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Proposals for the future of Europe: The road to an Economic and Political Union

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The groups met on 30 January 2013, 15 April 2013, and 1 July 2013; the attendees were as follows[2]:

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1 The ultimate responsibility for this report rests with its contributors: Professor Miguel Moltó for the section on "Proposals in the economic sphere", and the Professors Belén Becerril and Jerónimo Maillo for the section on "Proposals in the political and institutional sphere".

2 The names of those who confirmed their attendance are shown.

Índice

1. Presentation

We are facing a key moment in historical terms, where we are playing “to be or not to be” with this valuable European integration project that emerged in the fifties of the last century, and which has advanced following the method masterfully designed by Jean Monnet. We owe it to these men who thought big to do our bit so that this great idea is not buried by uncertainties, short-sightedness and various sorts of selfishness.

In recent years there has been a loss of public support for the integration process, a disenchantment. It is likely that the values and objectives that prompted the project in the fifties, such as the search for peace and reconciliation or shared prosperity around a common market, do not mobilize Europeans today. At the beginning of the 21st Century, with the consolidation of an extension to the East that somehow temporarily reinvigorated the validity of the founding ideals, citizen support for integration is now at an all-time low, even in the traditionally most pro-European States, as is Spain’s case. Additionally, in recent years, the response of institutions to the economic and financial crisis has caused disappointment and has greatly tarnished the image of a Union accustomed to legitimizing itself through its results.

The European integration project is right now in crisis. However, we should remember that Europe has always advanced through the impulse of crises, which have also delivered a stimulus uniting leadership and political will. So it is worth pausing a moment to remember the difficulties experienced in the past and put the current position in its historical context.

The crises in Europe during its construction and development are due to different causes, but all have a common denominator and final effect. The common denominator is that they often seriously affect common policies in construction. Member States, not yet integrated into the common policy, lack a supranational instrument to combat them. This gives rise to an “every man for himself”, and in some cases, a lack of disciplined behaviour. Member States have learned, by dint of serious setbacks, that crises are only overcome with a step forward, towards a united Europe, led by a strong political will and leadership. Thus, the final effect has almost always been a clear desire for “more Europe”. This “more Europe” has sounded loudly in times of strong political leadership, and more confusingly when there has been a lack of great leaders.

The first great crisis coincided with a devastated Europe after World War II. From that trauma comes the decision to create a Common Market as a first step towards the goal of a united Europe. This great project was supported by six countries, while others rejected integration due to their reluctance to transfer sovereignty. In short, the crisis regarding Europe's future was decided in favour of "more Europe", with six countries that expressed strong leadership and a strong political will.

We can recall a subsequent crisis, but with a similar internal structure. In the Treaty of Rome it was planned within twelve years to create a Customs Union, with a Common Market. But Member States didn't play ball, employing administrative sleight of hand so as not to submit to the jurisdiction of the rest in a transparent common market. The approach and solution to this major crisis required, in the 80s, the strength of authority of the Commission President, Jacques Delors, in his White Paper on the completion of the Internal Market and the signing of the Single European Act. There would have been no solution without a decisive impulse of leadership and political will towards "more Europe".

The financial crisis that the world and Europe are suffering at present has different causes from the above, but similar features to those described above are repeated in it. In the Maastricht Treaty, Europe launched the creation of an Economic and Monetary Union (EMU), in which economic and budgetary rules were established. The idea was for this important common policy to unite countries with a heterogeneous economic development and level, but during the process of construction of the new common policy, the financial crisis put paid to the project. The crisis did not affect a united European economic government, but rather certain Member States that failed on their part to keep to the level of the criteria to be allowed entry into the EMU. The wreck of the national economies infected the whole Union. Surely with a complete Economic and Monetary Union, with a supranational economic government, good behaviour and community solidarity would have averted disaster in the Eurozone. It is hard to fight a crisis that affects a common policy in construction, on the basis of the scarce forces, resources, and the political and economic measures, which are not always successful, of the Member States. As on previous occasions, the way out is to perfect the internal market and complete Economic and Monetary Union, i.e. to take a step forward. This requires leadership and political will; it requires "more Europe". In short, when we recall the previous crises, there is nothing new under the sun.

And this will be so, until the political union is complete and the European Union is no longer a fragile and vulnerable building under construction, exposed to any external aggression. The Union was created to obtain the resistance of the strong. The road to final political union will be difficult whatever the nature may be of the crisis that we suffer, because the weakness comes from that assaults falling on an unfinished integration process, halfway between the nation states that comprise it and the discipline and shielding that they aspire to through unity. Going forward with small steps has the advantage of prudence and the disadvantage of vulnerability, until the processes of unity are completed. Europe is not failing. It is being constructed in a stormy environment. But the process needs more than ever, in order to survive and consolidate, political will and leadership. Without them, the technical solutions appear to be inadequate.

From the University Institute for European Studies (*Instituto Universitario de Estudios Europeos*) we continue to believe that we need more Europe. For us, Europe is the solution and not the problem, the best alternative in order for Europeans to play a significant role on the global stage, projecting our principles and values and defending our interests. However, for this approach to be effective and not merely a declaration of principles, we must turn good intentions into action. Therefore, we want to make our contribution to a debate that is fundamental to the future of both Europe and our country.

This contribution focuses not only on the economic, but also the political, aspects, firstly, because we think that the crisis facing the European Union today is not just an economic and financial crisis, but also a political and institutional crisis; and secondly, because we believe that there can be no further economic integration (tax and banking) without parallel advances in political integration, toward a greater federalization both of powers and of procedures.

However, we wish to note that we do not address in this paper other important issues for the future of the Union, such as its representation in international organizations and possible consolidation as a global actor. Nor do we debate other technical issues of importance, such as the means and instruments to achieve the objectives we seek (use of enhanced cooperation and other flexibility mechanisms to facilitate progress in the integration process, system of Treaty reform, etc.).

Therefore, with the aim of making proposals that could allow Europe to find a promising future, we present this discussion paper.

2. Diagnosis. How did we get here? What weaknesses have we to overcome?

2.1. The shortcomings of the economic and monetary union

The EMU was designed asymmetrically, because while countries lost two economic policy instruments, namely monetary policy and the exchange rate, the Member States retained the other policies. It is true that, to go some way towards alleviating this situation, the Maastricht Treaty established budgetary discipline criteria. These criteria, which were developed within the Stability and Growth Pact (SGP), were not applied properly. Nor was the Broad Economic Policy (BEP), which the countries should have abided by, although this was not binding, fulfilled by all Member States. For its part, the National Reform Programmes (NRPs), which should have included those reforms necessary to achieve the objectives set out in the Lisbon Strategy, were also not put into practice by all countries.

In summary, the instruments of economic governance which the EU had available to it prior to the crisis were the SGP, the BEP and NRPs. The 2008 financial crisis revealed two facts: first, that the three economic governance instruments existing up to that time were insufficient to deal with it; and second, that the misapplication of them favoured the strong macroeconomic imbalances that occurred in some of the countries of the Union and that were accentuated with the arrival of the crisis.

The EU responded by adopting new instruments of economic governance in the 2010-2012 period. Such instruments had several goals: to strengthen macroeconomic and budgetary supervision, to establish mechanisms of financial aid and to reform the EU financial system to make it more efficient. For the best *ex ante* coordination of economic policies of the Member States the European Semester was implemented.

The new economic governance instruments represent a significant advance. However, banking union is not yet completed (which affects the segmentation of financial markets because, in practice, we cannot at present say that monetary union in the Eurozone countries is functioning). Neither has there been any significant progress on tax harmonization (which greatly impairs the fiscal union), and conventional and unconventional measures introduced by the ECB so far have not achieved the transfer of monetary policy to the real economy.

Financial institutions may be able to obtain liquidity from the ECB on favourable terms as to interest rate and term, but this does not mean that companies, especially small and medium businesses, can access credit from financial institutions on affordable terms. The interest rate differentials for loans obtained by firms, especially SMEs, are very high from one country to another; and even within the same country the differential between what large companies and SMEs have to pay is notable. It seems that the interest rates charged by the ECB play a less important role that the risk premium of the various countries. Therefore, firms in countries where the risk premium is higher are forced to pay higher rates of interest to obtain finance. The conclusion is that the monetary policy decisions taken by the ECB affect countries in different ways.

The crisis has highlighted the need for the Eurozone have a Central Bank lender of last resort which would allow a reduction in risk premiums and help avoid the sovereign risk- bank risk vicious circle.

Creating an instrument for the mutualisation of public debt, once the necessary adjustments have occurred, would create a broad, deep and transparent market for public debt in the Eurozone, which would positively affect the cost of funding for most countries.

Moreover, it should be noted that the approach taken by the EU to end the crisis in Eurozone countries has been austerity, fiscal consolidation. This consolidation has meant that in the period 2009-2012 the Eurozone has suffered two recessions with the consequent negative effects on employment. It is important, therefore, to combine measures to encourage the growth with the continuation of the adjustments, but at a slower pace.

2.2. The shortcomings of the institutional political system

As we have noted, the Eurozone has faced the crisis with a clear limitation of powers. But the causes of the problem lie not only in its limited powers in economic matters; because when events have forced its hand, and the Union has found the political and legal ways to take important economic decisions, limitations have also shown up. This weakness is, in our view, linked to the design of the political and institutional system.

In recent years, we have witnessed an erosion of the community spirit and method that was set in motion by the founding fathers. In particular, the European Commission, whose supranational nature must locate defence of the general European interest in the centre of the process, has suffered a loss of leadership.

The progressive strengthening of the European Council, which the Lisbon reform formally elevated to the status of an institution, has had a major impact, emphasizing differences between large and small. The scene has been stolen by the Heads of State and Government, who have acquired a role, if anything, greater than in the past.

Another of the Lisbon reforms relating to the European Council, the establishment of a stable presidency, has generated a growing confusion between the President of the European Council and the Commission President that hitherto constituted, with all his limitations, the voice of the Union in the eyes of many citizens.

Therefore, in recent years we have witnessed a blurring of the Community spirit and method. In a context of heightened intergovernmentalism, differences between States and their public opinions have become more extreme, and rivalries have been exacerbated. Ultimately, the national approach has dominated in an increasingly intergovernmental Union.

In this context, the Union has faced a crisis that is, by its nature, transnational, merely through the juxtaposition of national perspectives. Given the lack of a common approach, the European political process has overly relied on national politics, priorities and timetables, on certain political leaders who only answer to domestic constituencies, which in turn have not understood and interiorised the consequences of their deep interdependence.

For European economic governance to function, it is necessary to articulate a common political space, with the capacity to incorporate and channel a plurality of interests and actors –and not just national ones–. This can only be accomplished by the strengthening of supranational institutions, by a return to the Community method.

The Council plays and will always play an essential role in European economic governance, but it cannot do so alone. There is a need to give greater visibility and legitimacy to the Commission, the institution representing the general European interest, for example, linking more closely its appointment with the European Parliament elections. If the Commission has to play a greater role in economic governance, citizens have to know that the Commission is a result of European elections. There are also other ways of strengthening it, relating to its size and internal organization. The overlap with the European Council and the Council is another essential piece. Improvements can also be made with regard to the involvement of the European Parliament and national parliaments.

Thus, in the end, European economic governance requires the strengthening of European democracy, and decisive advances in the politicization of the institutional system and in the development of a genuine European political space. Economic union requires greater political union.

3. Proposals in the economic sphere

Set out below are proposals for progress in the economic sphere, in banking, fiscal and economic union. A distinction will be made between those that can be undertaken in the short term, and that in principle do not require a reform of the Treaties, and those that are more ambitious, which fall within a model for greater integration, closer to a federal model.

3.1. In the short-term

a) Progress in the banking union

The banking union aims to help solve the current problem of segmentation of the financial markets within the Eurozone, which prevents the monetary policy decisions taken by the ECB being transmitted to the real economy.

A banking union consists of three pillars: a single supervisory mechanism, a single resolution mechanism and a deposit guarantee fund. Moreover, a bank resolution fund (fiscal backstop) is required that can cope with bailouts or liquidation of credit institutions in difficulties.

At the present moment, none of the aforementioned pillars are in operation. However, it should be noted that several European Councils have adopted decisions in order for banking union to become a reality in this legislative term.

With regard to the single supervisory mechanism (SSM), the decision taken by the European Council in December 2012 means that such supervisor will be the ECB for Eurozone banks, as well as for credit institutions of other EU countries that require it. The date set for the SSM to become operational is 1 March 2014. However it should be noted that the supervision of most of the credit institutions on a day-to-day basis will be the responsibility of national supervisory authorities (given that the ECB will only monitor mainly large entities), although the ECB will have ultimate responsibility. The supervisory functions of the ECB will be clearly separated from those of its responsibility for the monetary policy of the Eurozone.

The European Council meeting in June 2013 gave new impetus to the banking union when it agreed that the Directive on the framework for bank recovery and resolution, and that for the deposit guarantee system, should be adopted by year-end. Finally, with regard to the single resolution mechanism (SRM), necessary for the SSM to be fully operational, the stated objective is that the Commission presents its proposal this year and that it could be adopted before the end of this legislative term.

In short, if all the above is complied with, banking union could be completed within a year. However it is questionable whether, as it is designed, this banking union will help to solve the segmentation existing in the financial markets at present.

The national approach applied (the German thesis) rather than the European one, with regard to the deposit guarantee funds, could give rise to major problems. For example, such national funds may be insufficient if the deposits below 100,000 Euros, which are guaranteed, represent a high percentage of GDP of the countries (in Spain around 70%). A European deposit guarantee fund would have solved this problem. However, countries like Germany could not agree on the funds necessary for this –and, above all, their source– seeing it as a risk that could ultimately affect their taxpayers.

As for the SRM, we will have to wait for the Commission's proposal, but it seems that there will not be a European Resolution Authority but rather they will be national, at least as a first step (the German position), with the necessary coordination between them. According to the German authorities, the creation of a European SRM would imply the need to amend the Treaties (a position that neither the Commission nor the ECB share).

In reality, what lies behind the bailout and bank resolution pillar is, firstly, determining who has the legal capacity to do so and, secondly, what funds will be made available for it. The legal capacity will lie with the countries. With respect to available funds, what is known so far does not allow us to be too optimistic, especially in a situation where it has to come to the rescue or resolution of major banks. Future stress tests will reveal the status of them and we will therefore have more information on whether or not there is a need for more bank resolution funds.

We can conclude by saying that the latest decisions on banking union represent some progress. However, as is currently configured, it does not seem to be the solution to the sovereign risk and bank risk vicious circle in the countries of the periphery, nor the end of segmentation of the financial markets in the Eurozone. In this situation, the ECB remains the bedrock as far as the purpose of maintaining the financial stability of the Eurozone is concerned.

b) Combine austerity measures with growth stimuli

The austerity approach has resulted in two recessions in the Eurozone in the 2009-2012 period. Today, five years after the crisis, economic prospects give little hope for the coming years in terms of any increased level of economic activity and job creation. Austerity measures have been relaxed (let us remember the extension of the deadline for several countries for meeting the target of the 3% deficit relative to GDP, the higher number of years agreed so that certain bailed out countries can repay their loans, etc.), although the Commission is asking for things in return –in reality new adjustments– which does not seem to be going in the right direction. There is a need for combining flexibility in setting the pace of adjustments with economic stimulus measures if the current economic situation is to be reversed.

The recent adoption of the 2014-2020 multiannual financial framework (MFF) does not provide for such kind of measures and the conclusions of the European Council held on 27 and 28 June this year also do not point in this direction.

To tackle youth unemployment (more than 50% in Spain and Greece and 23% in the whole of the Eurozone) the decision taken by the European Council mentioned above is that of bringing forward to the years 2014-2015 the allocation of 6 billion Euros envisaged by the MFP (which could reach 8 billion in certain circumstances). At this time, youth unemployment in the EU has reached 6 million people, such that the amount allocated to deal with it is entirely inadequate. Nor does it appear that the contribution of the European Investment Bank, through its "Jobs for Youth" initiative, will substantially change this situation.

The funding difficulties encountered by small and medium enterprises (SMEs), which account for 99% of companies, 50% of value added in the business sector and the generating of 75% of employment, was a matter that was referred to in the European Council cited. In its concluding section entitled "Growth, Competitiveness and Employment" it refers to a new investment plan for Europe where it is mentioned that the EIB should make full use of the recent capital increase of 10 billion Euros and carry out its plan to increase credit lending in the EU by at least 40% between 2013 and 2015 (which is estimated will result in an increase of 18 billion. In addition, the European Council mentioned the Compact for Growth and Jobs already in effect, where the funds available were 120 billion Euros (although its source did not involve substantial additional resources, but rather a restructuring of the existing ones, mainly from the structural funds).

The implementation of all these measures, however, will not be sufficient to achieve notable growth in economic activity in the Union, which would go towards reducing the current level of unemployment of close to 27 million people. If we really want to turn around the current situation, we need to establish a true European Investment Plan with the appropriate resources. Otherwise the recessionary years will be followed by weak growth that will not serve to reduce the unemployment rate, mainly in certain peripheral countries, to levels bearable by their citizens. This could result in the bursting of a "social bubble", which is being fed with the decisions taken so far, and that if it were to happen could seriously jeopardize the European project.

3.2. In the medium to long term

Progress in the European construction depends on the transfer of sovereignty by Member States in areas they currently have power over, mainly Tax and budgetary policy. Without further integration, the EMU will be exposed to shocks that it may not always be possible to correct and, therefore, to the financial instability of the Eurozone. In the near future (5 years), there needs to be a decisive movement towards a true economic and monetary union, for which, in addition to the existing instruments, new ones need to be created, and all of this framed within a structure closer to the federal model, even if this requires reform of the Treaties.

The completion of banking union and a move towards fiscal union are two basic core concepts to which one would have to add the increase in budgetary capacity initially in the Eurozone and the creation of an instrument for mutualisation of public debt. In addition the ECB would have to fulfil the basic functions of a Central Bank.

3.2.1. The instruments

a) Adopt pending legislation so as to complete banking union

This concerns adopting the pending legislation referred to in the previous point and putting it into operation, although with its design questions could be raised about its effectiveness.

b) Make progress in fiscal union

Moving towards fiscal union in the EU involves on the one hand, having the necessary tools in the budgetary field, and on the other, achieving the necessary tax harmonization (not homogenization) between Member States, and, finally, revising certain Community legislation and approving new directives to cope with the new challenges of today.

Since 2010 progress has been made in the adoption of new instruments affecting budgetary discipline, and where significant penalties are established on defaulting countries. We can cite the new SGP, the regulations relating to strengthening of budgetary supervision and coordination and the intergovernmental Treaty on Stability, Coordination and Governance (TSCG) adopted by 25 countries (all except the UK and the Czech Republic). The effectiveness of these instruments will depend on the compliance thereof by the Member States, on the application of the penalties provided by the EU institutions responsible, and that the exceptions provided in the Community regulations for the non-application of such sanctions are an exception and do not become the rule. In other words, that the application of penalties should be as automatic as possible.

As for tax harmonization, it should be remembered that the tax policy in the EU is for the Member States to have jurisdiction over direct taxes, while some progress has been made in indirect taxes, for example by establishing a harmonized VAT base. This results in the need to have very close coordination in the tax field to eliminate barriers to the internal market and to avoid competition over taxes between Member States. Such coordination does not exist at present and therefore the only way to remove the barriers identified is to advance tax harmonization in the EU by establishing harmonized tax bases in direct taxes, e.g. in company tax, reduce exemptions and the proliferation of tax rates in VAT, etc.

In addition to harmonizing tax policy and establishing fiscal discipline, other elements remain that need to be taken into account in order to complete fiscal union. These are: the existence of bilateral agreements that allow a good sold in one country to be taxed in another country where less taxes are paid –such agreements should be reviewed–; the need to legislate on Internet transactions; the regulation of cross-border transactions; the elimination of exemptions and subsidies for companies, which hide the real effective tax rate paid in company tax; dealing with tax havens existing within the Community; avoiding the opacity of accounts in financing entities of some EU countries; combating tax fraud and tax evasion more vigorously, etc.

The European Council of 22 May 2013 addressed issues related to what was said in the previous paragraph and called for the fight against tax fraud, tax evasion and money laundering to be carried out worldwide to make it more effective.

We can conclude by saying that fiscal union is another tool that, along with banking union, would lead to a breakthrough in the European integration project. Achieving fiscal union will take longer because it involves the ceding of sovereignty by the Member States in areas which are currently their competence, and which are very sensitive at the national level. We must recall, however, that the EMU countries have already given up their currency, their monetary policy and their exchange rate, three characteristics deemed critical for the sovereignty of a country. The transfer of sovereignty in tax and budgetary matters would be a breakthrough in the economic governance of the EU and a major step in the greater political integration thereof.

c) Increase the budgetary capacity of the Eurozone

A monetary union needs a budgetary capacity to address both the shocks that may befall the States participating in it, as well as to serve, if necessary, as a support (backstop) for the bank resolution mechanism. In a federal State, budgetary capacity lies in its budget. In the EU this is not the case, as the EU budget has always been around 1% of EU GDP.

In this situation, the only option left to the Eurozone countries is to provide for an additional budget to enable them to carry out the stabilization function indicated above, and that exists in the other monetary unions.

Whilst it is our understanding that the creation of a specific budget would not require the amendment of the Treaties, to authorize the indebtedness of the Union itself it would indeed be required. The Commission, in its Blueprint of 28 November 2012, proposes the allocation of a budget for the Eurozone (unspecified) within a period exceeding 5 years. For the Commission, the common instrument would be used to meet short-term and temporary shocks in order to avoid having permanent transfers to a country over the cycle. Moreover, such a procedure would avoid any moral hazard. In our opinion, a period of 5 years to fix an additional budget for the Eurozone is too long.

In a future federal perspective, the EU as a whole should have an EU budget powerful enough to meet its obligations.

d) Create a public debt mutualisation instrument

As explained, one of the consequences of the 2008 crisis has been the malfunctioning of monetary union and the fragmentation of markets. The absence of a lender of last resort in the Eurozone worsens this problem.

One way to deal with this situation would be the issuing of public debt jointly by the States of the Eurozone with the guarantee thereof, or else with the guarantee of the EU budget, if it had sufficient capacity. Among the advantages of such a proposal would be that, in issuing all (or part) of the public debt of the Eurozone jointly, a European bond market would be created, which would be broad, deep and transparent, which would compete with other bond markets, such as the American market. In addition, the interest rate that, on average, would have to be paid for the Eurobonds would be lower than the current rate in many countries of the Eurozone.

Among the disadvantages would be the need to amend Article 125 of the TFEU, which is difficult when we consider that some countries such as Germany and Finland would have to pay a higher interest rate than the amount they are currently paying. However, the main obstacle is that it is likely that the issue of Eurobonds could involve a relaxation of fiscal discipline of the States with the greatest problems.

Among the various proposals put forward so far (the blue and red bonds of the Bruegel think tank, the proposal of Eurobills of Philippon and Hellwig, or that of issuing European Treasury Bonds put forward by the European Commission), that of the Commission appears to be the most reasonable in the short term.

The Commission has called for the creation, in the medium term (18 months to 5 years), of a new instrument of sovereign debt for the Eurozone in the short-term (1-2 years), which would create a large market for such securities, ensuring the sufficient liquidity for all Member States that might need them. These bonds, although they would count on the joint guarantee of the participating States, would be controlled and managed by a "Treasury" of the Union under the auspices of the Commission. For us this would be the most appropriate option.

e) Expand the mandate of the ECB

The ECB has no mandate to be the lender of last resort for Eurozone governments, which puts such countries at a disadvantage compared to other countries whose central banks perform this function. Also, one must remember that the countries of the Eurozone issue public debt in a currency, the Euro, that they do not control, which also does not occur in other countries. This means that the States belonging to the Eurozone have an increased risk of default.

It is necessary, therefore, to extend the powers of the ECB through an amendment of Article 127 of the TFEU and of Protocol 4 (ECB Statutes) to give it the powers of lender of last resort. There should also be the inclusion among its objectives of the contribution to growth and employment.

The measures described represent progress towards a federal structure of economic governance. However, the political agreement necessary to achieve the necessary reform of the Treaties that some of these imply will not be possible without a deepening of political integration and democratic legitimacy.

3.2.2. The structure of economic governance

For all the instruments indicated in both the short and longer term to be fully effective will require the establishment of an economic government, as has been proposed by some countries such as Germany. In brief, it is our understanding that its structure would be composed of:

a) A head of European finance

Such a figure could be the Economic Vice-President of the Commission, and his/her remit would be macroeconomic and budgetary supervision and fiscal harmonization with full powers in these areas. In addition, this figure could intervene in other policies that are currently of national competence, such as employment, social provision, etc.

Progress towards a federal structure of the EU would mean that available budget funds would have to be well above current levels (1% of EU GDP). The source of the funds would come from taxes collected from European taxpayers (without this involving an increase in the same) and should be able to cope with shocks that the Member States could suffer and underpin the jointly issued public debt.

b) A European Treasury

Its powers would be similar to those of a national treasury, including the issuing of Eurobonds.

c) A Central Bank, the European Central Bank

A Central Bank (the ECB) would perform the current functions (monetary policy) and those planned for next year (the single supervisory mechanism) but would also extend its mandate under the terms indicated above (lender of last resort, and contributor to growth and employment).

Without the approval of the new instruments outlined, and the creation of a true economic government in the Union, consolidation of the EMU and making progress in the European integration project will be difficult. The alternative will be to set up a different EU than the current one, where the role of enhanced cooperation probably acquires greater importance.

The measures described for the medium and long term represent progress towards a federal structure of economic governance. However, the political agreement necessary to achieve the necessary reform of the Treaties that some of these measures imply will not be possible without a deepening of political integration and democratic legitimacy.

4. Proposals in the political and institutional sphere

As has been discussed above, this is a proposal for a return to the essence of the community model and a strengthening of the supranational institutions in order to move towards the articulation of a European political space.

To do this, there is a need to strengthen the legitimacy, effectiveness and visibility of the European Commission, a European Parliament that forms the centre of gravity of the legislative process, and new mechanisms for democratic legitimacy.

The Commission must regain the capacity to set priorities and to push forward European government action. It is essential for there to be a more direct democratic mandate to increase its legitimacy and its role as a political protagonist, without renouncing its role as arbiter and promoter of consensus and majority through greater involvement with the work of the Council and the European Council.

We propose a greater politicization of the European Commission as the key to a more dynamic transnational political space and closer linkage with citizens through the elections to the European Parliament. The new profile and legitimacy of the President (and the members of the Commission, as the case may be) will provide a more prominent political role and greater visibility. In this regard, the degree of intensity of the change, of this increased politicization, indicates two possible models or options.

We focus our proposals on the reform of the legislative and executive powers of the European Union without intending to downplay the important role the Court of Justice has played and is called upon to play in the progress of the European integration process.

We will propose below –now in the political and institutional sphere– measures that could be adopted without further delay and we will also, in the longer term, point the way to a more integrated design of a federal nature.

4.1. In the short-term

a) Reduce the number of members of the Commission or restructure its organization

A Commission with fewer members would gain agility and executive strength while its image as a collegiate body would be reduced, increasing the visibility and political weight of its President.

There are, however, two possibilities. The first would be a Commission with fewer Commissioners than Member States, elected according to an equal rota. This is the model that the Lisbon Treaty appeared to choose for the period after 2014, establishing in Article 17.5 TEU that it will consist of a number of members corresponding to two thirds of the number of Member States, “unless the European Council unanimously decides to alter this number”.

The second model is a Commission with one member per state, i.e. the model in place at present, although in principle on a temporary basis (Article 17.4 TEU). However, this temporary regime could be extended beyond 2014 with a unanimous decision of the European Council, with regard to which a political commitment was already given at the European Council in December 2008 to facilitate the adoption of the second referendum to ratify the Lisbon Treaty in Ireland in 2009.

We propose the first model as being the best fit to the supranational character of the Commission, allowing it greater flexibility in decision-making, and facilitating a closer coordination and coherence in its actions and thus promoting greater visibility of the Commission and its members as a whole. Advocates of the second model often invoke the need to have one Commissioner per State, so that all national sensitivities are present. However, we believe these sensitivities can be captured in other ways without compromising the effectiveness of the Commission. There must be a guarantee that the large blocks of interests of the Union are always present, but this can be obtained with a good design of the equal turn rota. We must, therefore, opt for the first model, and if it were politically feasible –which does not appear to be the case in the current scenario– establish it as the definitive model. It should be noted that this does not require amendment of any of the Treaties.

Alternatively, formulas should be adopted for the President to restructure the internal organization of the European Commission, the way it works and its decision-making, forming smaller and effective sub-teams (e.g. the President with his Vice-Presidents, Vice-Presidents with several Commissioners working on related topics). It is not ideal, but it could solve or at least alleviate many of the drawbacks of the current situation.

b) Indirectly elect the Commission President in the next European elections

We support the proposal that the Commission President should be elected by indirect universal suffrage in the next elections in 2014. The process would begin with a proposal by the European political parties of a candidate for Commission President at the next election. The party and the candidate would present a political program which would be presented to and argued before the citizens. There would be debates between the candidates of the major parties with European parliamentary representation. The candidate of the party that wins the elections (that which obtains majority support in the European Parliament after the elections) would be appointed Commission President. In this way a direct (or quasi-direct) link between the citizen's vote and the appointment of the President would be created. This step would, in itself, if it is well communicated and organised, represent a qualitative leap with huge potential to generate a new dynamism and a very significant reinforcement of the elections to the European Parliament and the European political space. It would oblige candidates and parties to communicate a project and program from a European perspective, and to defend the same arguments before the media and citizens of all Member States.

In addition it would be good for candidates for Commission President to be presented in the lists as MEPs, so that there is continuity in subsequent debates in the European Parliament throughout the legislative term between whoever ends up as the Commission President and those who were candidates. It is not necessary (and could perhaps have the effect that some good candidates rule themselves out), but it would enhance and revitalize the European Parliament's role and visibility in the media and with the citizens.

On the other hand, it would not substantially change the system or the usual practice for the appointment of the other members of the Commission. Presumably, governments would propose names of the same political colour as the national government, and the Council, by common accord with the President-elect, would accept this after due negotiation. It is possible that the President-elect, for the additional legitimacy obtained, would have more weight in the negotiation and could have a greater say in the profile of the other Commission members. Consequently, the Commission would not normally have a single political colour (it would have a number of members of other different parties to that submitted as a candidate for President; there could even hypothetically be a majority of members of another political colour).

In any case, the President should have ample leeway to organize the Vice-Presidents and the work of his/her team. The States would have to be willing to not hinder this exercise, for to do so would risk the new legitimacy becoming content-less. It is also particularly important in this first model that the Commission retains its powers and in particular, the monopoly over the legislative initiative.

Among the advantages, we can reiterate that the election by indirect universal suffrage of the Commission President is in itself, if properly communicated and implemented, a qualitative leap with huge potential to generate a new dynamism and a very significant reinforcement of elections to the European Parliament and the European political space. It should also be stressed that this proposal does not require reform of primary law, as the current Article 17.7 TEU already points in this direction by establishing that the European Council must make its proposal "taking into account the outcome of the elections to the European Parliament". This is therefore a matter of the European political parties taking the initiative, and the European Council respecting the nominations and the final results of the election, promising to propose (by qualified majority) the candidate of the party that won the election and who has sufficient support in the European Parliament (a majority of its component members).

The politicization being moderate, being confined mainly to the figure of the President and not involving an alignment of the Commissioners with the political profile of the President, involves two advantages and two disadvantages. The first advantage is that it facilitates the appointment of the other Commissioners, avoiding conflict with national governments of different political persuasions. The second is that it is likely to promote a better overlap and cooperation of the Commission with the Council-European Council.

By contrast, among the drawbacks we must mention two potential risks: first, it may be detrimental to the coherence of the team and the policies it promotes, to implement the political program which the political party and candidate presented in the election (in a sense, it pre-conditions and limits the type of program and policy ideas that can be presented in the elections); on the other hand, there is a risk of not going far enough, that the change does not have important practical implications and that citizens perceive it as merely a cosmetic change. Therefore, for this model to work, it is essential to accompany it with a clear increase in the power and visibility of the Commission President and the institution he or she leads.

c) Merge the Presidency of the Commission and the European Council?

Since the entry into force of the Lisbon reform, the new position of permanent President of the European Council has generated a lot of confusion with the Commission President, weakening the latter's visibility and hampering his/her prominence and leadership. Although a permanent presidency is better than the rotation of the past and should remain, the model of double presidency has raised questions and involves certain disadvantages. Moreover, the election by indirect universal suffrage of the Commission President that we support would create a new political context. All this forces us to reframe the debate about the appropriateness of a dual presidency model and evaluate an alternative model of a single presidency according to which the Commission President would also preside over the meetings of the European Council.

The disadvantages of the double presidency model can be centred on three points. Firstly, the strengthening of the European Council and the design of its new presidency have contributed, in recent years, to tipping the balance towards the intergovernmental, and weakening the role of the Commission. Secondly, significant functions and prominence have been given to a figure that is the repository of an indirect intergovernmental legitimacy and whose political responsibility is diffuse or excessively dependent on the Heads of State and Government of the Member States. This can have a negative impact on the capacity to influence and control of the European Parliament. Finally, as was to be expected, the President of the European Council is now to some extent in competition with the Commission President (and even with the High Representative in relation to foreign affairs), undermining the prominence and leadership of these two figures and the interests they represent. It has generated a great deal of confusion that distances the Union from its citizens.

To overcome these disadvantages, the creation of a single presidency has long been proposed from various quarters, such that the Commission President also chairs the European Council.

The new single presidency, based in Brussels, would have the stability and visibility that is needed, as well as the technical know-how and support of the Commission. The serious problem of confusion at present would be overcome. Since this President would come from the European elections and would have the support of the European Parliament, this would help connect citizens with the Union. The new role of Commission President could also be a key stimulus if and when the European Council is capable –over and above the representation of national interests– of communicating *also, to a greater extent*, supranational perspectives and common interests. Thus, it could help correct the loss of influence of the Commission and balance the intergovernmental approach that has characterized recent years. The advantages that a single presidency model would bring in terms of transparency and of Commission-European Council interdependence are easy to foresee.

The reservations of the States in this regard are also evident. In this model, the President, far from being a representative of the Heads of State and Government, would have his/her own legitimacy which would be even further enhanced if –as we have proposed– his/her appointment originated from the European elections. A European Council chaired by the President of a Commission resulting from European elections, i.e. with a clear political origin, is certainly a risky proposition. This model would guarantee interdependence with the Commission and good preparation and follow up of its work, but the difficulties would arise from the relationship of a politicized President with the Heads of State and Governments of different political hues. In reality, the drive towards democratization and politicization of the Union requires, in any case, taking risks of this nature. Indeed, the politicization of the Commission that we have proposed herein would in any case have an impact on its relationship with the European Council and the Council.

In our view, despite the difficulties, the single presidency system could be viable. The Commission President could preside over the Heads of State and Government, with the possibility of monitoring the work, strengthening synergies with the Commission and avoiding the confusion of a dual presidency. The European Council would continue to be the necessary protagonist of the European government, but its presidency, associated with the Commission, could become a driving force, an original but feasible proposal, like the system of integration itself.

It should finally be noted that the Treaty does not appear to exclude this possibility, by specifying the incompatibility of the office of President of the European Council *only* with a national mandate. However, this is controversial, because some consider that Art. 15.2. TUE requires a revision.

d) Strengthen the European Parliament and link it more closely with the national parliaments

Faced with the challenge of achieving a strengthening of the legitimacy of European economic governance and strengthening its accountability and democratic control, the role of the European Parliament (and also of national parliaments) is essential. It is also important to maintain and strengthen an intense social dialogue at a national and European level.

Firstly, it should be remembered that the European Parliament, the only European institution which is elected by direct vote of the people, must be the basis of any attempt to politicize the other institutions, and the primary engine and forum for the development of the new European political space.

Secondly, although in general the European Parliament has unceasingly continued to gain political weight and power in the European integration process, it should be noted that the new economic governance mechanisms established since the crisis began give it little weight, leaving it behind to some extent in comparison with the strengthening of the Council. This situation must be corrected as soon as possible.

- **A political program of the Commission supported by a parliamentary majority of pan-European political parties and reinforced political control over the Commission**

Appointing as Commission President a candidate previously nominated and elected in the European elections would not only enhance the democratic legitimacy of the Commission, but also help drive European political parties and the presentation of European political programs. In turn, it should raise the profile and strengthen the new Commission's program of governance, and generate a greater synthesis of the political program between the Commission and the European Parliament.

However, it is necessary for the European Parliament to remain vigilant in the compliance with the political program proposed by the elected Commission, and to make the most of existing mechanisms of democratic control (test reports, questions, commissions of inquiry, opinions and, in extreme cases, motions of censure), to avoid problems of understanding between the two institutions. Debates such as the "State of the Union", established in 2010, should be a key appointment. For this to be so, broadcasting in real time and with quality translations in all official languages could help to enhance the importance of the event and interest the citizens.

In short, we propose to increase political control over the Commission, so that the political program at the time of investiture is subject to extensive monitoring by the European Parliament, in particular in discussions on the "State of the Union". At the same time, knowing that it has the support of the European Parliament could strengthen the position of the Commission.

- **Double control of the new economic government: via Commission and via national parliaments**

While, as noted, the European Parliament has unceasingly gained political strength and power throughout the history of European integration, the economic governance mechanisms established since the beginning of the crisis give it little influence. Indeed, currently the position of the European Parliament in the Treaty on Stability, Coordination and Governance is weak, while in the "Six-pack" the European Parliament lacks substantial decision-making powers (note for example that the concept of "economic dialogue" is not even defined). It is necessary to reverse this trend by making full use of the existing mechanisms in order to restore political control over economic governance decisions, especially those of a budgetary kind.

Until there is a reform of the treaties to strengthen the role of the European Parliament, the European Parliament can and should participate in the control of the new economic governance in two ways: on the one hand, using existing mechanisms of political control of the Commission and of the Council, and on the other hand, seeking a partnership with national parliaments.

With respect to the first path, the Commission and Parliament should try to reach an agreement with the Council to maintain an intensive political dialogue on the new economic governance and use all existing information, accountability and political control mechanisms, to the fullest extent possible, including the scope of the new economic governance (e.g. economic policy recommendations within the framework of the European Semester).

With respect to the second path, one might consider strengthening the cooperation mechanisms of the European Parliament with the national parliaments. This cooperation could result in political 'cleavage' that contributes towards overcoming the intergovernmental inertia of the current context. This would not be the first time: as already happened in the Convention on the Future of Europe, the European Parliament, through political families, can foster broad coalitions and influence the national governments that take the decisions in the Council.

This cooperation could be achieved through the procedure of Article 13 of the TSCG, which provides for "a conference of representatives of the relevant committees of the national parliaments and representatives of the relevant committees of the European Parliament in order to discuss budgetary policies and other issues covered by this Treaty". While in principle this would exclude representatives of non-signatory countries (the United Kingdom and the Czech Republic), they might be allowed to take part in the debates but in a non-voting capacity.

Among the advantages of these proposals we can mention that the European Parliament would be strengthened as a centre of political debate at the European level and win, as it has done in the past, the battle of ideas even when the Treaties do not grant it sufficient powers.

The most obvious risk is that such a conference could become a new –albeit specialized– COSAC, i.e. an institution that after 24 years of existence has had a weak political impact and little recognition, even among the Community institutions.

Therefore, we propose that, in this area of economic governance, the European Parliament, as well as seeking a political dialogue with the Commission and Council and making maximum use of its direct political control mechanisms, could actively participate in the construction of a political forum through the conference of representatives of the national parliaments provided for in Art. 13 TSCG in order to create, in collaboration with national parliaments, political 'cleavages' which may act simultaneously in the control of the national executives and of the European Commission.

This emphasis on the European Parliament is not an obstacle for an always desirable better debate and scrutiny by national parliaments of the positions of their governments in European affairs, and for creation and strengthening of relations between the national parliaments.

4.2. In the medium to long term

We believe that the measures that we have just proposed can be implemented right now without the reform of the Treaties. This would contribute to a strengthening of supranational institutions, a return to the Community method and would also be a step forward in the democratization and politicization of the institutional system.

We would like also to propose a scenario of greater integration, closer to a federal model. Clearly, this scenario would require a political will that does not currently exist, and of course a thorough reform of the Treaties. However, as noted at the beginning of this document, here at the Institute for European Studies we still think that Europe is the solution and not the problem, and that the deepening of integration is the best alternative for Europeans to be able to play a significant role on the global stage, projecting our principles and values and defending our interests. In this spirit, we set out below the keys to a more integrated institutional model.

a) Strengthen the executive power: an intense politicization of the Commission

Our proposal for a model of intense politicization consists not only in the Commission President being elected by indirect universal suffrage in the European elections, but also that all the Commissioners can have the same political colour (or the political colours of the coalition that supports him/her in the Parliament).

This proposal, which replaces the previous proposal of moderate politicization, includes in the same terms all matters relating to the election of the Commission President, but now adds greater discretion for him/her to choose his/her team of government by majority or entirely from members of his/her own party or coalition that supports him/her (also being able, if deemed appropriate, to incorporate independent figures). In this way the new President could form his/her team in the same way that a government is usually formed after national elections. This would be a team with the President's full confidence, with a greater ideological affinity of its members and with more chance of advancing the program for government that the party and the President have argued for during the election campaign (or that the coalition that has supported him/her has agreed after the elections). Naturally, there may be some general requirements that limit his/her freedom of choice (not various persons of the same nationality, a certain balance between large and small, including rotating turns, etc.) but it would no longer require the consent of the respective national governments. It would indeed seem appropriate, in any case, that the final chosen group and its program are given the formal approval of the European Council; and, of course, approval by the European Parliament would be necessary (a majority of its component members).

In this second model, we would have to consider whether it would be necessary to completely maintain the Commission's monopoly over the legislative initiative. Undoubtedly, a power of legislative initiative should continue to reside with the Commission, and this also should remain the most common route for proposals of new European legislation. However, it is more arguable whether, if we attain this model of a new Commission (composed and elected like a national government) it could or should maintain a full monopoly. In all our national democratic systems, when there is a monochrome government with majority support in the national parliament, legislative proposals may originate not only from the executive but also from a particular group or number of parliamentarians. It is a mechanism that ensures the possibility that groups that are in a minority, but that have enough weight and representation, can at least have their proposals debated. This guarantee is not essential at present in the European Union since the Commission is never monochrome, and nor is it elected like a national government, but it might be useful if we change the model. Such power of initiative would not be shared with the States and their governments but rather with the European Parliament (with a sufficiently large group of MEPs), and only if the Commission rejects an initial request from them to draw up a proposal. The Commission would always maintain precedence and, once the proposal has been made, exclusivity. The possibility of proposals from other actors would therefore be residual, and would be designed more as a mechanism for very representative opposition groups to pressure the Commission to present a proposal to debate. In any case, there would have to be a proper specification of the consultations and powers of the Commission within the framework of this exceptional legislative procedure uninitiated by a proposal from the Commission. It would be more a case of a nuanced or attenuated monopoly than a breakup of the monopoly.

Among the ***advantages***, it is undeniable that the system would be a revolutionary change in the institutional model. It would represent a definitive step toward creating a true European political space and it would bring the model of the appointment of the Commission and its profile closer to that of most of the state governments. It would enhance citizens' perception of the importance of their vote and their ability to influence the leaders who govern the EU and the policies that they are going to implement.

Its major ***weaknesses*** are the main advantages of the previous model. Firstly, in practice it would require a reform of primary law by double unanimity (all governments' approval followed by a ratification process involving national parliaments when not directly with citizens through a referendum). Indeed, it is inconceivable that Article 17.7 TEU would give adequate coverage to this model, given that it provides that the proposals of members of the Commission are to be presented by the States (in practice, the governments) and are to be selected by mutual agreement between the President-elect and the Council. Without reform of the Treaty, it is not foreseeable that each government would waive the exercise of this power to yield it to the Commission President. Secondly, it could increase the conflict between the Commission and the Council -European Council and hinder their work together (especially when the Council and Commission have opposing ideological majorities). This would require some kind of "cohabitation" between opposites that is not always easy, but not impossible, as is demonstrated to us by the national experience of some states. Finally, taking it to its ultimate conclusion, a change of such magnitude would probably require new powers for the Commission (which would go on to exercise, together with the Member States, almost all of the executive power), relegating the Council to a second legislative chamber.

b) Create pan-European lists to accompany the intense politicization of the Commission

The intense politicization of the Commission must be accompanied by a new system of electing of MEPs to reduce the 'nationalization' of the European electoral debate. There should be encouragement to talk about Europe, to debate on the European project and its policies, and to vote based on European issues. Unlike the report of the AFCO Committee of the European Parliament in 2011, whose rapporteur was Andrew Duff MEP, it is our understanding that this system should not be limited to a symbolic constituency of only 25 MEPs, but extended to a much more substantial percentage of all MEPs (50% at least).

A first advantage is that this new system would consolidate once and for all the European parties, which at present are only families with a certain ideological affinity but deeply fragmented by national interests. Moreover, from a practical point of view, this mechanism would ensure that the candidates of each list would be sufficiently well-known figures outside their borders, and also with sufficient linguistic capacity, to spread their message to an electorate of 500 million Europeans. Finally, the voting of the European elections would become independent from that of the national elections, eliminating or at least mitigating the reward/punishment effect focused exclusively on domestic policy, while citizen interest in the European Parliament and Europe would increase.

There must be avoidance of the risk of small countries or new entrants remaining under-represented, and that voters in small and/or peripheral countries increasingly lose interest in Europe if the main candidates are exclusively from certain countries (large/central). This can be remedied through a system of double voting, as is the German electoral system for the *Bundestag*. Thus, 50% of the European Parliament would be elected from national constituencies, for which we should create one or more areas for each Member State. The other 50 % would be elected following a proportional system based on closed lists with one constituency at the European level. Among the disadvantages of this, it should be noted that the proposed system, while ensuring a national and even regional representation, respecting minorities, could be very complex for citizens. However, we believe that with a strong enough information campaign this difficulty could be overcome.

In short, we propose a system of pan-European lists with a single constituency to choose 50% of MEPs, and the rest with national or infra-national constituencies.

c) Rearrange the legislature: towards an asymmetric bicameralism in favour of the European Parliament

Given a scenario of intense political union, it is necessary to redefine the roles of both European and domestic legislators. From a comparative law perspective, we might consider four possible models towards which the European legislative power could evolve in the future.

Unicameralism.- The Council would become a sort of advisory council, and the European Parliament could be the only legislative chamber. While there are numerous examples of unicameralism in Comparative Law (in the European context, the Nordic countries), this solution would lead to a result that is inconsistent with the majority bicameral models in the EU, especially given the high ethnic, linguistic and legal diversity. Furthermore, it is highly unlikely that national governments would deviate so markedly from the decision-making process. For these reasons we would prefer to discard this option.

Virtual or real Tricameralism. The idea of a virtual tricameralism arises from the role assigned to the national parliaments in the protocols on subsidiarity and proportionality, and aims to give national parliaments a greater role. In particular, it not only gives them a power of veto, but also the power of initiative, following procedures similar to those that allow them to request the withdrawal of a project that violates the principle of subsidiarity. A real tricameralism would imply the creation of a house of representatives of national parliaments that is added to the European Parliament and Council. Proponents of this system list among its advantages that it would improve the democratic legitimacy of the Union, as the citizens feel more represented by national parliaments than by the European institutions. Among the disadvantages, we should mention that the idea carries with it the risk of increasing the complexity of the system and, above all, contaminating it with the introduction of a body characterized by purely national priorities and interests (already present in the Council). This argument is strong enough for us to opt for maintaining the national parliaments in the role of negative legislators based on the subsidiarity and proportionality protocols currently in force. This is without prejudice to advocating a healthy strengthening of debates about and controls on European policy issues in national parliaments as well as a greater interaction of national parliaments among themselves and with the European Parliament.

Joint bicameralism.- The European Parliament and Council continue to be co-legislators on equal terms. The adoption of a legislative proposal always requires majority approval of both chambers. Such a system has the advantage of keeping the national governments in the centre of the legislative process, while giving the European Parliament significant power in the legislative system. In this way, the two legitimacies –citizens and States/peoples– come together. The greatest risk lies in the multiple blockages that this can generate.

Asymmetric bicameralism (asymmetry in favour of the European Parliament).- The European Parliament would be a people's representative chamber, with extensive legislative powers, the Council acting as a chamber of territorial representation. The asymmetry in favour of the European Parliament could be generated through various techniques:

1) Granting the Council only negative legislative powers, essentially exercised through the right of veto (at least in some areas). The Council would have to obtain at least a majority (determined in each case) to block the position of the European Parliament (inverse majority systems).

2) Both in the case of majorities and reverse majorities, the number of votes that would be required to adopt the Council's position could be graduated (simple, qualified or super-qualified majority). Unanimity would have to be eliminated (or if this is not possible, be provided only in very rare cases).

3) Grant the Council (at least in some areas) only a veto of suspension that can be unlocked with reinforced majorities in the European Parliament.

4) Limit the possibility of the Council to propose amendments.

Among the advantages, we find that the system would be a natural evolution of the current framework, which would facilitate its adoption, while it would elevate the European Parliament to the position of the main European Union legislature. Furthermore, all these techniques provide great flexibility in order to evolve towards a more integrated model (although they certainly could also cause increases in complexity).

Among the disadvantages, as well as the reluctance the governments of the Member States may have to take a back seat in the legislative process, we believe that it would not be easy to decide what techniques are to be used in each case in order to obtain an appropriate balance between legitimacy and effectiveness (to make decisions swiftly and avoid confrontations that could lead to an impasse).

In short, in a context of intense politicization of the European decision making process, we opt for a two-chamber model in which the European Parliament is the main legislature and the Council, as a form of higher chamber, has more limited powers.

d) Limit the role of the European Council

The European Council will have to maintain the role of political leadership at the highest level and the promoter of the initiatives that advance the integration process. In this connection the merging of presidencies (European Council and Commission) could help improve consistency and leadership.

Its role would be a sort of collective Head of the Union that would not interfere in the everyday management of government but would continue to play the role of providing political momentum, consensus and unblocking of progress towards a more integrated framework.

5. Executive summary

In recent years there has been a loss of public support for the integration process, a disenchantment. The reaction of institutions to the economic and financial crisis has caused disappointment and has greatly tarnished the image of a Union accustomed to legitimize itself by its results. However, in these difficult times, we should remember that Europe has always advanced as a result of crises. From the University Institute for European Studies we still think that, once again, the solution to our problems is to build *more Europe*, and that this crisis could in the end be a stimulus to the unifying of leadership and political will in this direction.

Before the arrival of the crisis, the European Union reacted by adopting new economic governance instruments with several goals: to strengthen macroeconomic and budgetary supervision, to establish mechanisms of financial assistance and to reform the financial system to make it more efficient. However, it did not complete the banking union, and nor have there been notable advances either in harmonizing or in fiscal union. In addition, conventional and unconventional measures introduced by the European Central Bank have not achieved the transmission of monetary policy to the real economy.

With regard to the political and institutional system, we have seen in recent years an erosion of community spirit and method. The European Commission has suffered a loss of leadership while the strengthening the European Council has emphasized the interstate perspective. In this context, the Union has faced a crisis that is, by its nature, transnational, through the simple juxtaposition of national perspectives, always at the expense of the priorities and timetables of the Member States. For the European economic government to work, a common political space must be created, which can only be done by strengthening the supranational institutions. The European economic government requires the strengthening of European democracy, and a decisive advance in the *politicization* of the institutional system. The economic union requires greater political union.

Proposals in the economic sphere

We propose, **in the short term**, various measures:

Progress in the Banking Union. The banking union is based on three pillars: A Single Supervisory Mechanism, a Single Resolution Mechanism and a Deposit Protection Mechanism. In addition, these mechanisms must be accompanied by a Single Regulatory System. The first pillar has already been created, it will lie with the ECB, and will enter into force in October 2014. The second pillar has been regulated by a directive that will enter into force in 2015. The Directive on the Deposit Protection Scheme has not been passed. As regards the Single Regulation System, the European Banking Authority has the responsibility to prepare it. Even assuming clear progress in relation to what has been passed to date, two observations need to be made. The first is that the full implementation of the banking union that has been designed will take more time than is advisable. The second relates to the national approach followed, rather than a European approach, both for the Single Banking Resolution Mechanism (there will not be a European Resolution Authority but rather national authorities) and for the Deposit Protection Scheme (there will not be a European deposit guarantee fund, but rather each Member State will have its own). The national approach does not appear to us to be the most appropriate for the banking union.

Combining measures for austerity and for growth both in relation to the economy and employment. The implementation of the measures agreed at the European Council (allocation of funds to tackle youth unemployment, investment plan to facilitate credit to SMEs) will not be sufficient to achieve any notable growth in economic activity in the Union. To reverse the current situation, an investment plan for Europe needs to be established with the appropriate resources. There needs to be flexibility in the pace of adjustments alternating with economic stimulus measures.

Leaving aside the short term, and taking into account that the EMU will be exposed to shocks that may not always be corrected and, therefore, to financial instability in the Eurozone, there should be a move towards a true economic union, even if this requires Treaty reform.

In the medium term, in a more integrated framework, we propose the following measures.

- With respect to the instruments:

Adopt the pending legislation in order to complete banking union. This is a case of passing the necessary legislation to overcome the national approach that has prevailed so far in achieving the banking union.

Make progress in fiscal union. We propose, firstly, to obtain the necessary instruments in the budgetary field, secondly, to achieve the necessary tax harmonization between Member States, and, finally, to revise certain Community legislation and adopt new directives to cope with the new present-day challenges. Also, there are other elements that need to be taken into account, such as for example the revision of bilateral agreements that allow a good sold in one country to be taxed in another where less taxes are paid on it.

Increase the budgetary capacity of the Eurozone. Member countries must be provided with an additional budget to enable them to perform the stabilizing role that exists in other monetary unions. The Commission proposes the allocation of a budget for the Eurozone (unspecified) within a period exceeding 5 years. In our opinion, a period of 5 years to establish an additional budget for the Eurozone is too long.

Create a public debt mutualisation instrument. The idea of the Commission of creating, in the medium term, a new sovereign debt instrument for the Eurozone in 1-2 years would create a big market for such securities, ensuring the necessary liquidity for all Member States in need. These bonds, although they would count on the joint guarantee of the participating States, would be controlled and managed by a “Treasury” of the Union under the auspices of the Commission. For us this would be the most appropriate option.

Extend the ECB’s mandate. In addition to the current monetary policy functions and those planned from next year in relation to the single supervisory mechanism, we propose an increase in the powers of the ECB so that it can be a lender of last resort. It should also include among its objectives the contribution to growth and employment.

For all the instruments listed in both the short and medium term to have full effect would require the establishment of an economic government composed of:

- ***A head of European finance.*** This could be the Vice-President for economic and monetary affairs of the Commission, and his/her powers would be macroeconomic and budgetary, as well as tax harmonization with full powers in these areas. He/she could also intervene in other policies, currently the remit of national governments, such as employment, social benefits, etc.
- ***A European Treasury.*** Its powers would be similar to those of a national Treasury, including issuing Eurobonds.
- ***A Central Bank, the European Central Bank.*** This would have the powers described above.

Proposals in the political and institutional environment

To make progress in the construction of a European political space there is a need for a strengthening of the supranational institutions. We propose a strengthening of the legitimacy, effectiveness and visibility of the European Commission, and its linkage with a reinforced European Parliament. This requires taking a step forward in the politicization of the institutional system.

Firstly, we propose the following **short-term** measures:

A reduction in the number of members of the Commission or a restructuring of its organization. This would achieve greater agility and executive power while reducing its image as a College, increasing the political influence and visibility of its President. It would be better adjusted to the supranational character of the institution and would not require reform of the Treaties. Alternatively, if the reduction does not have the necessary political support, we propose the adoption of formulas for the President to restructure the internal organization of the European Commission to form smaller and more effective sub-teams.

Indirectly elect the Commission President in the next European elections. We support the proposal that he/she be elected by indirect universal suffrage in the 2014 elections. This step would be a quantum leap with huge potential to generate a new dynamism in which candidates and parties communicate a project and a program from a European perspective. It also would be good for candidates to the Presidency of the Commission to be included in the lists as MEPs. All this would be a step forward in the *politicization* of the system, but a moderate step, since it would not substantially change the usual practice for the appointment of the other members of the Commission.

Merge the Commission Presidency with that of the European Council? The new Presidency would have the required stability and visibility, as well as the technical support and know-how of the Commission. The European Council would continue to be the necessary protagonist of the European government, but its presidency, associated with the Commission, could become a driving force, an original but feasible proposal, like the system of integration itself.

Strengthen the European Parliament and link it more closely with the national parliaments. The European Parliament must be the basis of any effort to politicize the other institutions. The new economic governance mechanisms established since the crisis began give it little influence, falling behind with respect to the strengthening of the Council. Therefore, we propose:

- ***A political program of the Commission supported by a parliamentary majority of pan-European political parties and reinforced political control over the Commission.*** We suggest increasing the political control over the Commission by the European Parliament from the time of the investiture, taking maximum advantage of the existing mechanisms of democratic control. This should enhance European political parties and the presentation of pan-European political programs.

- ***Double political control of the new economic governance: via the Commission and via national parliaments.*** There is a need to boost parliamentary control in the field of economic governance. On the one hand, the European Parliament would use existing mechanisms of political control of the Commission and of the Council, and on the other hand, it would seek greater cooperation with national parliaments.

In the medium term, in a more integrated framework, and following a reform of the Treaties, we propose the following measures.

Strengthen the executive power: an intense politicization of the Commission. The Commission President could form a group of Commissioners of the same political colour, or of the political colours of the coalition that supports him/her in the Parliament. This would be in accordance with certain criteria (only one member per nationality, a certain balance between large and small, including rotating turns, etc. but without the dependence on the Member States that currently exist. It could indeed be appropriate in any case that the final group and its program obtain the formal approval of the European Council, and naturally with the approval of the European Parliament.

Create pan-European lists to accompany the intense politicization of the Commission. We propose the establishment of a system of pan-European lists with single constituency that allows the election of 50% of MEPs. The rest would be elected in national or infra-national constituencies.

Rearrange the legislative power: towards an asymmetric bicameralism in favour of the European Parliament. This would be a chamber of peoples' representatives with extensive legislative powers, the Council acting as a chamber of territorial representation.

Limit the role of the European Council. Its role would be a sort of collective leadership of the Union that would not interfere in the everyday management of government, but that would continue to discharge functions of political momentum, consensus and unblocking so as to move towards a more integrated framework.

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