The New European Parliament: towards economic recovery

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Working Paper Opex Nº 77/2014
Acknowledgements

This paper is an extension of the proceedings of “The European Parliament: change of cycle and economic recovery”, a seminar held at the Circulo de Bellas Artes of Madrid on September 30, 2014 and organised jointly by the Fundación Alternativas and the Madrid Office of the Friedrich-Ebert Stiftung with the support of the Office of the Secretary of State for the EU and Banco Santander.

We would like to express our gratitude to Íñigo Méndez de Vigo, Diego López Garrido, Francisco Sosa-Wagner, Josep Borrell, Nicolás Sartorius, Carlos Carnero, Xavier Vidal Folch, and Michael Dauderstädt, whose insights and ideas have added much to the chapters presented in this document. We would also like to thank the other participants and sponsors for their support for this seminar.

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FUNDACIÓN ALTERNATIVAS AND THE FRIEDRICH-EBERT-STIFTUNG

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Maquetación: Estrella Torrico
Depósito Legal: M-36670-2014
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1. Introduction: a New Context, a New Parliament

The new European Parliament (EP) elected in May 2014 is facing a state of emergency in Europe. As 2014 draws to a close, austerity policies and the threat of populism are jeopardizing the present and the future of the European project. Unemployment rates in Europe are double the unemployment rate in the US and growth in the Eurozone is expected to fall below 1% in 2015. Although “the worst of the crisis” would appear to be behind us, Europe continues to be vulnerable to further economic shocks going forward. In fact, the EU could well be teetering on the brink of a third recession, the immediate threats on the horizon being current deflationary trends and a growing periphery crisis that is already manifest in Greece and could well spread to France and Italy.

There is much uncertainty about the short- and medium-term future. It is not clear whether institutions such as the EP or the European Central Bank (ECB) will exercise their powers to the limit in order to counterbalance those of the governments of Member States and the Council, whether and when Germany will step up and assume a more active role in Eurozone stimulus, whether some kind of reform of the Lisbon treaty is in the cards or what kind of solutions will be provided to countries like Greece whose economies remain on the verge of collapse.

ECB Governor Mario Draghi’s July 2014 speech in Jackson Hole, during which he strongly emphasized job creation rather dwelling on inflation and alluded to the possibility of implementing demand-side policies, structural reforms linked to a rise in
productivity, and enhancing competitiveness on a basis other than lower labour costs, was a very good sign. More recently, ECB authorities announced a new round of quantitative easing (QE) to take place in early 2015, and EC President Jean Claude Juncker made a commitment to devote €315 billion to infrastructure as part of his investment plan. Although we cannot expect a radical shift in economic policy any time soon, at least a minimal “Brussels consensus” if the EU is ever to put itself on the sure track towards a sustained recovery, structural reforms will need to be accompanied by fiscal stimulus.

The time looks ripe for revising the economic policies that failed to achieve the objectives for which they were devised: pulling Europe out of the crisis and accelerating growth and employment. The time also looks ripe for a deep political and institutional shift: restoring the role of EU institutions – mainly the EP and the Commission – in forging the destinies of European citizens. If we accept the viewpoint that the EP is the institution that best embodies the concept of a European democracy built on the will of average citizens, the question we must subsequently ask ourselves whether the incoming EP elected in May 2014 will be able to bring about the change of tack that Europe needs.

If viewed from a strictly quantitative perspective, the final outcome of the May elections was less damaging than originally feared. The European People’s Party once again won a majority (with 221 seats compared to 265 in 2009), and the breakdown for the rest of the parties and groups, in order of representation, was: the Progressive Alliance of Socialists and Democrats (191/184); the Conservatives and Reformists (70/51); the Alliance of Liberals and Democrats (67/84); the Greens (50/55); the European United Left (52/35), the Non-attached Members group (52/27) and the anti-Union Europe of Freedom and Democracy (48/32). Voter turnout across the EU fell very slightly from the 43% registered in 2009 to 42.5% in May, but did not break the crucial “psychological barrier” of 40%.
If one takes a tally of only the seats now held by the traditional “big three” (the European People’s Party, the Socialists and the Liberal-Democrats), it is obvious that the pro-European forces still enjoy a solid majority in the EP – a very welcome majority in the sense that it signals that a majority of European voters continue to believe in a more united Europe, even in the context of the current economic, social and institutional crisis. The good news, therefore, is that there may be a sufficient “critical mass” in favour of going forward with the integration process rather than reversing it. Moreover, if the big three are successful in building ad hoc alliances with other parties such as the European Left and the Greens regarding a social and economic platform for a better Europe, it might even be possible to muster a majority willing to go even further in a federalist direction.

However, these new distribution figures reveal only a small part of the entire story. Firstly, they should not keep us from recognizing the qualitative significance of the rise of a heterogeneous group of anti-integration and anti-European forces in the EP that represent a growing number of Europeans willing to cast their votes for Eurosceptic, nationalistic, populist, or xenophobic parties. The rising tide of Eurosceptics and Europhobia within the EP could well be perceived as a potential Trojan horse that could eventually undermine the stability of the EU and its very existence. Even if divided by


<table>
<thead>
<tr>
<th>Group</th>
<th>Seats</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPP Group of the European People’s Party (Christian Democrats)</td>
<td>221</td>
<td>25.43%</td>
</tr>
<tr>
<td>S&amp;D Group of the Progressive Alliance of Socialists and Democrats in the European Parliament</td>
<td>191</td>
<td>22.52%</td>
</tr>
<tr>
<td>ECR European Conservatives and Reformists</td>
<td>70</td>
<td>8.02%</td>
</tr>
<tr>
<td>ALDE Alliance of Liberals and Democrats for Europe</td>
<td>67</td>
<td>7.82%</td>
</tr>
<tr>
<td>GUE/NGL European United Left/Nordic Green Left</td>
<td>52</td>
<td>6.02%</td>
</tr>
<tr>
<td>Greens/EFA The Greens/European Free Alliance</td>
<td>50</td>
<td>6.06%</td>
</tr>
<tr>
<td>EFD Europe of Freedom and Direct Democracy Group</td>
<td>48</td>
<td>5.59%</td>
</tr>
<tr>
<td>NI Non-attached Members – Members not belonging to any political group</td>
<td>52</td>
<td>6.02%</td>
</tr>
</tbody>
</table>

country, ideology, opportunity and other criteria and unable (or unwilling) to forge strong, sustained parliamentary coalitions, taken together, these forces hold 170 out of 751 seats in the current EP – an impressive 22%. The number of MEPs of the French National Front increased from 3 in 2009 to 24 in 2014, the new German right-wing anti-Euro party Alternative for Germany (AFD) won 7 seats, and UKIP - which won the popular vote in Britain - moved up to 24 (from 13 in 2009). The situation is more worrying if we take into consideration that an overwhelming number of European citizens (almost 58%) did not go to the polls to vote. Had they chosen to make their voices heard, their vote would have supposed a turning point for Europe in one direction or another.

Secondly, Euroscepticism and Europhobia are also having a considerable impact on the national politics of Member States (MS), and the most alarming examples of this phenomenon have surfaced in the major, “hard core” countries upon which European construction heavily depends such as France, Italy, Germany, or even for that matter, the UK. What these diverse parties ultimately have in common is their fierce defence of national sovereignty. They have reached the point of setting national policy agendas throughout the EU.

As of the end of November 2014, the National Front was still ahead in voter intention polls in France, the AFD was gaining support according to polls conducted in Germany, and similar surveys in the UK showed that support for the anti-immigration UKIP was holding strong. The rise of UKIP is putting David Cameron’s government under intense pressure to hold a referendum on Britain’s exit from the EU. The victory of Matteo Renzi’s centre-left Democratic Party in the May EP elections does not obscure the fact that the fiercely populist and Eurosceptic Five-Star movement remains the largest party in the Italian Chamber of Deputies since February 2013. Sweden’s xenophobic Democratic Party could hold the key to governance in that country after the March 2015 elections. For the first time, a majority of citizens in both France and Germany regard the EU as a problem. Parallel to these developments, the anti-Muslim street demonstrations are becoming more and more frequent in Germany and the Netherlands. Should the economic situation in Europe worsen, the diverse range of tensions originating in northern and southern MSs, not to mention the tensions between them, could ratchet support for populist movements to dangerously high levels.
Economic policy: balances of power and coalitions in the new EP

At the end of the initial seven-month period of consolidation of relations between the new Parliament and the Commission, which lasted from June through the end of 2014 and included European Council meetings held in October and December, it is probably still too early to make definitive conclusions as to the course the EP will take during this legislature. Nevertheless, we can already discern the main outlines of some of the political dynamics that will determine the balance of power between the various groups, alliances and foreseeable coalitions (whether implicit or explicit) over the next five years.

1. The first axis of power will be the implicit ruling grand coalition of the “big three” pro-European forces (EPP, S&D and ALDE). They will be in charge of at least three tasks: moving ahead with the development of the EU institutional machinery; taking the first steps on fiscal, monetary and financial policy needed to boost the economy and reconciling divergent northern, southern and eastern visions of Europe – which could also imply treaty reform.

This implicit coalition is likely to hold up at least for the next few months, despite a slightly rough start marked by moments of confrontation between Socialist and Conservative MEPs regarding the candidacy of Jean Claude Juncker for the position of President of the European Commission, and, more specifically, the candidates for the new Commission, which were finally approved by vote on 22 October 2014. The MEP vote for the Commission presidency went 423 in favour of Juncker (the big three) and 209 against (The Greens, the European United Left and the EFDD) with 67 abstentions, which were primarily on the part of MEPs aligned with the conservative ECR Group. (For the record, Spanish Socialist MEPs voted against both Juncker’s candidacy and his Commission line-up). Such a divided vote suggests that this legislature will not necessarily be a cakewalk for Juncker.

To start with, the alignment of the three major parliamentary parties in support of the Juncker programme (dealt with in the following chapters) will not in any way constitute a blank check from the Socialists. For instance, the debate on the priorities and
implementation of the ongoing €315 billion program Juncker has outlined has barely begun. Regarding this endeavour, the Socialists have the responsibility of attracting and building key specific cross-party, single-issue alliances with other non-Eurosceptic forces such as the European United Left and the Greens so as to implicate the EP more fully in high-profile social and environmental affairs and in initiatives in areas such as institutional transparency and accountability or immigration. Socialists must at all costs avoid scenarios in which the positive energies of these two groups are lost in a no-man's-land of abstention or confrontation. Were this to happen, they could find themselves trapped between the mainstream “official discourse” of the grand coalition they are part of and the diverse conundrum of “anti-EU” populist, nationalist and xenophobic movements. Another area in which the Socialists could make a difference is in the ongoing negotiations towards the EU-US Transatlantic Trade and Investment Partnership (TTIP). Here, as on many other issues, the S&D will have the key to wrapping up a good deal. Although the TTIP is backed by the EPP, ALDE and the Conservatives and Reformists, the Socialists should push much further for the inclusion of strong guarantees for labor rights, environmental standards, and the regulation of financial markets. Thus, approaching the Greens and the Left MEPs who reject the deal and attempting at building strong coalitions on this seems to be a good strategy, not least because of the strong presence of these forces at the national level (in Greece and probably Spain as well), where the agreement will need final ratification.

2. Secondly, it is yet unclear what kind of impact the composition of the new Commission and its internal ideological and geographic balances will have on the direction of the EC’s fiscal and monetary policy going forward. The Commission is composed by five Vice-Presidents, which will supposedly improve EC efficiency and coordination, with Socialist Netherlands Frans Timmermans as First Vicepresident in charge of regulation, among other issues. Vice-President Vadis Dombrovskis, a Latvian Conservative, will be in charge of the Euro and Social Dialogue; Vice-President Jyrki Katainen, a Finnish Conservative, in charge of Jobs, Growth and Competitiveness; Vice-president Maros Sefcovic, a Slovak Socialist, in charge of the Energy Union; and Commissioner Pierre Moscovici, a French Socialist, will head up Economic and Monetary Affairs. Therefore, the traditional internal diversity and balance of the Commission in terms of geography, size and ideology, is reinforced – this time around with small states from the Big Five holding high-profile positions on economic matters,
which should be an additional factor favouring a fluent dialogue with the EP and the achievement of broad consensus. Lastly, the new composition of the EC should serve, if not for a re-communitarisation of policies (since each of the 28 still represent one Member State), at least as a deterrent for the re-nationalization of the Commission.

Building on the previous two considerations, it would be desirable for the EP to promote advanced legislation in key economic and social areas, including those related to monetary, fiscal, financial issues as well as labour rights, social protection and immigration. In the following chapters, we will elaborate on a variety of policies where a broad consensus should be reached soon.

The EP and the institutions of the EU

During the previous legislature decisions made on social and economic policy were mainly intergovernmental in nature and by and large shaped by Germany. Current circumstances dictate that the EP must open channels of dialogue with the Commission and improve the dynamics of cooperation between the EP and that body if it hopes to recover its damaged democratic legitimacy and influence economic and social outputs. Both should work hand in hand during this legislature to relaunch a communitarian mechanism that has lost much of its effectiveness. The EP should work to strengthen President Juncker’s commitment to maintaining a political, rather than a merely technocratic, dialogue. This could be done by integrating EP representatives into decision-making processes related to monetary, investment, and social policy as well as other areas.

In terms of the EP’s working relationship with the Council, its ruling principle for this legislature should be to prevent the creation of any new powers that do not fall under parliamentary control, especially those that could affect the economic and monetary affairs of the Eurozone.
A firm commitment to treaty reform and a new convention should not, however, rule out parallel EP-EC explorations of other actions that might be possible under the existing treaties such as giving a larger role for the ECB in fighting unemployment, ensuring that average citizens have access to bank credit, creating some sort of “budget” for the Eurozone, or implementing Horizon 2020 targets on Research and Innovation.
2. New Objectives for a New Period: Challenges Facing this Legislature

The start of a new legislature of the European Parliament (EP) and the mandate of the new Commission (EC) is the moment to set objectives and priorities for the period ahead and determine how the EP can contribute to their successful resolution.

As we know, unlike the Commission, the EP does not have full legislative powers. However, it can petition the EC to consider proposals, any rejection of which that body must justify. Under the Framework Agreement governing relations between these two institutions, the EP is involved in drawing up the EC’s legislative programme, which is subsequently debated in trialogue meetings at which the Council is an active participant. In addition to its mandate to provide democratic oversight of the Commission – a body it has the right to approve and dismiss – the EP shares responsibility with the Council for EU budgets and legislation under ordinary procedure (which is applied in the vast majority of situations) and is consulted whenever special legislative procedures are followed. Association and accession agreements require the formal consent of the EP. This body also plays an important role in monetary matters and social dialogue.

These budgetary, legislative and oversight competences make the EP a central player in the development of European policy, although the European Council has acted on its own initiative on a number of occasions during the past few years, for the most part in regard to issues related to the Euro and special agreements struck to manage the financial and economic crisis. As the only community organisation whose members are elected by direct vote, the EP enjoys the highest degree of democratic legitimacy of any EU body and is in the best position to regain the citizen confidence that has been
severely eroded by an extended period of deep economic crisis and a series of opaque decisions in which they had no voice. It is therefore crucial that it assume a proactive role in the new legislature, fully exercising its competences and assuming political leadership in Europe.

During this legislature, European institutions –with the EP in the forefront – must provide the type of solutions that the situation really calls for, above all, remedial measures to deal with the negative effects of the crisis, which has had an especially devastating impact on social cohesion and equality in certain Member States (MSs). This is the only way for the Union to legitimise its exercise of power at a time when renationalisation policies are becoming increasing more attractive to an ever-broader swath of European society.

During his inaugural speech, incoming EP President Martin Schulz outlined his priorities for the new legislature\(^1\), which essentially coincided with those laid out by Jean-Claude Juncker in his speech before the EP as candidate for the EC presidency\(^2\). Juncker was elected to lead the Commission as of 1 November by a strong majority of 422 votes at the EP plenary session held on 15 July 2014 on the basis of the ambitious, change-oriented political guidelines he had put forward in this speech under the title “A New start for Europe: My Agenda for Jobs, Growth, Fairness and Democratic Change”\(^3\). This document built on the strategic agenda for the Union discussed at 27 June meeting of the European Council as well as inputs received during several rounds of contacts with parliamentary committees.


\(^2\) http://ec.europa.eu/about/juncker-commission/docs/pg_es.pdf

\(^3\) http://ec.europa.eu/priorities/docs/pg_en.pdf
The issues that both institutions believe should be given top priority during the new legislature and referred to in the approaches outlined in these two documents are as follows:

- **Tackling unemployment**, especially youth unemployment (which Schulz qualifies as “a threat to democracy”). In view of evidence that austerity policies and labour reform have only provoked higher levels of unemployment and social exclusion and with the possibility of a third recession looming on the horizon, it is crucial to change tack and pursue expansive policies that will reactivate the economy and promote growth and the flow of investment – particularly in infrastructure and new technologies. The following chapter of this report will provide a detailed analysis of this issue, which without a doubt will be the most important facing the legislature now underway. On this particular issue, the rising star of this legislature will be the Juncker plan, under which up to € 315 billion of public and private investment will be mobilised over the next three years.

- **Overcoming inequalities** between Member States and within society, which have expanded dramatically as a result of the crisis. During this legislature, the EP must work towards the harmonisation of European social policies, an effort that should include the harmonisation of worker’s rights throughout the EU and the implementation of the directive on the mobility of workers that guarantees true freedom of movement and equal rights. The final goal of this initiative should be the unification of social benefits in the form of a European minimum wage and European unemployment insurance. The EP must also play a proactive role in efforts to overcome lingering gender inequalities and provide the oversight necessary to prevent any form of discrimination and/or violation of human rights from occurring in any MS.

- **Completion of the reform of banking and taxation systems**: The implementation of the Banking Union (BU) should be closely monitored to ensure that it complies with the conditions originally set out by the EP. Parallel to the BU, financial reforms begun during the previous legislature must also be fully completed. The present crisis can be traced to bad banking practices that emerged in the shadow of years of deregulation. Left to flourish, they could well provoke another in the future. Reforms must prohibit banks from engaging in undue speculation in financial and commodity markets and ensure the strict separation of divisions that engage in speculative investment from
those whose business is purely commercial by means of the imposition of a ceiling to be
determined. In terms of tax system reform, it is crucial to advocate the progressive
harmonisation of corporate taxes as a means of preventing dumping between MSs and
to move forward with fiscal harmonisation with the ultimate goal of unifying direct
taxes in the EU.

- A single European digital market: The creation of such a market is crucial to
achieving a new model of productivity in Europe and improving the competiveness of
European businesses. Legislation unifying European regulations regarding
telecommunications, copyright, data protection, the management of radio waves and the
application of competition law is clearly needed as well the approval of a European
charter of digital rights that includes regulations on consumer protection. According to
the Juncker plan, a connected digital market could generate up to €250 billion of
additional growth during this legislature.

- A European Energy Union: The Union needs a common energy policy in order to
strengthen its negotiating position with external suppliers and safeguard its access to
energy resources. It also needs to diversify its energy sources if it is to avoid a
dangerous reliance on any single supplier. Reaching this goal will entail creating a
strategic Pan-European energy network capable of channelling energy resources from a
diverse range of suppliers. Furthermore, the EU should take the lead in the fight against
climate change by promoting the use of renewable energy sources and greater energy
efficiency throughout Europe.

- Migration and asylum policy: The work of the European Asylum Support Office
must be monitored as well as the implementation of the Common European Asylum
System to ensure that it is uniform throughout the Union. Parallel to these efforts, a new
policy addressing the issue of legal immigration must be developed to guarantee that
European firms have access to qualified workers in specific skill categories. The
challenge of irregular immigration must be tackled in order to prevent the recurrence of
the type of tragedies that we have witnessed recently in the Mediterranean basin. This is
not a regional problem restricted to Member States bordering on the Mediterranean, but
rather a problem of the Union as a whole that can only be resolved by assisting
countries of origin in dealing with refugees and strengthening our exterior borders. It is
also time to amend the European Return Directive (2008/115/CE) so as to provide more protection to unaccompanied minors, reduce the maximum detention period for undocumented immigrants and improve the legal assistance provided to irregular immigrants and draft a new Community Directive on standards for conditions and operations of Identification and Expulsion Centres (ICEs) located in Member States.

- **The Transatlantic Trade and Investment Partnership Agreement (TTIP):** Although the Commission is responsible for carrying out negotiations, the EP will have the final word on this agreement. Seven rounds of talks have taken place to date. The next will be held the first week of February 2015 in Brussels, and it is anticipated that an agreement will be signed during the present legislature. It is the EP’s job to monitor the transparency of the negotiation process and ensure that the agreement does not infringe upon EU food safety or data protection regulations or have a negative impact on social protection or cultural diversity. The EP must lobby against the inclusion of an investor state dispute settlement (ISDS) clause in the agreement, which – at least in the form in which it is current articulated – would allow foreign investors to bring law suits against the governments of Member States that enacted legislation harmful to their interests. Such a clause would suppose a clear infringement of the sovereignty of MSs and open the door to situations in which the interests of private capital were placed above democratic procedures.

- **Strengthening the EU’s role in international affairs:** Although the EU’s Common Foreign and Security Policy (CFSP) is conducted on an intergovernmental basis, the EP holds twice-yearly debates on foreign affairs at which it reviews CFSP reports on foreign policy and its financial implications, poses questions and makes recommendations to the High Representative (HR). The close interaction between the EP and the HR has proven to be very fruitful in the past. Furthermore, newly elected HR Federica Mogherini has raised expectations that the position have a higher profile in EU foreign affairs during this legislature, e.g. on the question of a Palestinian state, on which the EP has much to say. The EP must also be consulted regarding international agreements under the CFSP framework, which require its consent. Although the economic crisis has overshadowed community policy for some time now, other serious matters such as the Middle Eastern crisis, the conflict in Ukraine and troubled relations with Russia make clear the need for stronger common foreign affairs, security and
defence policies that would facilitate swifter response at the European level. It is crucial to forge active links between the CFSP and trade policy, development assistance, the functioning of international financial institutions and EU neighbour policy.

All of these questions must be taken up and resolved jointly by European institutions: the EP, EC, Council of the European Union, European Council, the Court of Justice whenever applicable, and the European Central Bank (ECB). A frank and constructive dialogue between them and respect for their individual competences will be essential to attaining desired objectives. It is particularly necessary for the EP to strengthen its special relationship with the EC established in the 2010 Framework Agreement and maintain what Juncker defines as “political rather than technical discussions” with that body. It also needs to establish a constructive dialogue with the ECB, which despite its independence vis-à-vis political bodies must never disregard the democratic will of the citizens that the EP embodies and represents.
3. The Role of the European Parliament in the New Economic and Social Policies for Growth and Employment

Recent negative economic data in countries like Germany, France and Italy has prompted policymakers and experts in the EU to reconsider the policy of fiscal adjustment, even though in theory a pro-growth approach was adopted as early as the European Council meeting of June 2012, which coincided with the investiture of French President Francois Hollande. There were hopes at that time that the election of a Socialist head of state within the French-German axis would lead to a rebalancing of EU economic policy, and it was in that context that the European Council promised to mobilise €120 billion for investments. However, as most of this funding was locked in structural and cohesion funds that required Member State co-financing (at a moment when these countries were—as they still are—trying to balance their government budgets), in practice, no there was really no fresh money.

The only additional financing measure discussed at that meeting was an agreement to raise the European Investment Bank’s capital by €10 billion with the aim of increasing the bank’s lending capacity by €60 billion and thus unlocking up to €180 billion in additional investment. The commitment to provide the Youth Guarantee program with €6 billion in funding was financed through the Youth Employment Initiative.

Since no accommodating fiscal policy was forthcoming on the part of either the Member States or the EU, economic policymaking carried out during the period from this key European Council meeting in June 2012 up to June 2014, when the new European Parliament took office, was shaped almost entirely by the role of the
European Central Bank (ECB). Hence, the only tool available for guaranteeing financial stability and promoting economic recovery during this time was monetary policy.

It is fair to say that the ECB has made ample use of its mandate by fending off speculative attacks on Euro-area government bonds from the summer of 2012 onwards, and by subsequently implementing an easy monetary policy, which brought the official interest rate down to an unprecedented 0.05 per cent. This strategy aimed to help private investment and fuel consumption by means of extremely cheap credit. Nevertheless, companies will invest only if there is a pick-up in demand, and consumers have been deleveraging and dependent on stagnant salaries or even coping with unemployment. What ECB President Draghi made clear in his now famous Jackson Hole speech of the summer of 2014 is precisely that the recovery is too weak and unstable, and that a full return to growth and job creation cannot be accomplished without the support of fiscal policy.

In the run-up to the May elections, Martin Schulz, the candidate of the Party of the European Socialists (PES) for the position of President of the European Commission (EC), made it clear that he planned to develop an agenda for growth and jobs, whereas Jean Claude Juncker, the European People’s Party (EPP) candidate, defended fiscal adjustment policies without excluding targeted stimulus measures. In the end, the elections were decided largely on national terms, and although it lost several seats, the EPP remained the largest group in Parliament.

Nevertheless, as previously mentioned, the PES is keenly aware that nothing can be done in the EP without its support, including the election of Mr. Juncker as President of the EC. While the PES supported the idea, in application of the Treaty of Lisbon and the “spitzenkandidaten” agreement, that Juncker be proposed for the job by the European Council, voting for him was made conditional upon a mutual agreement on a substantial investment plan for the European Union as a whole. This is how the now famous Juncker Plan of €315 billion finally came about.

The argument for this stimulus plan proposal has been strengthened by the current deterioration of economic conditions – especially in the Eurozone – and the need to develop, even if only on a modest scale, some sort of counter-cyclical economic policy
at the EU level, keeping in mind that although a wholesome relaxation of fiscal consolidation at the member state level is sorely needed, such a move does not appear to be realistic goal at this time. Therefore, if national governments are not allowed to reduce the pace of fiscal adjustment – let alone increase spending or reduce taxes – it is up to the EU to play a traditional Keynesian role in the face of a clear crisis of effective demand in the context of negative expectations on the part of companies and consumers alike. The difficulty lies in the fact that the EU budget represents less than 1% of the EU’s GDP and therefore its countercyclical role could at best be modest, particularly taking into account that Member States agreed for the first time ever to a real-terms reduction of the 2014-2020 Multiannual Financial Framework vis-à-vis the previous multi-year budget. In this sense, the Juncker Plan is an out-of-the-budget public and private investment plan intended to complement the investment plans contemplated in the current budget. The idea of a special European investment plan had been proposed even before the election of Mr. Juncker by a number of social movements such the European Trade Union Confederation4, which called for an annual additional investment of 2% within a ten-year framework, and the European Citizen’s Initiative, known as the “New Deal 4 Europe”, which is calling for a € 400 billion plan in two years to be financed by EU bonds backed by the proceeds from the Financial Transaction Tax and the yet-to-be implemented Carbon Tax5.

In addition, the emerging consensus at the European Parliament between the EPP and the PES, aside from the special investment plan, is precisely that the new economic policy should emphasize stimulus over fiscal adjustment, making use of the so-called “in-built flexibility” of the Growth and Stability Pact, which amounts to a “growth-friendly” interpretation of the current rules. In his confirmation hearing, EC Vice-President designate for the Euro and Social Dialogue Valdis Dombrovskis went as far as declaring the phase of restrictive fiscal policies over while announcing a new phase focused on re-launching growth and jobs. On 2 December 2014, Commissioner Pierre Moscovici announced an EC Communication on the flexible interpretation of the Stability and Growth Pact to be published in early 2015.

4 For further information, see: http://www.etuc.org/documents/new-path-europe-etuc-plan-investment-sustainable-growth-and-quality-jobs#.VHyEwMmTJzU
5 For further information, see: http://www.newdeal4europe.eu/en/
According to the newly elected European Commission, structural reforms in labour markets, pension systems and so forth should continue parallel to the rollout of this growth policy. This appears to be the “grand political bargain” struck by the two main EU political players (EPP and PES): the implementation of a European public and private investment plan in exchange for a continuation of fiscal consolidation and structural reforms at the national level, albeit in a friendlier fashion. This is a clear shift in policy, given that during the preceding Parliament stimulus was made conditional on MSs achieving sound public finances. Now, national fiscal adjustment and European stimulus should, in theory, proceed hand in hand.

All this notwithstanding, there was little clarity regarding how the Juncker Plan should be financed until its presentation at the Plenary of the European Parliament on 26 November 2014, and certain doubts continue to linger in terms of its feasibility. What is now clear is that the amount is not enough to bridge the current investment gap, even though the overall amount is roughly equal to two annual EU budgets, and that the promised leverage ratio maybe unrealistic.6

An additional investment worth €315 billion for a three-year framework, while welcome, is just 0.7 per cent of the EU Gross Domestic Product (GDP) for a given year, which does not seem to be a large enough stimulus. According to the Brussels-based think tank Bruegel7, the yearly investment gap in the EU economy is equal to 260 billion Euros. The Juncker Plan would deliver roughly a third of the investment needed, or €105 billion. By way of comparison, the 2009 US stimulus package of $787 billion represented 5.7 % of that year’s GDP, whereas the EU stimulus would be equal to just 2.1 % of 2014 estimated GDP.

A second point of contention is whether the Plan will include fresh money over and beyond the current Multiannual Financial Framework budget, and how much of it will be made up of public resources. Put it another way, if the resources are off budget, it will be necessary to identify alternative funding sources. This is particularly important given the fact that Member States have frozen the EU multi-annual budget for the 2014-

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2019 period – the first time in EU history that they have done so – meaning that one can assume that the Plan is unlikely to be funded by additional national contributions, at least from a substantial point of view.

In this regard, it is worth noting that prior to EC President Juncker’s speech to the European Parliament, the S&D Group in the EP had launched its own alternative investment plan, which was based on the idea of setting up a “European Investment Instrument” (EII) of €100 billion in seed capital contributed by Member States to be used to mobilize an additional €300 billion\(^8\) in funds in financial markets, presumably through the issuance of bonds. In theory, this public-backed investment is expected to attract an additional 100 billion Euros in private investment, bringing the combined total of public and private investment to 400 billion Euros. The logic behind setting up the EII rather than enlarging the EIB’s capital is to allow a new financial vehicle to undertake riskier investments and thus preserve the EIB’s top credit rating.

In addition, the European Socialists expect to raise a further €352 billion by reinvesting €38 billion in dividends and profits from the European Investment Bank (EIB) and by using guarantees from the European Stability Mechanism (ESM). However, such a decision would be in the hands of national governments represented on the board of the EIB and the ESM and therefore be beyond the competences of the EC.

The Socialist proposal has the merit of assuming a conservative financial leverage of 1 to 3, but it is not without its pitfalls, the greatest of which is its total reliance on mandatory national contributions from Member States, including those suffering low growth and high unemployment, although it bears noting that these would not be included in deficit and debt calculations as per the Stability and Growth Pact. Moreover, if the instrument were to be set up by 28 Member States, one could expect that it would adopt an intergovernmental governance structure, even if as proposed by the S&D Group, the EC Commission would be a shareholder as well.

\(^{8}\) See [http://www.socialistsand democrats.eu/newsroom/europe-needs-shock-therapy-exit-crisis](http://www.socialistsanddemocrats.eu/newsroom/europe-needs-shock-therapy-exit-crisis)
The Alliance of Democrats and Liberals of Europe (ALDE) also presented its plan before Mr. Juncker unveiled his. This proposal also contemplates the use of national contributions as seed funding for a new EU investment fund, but instead of paid-capital to the tune of €100 billion, it suggests that pure credit guarantees on the part of governments for the same amount be used to raise €700 billion in financial markets. With this capital, ALDE expects to finance not only the investment plan but also tax cuts for households and companies in Member States whose budgetary plans are approved by the EC and that undertake structural reforms.

Both the S&D and ALDE plan to open the door to citizen participation in the new investment fund.

The EC proposal, on the other hand, relies on significantly less seed capital (€21 billion), in the form of a combination of paid-in capital from the EIB (€5 billion) and guarantees from the EU budget (the remainder). This capital would constitute the base of the European Fund for Strategic Investments (EFSI), through which the Council expects to be able to raise €63 billion in the financial markets that would subsequently be earmarked for loans to projects that would attract an additional €252 billion in private investment. It is this second step that could prove to be problematic. Nevertheless, as the Juncker proposal is open to voluntary Member State participation, if national contributions are forthcoming, the capital raised in the financial market could be higher.

All in all, the EC plan has three advantages. First, it does not rely on unrealistic, mandatory contributions from Member States. Second, by relying mainly on the EIB and the EU budget, the governance structure of the EFSI would conform more closely to the Community method than an intergovernmental method. This would ensure that an independent EU panel would be the body in charge of selecting the projects rather than national governments playing a zero-sum game. Its big weakness as presently outlined is the overly optimistic expectation of attracting private investment to the tune of €252 billion. And third, the European Parliament would play a role in determining the final shape of the EFSI since the EC plan would adopt the form of a legislative act. It would not be yet another outside-the-treaty construct.
If we think in terms of a truly European plan, the EC, or an agency depending on the Union’s executive branch, should be in charge of selecting projects. However, it is of great importance that criteria other than the current conditions for cohesion and structural funds be applied, given that the goal of the Juncker Plan is not so much to address national and regional inequalities as it is to foster growth and job creation. Nor should it be conditional on national co-financing. Hence, it should act as a truly counter-cyclical fund.

However, since more public capital is needed in order to achieve the total €315 billion investment projected, even if the plan enjoys the full support of the European Parliament, President Juncker may have made a promise that he cannot fulfil without the support of national contributions.

One possible option is for the EC to issue bonds itself, something that the Treaty of Lisbon does not prohibit, the only condition being the EU cannot run a budget deficit, which is quite a different matter. A problem may arise if there is no room in the current Multiannual Financial Framework to pay for the capital and interest payments. In order to fulfil the rules of the Treaty, such as gap must be made up either by further national contributions or an increase in the EU’s own resources.

Indeed, the underlying issue is that, short of a change in the current rules or a Treaty reform, the EU will continue to be too dependent on national contributions to be able to develop an effective counter-cyclical role in economic policy. One vehicle for increasing the EU’s own resources so as to make room for financing a debt issuance without incurring in deficits could be the Financial Transaction Tax (FTT), which is expected to rise as much as € 30 billion per year.

However, this tax is going to be implemented as an enhanced cooperation by just 11 Member States. The participating governments expect either to keep the tax receipts, or to have an equivalent reduction in their national contributions to the EU budget. Hence, those countries participating in the FTT enhanced cooperation may be allowed to reduce their national contributions to the EFSI if they choose to participate. If such an approach were to succeed, other Member States would have a strong incentive to implement the FTT as well, given that only those States participating in the enhanced cooperation
would be benefiting from projects financed by the bonds issued by the EC, and as nonparticipants their national contributions to the EFSI would be relatively higher.

Creating a truly European investment plan based on public and fresh resources disbursed solely on the merits of the projects proposed and not subject to state co-financing could be possible if the EC acts within the domain of its competencies. Thus, the issuance of EU bonds by the EC backed by the FTT, alongside the proposed EFSI bond issuances, may play a role as one of the financing sources of the overall Juncker Plan, which should be combined with voluntary national contributions. These contributions should preferably take the form of government guarantees, at least in the cases of Member States in dire economic situations.

In any event, it is clear that there is a window of opportunity to make meaningful, productive investments that would jump-start projects in a wide range of fields from infrastructure, broadband networks, high-speed rail, energy efficiency and renewables to research and development. The synergy between the Juncker Plan and the proposed but still rather unspecific Energy Union, is evident. There is ample room for making substantial investments that would increase the Union’s energy independence – particularly in the area of natural gas interconnections, which would, of course, include, finishing the planned but never completed Spanish-French connection through the Pyrenees – but also in renewable energy projects that would provide a boost to both job creation and sustainable development in countries where solar power makes sense such as Greece or Italy. In addition, there are also worthwhile projects in the area of transportation yet to be completed, such as high-speed rail connections between Paris and Berlin, and between Madrid and Lisbon. Some progress has already been made in that direction. The European Council of 23-24 October 2014 endorsed the following targets to be reached by 2030: a binding minimum EU target of a 40% domestic reduction in greenhouse gas emissions and an EU target for renewable energy to provide for at least 27% of total consumption. The target of at least a 10% increase in energy trading through electrical connectors by 2020 was also set for the Member States least integrated into the internal energy market (the Baltic States, Portugal and Spain), as well as provisions for the North–South corridor, the Southern Gas Corridor, and the promotion of a new gas hub in Southern Europe.
The European Parliament, economic policies and the Eurozone

Scholars such as Jean Claude Piris have proposed the future establishment of new Eurozone institutions (including a Eurozone Parliament and Executive) conceived to manage the deeper integration of the countries that have adopted the single currency. It is true that the issue of democratic legitimacy may arise whenever the EP is called upon to make decisions on matters such as banking union, which are limited at the moment to the Eurozone, but down the road will include issues related to fiscal and budgetary union as well. The establishment of a wholesome institutional framework for the Euro Area adds another layer of complexity to the European construction project that should not be underestimated. It would also be risky venture, given that it would send the message that non-Euro countries can remain outside the Eurozone *sine die*, whereas as per the Treaty just two countries (the United Kingdom and Denmark) have the legal right to do so. Hence, it does not make much sense to have a parliament and Government for x-2 when the current setup for x member states. The best way to solve this democratic legitimacy issue is to help Member States in Central and Eastern Europe meet the criteria for adopting the Euro.

In the meantime, there are two solutions that are better than the Piris Plan:

First of all, it is possible to assume that Eurozone financial and fiscal integration is a matter of concern for the entire Union. Following the reasoning above, the Euro is the currency of the EU, and all but two member states are bound to adopt it. Hence, all MEPs can take part in legislation and voting procedures regarding Eurozone affairs. As a matter of fact, the banking union, for example, is not limited to Eurozone countries only.

Alternatively, the EP could adopt the form of a Eurozone Plenary Session at which MEPs from non-Euro countries would be excluded whenever it would be appropriate to do so, or, alternatively, it could create a Subcommittee on the Euro within the Committee on Economic and Monetary Affairs. Any accommodation of Euro Area specific policies should preferably be done by making use of the current institutions rather than by establishing new ones, which risks creating a union within the Union.
4. European Recovery and the Role of Germany

In order to evaluate the margins that the EP, Commission, Council, and ECB have to manoeuvre in terms of shaping European economic policies, we must take a closer look at the roots of Germany’s economic policies – and especially those of Angela Merkel’s governments. What follows is an in-depth description of recent German economic behaviour that takes into account its role as Europe’s largest economy and its strong impact on the growth of other Member States.

Equally, or perhaps even more important, is Germany’s influence on the economic order and policies of the EU. It is arguable that Germany’s disinflationary policies of wage restraint during the 10 years prior to the crisis caused the imbalances that exist today in the Eurozone as well as the exaggerated price and wage increases in the EU’s periphery (See Table 1). We will first look briefly at the development of the European and German economies during the crisis. The main focus will then be on Germany’s role in and for the recovery of the European economy.
Table 1: Europe’s nominal growth (in %) before, during and after the crisis

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvia</td>
<td>191.7</td>
<td>-18.1</td>
<td>+26.7</td>
</tr>
<tr>
<td>Lithuania</td>
<td>180.6</td>
<td>-16.8</td>
<td>+31.0</td>
</tr>
<tr>
<td>Estonia</td>
<td>168.9</td>
<td>-14.0</td>
<td>+25.0</td>
</tr>
<tr>
<td>Poland</td>
<td>93.9</td>
<td>-14.7</td>
<td>+22.2</td>
</tr>
<tr>
<td>Romania</td>
<td>261.1</td>
<td>-15.4</td>
<td>+12.7</td>
</tr>
<tr>
<td>Hungary</td>
<td>114.3</td>
<td>-13.3</td>
<td>+7.7</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>138.7</td>
<td>-8.1</td>
<td>+7.4</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>170.6</td>
<td>0</td>
<td>17.4</td>
</tr>
<tr>
<td>Slovenia</td>
<td>70.4</td>
<td>-6.0</td>
<td>-0.6</td>
</tr>
<tr>
<td>Slovakia</td>
<td>190.2</td>
<td>-2.5</td>
<td>13.8</td>
</tr>
<tr>
<td><strong>GIPS:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>65.1</td>
<td>-1.4</td>
<td>-16.1</td>
</tr>
<tr>
<td>Ireland</td>
<td>44.2</td>
<td>-10.7</td>
<td>-0.3</td>
</tr>
<tr>
<td>Portugal</td>
<td>29.6</td>
<td>-1.9</td>
<td>-1.9</td>
</tr>
<tr>
<td>Spain</td>
<td>53.2</td>
<td>-4.6</td>
<td>-2.2</td>
</tr>
<tr>
<td>New Member States</td>
<td>158.0</td>
<td>-10.9</td>
<td>+16.3</td>
</tr>
<tr>
<td>(CEE)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Richer Member</td>
<td>30.5</td>
<td>-6.4</td>
<td>+10.5</td>
</tr>
<tr>
<td>States</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU 27</td>
<td>31.6</td>
<td>-6.4</td>
<td>+8.9</td>
</tr>
</tbody>
</table>

Source: Eurostat

Germany’s performance and economic policy stance must be seen in the context of several German obsessions. The first is an exaggerated fear of inflation that most likely has its roots in the hyperinflation that country experienced in 1923, even if the inflation
of that time was not the result of Keynesian stimulus policies. The second is the obsession with competitiveness and an irrational pride in its export surplus, which is a sign of domestic weakness rather than dynamic innovation. Germany has actually lost about a fifth of its accumulated surpluses due to the financial crisis (they no longer appear in its net foreign investment position).

**Germany and the three crises**

“The crisis” consists actually of three different but interconnected crises. The first was a financial crisis originating in the U.S. economy in 2008 that triggered a banking crisis in Europe. The second was the subsequent great recession in 2009 led by a collapse of international trade. The third was the public debt panic, which started in 2010 when investors became scared about Greece’s previously underestimated public debt and deficits. Contagion spread rapidly to other countries regardless of their previous fiscal policy and debt levels.

Germany was heavily affected by the two first crises. Although it had believed that its banking system was much less feckless and prone to speculation than Anglo-Saxon financial institutions and that its banks had not suffered under the weight of a national housing bubble, they did turn out to be exposed to the US asset market and endangered by the freezing of the interbank market during the crisis. As it depends strongly on exports, which amount to almost 50% of its gross domestic product, the second crisis hit Germany particularly hard. Its GDP fell by about 5% – a sharper drop than that suffered by the US GDP and well below the dip in global GDP (See figure 1). The third crisis did not directly affect Germany as investors continued to trust the German treasury and economy.
Germany’s reaction to all three crises has been crucial to its further development. With regard to the financial crisis, Germany insisted on every Member State bailing out its own banks. This nation-centric approach was based on the wrong assumption that its own banks were in better shape than foreign banks and the desire not to spend German taxpayers’ money on the supposedly mismanaged and badly regulated and supervised banks of other countries. During the second crisis, Germany was at first reluctant to embark on Keynesian reflationary policies. In the end, it adopted a stimulus package, which led to a substantial increase in its public debt. But these policies focused on narrow national goals such as the preservation of jobs by means of subsidised short-time employment. As soon as the recovery started in that country in 2010, Germany returned to a conservative fiscal policy with low deficits.

Germany’s reaction to the third crisis, the public debt panic, has been the most harmful. Rather than seeing it as consequence of the first two crises, it saw it as the consequence of reckless spending by the affected governments and the government of Greece in
particular. When it eventually participated in the setting up of rescue operations ("umbrellas") it did so reluctantly, too late and contributing too little. Because of Germany’s orthodox ordo-liberal stance, the Eurozone lacked an effective lender of last resort. This response deepened and prolonged the crisis, as capital markets were sceptical about the trustworthiness of the Eurozone’s public finances. These problems were further exacerbated by Germany’s insistence on a haircut of Greek public debt, which made investors even more nervous. Finally, Germany’s opposition to a more offensive monetary policy on the part of the ECB, in particular its stance against the buying of government bonds in the secondary market, exacerbated the crisis until 2012, when Draghi made his famous speech, which finally stopped the panic.

The consequences of these disastrous policies are obvious if one compares Europe’s growth after 2008 to that of other countries or regions (See figure 1). Taking 2008 as the starting point with an index of 100, the Eurozone only reached 102.3 in 2014, whereas the UK achieved 104.9 and the US economy 109.6. The world economy, driven by China, performed even better with 129.8. Germany has put itself almost on par with the US by relying on high export surpluses. It is clear that Anglo-Saxon countries achieved better results by implementing more expansionary macroeconomic policies, an option that Germany blocked in the Eurozone. The consequences of Germany’s insistence on austerity policies caused a deep recession in Greece, Ireland, Portugal and Spain (GIPS), which did not recover from the crisis as other European countries did (See Table 1 above).

**Germany’s changing role in Europe**

Germany’s growth relied on foreign demand for years before the crisis. Besides the strong growth of the world economy (and above all, the economy of China), the impressive expansion of its European neighbours (See table 1) has been a boon to the German economy. Their crisis has changed the pattern of Germany’s trade and the flows of capital and labour in Europe.
Compared to 2008, Germany is exporting much less to the GIPS and Italy (France is an exception to this trend). The decline was particularly strong in the cases of Greece, Portugal and Spain (See table 2). On the flip side of the same coin, German imports from Portugal and Spain have risen substantially, while its imports from Ireland and Greece have decreased. On balance, with the exception of France, Germany’s export surplus with these trading partners has been more than halved.

Table 2: Germany's trade with “problem” countries (percentage change 2008-13)

<table>
<thead>
<tr>
<th>Country</th>
<th>German Exports</th>
<th>German Imports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>6.9</td>
<td>1.1</td>
<td>19.0</td>
</tr>
<tr>
<td>Greece</td>
<td>-40.9</td>
<td>-12.1</td>
<td>-50.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>-3.4</td>
<td>-44.3</td>
<td>-65.8</td>
</tr>
<tr>
<td>Italy</td>
<td>-14.2</td>
<td>0.7</td>
<td>-60.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>-21.8</td>
<td>26.1</td>
<td>-69.6</td>
</tr>
<tr>
<td>Spain</td>
<td>-26.6</td>
<td>14.4</td>
<td>-65.2</td>
</tr>
</tbody>
</table>

Source: Statistics of the Federal Statistical Office of Germany

As a result, the regional structure of Germany’s trade changed substantially (See table 3). The export shares of Europe and the EU declined by about 10%, and those of the Eurozone and, for instance, Spain, decreased even more (by about 12% and 30% respectively). The regional composition of imports hardly changed. Put together, the share of certain parts of Europe in Germany’s export surplus more than halved. Again, the effects were most salient in the Eurozone (e.g. Spain, whose share declined from 12.3% to 3.9%).
Table 3: Germany’s changing trade pattern

<table>
<thead>
<tr>
<th>Region</th>
<th>Share of total German exports</th>
<th>Share of total German imports</th>
<th>Share of Germany’s total export surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>74.6</td>
<td>68.5</td>
<td>70.5</td>
</tr>
<tr>
<td>EU</td>
<td>63.6</td>
<td>57.0</td>
<td>57.3</td>
</tr>
<tr>
<td>Eurozone</td>
<td>42.9</td>
<td>36.8</td>
<td>39.2</td>
</tr>
<tr>
<td>Spain</td>
<td>4.3</td>
<td>2.9</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Statistics of the Federal Statistical Office of Germany

With regard to German foreign direct investment (FDI), the picture is less clear because the numbers have been heavily affected by several big mergers and acquisitions, and FDI is concentrated in Luxemburg and the Netherlands. German worldwide FDI fell substantially between 2010 and 2013, but the decline was especially acute in Europe, the EU and the Euro area (in that order; See table 4). Spain seems to have been an exception, although the amounts in 2011 and 2012 are dismal.

Table 4: German FDI abroad (in €M)

<table>
<thead>
<tr>
<th>Target area</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>95370</td>
<td>58247</td>
<td>61958</td>
<td>43344</td>
<td>-54.6</td>
</tr>
<tr>
<td>Europe</td>
<td>65831</td>
<td>40412</td>
<td>54350</td>
<td>21169</td>
<td>-67.8</td>
</tr>
<tr>
<td>EU</td>
<td>60510</td>
<td>35592</td>
<td>51014</td>
<td>15890</td>
<td>-73.7</td>
</tr>
<tr>
<td>Euro area</td>
<td>44024</td>
<td>35008</td>
<td>34734</td>
<td>6230</td>
<td>-85.8</td>
</tr>
<tr>
<td>Spain</td>
<td>1562</td>
<td>2</td>
<td>491</td>
<td>2325</td>
<td>48.8</td>
</tr>
</tbody>
</table>

Source: Statistics of the Federal Statistical Office of Germany
With regard to migration, the picture is much clearer. Many more people are now migrating to Germany and many fewer are leaving the country than did prior to 2008 (See figure 2). Looking at figures for 20 EU Member States (a list that does not, unfortunately, include Spain), the overall balance of in- and outflows changed from 9,442 in 2008 to +216,220 in 2012. Entries have grown by 73.1% and exits only by 3.6%. Not surprisingly, Greece is an outstanding example, with 291% more entries from Greece and 26.5% more exits from Germany to Greece. The respective figures for Portugal are +94% and -20.6%.

**Figure 2: Migration from and into Germany**

![Migration from and into Germany](image)

Source: Statistics of the Federal Statistical Office of Germany

**Outlook**

As can be observed above, by continuing to rely strongly on foreign demand, Germany is contributing to the rebalancing of the European economy, but is doing little to ensure its recovery. Its fiscal stance remains neutral. At least wages in that country are rising somewhat more quickly than before. In order to truly rebalance the situation, Germany would have to embark on an investment-led growth strategy as it did during reunification, when a similar persistent (until 1990) export surplus disappeared. The focus of any such strategy should be on areas where investment is needed such as energy, education, health and care.

On the European level, Germany should support a less supply-side biased growth policy. It should no longer oppose a more active monetary policy (including quantitative...
easing when necessary) and support the fight against deflation. It should no longer block a stronger European investment capacity based on European tax revenues and bonds and must be aware that its reliance on foreign demand requires a stable supply of funds to the periphery. A common European unemployment insurance scheme could be part of that. But given the depth of Germany’s obsessions and prejudices - the evidence of which can be seen in the success of the new rightwing anti-Euro party AFD (Alternative for Germany) in the May 2014 EP elections – one cannot expect to see such a change of heart in the short-medium run. Finally, the lack of confrontation between the two partners of the ruling grand coalition (CDU & SPD) on the guidelines of Germany’s position regarding the EU makes it difficult for the political forces within the EP to exert further pressure for change.
The previous chapters have drawn a clear picture of the current limits to the democratic control of economic policy, whether they be due to the existing balance of power in Europe or to the shortfalls of the EU’s institutional framework. Nevertheless, the European Parliament can make a more selective use of the tools at its disposal to more effectively shape the economic policy of the EU.

For instance, it would be possible to pass a plenary resolution backing the European Commission’s Plan in advance of the next European Council meetings that in the context of delineating a counter-cyclical role for the EU also called for in the inclusion of fresh money and the issuance of EU debt by the EC. Such a parliamentary motion should be on the 2015 EP agenda and could include a call to the Council to delay the attainment of the 3% limit on government deficit in countries on recessionary or deflationary paths.

Moreover, the EP is going to be a key player in the legislative proposal that the EC must prepare for the launching of the Juncker Plan, so there is a chance of increasing public resources by creatively linking the FTT to the new European Fund for Strategic Investments and including amendments regarding EU bonds to be issued by the EC.

Additionally, the European Parliament can pass a motion for a resolution asking the European Council to unanimously adopt a decision allowing the Council to approve the Multiannual Financial Framework by means of a qualified majority vote, thus eliminating potential national vetoes for a higher, more expansionary, seven-year EU
budget in the future in accordance with article 312.2, second paragraph of the Treaty on the Functioning of the European Union.

In the same vein, the European Parliament can play a role in calling for an early review of the current multiannual budget, the first in history to be reduced in nominal terms, which was approved by the previous parliament and can be considered already outdated in view of the worsening economic conditions of the EU and the Eurozone.

Lastly, it is only logical that the Multiannual Financial Framework be reduced from seven to five years, a move that respects the second paragraph of Article 312.1 of the said Treaty, so as to align the budget more closely with the political majority of the European Parliament at the beginning of each term.

Also, in preparing the 2016 Annual Budget, the EP can include a budget line to cover EU bond capital and interest amortization, signalling to the European Commission that there will be some resources to accommodate the issuance of EU debt by the EC in respect of Article 310.1, which requires an equilibrium of revenues and expenditures, and Article 310.4, both of the Treaty on the Functioning of the European Union, if it chooses to move forward with such an approach. This could open a debate about the establishment of an EU-level bond market, and such an amendment has a chance of being passed given that the EU annual budget only requires a qualified majority vote in the Council according to Article 314 of the above-mentioned Treaty (in contrast to the Multi-Annual Financial Framework, which requires unanimity of the Council, as per Article 312 of the same Treaty).

Finally, if the path towards the issuance EU debt proves to be unviable according to the current rules, and barring a full-fledge reform of the Treaties, the European Parliament can call for the establishment of a Eurozone treaty allowing the European Commission to issue bonds to finance the Juncker Plan with the backing of the Member States party to the new, intergovernmental treaty. Revenue from the FTT could be used to cover capital and interest payments. Alternatively, the new Treaty could establish a new tax such as the carbon or air travel tax to be implemented by the participating states.
- European Parliament control and Treaty change

The European Parliament has concluded a number of Inter-Institutional Agreements with the other EU institutions in order to facilitate parliamentary control. The last one concluded with the ECB refers to the Single Supervisory Mechanism adopted on 9 October 2013. This tool, however, is less ideal than a fully-fledged treaty reform that would allow for a more assertive role on the part the European Parliament in the control of ECB’s activities.

There is, of course, ample ground to give the EP more power in the election of the President and the control of the European Central Bank. At present, the ECB president is elected by the European Council, without much say from the EP or the European Commission. This is interesting, because in most countries the governor of the central bank is selected by a popularly elected figure such as the prime minister or the president. In contrast, under the current framework, the ECB head is selected by the European Council, which is an unelected body, even though all 28 leaders have been elected at the national level.

It is unclear why the president of the ECB requires less democratic legitimacy than the president of the European Commission, who is proposed by the European Council but elected by the European Parliament. Given the far-reaching consequences of monetary policy, which is entrusted in full to the ECB, it is only reasonable that its president be proposed by the European Council but elected by the institution that represents European citizens. This would require reforming Article 283.2 of the Treaty on the Functioning of the European Union.

Also, the ECB must clearly be held accountable to the European Parliament. ECB independence, as it is stated in Article 282.3 of the said Treaty, is not the same as unaccountability. ECB officials must have the obligation, under the Treaty, to report to, and be accountable to, the EP Economic and Monetary Committee. At present, the ECB accepts the practice of appearing at EP hearings, which are conducted under the label of monetary dialogues in accordance with Article 284.3, but entail no obligation other than that to be “heard”.
Similarly, although the EP directs written questions to the ECB as a matter of fact, it should be made clear that the EP enjoys the right to do so. This could be accomplished by reforming either Article 14 of the Treaty on the EU, or adding a new article in the First Section, Chapter 1, Title 1, of the 6th Part of the Treaty on the Functioning of the EU (Articles 223 to 234), or by a formal Declaration of the European Council.
6. The European Parliament and the Road Towards Treaty Reform

The Treaty on European Union (TEU), signed in Maastricht in 1992, has been followed by a succession of amendment treaties signed in Amsterdam (1997), Nice (2001), Rome (establishing a Constitution for Europe of 2004) and Lisbon (2007), all of which contained timely modifications reflecting the evolving realities of Europe, a growing wealth of experience in terms of treaty application and the ongoing aim of furthering European integration. Every one of these treaties came into force after a ratification process lasting between 19 and 24 months with the exception of the Treaty establishing a Constitution for Europe (TCE), which was never fully ratified. While six years passed between the signing of the Nice and Lisbon treaties – a period marked by the failure of TCE – the average time span between treaties signed to date has been four years. That said, no new treaty initiative has been contemplated since the signing of the Lisbon Treaty seven years ago.

Does this inaction imply that no further reform actions are needed? Absolutely not. Since the Lisbon Treaty entered into force on 1 December 2009, the EU’s slow and inefficient response to the economic crisis has made patent the limitations of existing Treaties: the Union continues to lack a number of common economic governance mechanisms consistent with monetary union. Instruments of economic and fiscal coordination have been pieced together in patchwork fashion along the way. Some of them such as the European Semester (2010), the Six-pack (2011) and the Two-pack (2013) theoretically fit within the framework afforded by the Treaties whereas others such as the Banking Union (2014) – whose Single Resolution Fund requires an intergovernmental agreement that has yet to come into force – have been created
partially outside this framework. Another variation is the Treaty on Stability, Coordination and Governance, also known as the Fiscal Compact (2013), an intergovernmental agreement created completely outside the framework of EU Treaties that nevertheless contains a provision contemplating its incorporation into these Treaties within five years of its entry into force. Other instruments needed to reach complete monetary union and provide an effective response to future crises – for example, those dealing with the issuance of Eurobonds, the founding of a European Treasury, the creation of a Eurozone budget and the redefinition of the role of the European Central Bank (ECB) to include the function of lender of last resort – would require a modification of existing Treaties.

Furthermore, the crisis has brought to light a democratic deficit inherent to the decision-making mechanisms of the EU, in the sense that the European Council makes the bulk of decisions whereas the Commission, and even more importantly, the European Parliament (EP) – the only community institution whose members are elected by direct vote – are relegated to subordinate roles. Levels of citizen disaffection unknown since the creation of the EU underscore the need to review the competences of all EU institutions, the relationships between these bodies and their accountability to European citizens. Although the current Commission President was proposed by the party winning the largest number of seats in the European Parliament – a great step forward in terms of European democracy – the ongoing designation of Commissioners by national governments and the dependence of the community budget on the contributions of individual Member States both attest to how far the Commission is from being an authentic European government directly accountable to European citizens through the EP. Moving ahead with the strengthening of European institutions is of the utmost importance given the rising tide of Eurosceptism, a phenomenon that could endanger the stability of the EU.

These two pending structural issues alone warrant a new reform treaty – perhaps the most needed of any reform initiative contemplated since the approval of the TEU – during the drafting, approval and ratification of which provisional and/or short-term measures to deal with the crisis could continue to be adopted as needed. There is no contradiction in simultaneously acting on the basis of the means at our disposal and laying the groundwork for a new legal framework that reflects lessons learned, provides
the Union with the instruments it needs to succeed and paves the way for forward momentum towards the economic and political federalism that Europe urgently needs. In what follows, we analyse the most pressing issues that could be addressed through a new reform of the Treaties in a federalist direction. These issues refer mainly to the institutional framework, community financing, economic governance and the social pact.

From this point of departure, a variety of road maps could be developed on the basis of: a) how high we raise the bar in terms of goals b) whether a given plan covers the entire EU-28 or only the Eurozone c) whether it contemplates a Convention or an intergovernmental Treaty; d) the degree to which civil society participates in the process via consultation or the submission of proposals (bottom-up), and e) the timing for implementation, which is to say either during the period of this legislature or further along in time. The path forward allows for many variations, but for practical purposes, at present we will condense them into two basic types of programs or plans: a) a comprehensive programme that contemplates a new Convention and a new Treaty, and b) another, alternative and more minimalist Plan B that would involve a mini-convention and/or intergovernmental Treaty for the Eurozone and be designed to avoid a stalemate or reverses in the EU integration process.

a) A comprehensive program for this legislature should ideally include the following:

- **The modification of the EU’s institutional framework** to the effect that the European Council would serve a function similar to that of a collective Head of State and focus exclusively on matters that affect the sovereignty of Member States such as foreign policy, security and defence, the modification of treaties and European enlargement. According to this scenario, the Council of the European Union would act as an upper house and legislate jointly with the EP, which would have full legislative powers and sole competence regarding certain matters. The Commission would be accountable exclusively to the EP and be composed of the number of Commissioners required to ensure the body’s effectiveness, who would be selected by its President with consideration given to the political support they enjoy in the EP as well as geographic and gender balance and be ratified by the EP.
- **Community financing:** Future treaties should establish a system of Community budget financing that would be made progressively less dependent on contributions provided by Member States by means of the implementation of across-the-board European taxes, taxes on financial transactions, air transport and fuel, and the collection of a percentage of VAT and corporate taxes, to the effect that at the end of a stipulated period the only funding derived from individual MSs would be that earmarked for special projects and situations. It is evident that he who pays the piper calls the tune. Today, Member States are footing the bill and their governments are calling the tune. This is especially true of those that contribute the most. If financing were to come from European citizens, they would be the ones in the driver’s seat irrespective of their nationalities. It must also be kept in mind that the Community budget is set to gradually rise to 10% of national budgets in parallel with its assumption of certain burdens presently shouldered by individual Member States such as unemployment insurance, active employment policies, poverty-reduction initiatives, RDI and infrastructures. A Commission as described above that wielded such a budget and was not financially dependent on MSs would constitute a true European federal government.

- **Economic governance:** The time has come to lay the foundations for the pending full economic and fiscal union, which will suppose limiting certain aspects of the sovereignty of MSs whenever expedient. This leap forward will entail 1) creating a Commission Vice-presidency for Financial Affairs that would centralise the monitoring and evaluation of the economic developments in EU Member States currently contemplated in approved legislative packages and the Stability Pact, 2) strengthening Banking Union and the Single Resolution Fund, 3) harmonising taxation throughout Europe and making a concerted effort to fight both tax evasion and tax avoidance, 4) creating a European Treasury with the capacity to issue Eurobonds, 5) formalising the Eurogroup, defining what would be its exclusive competences and establishing a specific Eurozone budget and 6) redefining the ECB’s objectives so as to make it the lender of last resort and the institution responsible for economic growth.

- **The Social Pact:** Future treaties must establish citizens’ social and labour rights in conformity with the European social model and give education, health, family and pensions priority over all other policy areas. They must also embrace the concept of a
European minimum wage adapted to the realities of each MS, respect workers’ right to collective bargaining, and guarantee freedom of movement and equal labour rights throughout the EU.

- In addition to these four major issues, Treaty reform should also contemplate action in a number of other areas of concern, including but not limited to, furthering EU Foreign Policy and Common Security by means of strong engagement in development cooperation, common initiatives that foster global stability and unified representation in international organisations (for example, single representation of the Eurozone in the IMF), building the competences of the European Energy Union with an eye to strengthening the community’s access to energy resources, and broadening the scope of Migration and Asylum Policy and harmonising national policies in this area.

- **The roadmap.** Any Treaty reform initiative should originate in the European Parliament and be presented by that body to the Council, which would subsequently relay the proposal to the European Council, the only institution vested with the power to put an amendment process in motion. If profound changes were to be proposed, a European Convention similar to that which negotiated the TCE could be convened. Article 48 of the TEU, which deals specifically with this procedure (ordinary revision), states that it is the duty of the President of the European Council to convene a Convention and provides a general description of its composition, which is to include representatives of the EP, the Commission, national parliaments and the heads of state or governments of Member States. The same article also stipulates that once a Convention has reached a consensus, a draft document be presented at a conference of representatives of the governments of Member States. After a treaty has signed by the European Council, it is then presented to all Member States for ratification. Nevertheless, if two years after the signing 4/5 of the Member States have ratified it but the remainder have failed to do so, the matter is to be referred to the European Council.

The process described above does not preclude the possibility of sounding public opinion during Treaty deliberations by means of surveys, consultations with civil society organisations, youth groups and NGOs, as well as academic, labour union and business forums. The inclusion of such activities is indispensable insofar that it would guarantee a high level of citizen participation in the process and ensure that the final
Treaty reflected public sentiment. Although in no way binding, citizen opinion would be considered by the Convention during the course of its work.

In theory, a time frame for a new Treaty initiative could be projected on the basis of the time it took to complete the TCE process from start to finish. That Convention was convened in February 2002 and presented a draft proposal 17 months later in July 2003. After approval by an Intergovernmental Conference, the final Treaty was signed by Heads of State and Governments in October 2004 – 32 months after the Convention was convened. Given the possibility that a new Treaty might not enter into force before to the end of the present legislature, it would be desirable to accelerate the process to the effect that the next European Parliamentary elections and the formation a new Commission, which will take place in 2019, are carried out in accord with the new Treaties and the new competences they establish are assumed from the outset of the new legislature.

b) A “Plan B”

For all the strengths of such a comprehensive program, a closer look at the reality of the EU and its institutions as of the end of 2014 reveals that intergovernmental dynamics remain resilient despite the impetus of the new Commission and the EP and the relative autonomy of the ECB under the presidency of Mario Draghi. A shift towards a re-communitarisation of policies, a willingness to reform the Treaty, and any move towards a more social, more inclusive Europe, is yet to come.

As for the roadmap, its seems clear that pushing for a revision of current Treaties in the present circumstances could raise enormous tensions with some MSs and is a process that could end in paralysis. One Member that could possibly bring it to a halt is the UK, whose government has voiced the idea of negotiating a repatriation of certain competences and even talked of submitting the country’s membership in the Union to a referendum in 2017. As a matter of fact, the British “card” of a referendum alone will probably act as a strong deterrent for Treaty reform throughout this legislature. Other States such as the Czech Republic and Sweden are also reluctant to contemplate a greater degree of integration. Seeking the approval of any new Treaty by means of a qualified majority in the European Council and their ratification by 4/5 of MSs would
be one way of overcoming this resistance, but this would not obviate the risk of provoking serious dissension between MSs. The *zeitgeist* and present circumstances in various quarters of the Union also dim the prospects for immediate treaty reform. It should be kept in mind that northern MSs pressed hard for a real term reduction of the 2014-2020 Multi Annual Financial Framework vis-à-vis the previous budget, growth has been sluggish in France and Italy, and the situations in countries such as Spain or Greece are not very favourable either. More recently, in December 2014, a report prepared by Commission Vice-President Frans Timmermans contained a list of bills to be “killed off” that included environmental laws and dozens of pieces of pending legislation. Under the present circumstances, such an initiative could be interpreted as a reinforcement of the message of MEPs who are using their seats in the EP as bully pulpits from which to call for “less Europe”.

An ambitious Treaty reform is not on the present agenda. Yet, the option of bowing to an implicit veto by one or another MS out of hand rather than undertaking the reforms that the Union needs to ensure its survival and construct a better future for European citizens is to be avoided. For this reason, an alternative roadmap – a “plan B” – should be considered. One feasible option would be to put a pack deal on the table, with an eye to reaching an agreement for Eurozone members before the end of the 2014-19 legislature. It seems clear that limiting the process to the 18 Member States of the Eurozone at the outset could be a realistic strategy, as such an initiative would meet with less opposition than an effort to reach an agreement among all 28 States. Hence, the process could begin with the formation of an avant-garde comprised of the Eurozone and any other countries that wished to join on a voluntary basis and agreed to meet certain requirements.

A federalist movement could gradually emerge, provided that at least two “objective” circumstances converge simultaneously. One is an improved economic environment in which a more ambitious vision of the EU could take root and flourish; the other is the emergence of a counterweight to German dominance by means of a convergence of various MSs (not only those in the South) that represented a spectrum of ideologies (conservative, social-democratic, liberal).
Following this scenario, the EP could pursue the task of pushing ahead reforms at the EU level by opening up a social and political process in which Eurozone MPs would be pro-actively involved and pave the way for a new intergovermental treaty. The most realistic approach to take at this moment would be to establish the groundwork for future initiatives during the 2015-19 legislature by deepening the existing *fiscal federalism*. This can be done by maximizing the ECB’s monetary policy functions, channelling transfers and investments to foster the growth of employment through the European Investment Bank, moving forward towards Banking Union, pushing for a progressive fiscal harmonization and implementing a number of the social, energy and environmental policies referred to previously in this document. The Plan B mechanism should contemplate continuous consultations on key matters that affect all the MPs representing non-Euro countries (i.e. finance, banking, fiscal matters, foreign policy and security, energy and immigration) in order to avoid fracturing the Union. The EP should take the lead in this regard going forward and work hand-in-hand with the Commission to preserve the cohesion of the EU as a whole.

In contrast to the way that 2003 Convention was conducted - which was followed by the rejection of the European Constitution it produced by French and Dutch voters in popular referendums - this Plan B should also involve the active participation of not only the European political “elite” but also a broad swath of European civil society *vis a vis* the EP. As such, it would embody the central goal of forging a true transnational democracy. Only a convention that was open and transparent to citizens from the beginning would make it possible to reach an agreement to carry out the process of national ratification in Eurozone countries by means other than a binding referendum; citizen participation is the best way to make the process more agile and avoid roadblocks.
7. Conclusions

A new context, a new Parliament

- The new European Parliament (EP) elected in May 2014 is facing a state of emergency in Europe. As 2014 draws to a close, austerity policies and the threat of populism are jeopardizing the present and the future of the European project.

- The time looks ripe for revising the economic policies that failed to achieve the objectives for which they were devised: pulling Europe out of the crisis and accelerating growth and employment. The time also looks ripe for a deep political and institutional shift: restoring the role of EU institutions – mainly the EP and the Commission – in forging the destinies of the European citizens.

- The final outcome of the May elections was less damaging than originally feared. The “big three” (the European People’s Party, the Socialists and the Liberal-Democrats) – pro-European forces – still enjoy a solid majority in the EP and there may be a sufficient “critical mass” in favour of going forward with the integration process.

- However, the figures should not keep us from recognizing the qualitative significance of the rise of a heterogeneous group of anti-integration and anti-EU forces in the EP: nationalistic, populist, or xenophobic parties. Even if divided by country, ideology, opportunity and other criteria and unable (or unwilling) to forge strong, sustained parliamentary coalitions, taken together, these forces hold an impressive 22% of the seats in the EP. What they ultimately have in common is their fierce defence of national sovereignty.
At the end of 2014, we can already discern the main outlines of some of the political dynamics that will play out over the next five years.

- The first axis of power will be the implicit grand coalition (EPP, S&D and ALDE). They will be in charge of at least three tasks: moving ahead with the development of the EU institutional machinery; taking the first steps on fiscal, monetary and financial policy needed to boost the economy and reconciling divergent northern, southern and eastern visions of Europe – which could also imply treaty reform.

- Euroscepticism and Europhobia will have considerable impact on the national politics of the major, “hard core” countries upon which European construction heavily depends such as France, Italy, Germany and the UK. These parties and movements are have reached the point of setting national policy agendas throughout the EU.

- The Socialists’ participation in the “big three” coalition should not in any way constitute a blank check on their part regarding how Juncker’s ongoing €315 billion program should be implemented, or the final content of the EU-US Transatlantic Trade Investment Partnership (TTIP). The Socialists have the responsibility of attracting and building key specific cross-party, single-issue alliances with other non-Eurosceptic forces such as the European United Left and the Greens so as to implicate the EP more fully in high-profile social and environmental affairs as well as initiatives in areas such as institutional transparency and accountability or immigration.

**On the new objectives for this legislature**

- **Tackling unemployment**, especially youth unemployment. It is crucial to change tack and pursue expansive policies that will reactivate the economy and promote growth and the flow of investment – particularly in infrastructure and new technologies.
- **Overcoming inequalities** between MSs and within individual states, which have expanded dramatically as a result of the crisis. During this legislature, the EP must work towards the harmonisation of European social policies.

- **Completion of the reform of banking and taxation systems, and a crackdown on tax havens:** The implementation of the Banking Union (BU) should be closely monitored to ensure that it complies with the conditions originally set out by the EP. Parallel to the BU, financial reforms begun during the previous legislature must also be fully completed. In terms of tax system reform, it is crucial to advocate the progressive harmonisation of corporate taxes, move forward with fiscal harmonisation and eradicate tax havens that exist within the EU.

- **A single European digital market:** The creation of such a market is crucial to achieving a new model of productivity in Europe and improving the competitiveness of European businesses.

- **A European Energy Union:** The Union needs a common energy policy in order to strengthen its negotiating position with external suppliers and safeguard its access to energy resources. It also needs to diversify its energy sources if it is to avoid a dangerous reliance on any single supplier. Furthermore, the EP should join the Commission in the fight against climate change by promoting the use of renewable energy sources and greater energy efficiency throughout Europe.

- **Migration and asylum policy:** The challenge of irregular immigration is not a regional problem restricted to MSs with borders on the Mediterranean, but rather a problem of the Union as a whole that can only be resolved by assisting countries of origin in dealing with refugees and strengthening our exterior borders. It is also time to amend the European Return Directive (2008/115/CE).

- **The Transatlantic Trade and Investment Partnership Agreement (TTIP):** The EP must lobby against the inclusion of an investor state dispute settlement (ISDS) clause and ensure that strong guarantees for labour rights, environmental standards, or the regulation of financial markets are included in the final treaty.
- **Strengthening the EU’s role in international affairs**: The EP should be more proactive in the twice-yearly debates on foreign affairs at which it reviews CFSP reports on foreign policy and the financial implications of its budget and in the way it poses questions and makes recommendations to the High Representative (HR). It is crucial to forge active links between the CFSP and trade policy, development assistance, the functioning of international financial institutions and EU neighbour policy.

- All of these questions must be taken up and resolved jointly by European institutions: the EP, EC, Council of the European Union, European Council, the Court of Justice whenever applicable, and the European Central Bank (ECB).

**On the role of the EP in policies for growth and employment**

- There is an emerging consensus between the EPP and the Party of European Socialists (PES) that economic policy going forward should emphasize stimulus over fiscal adjustment and that a growth-friendly interpretation of the current rules justified by the “in-built flexibility” of the Growth and Stability Pact is possible.

- Certain doubts continue to linger over the feasibility of the Juncker Plan:

  - The amount is not enough to bridge the current investment gap, and the promised leverage ratio maybe unrealistic.

  - An additional investment worth €315 billion for a three-year framework, while welcome, is just 0.7 per cent of the EU GDP for a given year, which does not seem a big enough stimulus.

  - Whether or not the Plan will include fresh money over and beyond the current Multiannual Financial Framework budget and how much of it will come from public resources remains uncertain. Therefore, it is necessary to identify alternative funding sources. This is particularly important given the fact that Member States have frozen the EU multi-annual budget for the period 2014-2019.
- The S&D Group alternative €800 billion investment plan is based on the idea of setting up a “European Investment Instrument” (EII) with €100 billion in seed capital contributed by MSs and using that money to mobilize an additional €300 billion in funds in financial markets, presumably through the issuance of bonds. In theory, this public-backed investment would attract an additional 100 billion Euros in private investment, bringing the combined total of public and private investment to €400 billion. In addition, the European Socialists plan to raise a further €352 billion by reinvesting €38 billion in dividends and profits from the European Investment Bank (EIB) and using guarantees from the European Stability Mechanism (ESM).

- The Plan proposed by ALDE contemplates the use of national contributions as seed funding for a new EU investment fund. However, instead of paid-capital to the tune of €100 billion, it suggests that pure credit guarantees on the part of governments for the same amount be used to raise €700 billion in financial markets.

- The EC proposal, on the other hand, relies on significantly less seed capital (€21 billion), in the form of a combination of paid-in capital from the EIB (€5 billion) and guarantees from the EU budget (the remainder). This capital would constitute the base of a European Fund for Strategic Investments (EFSI) through which the Council expects to be able to raise €63 billion in the financial markets that would subsequently be earmarked for loans to projects that they estimate would attract an additional €252 billion in private investment. It is this second step that could prove to be problematic. Nevertheless, as the Juncker proposal is open to voluntary MS participation, if national contributions are forthcoming, the capital raised in the financial market could be higher.

- All in all, the EC plan has three advantages. First, it does not rely on unrealistic, mandatory contributions from MSs. Second, by relying mainly on the EIB and the EU budget, the governance structure of the EFSI would conform more closely to the Community method than an intergovernmental method. This would ensure that an independent EU panel would be the body in charge of selecting the projects rather than national governments playing a zero-sum game. Its big weakness as presently outlined is the overly optimistic expectation of attracting private investment to the tune of €252 billion. Third, the EP would
play a role in determining the final shape of the EFSI since the EC plan would adopt it in the form of a legislative act. It would not be yet another outside-the-treaty construct.

- Creating a truly European investment plan based on public and fresh resources disbursed solely on the merits of the projects proposed and not subject to state co-financing could be possible if the EC acts within the domain of its competencies. Thus, the issuance of EU bonds by the EC backed by the Financial Transaction Tax (FTT) alongside the proposed EFSI bond issuances may play a role as one of the financing sources of the overall Juncker Plan, which should be combined with voluntary national contributions.

- There is a window of opportunity to make meaningful, productive investments that would jump-start projects in a wide range of fields from infrastructure, broadband networks, high-speed rail, energy efficiency and renewables to research and development. The synergy between the Juncker Plan and the proposed Energy Union is evident, particularly in the area of natural gas interconnections, the Spanish-French connection through the Pyrenees, or renewable energy projects.

**On the European Parliament, economic policies and the Eurozone**

- It is possible to assume that Eurozone financial and fiscal integration is a matter of concern for the entire Union. Following this reasoning, the Euro is the currency of the EU, and all but two member states are bound to adopt it. Hence, all MEPs can take part in legislation and voting procedures regarding Eurozone affairs. As a matter of fact, the banking union, for example, is not limited to Eurozone countries only.

- Alternatively, the EP could adopt the form of a Eurozone Plenary Session at which MEPs from non-Euro countries would be excluded whenever it would be appropriate to do so, or, alternatively, it could create a Subcommittee on the Euro within the Committee on Economic and Monetary Affairs.
On European recovery and the role of Germany

- Germany’s disinflationary policies of wage restraint during the 10 years prior to the crisis caused the imbalances that exist today in the Eurozone as well as the exaggerated price and wage increases in the EU’s periphery.

- By continuing to rely strongly on foreign demand, Germany is contributing to the rebalancing of the European economy, but is doing little to ensure its recovery. Its fiscal stance remains neutral. At least wages in that country are rising somewhat more quickly than before. In order to truly rebalance the situation, Germany would have to embark on an investment-led growth strategy as it did during reunification, when a similar persistent (until 1990) export surplus disappeared. The focus of any such strategy should be on areas where investment is needed such as energy, education, health and care.

- On the European level, Germany should support a less supply-side biased growth policy. It should no longer oppose a more active monetary policy (including quantitative easing when necessary) and support the fight against deflation. It should no longer block a stronger European investment capacity based on European tax revenues and bonds and it must be aware that its reliance on foreign demand requires a stable supply of funds to the periphery. A common EU unemployment insurance scheme could be part of that.

- Given the depth of Germany’s obsessions and prejudices - the evidence of which can be seen in the success of the new rightwing anti-Euro party AFD (Alternative for Germany) in the May 2014 EP elections – one cannot expect to see a change of heart in the short-medium run. Finally, the lack of confrontation between the two partners of the ruling grand coalition (CDU & SPD) on the guidelines of Germany’s position regarding the EU makes it difficult for the political forces within the EP to exert further pressure for change.
On EU’s democracy and accountability

- It would be possible to pass a plenary resolution backing the European Commission’s Plan in the context of delineating a counter-cyclical role for the EU that also calls for the inclusion of fresh money and the issuance of EU debt by the EC. Such a parliamentary motion should be on the 2015 EP agenda and could include a call to the Council to delay the attainment of the 3 % limit on government deficit in countries on recessionary or deflationary paths.

- Moreover, given that the EP is going to be a key player in the legislative proposal that the EC must prepare for the launching of the Juncker Plan, there is a chance of increasing public resources by creatively linking the FTT to the new European Fund for Strategic Investments and including amendments regarding EU bonds to be issued by the EC.

- Additionally, the EP can pass a motion for a resolution asking the European Council to unanimously adopt a decision allowing the Council to approve the Multiannual Financial Framework by means of a qualified majority vote, thus eliminating potential national vetoes for a higher, more expansionary, seven-year EU budget in the future in accordance with article 312.2, second paragraph of the Treaty on the Functioning of the European Union.

- The EP can play a role in calling for an early review of the current multiannual budget, the first in history to be reduced in nominal terms, which was approved by the previous parliament and can be considered outdated in view of worsening economic conditions in the EU and the Eurozone. Also, when the EP prepares its 2016 Annual Budget, it can include a budget line to cover EU bond capital and interest amortization and open a debate about the establishment of an EU-level bond market.

- The EP could call for the establishment of a Eurozone treaty allowing the EC to issue bonds to finance the Juncker Plan with the backing of those MSs that would party to the new, intergovernmental treaty. Revenue from the FTT could be used to cover capital
and interest payments. Alternatively, the new Treaty could establish a new tax similar to the carbon or air travel tax to be implemented by the participating states.

**On the EP control of the European Central Bank (ECB) and Treaty change**

- The EP has concluded a number of inter-institutional agreements with other EU institutions in order to facilitate parliamentary control. The last one concluded with the European Central Bank refers to the Single Supervisory Mechanism adopted on 9 October 2013. This tool, however, is less ideal than a fully-fledged treaty reform that would allow for a more assertive role on the part the EP in the control of ECB’s activities.

- Given the far-reaching consequences of monetary policy, which is entrusted in full to the ECB, it is only reasonable that that president of that body be proposed by the European Council but elected by the institution that represents European citizens. This would require reforming Article 283.2 of the Treaty on the Functioning of the European Union.

- Also, the ECB must clearly be held accountable to the European Parliament. ECB independence, as it is stated in Article 282.3 of the said Treaty, is not the same as unaccountability. Although the EP directs written questions to the ECB as a matter of fact, it should be made clear that the EP enjoys the right to do so, which could be accomplished via treaty reform.

**On the EP and EU institutions**

- The EP should work to strengthen President Juncker’s commitment to maintaining a political, rather than a merely technocratic, dialogue. This could be done by integrating EP representatives into decision-making processes related to monetary, investment, and social policy as well as other areas.
- The traditional internal diversity and balance of the Commission in terms of geography, size and ideology, has been reinforced – this time around with small states from the Big Five holding high-profile positions on economic matters. This should be an additional factor favouring a fluent dialogue with the EP and the achievement of broad consensus.

- In terms of the EP’s working relationship with the Council, its ruling principle for this legislature should be to prevent the creation of any new powers that do not fall under parliamentary control, especially those that could affect the economic and monetary affairs of the Eurozone.

**On the EP and the road towards Treaty reform**

- A variety of road maps could be developed on the basis of: a) how high we raise the bar in terms of goals b) whether a given plan covers the entire EU-28 or only the Eurozone c) whether a given plan contemplates a Convention or an intergovernmental Treaty; d) the degree to which civil society participates in the process via consultation or the submission of proposals (bottom-up), and e) the timing for implementation, which is to say, either during the period of this legislature or further along in time.

- The path forward allows for many variations, but for practical purposes, at present we will condense them into two basic types of programs or plans:

a) A comprehensive programme that contemplates a new Convention and a new Treaty. This plan should include: a new EU institutional framework – transferring power to the Commission and Parliament -, strong community budget financing, economic governance, a social pact, and address other areas of concern, including but not limited to, the expansion of the CFSP, single representation for the Eurozone in the IMF, the European Energy Union, and a common migration and asylum policy.
As for the roadmap, any Treaty reform initiative should originate in the EP and be presented by that body to the Council, which would subsequently relay the proposal to the European Council. If profound changes were to be proposed, a European Convention similar to that which negotiated the TCE could be convened, according to Article 48 of the TEU. The composition of the Convention should include representatives of the EP, the Commission, national parliaments and the heads of state or government representatives of MSs. The process would sound public opinion and civil society organizations during Treaty deliberations. Once a treaty had been signed by the European Council, it would then be presented for ratification by all MSs. It would be desirable to accelerate the process to the effect that the next European Parliamentary elections and the formation a new Commission, which will take place in 2019, are carried out in accord with the new Treaties and the new competences they establish are assumed from the outset of the new legislature.

b) A “Plan B” would adopt an alternative, more minimalist approach involving a mini-convention and/or intergovernmental Treaty for the Eurozone designed to avoid a stalemate or reversals in the EU integration process.

The EP could push through reforms at the EU level by opening up a social and political process in which Eurozone MEPs would be pro-actively involved and pave the way for a new intergovernmental treaty during the 2015-19 legislature by deepening the existing fiscal federalism. The Plan B mechanism should contemplate continuous consultations on key matters that affect all the MEPs representing non-Euro countries (i.e. finance, banking, fiscal matters, etc) in order to avoid fracturing the Union. It should also involve the active participation of the European civil society from the beginning in order to smooth the path towards national ratification in Eurozone countries at the end of the process.

- Finally, a firm commitment to treaty reform and a new convention should not, however, rule out parallel Parliament-Commission explorations of other actions that might be possible under the existing treaties such as giving a larger role for the ECB in fighting unemployment, ensuring that average citizens have access to bank credit, creating a some sort of “budget” for the Eurozone, or implementing Horizon 2020 targets on Research and Innovation.