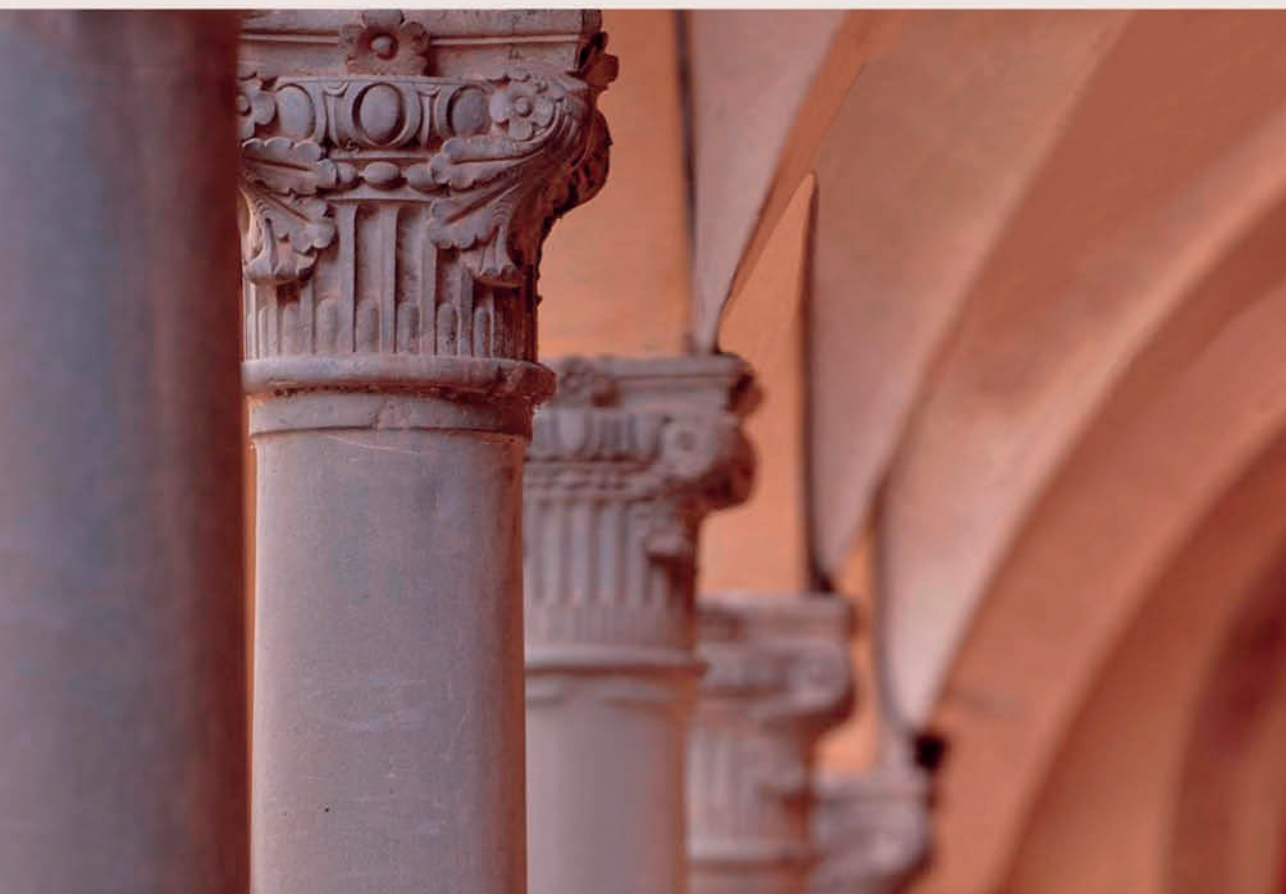


The Political Economy of Europe's Future and Identity

Integration in crisis mode

Edited by
Annette Bongardt & Francisco Torres



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Reviews

“European politicians may need to dare to take more risks” write the editors in the introduction. This rich, diverse, and well-argued book of essays by leading thinkers shines light on the priorities for taking these risks, the trade-offs to consider, and the mistakes to avoid. Anyone interested in Europe’s future should read it.

Ricardo Reis

A. W. Phillips Professor of Economics. The London School of Economics.

There have been no shortages of crises for the EU to deal with as of recently. Yet, we often forget that crises are often not just a challenging test but an opportunity. The works collected in this book are a powerful testament to that: Bongardt and Torres dissect the combination of economic and institutional crises and bring together a star line-up of authors to shed light on the political opportunities to strengthen the European project even in times of crises. This is a must-read book for all those interested in understanding the evolutionary trajectory of the EU and its capacity to adapt and address to the biggest challenges of our times.

Manuela Moschella

Associate Professor of International Political Economy. Scuola Normale Superiore

A thought-provoking collection of creative essays by extraordinary scholars that ranges far and wide to probe the European Union’s deepening as a polity--and all the contestation that comes with it. A must read for anyone seeking to chart the future of Europe.

Kathleen R. McNamara

Professor of Government & Foreign Service. Georgetown University

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Il Ratto di Europa

by Onofrio Pepe, maestro scultore e mitografo,
Florence (EUI collection)

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INTRODUCTION

What way forward for European Integration in permanent crisis mode?

Annette Bongardt and Francisco Torres

1. Introduction

Today's European Union (EU) finds itself in a permanent crisis mode – crises appear no longer sequentially and time distant but overlap and reinforce each other and even interact. If, as Jean Monnet put it, Europe will be forged in crises and as the sum of the solutions adopted for those crises, it is also true that multiple, major crises affecting the EU at the same time do not only stretch but risk to overwhelm its crisis response capacity. Yet, the EU needs to successfully address those crises to deliver results for its citizens and hold the 'club' together. There is also demand for some soul- and identity-searching, with a shared identity and values assuming special importance for facilitating collective action and leaps forward in times of crisis, such as at present, when the EU faces the need to stand by its values amidst Russia's war on Ukraine while pursuing its main objectives and its current priorities for 2019-24, most notably the European Green Deal (EGD). Both – addressing multiple challenges and a shared identity – are fundamental for making the EU more resilient to shocks and European integration sustainable (and with a purpose) over time. And they are related.

Crises may have become a part of and shaped Europe's identity. But Europe's identity is more than the result of crises.¹ It is important also to address challenges because a pragmatic or technocratic approach (not to talk of just 'muddling through') may have worked in the past but is not enough for ensuring the political sustainability of the European integration process, let alone the economic and environmental sustainability of our societies. The affirmation of Europe's identity passes not only through the domestic but increasingly also through the international dimension, as exemplified by trade *cum* climate policy, security and defence, migration policy, or digital sovereignty. Moreover, it is not irrelevant for the sustainability of the EU and its Economic and Monetary Union (EMU) what the dynamics, symbolism and politics of the model of integration that the EU is pursuing are. A reform of institutions that is too modest (and apolitical, without increased accountability) tends in general to backfire, as citizens fail to understand (and dislike) such half-hearted (technocratic) solutions without clear political objectives. Therefore, European politicians may need to dare to take more risks and engage in explaining the objectives and merits of further integration (and of European integration in general, notoriously lacking), notably which European public goods the EU should deliver. Doing so is especially important given the fact that various member state governments and mainstream European political parties, afraid of losing votes to anti-European parties, opt for mimicking populism, which is bound to only weaken them further and just reinforce populist and anti-European parties as voters always prefer the original to the copy (present-day France and Germany provide good illustrations).

In the last few years, the pandemic crisis and Russia's full-scale war on Ukraine have profoundly shaped the EU. There is a broad consensus (also among the authors in this volume) on the efficiency of the EU's response to the pandemic crisis, having acted on the lessons from the global financial crisis and the Euro Area crisis, which also led to more European integration. EMU's and EU's governance were strengthened during the pandemic crisis with the creation of new common monetary and fiscal instruments, notably the Pandemic Emergency Purchase Programme enacted by the European Central Bank (ECB) and the Next-GenerationEU (NGEU) recovery plan, an EU temporary fiscal capacity, funded by issuing common bonds, constituting a step change. Beyond that, the pandemic crisis allowed for establishing a conducive link between the short-term and the long-term policy-wise and played to the EGD's economic rationale and policy

1 For a discussion from a historical perspective of the concepts and identity of Europe, including the revival of the European ideal by politicians to heal the wounds of WWI and WWII, see Davies (1996).

priorities (Bongardt and Torres, 2022). And it came with environmental and social lessons that arguably contributed to preparedness to modify unsustainable patterns of consumption and production in line with the EGD and long-standing EU priorities (a digital, fair and sustainable economy). Undoubtedly, Europe emerged from the pandemic strengthened. Thereupon, however, supply chain disruptions, the energy crisis, the Russian war on Ukraine, together with the aggravating climate crisis, changed the picture profoundly. The EU became confronted with a security crisis but also the risk of stagflation as the result of an energy crisis that led to inflationary pressures, made worse by supply bottlenecks and firms' rent seeking. Moreover, the tendency that the EU ever more needs to stand up at the international level for its interests (already visible in a weakened international trade order) has entered a new dimension of geopolitics and power relations with Russia's invasion of Ukraine.

On the monetary front, the trade-off between price and financial stability came again to the fore, although the causes for stagflation go beyond the monetary domain (member states' energy policy options, issues of regulation and non-use of taxation at the national level to curb market distortions). That trade-off points to the urgent need for common fiscal and economic instruments in order to deepen public and private risk-sharing in the euro area. At the same time, the revision of the Stability and Growth Pact has led to a reopening of old debates (moral hazard, debt levels) and divisions among member states that show both a lack of trust and of political willingness on the part of different member states to avoid or at least to smoothen the conflict between national sovereignty and the European common interest. Even on the monetary front, the succession of crises has made it ever more obvious that EMU's sustainability does not only depend on doing away with its specific fragilities (for instance the lack of a clear role for the ECB as a lender of last resort in the government bond markets). It is also dependent on the broader EU (economic and wider) governance framework, notably on the existence of a permanent central fiscal capacity, whose importance for responding to immediate challenges and also as a mechanism of sustainable (well accepted, democratic) integration is very well illustrated in the various parts of this volume. Some common ground will need to be found, if only on the new own resources to finance the temporary NGEU and its Recovery and Resilience Fund. There is a wide range of potential European public goods across policy areas, a fact that may indicate a way forward for European integration, among which a permanent fiscal capacity. Their realization depends on whether the common interest speaks louder than member state interests (especially given the obstacle of sovereignty reservations like in the case of taxation).

On the political front, EU institutions, notably the European Commission and the ECB, and some national and international institutions, have been responding to the latest crisis developments by adapting rules and policies, which will have a positive effect in the long run. That said, reforming the wider EU regulatory framework needs the approval of member states. Yet, after some consensus created during the pandemic crisis and an initial convergence of preferences due to the Russian attack on Ukraine, there seems to be some reform fatigue and, more than that, also resistance to the need for common (substantive) responses to the current challenges that involve changes in Europe's (unsustainable) production and consumption patterns. As a result, national governments but also mainstream European political parties in the European Parliament (EP) have turned against some of the reforms proposed by the European Commission, notably (in the context of) the EGD, which are part and parcel of the European economic and social model. The latter is a key ingredient of the EU's identity (whose affirmation passes also through the digital domain). However, it can only prosper in today's more fragmented international trade arena if the EU manages to reach out and export its key values to the international level by all means available, be it through trade agreements, the Brussels effect, or other.

The idea for this volume was born out of a perception that the European Union finds itself once again at a crossroads, with its future and identity cast in doubt by a combination of crises, governance shortcomings and political divisions. At the same time, the very nature of the challenges facing the EU, notably but not exclusively the green and digital transitions, require 'more Europe' (including some central fiscal capacity) to supply those and other European public goods, among which an EU defence capability and completing a banking union. The chapters of this book provide reflections on the challenges that the EU (and EMU) is facing because of having come to live in a permanent crisis mode while simultaneously taking into consideration the EU's future and identity (sustainability).

From different perspectives and angles, contributors to this volume shed light and outline their thoughts on what are the current challenges facing European integration and what public goods the Union should provide. As put by Draghi (2023), "Europe has – until today – never faced so many shared supranational goals, (...) goals that cannot be managed by countries acting alone". Those common objectives, which require substantial European investments, feature broader issues encompassing Europe's identity and solidarity, which translate into more specific ones related to climate and the green transition, the digital transition, economic, fiscal and monetary policy challenges, or EU trade, defence, migration and artifi-

cial intelligence issues. And yet, unlike the US, the EU lacks the governance framework and at times treaty base, to address them in a coherent and effective way. For instance, at present the EU has no integrated strategy of common and national spending *cum* EU regulations, to pursue the green transition and to respond to other current and pressing challenges.

The contributions to this book are grouped into six parts.

Part I starts out with the identity and scope of the Union. It explores what makes up European identity (from different angles, such as what constitutes its soul and the contribution of solidarity among member states), that goes together with democracy and accountability (or responsiveness) of its institutions. It also addresses the division of competences and decision-making in the EU (the role of its institutions), as well as framing the chosen way forward out of the crises among possible alternatives with very different consequences.

Part II deals with what is the EU's prime contemporary challenge, climate governance and the green transition, and the ramifications of the European Green Deal (EGD), which is much more than a response to yet another crisis, in that it constitutes a paradigm change. It explains why the EU opted for the EGD, integrating the green dimension across EU (economic and all other) policies rather than having a single instrument, and why the EGD can be seen as a third building block of the EU's economic model, alongside the single market and EMU. The green transition comes with huge financing needs that still need to be met in large part while the application of climate mainstreaming across all policy areas also means that not only the single market but also external trade needs to further European objectives and address resulting trade distortions.

Part III focuses on economic governance. The discussions are centred on European public goods and collective action problems and the issues raised by an EMU that is still incomplete in its economic part. Questions asked are how European public goods ought to be supplied and administered (at the intergovernmental or the at central level) and how they could drive European integration, what the gaps and challenges for completing EMU in its economic part (notably banking union, but also fiscal and capital risk-sharing) are and what are the lessons learned from previous crises and progress made on weathering a next crisis.

Part IV turns to monetary governance, more generally to whether EMU's architecture is obsolete or still fit for purpose. It addresses efforts to overcome a birth defect of the common currency, that is, the absence of the ECB as a lender of last resort, the trade-off between price stability and financial stability, the ECB's

mandate and accountability structure, how to make EMU democratically fit for the current and future challenges (with a true dialogue between the ECB and the EP and enhanced accountability), and the ECB's 'federalist' role in implementing monetary policy.

Part V centres on fiscal governance. It examines the conflict between national sovereignty and the common interest and the role of and need for a central fiscal capacity (with its stabilization function, reform and investment support and supply of European public goods), which in turn highlights the issue of the link between national and common institutions, or vertical versus horizontal coordination of national budgets, and the effects of the various attempts to reform the Stability and Growth Pact (SGP). It also draws on the US experience and discusses how the ECB's policies and new crisis-enacted EMU/EU institutions amount to risk-pooling through re-insurance as an alternative to a fiscal union, although those developments may already translate into a new EMU/EU promising but still divisive centre of sovereignty with respect to borrowing and tax competences.

Finally, Part VI addresses different aspects of external and security dimensions, discussing the likely impact of Russia's war on European integration, the impact of US 'friendly fire', that is its new industrial (green) policy named the Inflation Reduction Act, on the EU and its internal market and the alternatives of an EU response, notably how to reaffirm its trade identity. It also analyses the EU response to international migratory flows and European digital sovereignty in light of the EU model of society, which requires establishing EU values to a global level.

In total, this book brings together 28 chapters and a postface and the rich insights from a group of scholars of European political economy and also of economics, political science, international relations, history, philosophy, and theology. Most authors happen to have been at the European University Institute in various capacities at different times, as Professors, Academic Visitors, Visiting Fellows, Max Weber or Jean Monnet Fellows, PhD students; five of them are currently professors at the EUI. The book features a Preface from Erik Jones, Director of the Robert Schuman Centre for Advanced Studies of the EUI, to whom we are most grateful for all the institutional and personal support of this project and book. We would also like to thank the authors for having swiftly responded to our call and contributed to this volume, delivering and revising their chapters so timely, at times engaging with other chapters with many good suggestions. We are especially thankful to Loukas Tsoukalis, the European political economist par excellence and one of the most knowledgeable scholars of European integration and

the European Union, for taking his time to write the Postface to this volume. His latest book (Tsoukalis, 2022), as some of his previous ones, covers the main issues here discussed and therefore we could hardly wish for a better take on the subject of our volume.

Last but not least, a word of appreciation for our two publishers, EUI Press and UCP Press, for having accepted to jointly produce the book: EUI Press for producing the eBook in open access (Creative Commons Attribution 4.0 (CC-BY 4.0) International license), to be available on the highly visible CADMUS EUI research repository, and UCP Press for producing the print copies. Special thanks are due to Giorgio Giamberini at the RCSAS/EUI, for many good suggestions and for his very timely and patient response to our many requests, and to Anabela Antunes and Margarida Appleton at UCP Press, for their prompt welcoming and readiness to co-produce the book and work on the print version during the summer.

Grotfeldshof, Neukirchen-Vluyn, July 2023

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