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***"Institutional challenges to European Integration"***

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Throughout the history of European integration we have not experienced a boring single year with nothing to do. But over the last seven years of the Union we have witnessed an unprecedented cumulation of challenges. Most of them have been mentioned here today, during the discussion.

I hope you would also agree with me that, traditionally, in difficult years requiring changes in the way the EU functioned what mattered were not only the problems and opportunities but also the way the Union reacted to them.

In reaction to the crisis, an unprecedented scope and scale of reforms have been decided and implemented. They addressed a lot of short term problems, and opportunities. But they have also demonstrated how sensitive the European public is with regard to subsidiarity, national interests, solidarity potential. They also revealed how often European leaders are opposed to deep reforms, and how differentiated and also fragmented Europe was.

But today when our home is not any more on fire we can also see with clarity that we are in a historically important moment when political need of a grand change is overwhelming. And this need should be in my view addressed with a sense of urgency.

Institutions have always mattered for European integration. Unfortunately subsequent treaty modifications always left an institutional deficit as treaty changes as a rule were consolidating the past and not focusing on providing space for the future institutional evolution.

We have had many debates on institutional change, many institutional reforms have taken place. But the core institutional structure, the Union checks and balances system has never been challenged. But this time the institutional challenge might be different. We need, as never before, to look at institutional efficiency, both its intra and inter institutional dimension, but also at democratic legitimacy and how the European institutional set up can cope with the progressive fragmentation of the Union.

Political community in Europe has always been highly fragmented. This is why European institutions are designed in a way that provides for consensual decision making. Checks and balances are first of all a conflict solving machinery. Reaching a compromise becomes an objective at the expense of the substance. The current political situation in the European Parliament will cement this approach.

Democratic legitimacy can come through the action of institutions. This is true for both fundamental components of the legitimacy, the input and output legitimacy. Input legitimacy refers to European institutions decisions being legitimate if they are the expression of the will of European citizens. Output legitimacy refers to the decisions of those institutions being considered legitimate if they meet the expectations and needs of citizens. The latter becomes indeed a challenging task as it is rather difficult to measure. Distinguishing between the input and out legitimacy, questioned by some scientists, allows to differentiate between the openness of the institutional system toward the participation of citizens in decision making and the capacity of the system to deliver.

Efficiency of European decision making depends on how the institutions work internally and how the inter institutional cooperation is arranged and delivering. However, while it might be relatively easy to define what is an efficient European Commission, it would be much more difficult in the case of the European Parliament.

Divided Europe brings new challenges to the way institutions are structured, organized and function in providing service to the citizens and member states. The Treaty envisages the possibility of the council formation limited to the euro zone membership, European Court of Justice judgement allows the Commission provide the service to both 28 and 19 member states formation. However, legislator did not envisage any such possibility for the European Parliament which remains a homogenous institution for all citizens.

Unanimity in decision making and the fact that enhanced cooperation has not been used as a legal basis for new institutional arrangements led to inter governmental agreements, generating certain distortion in the traditional institutional set up. Intergovernmental agreements can be seen as a failure of the Treaty based institutional set up, result of deficiencies in legal base framework and the unwillingness of member states to reach out to enhanced cooperation instrument.

The traditional institutional balance has been additionally shaken up by the newly established by the Lisbon Treaty institution, i.e. the European Council which over the last years moved toward performing a quasi legislative role.

The current institutional framework has its deficiencies when it comes to the democratic legitimacy of decision making. As more areas of policy become europeanized, and traditionally domestic areas of policy are addressed at European level, the legitimacy question arises with more strength. This is particularly visible in the economic governance area.

We have certainly come a long way since the start of the crisis on reforming the governance. Nevertheless, I feel tempted to say that we are half way through with reforms. Most reforms addressed short term stabilization problems. Shaping long term structural balances within and between member states can be effective in a Union that is based on a common economic, monetary, fiscal and political framework. Further reforms in this context could improve and complete the governance of the euro zone. As more competences are moving to the EU level , an

unprecedented level of shared effort , cooperation and coordination is needed. The question is whether this can happen without further constitutional change. This is today a rather unpopular idea. Also, because political leaders avoid European issues becoming topics in national debates.

There seems to be a growing consensus that some form of deeper fiscal integration could contribute to eliminating major weaknesses of the common currency governance system. Foundation on which we can build progress in this respect has been already established by such reforms as six pack, two-pack, fiscal compact, European semester, banking union. More effective control over the national budgets, with a stronger role of national parliaments in the European governance, as well as a better shock absorption capacity would be the path to go. In particular, a more effective fiscal coordination could strengthen the ex ante rather than ex post crisis control mechanism. Recent experience points to the need of developing a mechanism, embracing both commitment and implementation, to coordinate structural reforms. Lack of those leads to a permanent divergence within the monetary union. The difference between coordination and common decision making would matter in this context.

I believe that over the years to come, the Union will have to move slowly towards a genuine fiscal union based on several corner stones. One of them would include better incentives and oversight of sound national fiscal policies. For this to happen a genuine break between sovereigns and banking sector will be needed, going beyond the banking union mechanism. Currency union will need a legal personality.

A genuine discussion on the Treaty change will need to come rather soon if we do not want to introduce further reforms through the back door.

For how long can we continue the Treaty stretching is difficult to say. Eventually, if the change of the Treaty comes too late, again we will be behind the curve with the institutional change which will follow the real life. Those who are against the Treaty change underline that there is simply no agreement, no appetite for this. But this appetite will not come unless the debate is launched. The unanimity for the revision and entry into force of a treaty is a stumbling block.

It goes without saying that there is still a broadly unused potential of the current treaties. AFCO committee of the European Parliament is working on identifying this unexploited potential. But introducing further so badly needed reforms through the back door, stretching the current treaties even more, will fight back.

Leadership is about having a vision and a strategy to deliver it. We need positive ideas about Europe that can win the hearts and minds of citizens now. We also need people, citizens on board European policy making because only then politicians can position themselves on the European issues without being subject to criticism at home.

That is why we need to call a convention now to allow people become a constitutive and not a ratifying power in deciding on the future Europe. Any movement forward in

integration will have to be legitimized by citizens. This is particularly important today when an unknown finalité politique is not an option any more.