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“Understanding Europe – the biggest challenges of these days”

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Europe is not only about understanding. Europe is also about emotions. There are moments where emotions matter strongly. They are needed especially today in times of growing radicalization, skepticism, anti Europeanism and general loss of confidence.

But Europe is also about action and Europe of the last years marked by crisis has also been Europe in action.

It has used the seven years of crisis to reform itself deeply. Without any doubt, the crisis has triggered reforms, which are unprecedented and many of which were unthinkable not so long ago, in the financial sector and also in the field of economic governance, with an obvious focus on the common currency area. Recent years have brought new proposals to further expand internal market, building energy union and digital Europe.

However, reforms have not been based on and driven by a long term vision, but have rather taken place incrementally, following a step-by-step approach which is somewhat traditional in the EU. This has been justified as the best way to move forward in a Europe suffering from skepticism and lack of trust.

Finalité politique has never mattered in the debates on the future of European integration but it is also true that all big changes were based on a common vision, strategy and a road map taking us to the final objective. This was the case of internal market, euro area or Schengen.

Maybe paradoxically, the integration method based on a gradual change does not generate confidence and enthusiasm among citizens, as they do not see clearly where the train is going and what the purpose of the reforms is. Therefore, citizens tend to distance themselves from the changes introduced.

Every generation of Europeans has the right to ask what Europe is for and establish its own European narrative. So does the current generation of young Europeans who show in their political choices a lack of trust in Europe. Unfortunately, the challenges of war and peace which had disappeared from European narrative long ago are back and peace cannot be taken anymore for granted.

For years, we have had to work in emergency to solve the pressing problems related to the economic and financial crisis. Now, our European house is not any more in flames and the time has come for far-reaching reflection, vision based thinking and action for a long term change.

Few words about institutional dimension of change. European checks and balances have been shaken up over the last years. We see that some European institutions have gained new competences and that a new form of decision making through intergovernmental agreements has become an important element of the new normal.

The Treaties are rather vague on some of the institutions, so new institutional territories became a new reality through action. We have witnessed a de facto institutional change based on *faits accomplis*. For instance, the Eurogroup, which is only an informal entity, hardly mentioned in a protocol of the Treaty, and not even an EU institution, has de facto developed into a very powerful institution most directly involved in all the decisions taken to combat the crisis in euro area.

The European Council, which has only become an institution after the Lisbon treaty and whose first permanent president had just been appointed when the crisis broke out, similarly took a leading role in the management of the crisis and the reflection on future economic governance.

The European Council has granted itself responsibilities in new policy areas, requiring consensus among member states and has even invaded the law-making territory, which is not envisaged by the Treaty and contributes to the emergence of a dualism in the area of executive power traditionally belonging to the European Commission.

The institutional novelty - Euro Summits - has been legalized through the fiscal compact, a legal instrument entirely outside the Treaty.

The crisis and the quest for adequate responses to it made even more urgent the need for structural reforms at national level. However, we discovered very quickly that in the current EU mechanisms there was no technology to commit member states to structural reforms and their implementation. European semester procedure ends up with non binding recommendations.

Due to the multidimensional nature of the crisis, but also as a consequence of the way we coped with it, the dire economic situation has developed into a problem requiring bold and effective response with a sense of urgency.

Today we are in an investment crisis. For years now both public and private investment have been in decline in Europe. This ever growing investment gap has been compounded by a lack of innovation which resulted in a productivity slowdown. Insufficient innovation and investment hold back our economies and result in sluggish growth and low job creation. To mention only one indicator in this respect, the 2015 European Commission score board reveals once again that in terms of innovation Europe lags behind not only US and Japan but also South Korea. Policy environment boosting innovation is a matter of urgency and a must for Europe.

The EU has reacted to this situation with such novelties as the Juncker plan aiming at providing funding for infrastructure and innovative industries, the plan to develop a Capital Markets Union aimed at expanding and diversifying funding sources or, indeed, the negotiations of a TTIP expected to boost trade, growth and job creation.

Unfortunately, the economic situation and crisis related focus on reforms, have made Europe once again introverted and self-centered. Enlargement disappeared from its

political agenda, neighbourhood policy did not deliver geopolitical harmony around the EU.

Few words on the new intergovernmentalism. European integration has shifted its weight towards a method of integration which used to be called intergovernmentalism.

There is a kind of paradox whereby, while the crisis led to reforms largely centralising crucial policy instruments or, if you wish, moved European integration towards more federal solutions, at the same time, relatively often, Member States were reaching towards international agreements, not only moving away from the community method but also not resorting to procedures of enhanced cooperation based on the Treaties framework. (ESM, SRM, Fiscal Compact).

This phenomenon can be explained by many factors. Among others, the insufficiency of the legal bases available in the treaties for some reforms, the need of unanimity for Treaty changes, internal pressures present in some Member states, including the one from the German Constitutional Tribunal, but also the alarming new events in the world around us which required European solutions to policies belonging to national competences, are worth mentioning.

Migration is a recent example of a European policy area where the European Council coordinates decentralised legal and material resources. Others embrace foreign policy, defense policy, as well as some elements of economic governance and social and labour policies. These are policies where an unprecedented effort of coordination to add the European dimension to the solutions has been at stake.

This parallel method of integration, based on coordination of decentralized national resources, both legal and material, will stay with us for a while. It is not at all clear whether coordination as a method of European policy making will prove effective. It is still to be seen.

The democratic legitimacy of European integration has been growing as a challenge for quite some time. In recent years, it has acquired a new dimension in the context of the reforms of the euro zone governance, which have raised the issue of democratic legitimacy of European decision making on an unprecedented scale.

There has been a real move towards an increased control of an increased number of components of national economic policies by the European level. With the reforms such as the introduction of the European semester, of the Macroeconomic Imbalance Procedure, and with Country Specific Recommendations, countries become more accountable to the Union regarding their economic and fiscal policies. But of course, the more centralized policy making becomes, especially in areas traditionally belonging to national competences, the bigger the accountability challenge.

In economic governance area, an additional legitimacy challenge has emerged - the need of a double legitimacy, involving both European and national parliaments.

These are just examples of processes which made the relation between the European Union and its citizens have become more tense than ever. What matters in this area is not only transparency, but also inequalities, fairness, participation and general democratic legitimacy of the process and the content of European decision

making.

We have certainly come a long way concerning the economic governance framework since the start of the crisis. However, we are half way through. We need further reforms to improve and complete the governance of the euro zone. There seems to be a growing consensus that the weaknesses of the common currency system could be corrected by a deeper fiscal integration. In moving in this direction, we would not be starting from scratch. The six pack, two pack, fiscal compact, European semester architecture, banking union, all the new frameworks within the current Treaty have created a foundation on which we can build further fiscal integration.

Further progress would need a more effective control on national budgets, possibly with a stronger role of national parliaments in European governance, but would also require also some form of European fiscal capacity to improve shock absorption capacity, a mechanism to coordinate structural policies and implement structural reforms. Nevertheless, purely cooperative approach to fostering structural change has shown its limits over the last decade.

Allow me finally to discuss a last question, which is the possible need for a new treaty.

There have been many and far-reaching reforms, especially in the economic governance of euro zone which have brought about quasi-constitutional changes, and they have been conducted without any alteration of the Treaties. It is legitimate to ask how far and for how long we can continue to stretch the current treaties and use them as the legal bases for further reforms of the economic governance. It is possible to introduce further reforms through the back door, in a legal framework which is not clear-cut. Usually, such strategies fight back.

Any new treaty would require approval of all Member States, which means one single State can put a veto and stop the whole process. We need a new approach. We have tested it with three intergovernmental agreements where those who ratified joined the Treaty. So the challenge is to admit the possibility of moving toward a Treaty possibly unanimously adopted but ratified only by member states that truly want to participate while keeping it open for everybody wishing to adhere at a later stage.