

Economic governance of the EU: Quo Vadis?

Can euro and non-euro members share a vision of the EU?

Thank you for inviting me to this important conference and for giving me the opportunity to talk about our vision of the EU. Let us start from the elephant in the room: the British referendum, or, rather, the “reform, renegotiate, referendum” plan, as prime minister David Cameron calls it. In his keynote speech at the Conservative party conference in early October, Mr. Cameron said that he has “no romantic attachment to the European Union and its institution” and then he added:

When we joined the European Union we were told that it was about going into a common market, rather than the goal that some had for “ever closer union”. Let me put this very clearly: Britain is not interested in “ever closer union” – and I will put that right.

So, Mr. Cameron considers the exemption from “ever closer union” as a test for success in his EU renegotiation. The New York Times (emphasizing that probably Americans are even more pragmatic than the Brits!) wrote in June that “**Britain Threatens E.U. Exit Over 3 Little Words in Treaty**”, mocking our frequent disputes over language. However, there is a key difference in vision, and I think we can all agree on that. A common market and an ever closer union are two different goals. Two different goals are two different visions for the EU. **They can probably complement each other, but they are not the same thing.**

Apart from “little words in Treaty”, we Europeans have some romantic attachment to reports. We produce a lot of them. Let us consider the “king” of all reports, the so-called *Five Presidents’ Report on Completing Europe’s Economic and Monetary Union*. The report states that progress must happen on four fronts: **economic union, financial union, fiscal union and political union based on genuine democratic accountability**, because “*the euro is more than a currency, it is a political and economic project*”. The report clearly focuses on the euro area, but says also that “the process towards a deeper EMU is nonetheless open to all EU Members”.

Ralf Dahrendorf, who opposed “ever closer Union”, frequently spoke

about the “*contradiction between European Sunday sermons and the reality of European unification*”. To face today’s and tomorrow’s challenges, we should certainly avoid European Sunday sermons, and try to be clear, first of all with ourselves.

So the first question is: do we mean what we say, or we just write some words down and wait for the next report? If we just write reports, they are European Sunday sermons. If we mean what we say, there is no alternative to a strong two-tier membership model.

For the UK, “completing” the European project means completing the single market. Make no mistake: our single market is far from accomplished. A clear roadmap to delivering on the single market is a key project for the whole of Europe, as the new communication on “**Upgrading the Single Market**” shows. **Therefore, the UK does push for union, even for “ever closer union”: ever closer union of markets, ever closer union of trade, ever closer union of capital, ever closer union of the digital economy.** What do we think about these unions?

Take for example trade, a real power of the EU’s foreign policy. On 5 October 2015 a deal was reached by the US and other countries in the Pacific on the Trans Pacific Partnership. A Transatlantic Trade and Investment Partnership (TTIP) is still being negotiated and there is substantial uncertainty on our ability to reach a deal. This gives the idea of a power shift from the Atlantic to the Pacific. At the moment, we haven’t been able to deliver on this issue, but my understanding is that the UK has no problems on pooling our sovereignty on trade, so it’s more an issue of political capital for the whole Europe.

Take the capital markets union. There are huge infrastructure investment needs in the EU: 2 trillion euros until 2020 on transport, energy, tlc, water, waste and other sectors. Therefore, it is key to unlock the potential of finance for growth. The Commission published an action plan on 30 September 2015, unveiling a first set of measures to relaunch high-quality securitization, and to promote long-term investment in infrastructure. A capital markets union is to be welcome. But finance and the regulatory environment are not two different planets: consider company law,

insolvency procedures, which are all closely related with finance. And investment regards both supply and demand: so, for instance, we should also talk about the EU budget in order to be effective on this issue.

Take the digital union. The digital union is about competition, investment, education, tax challenges: in order to be a real “union”, we have to deal with the harmonization of rules.

Therefore, my point is this: **if we connect the dots, we see a close relationship between markets, rules governing the market, and political accountability.** This is the key disagreement with the UK, and the rationale for a two-tier Europe.

Professor Kevin O’Rourke, building on Dani Rodrik and other authors, stated **Europe’s political trilemma**: it is hard to have EU integration, national sovereignty and democratic politics at the same time. The UK’s view on Europe claims to provide a solution to the trilemma. According to the UK’s view, EU integration ultimately has to give, apart from some areas. Our task is different: we should complete our union in order to be accountable and effective. These two paths have to **overlap**, but we should acknowledge they are not the same thing.

Make no mistake: a two-tier Europe should avoid European Sundays sermons as well. **Let me be very clear on this: our goal should not be the endless enlargement of the EU or of the euro area. The EU’s focus has been for too long on the number of Member States rather than on the quality of integration.** Therefore, our focus should be how to deepen our integration, with a clear definition of it, in order to make it work politically. This is a key lesson of the EU’s political crisis. It has to do not only with the UK, but with the main European political families and also with euro area countries (Slovakia is currently taking legal action at the European Court of Justice against the EU plan to distribute asylum seekers).

In this environment, we cannot simply say: “We need more Europe”. We on the euro area cannot wait for crises to happen and to define ourselves. We will be overwhelmed, as it happened with migration. It could not work like this. We cannot always wait for the next election, for the Greek

election, then the Spanish election, then the German election to decide what Europe should be. And **we in the euro area cannot put forward our ambitious plans for the future of Europe while the Greek crisis unravels, calling for a “Eurozone government”, and then get back to business as usual.** There should be an arrangement based on a shared vision and on political accountability.

The main dilemma today seems to be: “a single Europe or a two-tier Europe?” In my opinion, following what I have tried to argue, the best path for our continent is the second one. Furthermore, I think that a two-tier Europe would enable the UK to stay linked to an EU with no plans for further integration, while Eurozone States (or the ones between them that decide to go through) would strengthen their currency by deepening their integration – with, for instance, a **complete banking union and a real fiscal union**. Also showing, in this way, to the UK and to other countries, that further institutional integration can really be beneficial. For doing so, of course, we need also a **new political leadership**, and this involves above all Italy, France and Germany, the core of the funding-fathers’ Europe. However, in bringing more clarity in the relationship between the Eurozone and the EU, our priority in the next months should be to avoid a “**zero speed Europe**”, which is what our citizens often perceived in the recent years, and one of the main causes of the recent elections’ result (see for example what happened few days ago in Poland, with the victory of the far-right eurosceptic party). For this reason, **improving accountability mechanisms** is the most important thing today, whatever we decide to be, a political federation or a simple sum of local interests: we must improve on this side making our Union’s working principles more comprehensible and open, if we want Europe – either a single one or a two-tier one - to survive its crises.