EU DIFFERENTIATED INTEGRATION AND THE ROLE OF THE EU POLITICAL ECONOMY

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The EU is a multi-speed, variable boundary union in which membership is already highly differentiated in the EU's many 'policy communities,' such as the Eurozone, Schengen, CSDP, and so forth. Even the Single Market, which can be seen as the 'community of communities,' is likely to become increasingly differentiated internally once the use of 'enhanced cooperation' expands, as it must if the EU is to continue deepening integration. And once the Eurozone moves forward institutionally, the EU's variability will become even greater. Set this against a background of already highly differentiated national varieties of capitalism, growing disparities between North and South or East, with some countries additionally subject to Troika (IMF, EU commission, ECB) oversight, and it should be obvious that multi-tier governance of the EU political economy is no simple matter. In this introductory policy brief, I consider how one might improve the modalities of such multi-tier governance while moving the EU forward through new tools for governing the European political economy.

Differentiated Integration

In this complicated set-up, what is clear is that the uniformity ideal of the past, when member-states thought to move forward in lockstep, is dead. The federal super-state exists only in the minds of the Euro-skeptics. So what is the EU becoming? A 'two-speed' Europe? A 'hard core' and a 'periphery'? Or is the EU condemned to Europe *à la carte*?

The EU is better thought of as what I have called a 'region-state', a regional union of member-states with differentiated membership in many overlapping policy communities, with a 'soft core' of members who remain part of all the policy communities of the EU. Barroso may prefer to call it a 'federation of nation-states,' as Jacques Delors and many others before him, but what's in a name? What is important is the conceptualization of the EU as a form of polity that requires a very special kind of governance, one that allows for increasing differentiation even as it ensures further integration.

A number of reforms of the EU's decision rules would be required for the EU to be able to move forward more rapidly in its differentiated integration. First out would be the unanimity rule, in which any single country's veto can block agreements, with in its place a rule of supermajorities made up of fourth-fifths or more of members plus opt-outs, in which the opting-out member-state(s) would be given the option to withdraw from the discussions and not participate in the initiative. Where the opt-out deleteriously affected the proper implementation of the initiative, ways would need to be found to accommodate the member-state while ensuring the proper operation of the directive. For Treaty-based reforms, the EU could adopt the approach of the Constitutional Convention of the mid 2000s, by mandating widespread citizen consultation, followed by a Convention with its final recommendations considered for adoption by the Council and the European Parliament. The rule of supermajorities plus opt-out would then apply. Moreover, candidate and prospective members (e.g., the Balkans, Turkey), non-members who participate in the Single Market and other policy communities (e.g., Norway and Switzerland), or even members who may drop out in the future (e.g., the UK) would be assured a place at the table in those EU 'communities' of which they are members, with the right to speak and even vote in the particular policy sector in question.

In addition to changing the voting rules, the current imbalance among institutions of EU governance needs to be righted. Eurozone crisis management has led to an excess of intergovernmental decision-making paired with rising technocracy. Both the European Parliament and the Commission have been affected.

Increasing intergovernmental decision-making in the Eurozone crisis has largely sidelined the European Parliamentt. What the EP needs is not just a fuller role to consider and debate Eurozone crisis policies, its own political legitimacy needs to be reinforced more generally. This could happen in tandem with that of the Commission, if the Commission President and Commissioners were elected by way of EP elections in which each party had competing slates of candidates for president as well as Commission. This would serve not only as a way of galvanizing citizen interest (long in short supply), it would also serve as a first step to ensuring that the Commission gained a kind of democratic legitimacy of its own as initiator and implementer of EU legislation. It would also enable it to politically orient its implementation of EU policies in line with the preferences of the EP majority, whether in a more progressive or conservative direction.

The problem for the Commission today is that Council crisis-decisions have straightjacketed the Commission with regard to Eurozone governance. Although the Commission has increased its responsibilities, it has lost administrative discretion and is largely forced to impose one-size-fits-all numerical targets and automatic rules to the Eurozone. With greater representative legitimacy, the Commission would also be able to legitimately exercise more flexibility when implementing Council policies, and to engage in real 'economic governance,' by tailoring policies better to the differing economic growth models of the member-states.

Multi-Tier Governance in a Differentiated EU Political Economy

The challenge for multi-tier governance of the EU political economy today is finding ways to 'govern' the EU that takes into account the fact that European member-states have such different varieties of capitalism, with different growth models, financial market profiles, production systems, labor markets and wage-bargaining systems, pension and health care arrangements, systems of taxation, and so on. Applying one-size-fits-all solutions here cannot possibly work.

Solutions for the North do not necessarily work in the South or the East. Northern 'coordinated market economies' with corporatism can flourish under conservative macroeconomic policies because their corporatist labor-management relationship can coordinate wages accordingly—based on relationships of trust, cooperation, and hard bargaining. This is not the same in Southern 'state-influenced' market economies because they are often missing the deep corporatist coordination and trust that makes it possible for the wage market to respond appropriately. For the Central and East European countries' 'dependent market economies,' these problems are compounded by the fact that they are largely dependent on foreign direct investment for any kind of growth. Moreover, dualized labor markets in many such countries means that across-the-board austerity only increases the risks of unemployment and poverty for the marginalized poor and jobless. Finally, thinking that all countries can achieve Northern levels of export-oriented growth if they just stick to a 'Culture of Stability' spells a 'Culture of Decline' for many.

The plans for the 'European Semester' suggest that the Commission will pay attention to countries' differences, but do not allow for much flexibility, such as what counts toward the budget deficit, in how fast it is to be reduced, or which part of the accumulated debt is to be addressed. For example, why not leave off the balance sheets growth-enhancing investments in infrastructure projects, education, training, research and development? If the EU Commission had the legitimacy of EP elections and an EP majority behind it, it would notionally be able to do this.

More generally, for deeper integration in this multi-varied capitalism, the principle of 'enhanced cooperation' as revised in the Lisbon Treaty could prove immensely helpful in those areas such as labor markets, social services, and individual cross-border citizen concerns where the Single Market has hit the limits of integration. Why not create new 'enhanced cooperation zones,' such as 'enhanced labor mobility zones,' in which member-states with reconcilable arrangements in pensions, health care systems, and labor contracts created a more integrated labor market through harmonization and/or various forms of reciprocal arrangements. Why not new 'public services zones,' in which countries with strong state-delivered services, such as medical care, developed new cross border mobility agreements? Moreover, at a more basic level, there could be 'immigration zones,' in which countries with similar needs harmonize their immigration policies.

The EU also needs to do more to restart the European economy while providing for EU citizens in greatest need. Project-bonds could be used for new infrastructure projects such as the European Railway System, renewable energy, and environmental sustainability as well as newly designated industrial revitalization zones and advanced technology development cooperation groups. The structural funds need to be reformed so as to be immediately accessible by the member-state regions in need, without the current bureaucratic hurdles. The CAP (Common Agricultural Policy) should be slowly transformed, beginning with a cap on big outlays to rich farmers. While part of the fund could remain to promote sustainable agriculture, most of it should be slated for a poverty alleviation scheme. Other automatic macroeconomic stabilizers need to be added, such as an unemployment insurance fund that worked across borders plus a EU employment agency to facilitate cross-border movement.

But all of this would require much more money for the EU Commission and related agencies. Instead, of increasing member-state contributions, such funds should come from new revenue streams derived from the value-added that the EU as a whole provides for member-states via the Single Market as well as the Eurozone, e.g., the much-discussed financial transaction tax—to add to funds for banking and financial market failures pledged by member-states—as well as a cross-border transaction tax on goods and services—to pay for the spillover effects of the Single Market, geared to environmental, urban, and social problems. Additional funds might come from a 'Solidarity Tax' levied on EU citizens, also to build citizen-to-citizen solidarity. This, plus the market generated taxes, would ensure that the EU was no longer perceived as a 'transfer union' in which one or more member-states paid for the rest.

Conclusion

With all of these new EU revenues and responsibilities, citizens would naturally expect more democratic access to decision-making on the grounds that there be 'no taxation without representation', while the member-states would expect greater guarantees of fiscal probity from one and all. Indeed, in order to make any of the above work, the EU itself needs deeper political integration. For this, the election of the Commission President via EP elections, as noted above, is a beginning to ensure more democratic representation and participation. But beyond this, innovative leadership via the Council in the direction of at least some of the initiatives described above is a *sine qua non*. But in addition, new narratives and better communication to the public that explain what the EU is, in its multi-tier governance. In short, multi-tier governance in a highly differentiated EU political economy also requires multi-level democracy. But that is a topic that has already been taken up earlier today.