' welfare. In the second quarter of 2011, overall unemployment stood at 10.3% for the Eurozone while it reached a staggering 21.7% for 15-24 years old.<sup>61</sup> This country average hides important cross national disparities with Greece's overall unemployment rate being at 18.8%, Ireland 14.6%, Portugal 12.8% and Spain 22.5% in September 2011.<sup>62</sup> In October 2011, 23.5 million workers were unemployed in EU27.

Yet we are told that the way forward is more contractionary fiscal policy, both through cutbacks in the Public sector, curtailment of existing welfare state benefits, and additional moderation of wages throughout Europe. This despite mounting evidence that the current strategy has not worked. Indeed, it will come as no surprise that against this backdrop the debt picture has not improved. While the Euro area inflation rate<sup>63</sup> stayed stable at 3% in November 2011, General government deficit as a % of GDP for the Euro area in 2010 had reached 6.2% compared with 2.1% in 2008.

Now the IMF itself believes that the continuous declines of Greek GDP means initial debt reduction targets agreed with the Troika will not work.<sup>64</sup> Somewhat ironically, this follows the entry into force on the

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<sup>61</sup> Eurostat

<sup>62</sup> OECD stats

<sup>63</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/2-15122011-AP/EN/2-15122011-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-15122011-AP/EN/2-15122011-AP-EN.PDF)

<sup>64</sup>

[http://www.ekathimerini.com/4dcgi/\\_w\\_articles\\_wsite1\\_1\\_09/01/2012\\_421770](http://www.ekathimerini.com/4dcgi/_w_articles_wsite1_1_09/01/2012_421770)

13<sup>th</sup> of December of the so-called 'six-pack' portrayed as a reinforcement of the Stability and Growth Pact. This will entail the possibilities to impose financial penalties on Member States who fail to realign their budget deficits.<sup>65</sup>

## Explanatory formats of the crisis

The utter failure of EU policy making process to come up with a sensible, let alone coherent, strategy to deal with the crisis is mirrored by similarly flawed readings of the crisis. Several faulty narratives underpin the current direction of policy.<sup>66</sup>

The first emphasizes the weakness of human nature, where instincts, greed and delusion mix together to produce corruption on the part of politicians, as well as unreasonable debt exposure by public and private actors alike. This echoes the view that saw the subprime crisis as being caused by greedy and immoral bankers. In this scenario, more rules and regulations, particularly of a supranational nature, are called for. This reading partly informs the 'six pack'.

Second, one can identify institutional failures where regulators failed in their oversight of Member States' deficits or rating agencies provided inadequate ratings of the debt situation in EU countries. Again, this notionally equivalent to the purported inability of regulators to monitor shadow banking and the systemic risks that it generated. Thus, in this view, more thorough monitoring of Member States' macroeconomic and budgetary imbalances' is warranted.

These two readings both point to the role of government profligacy as the source of the problem. However, debt is either money we owe to ourselves – making a distributional issue – or stems from trade deficits which are offsets by inflows of capital often redirected into the bond market.<sup>67</sup> In any case, a significant amount of debt resulted from the financial crisis rather than caused it, and some of the countries currently under the spotlight (Spain, Ireland and Italy) had a sound fiscal stance before the crisis.<sup>68</sup>

In a third reading of the crisis, some argue it is the ideological and theoretical failure such as neoliberalism or the Efficient Market

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<sup>65</sup> [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/LN-122011/EN/LN-122011-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/LN-122011/EN/LN-122011-EN.PDF)

<sup>66</sup> This follows loosely from David Harvey's talk which can be accessed at: <http://davidharvey.org/2010/06/rsa-crises-of-capitalism-talk-animated/>

<sup>67</sup> <http://krugman.blogs.nytimes.com/2011/12/28/debt-is-mostly-money-we-owe-to-ourselves/>

<sup>68</sup> <http://www.voxeu.org/index.php?q=node/7491>



Hypothesis<sup>69</sup> that is embedded in it, that is responsible for the situation we now fail. The more heroic among social democrats therefore advise us: Return to Keynesianism and all shall be good. But policy makers tell us that there is no scope for further fiscal expansion and neoliberal ideology rises from its ashes with economics Nobel prize winner Paul Krugman has termed the ‘confidence fairy’.<sup>70</sup> This refers to the faith that tightening will result in ‘expansionary austerity’ whereby the contractionary effects of austerity would be offset by increased confidence on the part of private investors. There is in fact substantial evidence that fiscal policy works<sup>71</sup> and could be undertaken provided the ECB takes a more pro-active role in the European primary bond markets (which is currently ruled by its statutes).

Last but not least, cultural explanations also sprang up where we were told that Southern European problem were essentially due to the intrinsic laziness of their workers and the fiscal incontinence<sup>72</sup> of their governments. Not much can be done in this case, save for infusing the sinners with the virtuous culture of Northern Europe. This of course is hard to reconcile that with the fact that the numbers of hours that Greek workers dedicate to their jobs is one of the highest in Europe.<sup>73</sup>

### **The missing link: Wages, coordination and the European Monetary Union**

What has been almost - though not entirely - absent from the debate is the question of wages as a cause and potential solution to the crisis. The wage share as a % of GDP which measures the amount of wealth produced in a given year that is distributed in the form of wages to workers has been falling in the past three decades in the OECD. The drivers of this trend are by now well documented and include weakening union power, globalization of trade and capital, and the opening of capital accounts.

The implications of this phenomenon will not shock those acquainted with Marxian analyses of the internal contradictions of capital accumulation whereby it breeds the seeds of its own demise by undercutting the aggregate demand on which growth crucially depends. As early as the 1970s, James O’Connor emphasized the contradictory

<sup>69</sup> This hypothesis was most forcibly posited by Professor Eugene Farma who is dubbed as the “father of modern finance” – for more on this, see: [http://www.chicagobooth.edu/faculty/bio.aspx?person\\_id=12824813568](http://www.chicagobooth.edu/faculty/bio.aspx?person_id=12824813568)

<sup>70</sup> <http://www.social-europe.eu/2011/12/mario-and-the-confidence-fairy/>

<sup>71</sup>

<http://www.imf.org/external/np/seminars/eng/2011/res/pdf/DR3presentation.pdf>

<sup>72</sup> The term was borrowed from Willem Buijer, previously Chair in European Political Economy at the European Institute of the London School of Economics.

<sup>73</sup> <http://blogs.lse.ac.uk/greeceatlse/2011/09/14/the-lazy-south-think-again/>

functions of the State in promoting capital accumulation by moderating wages and legitimization by expanding welfare state benefits and redistributive policies to mitigate the adverse impacts that capitalism has on workers.<sup>74</sup> In a world where capital mobility increases and most of the tax revenues from income, this generates an obvious contradiction in form of more expenditures but constrained revenues that can only be resolved through emitting more public debt. Indeed, social pacts emphasized in the neo-corporatist literature explicitly traded higher wage moderation for lower taxes and/or more welfare state benefits. This was followed by what Colin Crouch has called 'privatised Keynesianism' where public debt was replaced by individuals' debt, with the consequences that we know.

The way forward is therefore to address imbalances but through both improved wage coordination and revalued wages at the EU level, as has been called for by the European Trade Union Confederation as early as December 2009 in its 'Resolution on the Guidelines for the coordination of collective bargaining in 2010'<sup>75</sup>. In a recent ILO paper, Patrick Belser and Sangheon Lee have argued that a 'wage led growth' strategy can generate better and more sustainable economic outcomes. A starting point for such a strategy would be establish EU-wide 'relative' minimum wages, where the minimum wages of each member state are set as a percentage of their national median wage.<sup>76</sup> While ensuring that wages at the bottom, which often serve as an anchor for the other wages of an economy, are set at an appropriate, are sufficiently high, it also is consistent with the current diversity of standard of livings across the EU.

Wage coordination between trade unions and employers across the European Monetary Union (EMU) is also required to tackle the fundamental imbalances that a common currency with national wage coordination systems generates. Indeed with a common EMU interest rate results in a low real interest rate in low inflation countries such as Germany and a high real interest rates in high inflation countries such as Greece. In a such a context, the differential in real interest rates of the high and low inflation countries feed inflation divergence further between EMU members.<sup>77</sup> The inflationary divergence that EMU generates feeds into different competitiveness levels which exacerbates trade imbalances within EMU. To the extent that trade deficits are offset – or indeed mirrored in the case of current account deficits - by capital

<sup>74</sup> The Fiscal Crisis of the State (1973) New York, Saint Martin Press.

<sup>75</sup> <http://www.etuc.org/a/6781>

<sup>76</sup> This was for instance discuss in a recent European Trade Union Institute Policy Brief which can be accessed at: <http://www.etui.org/Publications2/Policy-Briefs/European-Economic-and-Employment-Policy/Minimum-wages-in-Europe-new-debates-against-the-background-of-economic-crisis>

<sup>77</sup> For more on this and other wage bargaining dynamics induced by EMU, see: Johnston and Hancke (2009) Wage inflation and labour unions in EMU. *Journal of European Public Policy*, 16:4, pages 601-622.

inflows, this inflationary divergence eventually results in low inflation countries (e.g.: Germany) buying debt in high inflation countries (e.g.: Greece). Note that this result is almost structurally driven, not easily altered by the will of the countries involved in the process.

Undertaking a strategy of enhanced wage coordination and higher wages has the added advantage that it has the potential to increase legitimacy of the EU through more equitable social outcomes and a stronger involvement of European Social partners. Anything short of that would fail to revive the European Project.

*T.V.*

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## Document

# Répondre à la crise dans l'UE: avec une Nouvelle Commission européenne à la manœuvre.

*Groupe des progressistes européens (décembre 2011).*

Dans sa rubrique *Documents*, le GRASPE publie des travaux d'autres collègues, dont la publication contribue au débat.

Nous assistons depuis plus de 2 ans à un renforcement d'une Europe intergouvernementale (IG), avec le couple franco-allemand à la manœuvre, pour soi-disant résoudre la crise économique et sociale, mais sans que les résultats soient pour l'instant à la hauteur des annonces successives, sommet après sommet, ce qui n'est pas surprenant car aucun système fondé sur une telle confusion des pouvoirs n'est viable.

Car cette approche IG revient à institutionnaliser une prééminence du Conseil Européen vis-à-vis de la Commission et du Parlement Européen, le premier s'arrogeant le droit de décider des règles au niveau Européen, de les mettre en œuvre via ses Etats membres, et ensuite de prétendre en assurer le contrôle pour les plus récalcitrants.

Sur le plan des conflits d'intérêt il est difficile de faire mieux. Et ensuite on feint de s'étonner que ça ne marche pas, et on propose un nouveau Traité dont le but serait de renforcer cette dérive. Comme sur le plan climatique, le problème n'est plus de négocier de nouveaux accords mais de respecter les engagements pris; le temps presse ...

Pendant ce temps, l'Europe recule globalement dans le monde, et de plus en plus d'Etats membres entrent en récession, avec l'arrivée de gouvernements techniques pour jouer les pompiers. Ceci n'est pas le fait du hasard ou simplement le résultat de la crise financière des années 2008, puisqu'un certain nombre de pays dans le monde s'en sont affranchis.

En revanche les causes peuvent être identifiées dans les politiques libérales menées depuis plus d'une dizaine d'années au niveau européen. Le "laisser faire", les dérégulations de pans entiers de notre économie sans aucune contrepartie, les réductions massives des impôts pour les classes sociales les plus favorisées, le tout

instauré en pensée unique qui n'a cessé d'affaiblir l'économie européenne, notamment via :

- une concurrence exacerbée entre EM suite à la mise en place de l'euro,
- une mondialisation non contrôlée générant des bulles spéculatives successives,
- et l'élargissement de 2004 fait au rabais c'est-à-dire sans moyens financiers supplémentaires entraînant de fait un nivellement par le bas dans l'ensemble de l'UE, à travers un dumping social et fiscal largement encouragé par les gouvernements en place.

Dans ce contexte la Commission actuelle s'est contentée d'asséner des bons conseils sur les défis à relever via une multiplication de communications au Conseil et au PE, sans aucun impact réel dans les EM puisqu'aucun moyen n'était dégagé pour leur mise en œuvre alors que les Etats étaient de plus en plus exsangues sur le plan budgétaire.

La nouvelle stratégie EU 2020, pour plus de croissance et d'emplois dans l'UE, telle qu'adoptée en 2010, procède de la même incantation; cette stratégie rencontre des lacunes et un manque d'ambition sur trois points essentiels:

1- sur le plan politique, car il était impératif dès les années 2009 de se doter, sur base d'orientations européennes, des moyens pour une intégration plus forte des politiques nationales à mettre en œuvre en définissant les objectifs politiques à atteindre en complément et en cohérence avec les politiques qui doivent être mises en œuvre au niveau de l'Union (sur le plan climatique, en matière d'infrastructures d'énergie, de transports, de nouvelles technologies, de projets industriels communs ...),

2- sur le plan budgétaire, car même s'il est fait référence dans la stratégie EU 2020 aux différents programmes pluriannuels européens qui seront mis en place pour la même période 2014-2020, il aurait été souhaitable d'opérer un saut qualitatif et quantitatif pour mobiliser/rationaliser ces budgets en soutien de cette stratégie ; or on voit bien que la "Twentisation" de ces programmes a fortement ressemblé à une "Lisbonisation plus" qui a déjà été mise en œuvre depuis 2005, et dont on connaît les résultats décevants.

Le temps est largement dépassé ou les politiques communautaires pouvaient encore se faire sur base d'échanges de bonnes pratiques, d'informations sur les politiques mises en œuvre dans les différents Etats membres. On ne peut plus concevoir une stratégie ambitieuse, sans se donner dans le même temps les moyens budgétaires de la mettre en œuvre. Il aurait été au minimum nécessaire de chiffrer le

coût de cette stratégie, pour ensuite déterminer sur quels budgets ce coût pourrait être imputé (budgets publics/privés, budget européen, budgets nationaux, voire régionaux/locaux, mobilisation de l'épargne ...) conduisant ainsi naturellement à une meilleure gouvernance sur le plan macro-économique.

3- sur le plan de la gouvernance, une telle stratégie ne peut pas se limiter à lister les actions à mettre en œuvre sur base des orientations de la Commission qui se contente d'en assurer le suivi sur base des rapports nationaux qui au mieux font état du suivi des indicateurs, avec des commentaires/recommandations épisodiques des services de la Commission.

La mise en œuvre de la stratégie EU 2020 est l'occasion de créer des synergies et complémentarités à organiser en amont, sur base d'engagements précis entre les différents niveaux de décision politique régionaux/nationaux/européen (application des principes de subsidiarité et de proportionnalité de manière concrète lors de la phase préparatoire), dans une approche intégrée et inclusive. Ces engagements doivent couvrir les dimensions politique, budgétaire et prendre également en compte l'organisation administrative nécessaire aux différents niveaux, avec des nuances bien sûr en fonction des situations variées dans les différents EM.

De ce point de vue nous devons passer d'une logique d'empilement des compétences institutionnelles à une logique d'intégration fonctionnelle des politiques afin que, *in fine*, la Commission retrouve son rôle de moteur de l'UE au sens du Traité pour mettre en œuvre une telle stratégie.

L'idée est de faire jouer le principe de subsidiarité dans les 2 sens :

- 1) en faveur des régions et des Etats en raison de leurs compétences propres et
- 2) en faveur de l'UE dans les domaines de compétence communautaire exclusive.

*In fine* cela revient à mettre en avant un principe clair de complémentarité dans les domaines de compétence partagée et d'appui afin d'éviter les doublons et l'utilisation à des fins non-communautaires des budgets européens (ou la renationalisation de ces budgets, qui est pourtant une pratique courante dans tous les EM, tout cela se faisant dans la plus grande opacité).

La crise actuelle démontre s'il en était encore besoin que la construction européenne doit être entièrement repensée dans ses dimensions politique, budgétaire et organisationnelle.

## **Une évolution nécessaire de l'organisation des Pouvoirs Publics sur base d'une approche inclusive, intégrée et opérationnelle.**

A- Une approche inclusive, en dégagant 3 grandes priorités stratégiques au niveau européen pour les 10 ans à venir, avec un pouvoir plus fort de coordination au sein de la Commission européenne (Secrétariat Général);

Ces 3 priorités regrouperaient les 25 politiques telles que définies dans les 3ème et 5ème parties du Traité sur le fonctionnement de l'UE, à savoir

1.1- des politiques structurantes,  
- d'une part en terme de cohésion territoriale (agriculture, pêche, politique urbaine, transports, réseaux trans-européens, énergie),  
- et d'autre part en terme de production de produits et services (industrie, marché intérieur, espace, environnement, tourisme),

1.2- des politiques transversales de soutien aux politiques structurantes en identifiant des "blocs de compétence":

a) la politique macro-économique et monétaire, la concurrence, la fiscalité,

b) la libre circulation des personnes, des services et des capitaux, l'espace de liberté de sécurité et de justice, et enfin

c) l'emploi, la politique sociale, l'éducation, la formation, jeunesse, sport, culture, santé publique, protection des consommateurs et protection civile,

1.3- l'action extérieure de l'UE, avec la politique commerciale, la coopération, l'aide au développement des pays tiers et l'aide humanitaire.

B- Une approche intégrée, en associant les 3 principaux niveaux décisionnels que sont l'UE, les EM et les régions /landers /autonomias ...

car les seuls destinataires de ces politiques sont les citoyens et les entreprises qui doivent avoir la plus grande visibilité/lisibilité sur les synergies et complémentarités entre les actions développées de manière cohérente aux différents niveaux, en recherchant le meilleur impact possible, ce qui nécessite :

2.1- le renforcement de la coopération politique en amont au sein de la Commission et avec les EM, et en aval avec le PE, le Conseil, le CDR et le CES,

2.2- le renforcement de la coopération administrative (titre XXIV du Traité),

2.3- une plus grande flexibilité en terme de répartition du budget européen en fonction d'une part des réformes structurelles à mener de manière diversifiée dans l'UE et d'autre part de l'évolution de la conjoncture économique pendant la durée des perspectives financières, car si la prévision est indispensable, elle ne doit pas se traduire par une planification rigide qui ne correspond plus à la fluidité et l'adaptabilité nécessaires pour assurer la vitalité de nos économies modernes.

C- Une dimension opérationnelle des pouvoirs publics plus efficace via l'IGPP = intégration Générale des Politiques Publiques,

L'objectif aujourd'hui est de mettre fin au gaspillage des ressources publiques, ce qui est tout à fait légitime, mais ce qui ne doit pas se faire non plus avec une vision strictement comptable comme le démontre l'échec patent de la RGPP (révision générale des politiques publiques) mise en place en France en 2007.

Au contraire, l'IGPP sur laquelle nous devons réfléchir, doit permettre à l'UE de se doter d'une fonction publique efficace, compétente à tous les niveaux décisionnels sur base de l'approche inclusive et intégrée telle que décrite plus haut, afin que les entreprises et les citoyens perçoivent clairement la qualité des services dans une articulation fondée sur les synergies et la complémentarité entre les différents niveaux décisionnels.

Les 2 termes de l'équation sont en effet intimement liés: 1) se doter de politiques publiques pertinentes pour affronter les défis à relever au XXIème siècle avec les moyens budgétaires nécessaires et 2) rationaliser et moderniser notre fonction publique en conséquence.

En ce qui concerne la Commission, il est clair que sa structure n'a pas évolué depuis des décennies (sauf à la marge pour renommer des regroupements ou scissions ici ou là) et ce malgré toutes les injonctions que celle-ci a données aux EM depuis la mise en place de la stratégie de Lisbonne dans les années 2000, sur les changements structurels à opérer.

Il est grand temps de refonder notre Fonction publique européenne, non pas sur la base du nombre de portefeuilles des Commissaires, mais en fonction de l'approche inclusive telle que mentionnée plus haut.



## Document

# Un véritable projet européen pour répondre à la crise.

*Newsletter 4 des progressistes européens (novembre 2011)*

Cette note vise à rappeler les paramètres d'une sortie de la crise que traverse actuellement l'Europe et analyser brièvement les différentes options possibles et leurs conséquences sur le projet européen donc aussi sur l'avenir de la France.

L'ampleur de la crise impose de trouver rapidement des solutions. Si des mesures de court terme existent, elles doivent se combiner avec des mesures de long terme dans un plan cohérent afin de répondre aux craintes des uns et des autres et d'assurer la pérennité du projet européen. Ces mesures doivent associer solidarité et responsabilité. La solidarité c'est à la fois le sauvetage de l'euro à court terme, et la réorientation des politiques conjoncturelles vers la croissance et les politiques d'avenir de l'Union. La responsabilité, c'est un contrôle renforcé mais aussi plus légitime en soumettant au suffrage des citoyens chaque niveau de décision y compris la Commission européenne et en donnant au Parlement européen un rôle accru. Des amendements aux traités s'avèreront certainement nécessaires, ce qui sera certainement long et difficile à obtenir. Mais ce sont les insuffisances du cadre institutionnel actuel face à l'ampleur de la crise qui l'imposent.

## I. Le contexte

La crise financière, initialement crise des sub-primes et crise bancaire, s'est transformée en crise de la dette souveraine en zone euro. Cette crise a exacerbé les insuffisances institutionnelles de l'union économique et monétaire (dont dès l'origine les fondateurs eux-mêmes étaient conscients. Jacques Delors a toujours été très clair à ce sujet).

Le déséquilibre le plus grand est le décalage entre la centralisation de la politique monétaire et la fragmentation de la politique budgétaire. La politique monétaire avec une Banque centrale, indépendante, des structures et un objectif clair agit dans l'intérêt commun. La politique budgétaire de chaque Etat-Membre est

encadrée par des règles, mais reste dictée par l'intérêt particulier sans réelle préoccupation des conséquences potentielles pour les partenaires de l'Euro (ou même de l'Union Européenne).

Or, le fait d'avoir une monnaie commune impose à chaque Etat-membre solidarité et responsabilité de façon indissociable. Financièrement, l'Europe (ou plutôt la zone euro) aurait pu assumer la dette de la Grèce, mais sans mécanisme assurant que ni la Grèce ni aucun autre Etat-membre ne se retrouverait dans la même situation plus tard nous aurions ouvert la porte à toutes les dérives, de manière politiquement inacceptable. A l'inverse, imposer à la Grèce plan de rigueur sur plan de rigueur sans mécanisme de solidarité permettant de résoudre son problème immédiat, et surtout celui de n'importe quel autre membre de la zone euro n'était pas crédible et incitait à la contagion de la crise au reste de la zone euro.

Les solutions pour sortir de la crise existent. Certaines mesures de court terme sont possibles et nécessaires mais elles ne peuvent se concevoir que combinées avec un projet et des mesures de long terme qui doivent être annoncés en même temps. Dans tous les cas, elles doivent combiner de façon intelligente et crédible solidarité et responsabilité. Cela aura des conséquences pour le projet européen dans sa dimension institutionnelle et politique. A la CDU qui n'est pas sans responsabilité dans l'aggravation de la crise le débat est ouvert, des propositions ambitieuses mais discutables ont été avancées. Il faut que les progressistes européens – et donc la gauche française - y répondent en proposant un contre-projet au moins aussi ambitieux.

## II. La solidarité

En apparence, c'est le volet techniquement le plus facile.

### II.a

Une intervention de la BCE annonçant qu'elle rachètera la dette des pays de la zone au-dessus d'un certain taux d'intérêt est la solution la plus facile et la plus rapide à mettre en œuvre. Elle devrait ramener le calme sur les marchés. A court terme ce sera certainement le cas. Néanmoins il s'agit là de faire marcher la planche à billet et théoriquement le risque d'une hausse de l'inflation à moyen et long terme est réel. La question de l'inflation n'est pas que technique. Pour les Allemands ce risque apparaît important et il est donc légitime qu'il soit pris en compte politiquement dans les solutions envisagées. In fine, les marchés intégreront le risque d'inflation dans les taux d'intérêt qu'ils demanderont (renchérissant ou pas, le coût du crédit).

II. b

Une augmentation des moyens du Fonds Européen de Stabilité Financière en lui donnant la capacité d'emprunter, ou en le dotant de moyens plus élevés est une solution plus compliquée à mettre en œuvre, mais éventuellement plus durable. En mutualisant de facto la dette (en tout ou partie) on évite le risque de monétarisation mais on transfère (plus ou moins visiblement selon la solution technique retenue) la responsabilité de la dette aux autres membres du fonds et on aggrave potentiellement leur situation.

II. c

Une autre solution pour régler la crise de la dette passe par la création des eurobonds, idée lancée pour la première fois par Jacques Delors en 1993. Dans le livre vert qu'elle vient de publier, la Commission présente trois options.

La première qui consiste à remplacer totalement les obligations nationales relève aujourd'hui de l'utopie. Les deux autres options plus réalistes posent en filigrane la question d'une révision des traités. Un système dans le cadre duquel les Etats membres de la zone euro offriraient des garanties limitées pour l'émission de nouvelles obligations, tout en continuant à émettre des obligations nationales n'exigerait pas de modification des traités. En revanche, la proposition qui verrait des euro-obligations communes émises dans la zone euro, en laissant les Etats responsable de leur dette au-delà d'un certain seuil (peut-être 60%) impliquerait une modification des traités. Il faut certes « séquencer » ces options (choisir l'option court terme n'empêche pas de garder le cap sur l'option impliquant une révision des traités) mais les eurobonds apparaissent certainement comme la solution la plus robuste à terme. Les eurobonds auraient le double avantage de se substituer à terme au FESF construit dans l'urgence, sur une base intergouvernementale et donc plus fragile, et de permettre un financement pérenne des investissements d'avenir au niveau européen.

II. d

La sortie de crise impose une augmentation du budget européen dont le niveau actuel à 1% du PIB européen ne permet aucun effet de levier.

La solidarité entre Etats membres ne passe pas uniquement par la prise en charge des dettes. La solidarité c'est aussi se donner les moyens de la croissance et de sortir de la crise par le haut. Lorsqu'on demande à la Grèce de mettre ses finances en ordre on peut, on doit aussi l'aider à retrouver le chemin de la croissance. Les fonds européens peuvent être utilisés pour investir, répondre aux conséquences sociales de la crise, préparer l'avenir. Cela passe

donc par une augmentation progressive des moyens au niveau européen. A court terme une meilleure mobilisation du budget et surtout à long terme une augmentation du budget européen dans le cadre des perspectives financières 2014-2020. Un budget à 5% du PIB communautaire et des politiques d'avenir (financement de la recherche, de l'énergie etc..) serait une solution plus crédible.

Il existe à l'évidence ici un clivage fort entre les progressistes et les conservateurs au pouvoir depuis plus de 10 ans dans l'UE, avec les résultats calamiteux que ces derniers laissent en héritage aux peuples européens. Toutes les pistes mentionnées ci-dessus sont certes discutables sinon dans leur principe, du moins dans leurs modalités d'exécution et pourront être plus ou moins ambitieuses. Cependant si les progressistes veulent se donner les moyens de gouverner dans la durée, ils doivent éviter les erreurs du passé en inscrivant la dimension européenne au cœur des politiques nationales et régionales dans une approche inclusive et intégrée. En matière budgétaire, jusqu'à maintenant la méthode intergouvernementale a prévalu, et nous en mesurons aujourd'hui les limites en termes de crédibilité financière, de croissance et d'emplois.

C'est l'heure pour les progressistes de prendre leur responsabilité et de construire une Europe plus solidaire, plus communautaire, au-delà de l'approche intergouvernementale qui a montré ses limites, de mini-sommets soit disant décisionnels en sommets européens servant de chambre d'enregistrement, mais qui au final laissent chaque Etat membre se débrouiller dans son coin avec un manque flagrant de crédibilité vis-à-vis des marchés et des pays tiers.

### **III. La responsabilité**

Dès la création de l'Union économique et monétaire le débat sur la responsabilité a eu lieu, l'Allemagne meilleure élève de la classe se montrait réticente à partager sa monnaie avec les autres sans contrôle sur leur budget dès lors que le dérapage de l'un pouvait avoir des conséquences pour tous les autres.

Cependant, les seules mesures acceptables à l'époque ont d'abord consisté en la définition de critères à respecter volontairement, (3% de déficit et 60% de dette) puis de sanctions (théoriques) sous forme d'amendes activables par le Conseil, c'est à dire les Etats-membres eux-mêmes. Très rapidement il est apparu que ce système de contrôle ex-post et par les pairs était par nature un accord « de beau temps » inopérant en cas « de tempête » pour prévenir les crises et encore moins pour y répondre.

Les divers ajustements du Pacte ont ensuite tenté de remédier en partie à ces défauts en évaluant les politiques budgétaires dans la durée et en durcissant les critères à respecter en temps normal (équilibre budgétaire sur le cycle et alerte – procédure de déficit excessif – avant d'atteindre le seuil critique de 3%) et en essayant de redessiner les sanctions pour les rendre plus crédibles (simples mises à l'index, recommandations de la Commission).

La responsabilité s'est finalement réduite à une dimension: le contrôle, via des sanctions pour imposer le respect des règles, au détriment de la légitimité du processus.

### **III. a Le contrôle:**

Aujourd'hui la mise en place du Semestre Européen a permis une avancée remarquable dans la coordination des politiques économiques et (essentiellement) budgétaires. En effet, en coordonnant le calendrier d'élaboration budgétaire de chaque pays membre, en le confrontant aux objectifs (décidés collectivement au niveau européen) se révèle aux yeux de tous la cohérence (ou les déviations) des budgets et des politiques économiques nationales vis-à-vis des engagements européens.

La dimension de contrôle et de supervision est donc améliorée. La légitimité du contrôle dans ce cadre apparaît, bien qu'imparfaite, globalement acceptable. Chaque Etat-Membre reste maître de son budget, les Parlements nationaux conservent leur rôle dans l'élaboration des budgets mais sont mieux informés de ce que font les autres tandis que tous les acteurs au niveau européen sont impliqués: la Commission qui évalue les projets et les confronte à l'objectif européen (et donc défend l'intérêt général), puis le Parlement, qui en débat et le Conseil qui enfin adopte les recommandations faites à chaque Etat-Membre.

### **III. b Les sanctions:**

C'est sûrement la plus grande illusion de l'architecture institutionnelle. Si on applique des sanctions lorsque le problème est déjà là, celles-ci seront au mieux inapplicables, aux pires contre-productives. Une application préventive (avant qu'un Etat membre ne soit « en faute ») se heurte au problème de la légitimité et de la souveraineté de chaque Etat-Membre. Cela n'a pas marché et ne marchera pas. Instituer une automaticité des sanctions, ou s'en remettre aux juges revient à abdiquer la nature intrinsèquement politique du problème et de fait ne pas prendre ses responsabilités.

La seule sanction efficace consiste à partager le pouvoir budgétaire, en fait à pouvoir « sanctionner » le budget au moment même de son élaboration. La recherche d'une solution est trop tardive, quand le

déficit français est à 7% du PIB ou la dette grecque hors de contrôle.

### **III. c La légitimité:**

Il s'agit du problème le plus sensible du fait des différents niveaux de responsabilité impliqués dans l'élaboration du budget européen et surtout des responsabilités croisées. En outre, le budget touche au cœur de la légitimité démocratique.

Le principe de base est qu'en démocratie, pour qu'une décision soit légitime, il faut que l'institution (ou la personne) qui la prend soit responsable devant ceux qu'elle affecte directement et s'ils perçoivent qu'elle n'agit pas dans l'intérêt commun, qu'ils puissent la sanctionner par un vote.

Au niveau national les choses sont relativement simples. Le budget est préparé par le Gouvernement et voté par le Parlement. Au niveau européen, les choses sont plus compliquées. La solution la plus ambitieuse et la plus logique doit s'inspirer du système de contrôle institué par le Semestre Européen. Les organes qui au niveau européen vont évaluer et éventuellement critiquer un budget national doivent aussi pouvoir demander de l'amender. Ils doivent être responsables devant ceux qui seront touchés par leur décision.

Le Parlement est élu directement, mais il représente l'ensemble de l'Union, y compris des pays qui ne sont pas encore membres de l'Euro et surtout au moins deux d'entre eux qui n'en feront pas partie (le Danemark et le Royaume uni). Les Etats de la zone euro et leur population pourront-ils accepter que des représentants de pays qui ne partagent pas la même monnaie aient leur mot à dire sur leur politique budgétaire?

Une solution pourrait être d'établir une règle selon laquelle seuls les députés représentants des pays ayant la même monnaie votent concernant les questions budgétaires relatives à cette monnaie. On éviterait ainsi de créer une structure ad hoc et des procédures d'adhésion compliquées.

Cette procédure risque cependant de fragmenter le Parlement et introduit un risque d'Europe "à la carte". En outre, on peut mettre en avant que la bonne gouvernance économique concerne l'ensemble des Etats-membres de l'Union européenne d'autant qu'en principe, à l'exception du Royaume Uni et du Danemark, tous ont vocation à entrer dans l'Union économique et monétaire.

Notre préférence va donc au maintien d'un Parlement uni (et unique) en charge de défendre l'intérêt général. Mais ce sera

certainement la source d'un intense débat, vu la réticence des Etats-membres à lui voir jouer un plus grand rôle, particulièrement dans ce domaine. On peut aussi noter la grande sensibilité des opinions publiques nationales dès qu'on touche à cet attribut essentiel de la souveraineté.

La situation au Conseil est plus simple. Le Conseil adopte les décisions budgétaires déjà avec une double configuration, l'Euro-groupe étant limité aux membres de la zone euro, le Conseil ECOFIN statuant pour l'UE.

Le problème est que dans ces enceintes on ne cherche pas a priori l'intérêt général européen mais chaque Gouvernement représente d'abord les intérêts particuliers de son pays et se trouve dans une logique de marchandage et de tractation.

Cela finit toujours par des rapports de force où les grands pays essaient d'imposer leur solution. En cas de succès on parle de diktat franco-allemand. En cas d'échec, la France et l'Allemagne menacent de se centrer sur une « union idyllique » en éliminant les « mauvais Européens », les autres. Dans les deux cas, on alimente l'euroscepticisme. L'Europe ne peut se construire sur des menaces, des contrôles et des sanctions.

S'il est essentiel que le Conseil soit impliqué, il ne peut être le seul à décider: pour que les décisions prises apparaissent légitimes, elles doivent être prises sans ambiguïté dans l'intérêt général. Le simple soupçon que les décisions imposées (aux Grecs ou aux Irlandais) le sont dans l'intérêt des banques allemandes ou françaises les discréditent irrémédiablement.

Nous devons adapter le fonctionnement de nos institutions européennes pour passer d'une « logique de rigueur » au niveau des Etats-membres à une « dynamique de croissance » au niveau européen.

Paradoxalement la Commission, la seule institution directement en charge de l'intérêt général européen est celle qui manque d'une légitimité électorale.

La désignation du président de la Commission par le Conseil – de fait le choix d'un candidat unique validé ensuite par le Parlement – résulte purement de tractations et de marchandages qui n'ont pas grand-chose à voir avec l'élaboration d'un projet politique qui pourrait susciter l'adhésion des européens. Or aujourd'hui c'est ce qui fait défaut aux yeux des marchés et surtout des citoyens européens. (La nomination du président du Conseil ne fait que répliquer ce schéma sans même lui donner la validation du Parlement, ce qui de fait ne lui confère aucune légitimité propre).

Le Président de la Commission européenne doit donc être élu. Il doit l'être soit directement par les citoyens européens, soit indirectement par le Parlement européen, mais à l'issue d'une vraie élection au niveau européen permettant la confrontation entre projets politiques et entre personnalités. (La proposition allemande de supprimer le droit exclusif d'initiative en échange de cette élection est inacceptable car ce serait supprimer ce qui fait l'originalité et la force du modèle européen).

#### **IV. Pour conclure**

La solution de sortie de crise dans les Etats-Membres doit s'appuyer sur l'Europe, de manière claire et déterminée, pour résoudre les problèmes budgétaires (stabilisation et réduction des dettes souveraines), relancer la croissance économique (eurobonds, budget européen) en alliant indissociablement solidarité et responsabilité.

Pour ce faire, l'UE doit présenter des mesures de court terme et de long terme en même temps dans un plan cohérent. C'est la seule façon de répondre aux préoccupations légitimes des uns et des autres: les risques pris avec les mesures de court terme étant compensés ou corrigés par la mise en place des mécanismes de long terme assurant la durabilité du système.

Dès que possible, il faut réorienter les politiques conjoncturelles dans le sens de plus de croissance et revisiter les propositions de la Commission pour le budget pluriannuel 2014-2020 pour renforcer le levier européen.

Enfin il faut proposer les éléments d'une modification du Traité, qui conduite selon la méthode « conventionnelle », permettrait l'intégration renforcée rendue inévitable par la crise, et donnerait aux décideurs européens la légitimité nécessaire pour la mener à bien.