

We Need a Europe That is Truly Social and Democratic

The Case for a Fundamental Reform of the European Union

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1. The Case For A Fundamental Reform Of The European Union

We need a united Europe. And for that we need the European Union. But we need a European Union that is social and democratic. Anyone who doubts that will be persuaded otherwise by the present crisis. We must therefore use the crisis as an opportunity for fundamental reform. Best of all would be to build a new European Union and to involve everyone in that process, giving everyone the chance to play their part as equals.

The current debate about the future of Europe and the European Union has revealed a conflict of interpretation that also affects on the way individual citizens, political parties and states see themselves. We need to address this in order to develop a new understanding of ourselves within a larger community in which all of us have a stake. This is a challenge not only for politicians, the business community, scientists and academics, but also for ordinary people in their everyday lives, who often fail to realize the extent to which they have already become "Europeans". The question of the aims, depth and institutional implications of the integration process has become far more pressing now than it was during the earlier rounds of reform in Maastricht, Amsterdam, Nice and Lisbon.

Just a few years ago, when the Treaty of Lisbon came into force at the end of 2009, consolidating what had already been achieved was the name of the game. The Treaty took the failure of the constitutional project as a given, and sought to bring the process of reforming the European Union to an administrative conclusion. That has proved to be insufficient.

The financial crisis sent shockwaves through the European Economic and Monetary Union (EMU), threatening to topple one of the cornerstones of the European Union just months after the Treaty came into force. This poses a serious risk for all Europeans. But the crisis has also created an opportunity to re-examine the foundations of the European economic and social model and to develop them further. The politics of Europe are no different from any other politics: there are always alternatives, and crises offer the chance to explore those alternatives.

The past years of ongoing crisis in the eurozone have shown that patching and mending only makes the situation worse. What we need are a comprehensive review, a conceptual road map, and decisive action. The many obvious problems we now face are the cue for a new beginning, which makes Europe not only stable and capable of effective action, but also truly democratic. There exists a fundamental connection between the social and the political order that must be reflected in the institutional make-up of Europe. There is no question that action is needed now, and we must use this opportunity to chart a course for a European Union built on democracy, solidarity and justice. If the Union can be renewed and strengthened internally, that will also make it stronger in its relations with the world at large. If the Union fails, Europe will soon be reduced to a shadow of its former historical

self.

Fundamental reform of this kind calls for vision and courage. As with Willy Brandt's *Ostpolitik*, the key to progress today lies in recognizing that the future of Germany's national interests, and certainly of the social democratic interest in justice exercised in freedom, is inextricably bound up with an active policy of European integration.

At the same time we must not ignore the fact that in Germany too there are growing numbers of people who often question with good reason Germany's policy towards Europe and the workings of the EU. And many people no longer realize what they owe to peace in Europe, the common market and open borders. Their view of the European Union is sceptical, if not downright hostile. That makes the task of overcoming the crisis via a fundamental reform of the EU a politically sensitive undertaking. But without cooperation within the framework of the EU it would only become even more difficult – economically, socially and culturally – for every country in Europe and for the citizens of Europe. So we have to find a way to mobilize new political energies for a united Europe.

We need ideas about how this new EU can be constructed. As we contemplate the future process of integration we must be prepared to jettison prejudices and reservations, but also any harmonistic illusions. The European debate in Germany, intent on the avoidance of conflict and perfect consensus, has produced many a disappointment. For this reason we need to reconsider keynote aspects of the integration process in the light of sobering lessons learned, and to reformulate them with an eye to the challenges we face now. The crisis gives us the opportunity to rethink the European Union for the 21st century. The questions we have to answer are these: what form must the EU take as a social democracy, and to what extent can it do so given Europe's past history?

The greater critical awareness of Europe's historical role in the world also demands a reappraisal of the political tasks we face. We can only live with the onerous legacy of European history if we accept that it places us under an obligation to stop lecturing the rest of the world and trying to convert it. Instead we need to set an example here in our own backyard and show what lessons we ourselves have learned.

We are facing far-reaching changes in the integration process, with outcomes that remain in part uncertain. The European debate in Germany remains impoverished even now, and suffers from a lack of creativity. For the most part it is characterized by generalized aspirations – "more Europe", "genuine EMU" – which are too abstract to contribute usefully to an informed argument about the future direction of the EU.

But the opportunity for change is there, and it may never come again. Europe's Social Democrats must use the window that has now opened up to join forces with trade unions and NGOs, but also with churches, social communities, cultural bodies and other social players, to design and construct a truly social and democratic Europe.

Germany has an important role to play in this difficult and demanding process. But it is

certainly not the role of Germany to act as the paymaster of Europe. The responsibility must be shared by all the member states, and all the member states must contribute. What we need now are persuasive ideas and a commitment that is not confined to those working within the political administration. This is the only way that a reform of the EU that ensures a future for all Europeans can get off the ground. We need deeper integration of the states and peoples of Europe within a new European Union, which can make its influence felt in the wider world, maintain its independence and demonstrate its capacity for effective action both internally and externally.

2. The Urgent Need To Build A New European Union

The EU today is no longer synonymous with growing prosperity, rising incomes, more jobs and greater security. The Union is finding it increasingly difficult to combine economic growth with social progress. National wage shares are falling. The gap between rich and poor is widening. From Paris to Athens, the distribution of income and wealth has become notably less equal. Across the EU the low-wage sector is growing. The number of people in casual employment is rising. Planning for the future has become a difficult balancing act for more and more Europeans. It is no longer possible to safeguard people adequately against major risks and contingencies. Social security systems in many countries have suffered massive cutbacks. Pension levels are falling, and the standard of healthcare is deteriorating. Unemployment has reached record levels across Europe. Social stresses have long since reached the point where they pose a political threat – and now risk undermining the legitimacy of the European project.

If an unreformed Europe, threatened by social decline, continues along its present path, it risks becoming an elite project that benefits only a minority at the expense of the majority. While the banks are bailed out, the ordinary citizens of the European Union must foot the bill for restructuring the crisis-hit countries. Similarly, the policies of the European Commission and the Council, as well as the recent judgements of the European Court of Justice, have consistently penalized those in dependent employment. Many people feel that they have little or no influence on the conditions that govern European policy-making. Participation in the last European elections fell to 43% of eligible voters. But the seemingly general disinterest in Europe only reflects the lack of confidence that Europe's citizens have in the power of the European Parliament to change things. Now there is a young generation growing up in Europe without prospects, for whom the European promise has not been redeemed, and who are losing faith in a European solution to the crisis.

Wrong analysis, wrong strategy

The principal responsibility for this rests with the governments of Merkel and Sarkozy. They interpreted the euro crisis as a sovereign debt crisis, thereby confusing cause and effect. The sharp increase in sovereign debt since 2009 has not been caused by excessive social spending, but by the additional borrowing needed to fund bank rescues. Since 2010 this wrong analysis has yielded the wrong strategy for solving the problems: the one-sided cuts in public spending. This has driven Europe into recession. The economy is shrinking, unemployment and debt levels are rising. This has destructive consequences for the internal stability of the eurozone.

The real causes of the crisis are the growing economic imbalances within the euro area and the tougher refinancing terms imposed by the capital markets on countries with negative current account balances. While Germany has recorded growing current account surpluses since the introduction of the euro, the countries of southern Europe have accumulated mounting current account deficits. This is partly due to the slow growth in German wage levels, which has made German goods and services cheaper relative to their Italian, Spanish or Greek counterparts, and has thus increased the imbalances in the flow of trade and capital. But within the common currency area governments no longer have the option of compensating for economic imbalances of this kind by revaluing or devaluing national currencies.

The capital markets on which the indebted countries rely for finance were now effectively invited to speculate on the government bonds issued by these countries, and ultimately on the break-up of the monetary union. The governments of major democratic countries found themselves competing to win the confidence of the markets. Banks and insurance companies that were rescued with taxpayers' money now determine the price at which countries may borrow fresh capital, and pass judgement on the creditworthiness of Madrid, Dublin or Athens. Investment banks and hedge funds are able to bet on the bankruptcy of individual countries with credit default swaps. As a result, risk premiums were rising. Financial investors, who just a short time ago were sinking their savings into the ghost towns of the Costa del Sol, are now expected to discipline Europe's treasurers. It doesn't have to be like this.

What conclusions should be drawn from the crisis?

- The so-called euro crisis is not a currency crisis, because the defining feature of currency crises is a weak currency that is devalued against other currencies.
- Neither is the current crisis primarily a sovereign debt crisis, as can be seen by looking at countries such as Japan or the USA, which are carrying far higher debts than countries in the euro area, yet are able to refinance at very low rates.
- The current crisis has essentially been caused by the capital markets taking on a life of their own and becoming decoupled from the market processes of the real economy. This has been facilitated by the globalization of monetary transactions, largely removed from regulatory supervision. All countries share the blame for failing to act, and it is nothing short of a tragedy that the European nations have not been able to agree a common policy on this.
- It has to be said that the European financial crisis is self-inflicted. The fact that an exposed Europe became an early casualty of the crisis on the financial markets is largely due to the institutional weakness of the European Union. This is a

consequence of the inability of European institutions to take effective action.

- This institutional crisis results ultimately from a system of competing states that is unable to correct the current account imbalances between the member states. The absence of Community institutions to correct economic imbalances on the one hand and of a system of debt management on the other has meant that government bonds are not backed by collective guarantees, so that speculators on the global capital markets are able to bet on national debt defaults in the euro area.

This institutional crisis can only be resolved in one of two ways:

- Either through a return to national currencies, involving great risks not only for the economic situation of the countries concerned, but also for the global economy as a whole.
- Or through institutional underpinning of the common currency. This must take account both of the close economic and financial ties between member states and of the fact that the eurozone has long since become a union based on shared liabilities and wealth transfer.

Hitherto this has been formally prevented by the so-called “no bail-out clause” in the Maastricht Treaty, prohibiting shared liability for the debts of other countries. In practice the economic imbalances between member states have resulted in the trade deficits of today’s debtor nations being financed with credits from the surplus countries. Consequently a system of joint debt management within the eurozone, and the creation of new European institutions that make this permanently possible, are urgently needed. The institutional underpinning of the common currency, and of the deeper integration of the euro area that this already represents, therefore demands a shared responsibility for fiscal policy. A common currency can only be sustained if member states are prepared to surrender sovereignty on this point.

3. Basic Values And Principles Of The New Europe

A European Union for the 21st century, which overcomes the crisis through its ability to provide public goods within a European context, calls for new goals, institutions and processes. The debate about the institutional restructuring of the Union cannot of course take priority at the present time, because it is not going to solve the current problems. The basic values of the European Union and the institutions and processes that it needs will have to be redefined in the light of the lessons learned from the crisis in the euro area. Every step forward in the reform of the EU must be undertaken with an eye to the new goals.

3.1. A Europe for and of its citizens

Throughout the crisis, European policy-making has been seen primarily as a matter for governments. We have witnessed a rapid succession of summit meetings, where senior politicians meet together behind closed doors with a handful of advisers. As the crisis developed, technocratic governments were installed in EU capitals that did not have to answer to the will of the people, since elections were postponed. The conditions attached to European aid packages for crisis-hit countries have strained democratic principles to their limit. National parliaments, called upon to debate highly complex matters and hold hastily convened votes, can no longer keep up. Calls for governments to effectively surrender control of their national budgets are on the table. The European Central Bank is getting increasingly involved in the financing of individual states, without a proper mandate or democratic legitimation. Constitutional courts are playing an increasing role in basic policy decisions that should more properly be fought out in the domestic political arena. All these things are damaging democracy in Europe.

While the debate about the democratic legitimacy of the European Union has revolved around the same old questions in every treaty reform since Maastricht – in particular extensive rights for a truly representative European Parliament, proper elections for the President of the European Commission, an appropriate system of vote weighting for EU member states, strengthening the powers of national parliaments and more direct citizen participation – the crisis has raised the question of the future of democracy in Europe in a more radical form. The issue at stake is no longer “how can the democratic legitimacy of the EU institutions be strengthened?”, but rather “how can we preserve the substance of democracy in Europe?” The danger is that it could waste away, when global capital markets do business at the click of a mouse and subvert the primacy of politics.

Who decides what our future in Europe will be?

The future of democracy is not a question that is confined to the European Union; it also affects democracy at the national level. As an international movement to overcome the problems of capitalism, social democracy has a special responsibility to come up with convincing answers.

Because it is ultimately the peoples of Europe who can pressurize and authorize policy-makers to take back the sovereignty at national and European level that was stolen from them by “the markets”, we are about to take a step forward in the development of the EU and its members that needs to be democratically organized. The far-reaching decisions about the Europeanization of national policy that now have to be negotiated between the governments of the eurozone must not be made without the active involvement of the citizens of Europe.

First and foremost, however, the people who live in the European Union are still citizens of their own nation states. To the extent that we can speak of “citizens of Europe” – as people who acknowledge and respect each other as equal members of a political community that is a work in progress – this mutual respect suggests one way in which this community might be constituted. The fact that people from Finland to Greece, from Ireland to Estonia, see each other as citizens of a single Europe across all social, cultural and religious divides is a foretaste of a Europe for and of its citizens.

Whatever is done to improve understanding between the citizens of Europe, mobilize their sense of solidarity and give them a greater degree of democratic control within the EU, it does not replace or supplant the civil societies within the member states. In the long term, therefore, the citizens of Europe will acquire a dual political identity, as citizens both of a common Europe and of the individual countries that have come together to form a European Union.

Political parties can and must play a key role in this. Europe’s social democrats in particular are called upon to take a decisive step forward in their own Europeanization, so that they can exert effective influence in this defining phase of the new European Union.

Recent times have shown that the people of Europe are fully prepared to get involved if they have the impression that important decisions about their future are being made, and if they have the opportunity to make their voice heard in votes and elections. The next direct elections to the European Parliament are due to take place in 2014. A social and democratic Europe can only come about if social democrats go into these elections on the offensive, and with a convincing program for Europe.

The crisis as catalyst for a European public

European politics are finally hitting the headlines, getting onto the agenda in parliamentary and election debates and featuring in public discussion. One can also detect a new fear of Europe's citizens, who as never before are asking questions about the costs and benefits of the European Union for Germany and for themselves. There is also an element of populist rabble-rousing in all this. It is time to counter such propaganda by having the courage to face the truth and look at alternatives.

The failure of the last German government did not lie primarily in their fundamentally reactive stance, but in the way they suppressed awareness of the need for radical change instead of promoting it, in order not to overtax their own voters. We must therefore permit a new culture of debate and argument about European policy. And we must learn to find a way of speaking that is neither restricted to experts nor simply a call to arms. To brandish the moral cudgel in response to extreme positions of the kind that are already commonplace in other EU countries, and which are now resonating more loudly in Germany too, is not the right way forward. Those who would build a new European Union must learn to sharpen up their arguments. The old discussion taboos are broken; where the new limits lie can only emerge in the course of the new debate about Europe itself.

Ultimately this leaves politicians with only one option, which is to lay out the controversial questions of European policy before our citizens and to solicit their support. This is a big challenge, not least because so many people are basically sceptical and mistrustful of the European Union *per se*. Decades of misjudged EU public information policy, with glossy brochures promoting the cause, have contributed to that mistrust, as has all the empty invocation of grand aims divorced from the everyday lives of ordinary Europeans.

This affects the young generation especially. Certainly there are plenty of young Europeans who enthusiastically embrace the mobility the EU has made possible to realize their life's dreams. They can and will get behind the new European Union that we must now build. But they are outnumbered by those young people who have hitherto been excluded from the dream of a better future. For them in particular it is important that we find a new vision for Europe. And we must help the citizens of the Union to feel at home in this new Europe by doing more to promote a sense of cultural community again alongside economic and social community.

The cultural base of the European unification process has been eroding for many years. Cultural contacts between the member nations are less frequent, knowledge of our European neighbours' languages is in decline. Fewer children in French schools are learning German, fewer children at German schools are learning French. Language learning and mutual respect gained through cultural exchanges and cultural interests are vital for the creation of a common European public and for a sensitive engagement with regional, cultural and political differences. Deeper integration in the direction of political union therefore needs to be built on sound cultural foundations. Multilingualism, educational

mobility, a culture of cultural respect across national borders, common educational facilities, trilateral project funding in art, education and research – all these things need to be encouraged and developed. At the very least, all Germans should be able to speak the language that is understood throughout Europe. And that language – as much as one or two people might lament the fact – is English.

Only the European public, roused to a new awareness by the crisis, can give policy-makers the necessary freedom of action to build a new European Union, a freedom that seems to have been lost since the debacle over the draft constitution and the difficult birth of the Treaty of Lisbon. The impending task of converting the EU of today into a genuine European currency area, in deed as well as in word, calls for greater democratic participation by the citizens of Europe and the permanent strengthening of democratic participation rights.

3.2. A social Europe

The thinking behind the idea of unifying the peoples of Europe in the European Union was that it would lead to mutual solidarity, a stronger community and a more secure peace. We have moved a long way from those original ideals. As confidence in the ability of democratic politics to overcome the crisis dwindles and the lack of political solidarity becomes increasingly obvious, the foundations of European integration are being undermined. The revival of nation-state territorialism in the economic, political and cultural spheres has led to an alarming resurgence in national *ressentiments*. This must be a warning to us of the possible disastrous consequences of the present crisis.

The peace-keeping function of the European integration process is about much more than just the absence of war. Peace also means social peace at home, based on social justice. Here there are growing deficits from the citizens' perspective, and social tensions are increasingly being blamed on "Europe". While the EU has gained more and more influence over our economic, social and political life, popular support for the European integration project is in decline. In order to halt this decline, we need to abandon the economic and social policy model that confined itself to the attainment of the four "basic freedoms" – the free movement of goods, services, persons and capital – enshrined in the Single European Act of 1987, and which was then perpetuated in the Maastricht Treaty of 1993.

Under the system of competing states introduced since Maastricht, transnational European solidarity has come under pressure, while the pressure on wages, social spending and taxes is threatening the very survival of Europe's welfare states. Many nations have subsequently decoupled their social spending from economic growth in order to gain a competitive advantage within the single European market.

There was an opportunity, following the rejection of the European draft constitution in France and the Netherlands, to reverse the decoupling of the economic order from the social order in Europe. But instead of that the Lisbon Treaty has perpetuated the dual

system, with its neoliberal European economic order on the one hand and the national welfare-state traditions and social policy safety nets of the member states on the other. However, this dual system is out of kilter, and the so-called basic freedoms – meaning market freedoms – are accorded legal priority. This practice needs to be reversed:

- The basic social rights, enshrined as directly applicable EU law, must be given precedence over competition rules.
- In the Treaty texts it must be clearly spelled out that the EU exists to promote not only economic growth, but also social progress.

The logic of the system of competing states must be superseded by the phased coordination of policies across the European member states. Without seeking to standardize all the different welfare states, this could be done via a social stability pact, which couples the social welfare benefits paid out by each state to its level of economic development. A “corridor model” (Social Stability Pact), which gives room for manoeuvre on social expenditure ratios in line with a country’s economic capacity, will demand neither too much nor too little of the member states as they move towards convergence.

3.3. A Europe of diversity

The identity of a new European Union is grounded in a transparent and value-oriented political constitution. European identity is not formed through homogenization or harmonization, but through common values, which manifest themselves in cultural diversity. Cultural diversity guarantees the democratically legitimated development and acceptance of the European Union and the identification of its citizens with it. Common values serve to strengthen cohesion.

Unity and diversity

The need for action on harmonization and the areas where harmonization is appropriate must always be consistent with the need to preserve Europe’s diversity. Diversity is not a “problem” that has to be overcome in the interests of the European community of states, but rather the very lifeblood of the Union and the thing that lies at the heart of its identity. In the past “unity” was over-prioritized at the expense of “diversity” in the regulatory approach to the single market. We need to adjust the balance and reach a new understanding of European diversity and unity, which can strengthen the European community of states and hence European identity.

The application of the subsidiarity principle in itself demands Europeanization and respect for the diversity of Europe. This principle requires European policy-making to be accountable to the regions, and to seek to connect with cultural and issue-related

concerns within the regions. In contrast, the regulatory agenda for Europe pursued by the European Commission often creates the impression that only more harmonization can advance the European project. Diversity and cultural identity should not be seen as separate enclaves or “specially protected areas”, tolerated within the European Union as exceptions to the rule, but as integral to the European Union and what it stands for.

More integration and more subsidiarity

The current debate and the reformation of the EU afford us an opportunity to rethink the distribution of functions within the multi-level system and to make any necessary adjustments. This is a sensitive undertaking. Just as a review of the instruments necessary for the provision of European public goods may lead to *more* competences accruing to the EU institutions, it must also be possible to reverse the process where appropriate. In principle devolution of powers is conceivable in certain sectors, restoring to national or regional governance policy areas that are currently controlled at EU level. This would be an option well worth considering for large areas of EU agricultural policy.

The future of the European Union cannot lie in a continuing trend towards centralization. Europeanization proceeds on at least three levels: the supranational, the national and the regional. It is the responsibility of academics and politicians to constantly reassess the federal balance between these levels as the EU continues to evolve. National parliaments too are called upon to play their part here, now that the Treaty of Lisbon has established a new process for monitoring the principle of subsidiarity.

As the crisis unfolded, the national parliaments have faced a steep learning curve. This has had a positive effect, however, in that it has made national parliamentarians more acutely aware of those areas where, and those processes by which, decisions taken at EU level can be monitored and democratically legitimized.

Even though solving the crisis in the eurozone requires collaboration at the European level to create public goods for all of Europe in important areas, this must not become the start of a broad trend towards wholesale supranationalization. There is still a place for national and local public goods. That being so, the new EU needs a dual strategy for more integration and more subsidiarity at the same time. The development potential that lies in regional alliances across national borders can create strong and lasting foundations for the confederation of states. It is all part of the common identity that can grow and thrive in a reconstructed European Union.

3.4 Europe in the wider world

The “finality” or final goal of European integration has been debated over the past decades in terms of that fraught pair of concepts known as “deepening and widening”. This is a less than satisfactory approach, since limiting the number of EU members and the depth of integration fails to acknowledge the changes, present and future, that are happening both in Europe and the wider world. Its capacity for accommodating change, both internal and external, is one of its great strengths, and ultimately the driving force behind European union. That capacity must be preserved and further developed.

For social democracy the finality of the European Union cannot ultimately be a matter of geographical extent or the deeper integration we aspire to. Rather, democracy, justice and solidarity are the cornerstones of all future progress towards integration. A Union built on democracy, justice and solidarity is something tangible for people in Germany and the other countries of the European Union, and a prize worth striving for. It serves to keep universal values alive, in Europe and in the larger world.

The European issue is primarily about democracy in Europe and the relationship between European societies, between those of the West, of the emerging nations and of the world. The national constitutional and social state is not the natural home of this democracy, but it does set basic minimum standards.

The peoples of Europe can only maintain their welfare-state model of society and the diversity of their national cultures by joining forces and working together. They must pool their resources, if they wish to be players in global politics and global society and have a real say in the solution of global problems. In this way the narrative of the continuing necessity for European unification will be brought up to date, moving beyond the traditional goals of securing peace and prosperity. In today’s globalized world the countries of Europe will only be able to shape their common destiny, and have a voice in determining the destiny of the global community, if they work closely together and agree on common goals.

Europe’s responsibility towards the world extends beyond this safeguarding of the democratic legacy. The rule of law and the welfare safety net in the advanced societies of Europe are an example to the world. With the rise of successful economies in Asia, Latin America and Africa, the issue of democracy in Europe has always to be seen in relation to the development of powers whose economic strength is revealed in such things as the financing of IMF credits, but whose evolution from purely economic powers to truly democratic societies does not always proceed smoothly. Europe sees itself not just as a competitive economic area, but also as the purveyor of a particular social and cultural way of life.

That way of life, which is characterized by a large degree of freedom combined with social responsibility – a model that is without parallel anywhere – is not to be taken for granted, as we are discovering in the present crisis. It is the business of social democratic politics to

acknowledge its value and safeguard it.

In order to build a globalized and multipolar world we therefore need conditions that do not set geographical or institutional limits to the final shape of Europe, but leave it open and responsive to the dynamics of global society. Here too the guiding principle is democracy, which scrutinizes and prioritizes the decisions that have to be made, from the local to the global level, and ensures accountability. A cosmopolitanism with a European face, which reflects Europe's experience of, and responsibility towards, the world at large, can make an important contribution here.

Our call for a fundamental reform must therefore take as its starting point not only the experience of the present acute internal crisis in the European project, but also the experience of, and responsibility towards, the world at large of a Europe that is extricating itself completely from all its past colonial and imperial entanglements. It must be a European cosmopolitanism that is not owned by the economic and cultural elites, but has its roots in a vision of a shared European life that is not at odds with the lives we all live at the local, regional and national level. That would enrich Europe, and enable it to enter into dialogue vis-à-vis the many different and vibrant conceptions of family and community in the emerging nations.

4. Using The Crisis For A New Beginning

4.1 European added value

The bonds between member states and individual citizens in the EU will only be strengthened in the long term if the community is able to deliver an added value for all its members in terms of enhanced prosperity, justice and security. The EU must provide those public and social goods from which all – states and citizens of the EU – can benefit, and the universal use and quality of which can no longer be guaranteed by individual states.

Financial stability as a European public good

Financial stability within the EMU can only be guaranteed by joint action, which primarily means pre-emptive action to coordinate financial, economic and social policy. To safeguard monetary union, policy-makers need to empower themselves to re-regulate the markets and transfer sovereignty to European institutions. A stable and enduring monetary union therefore requires a political union that is capable of effective action.

The requisite political union of the eurozone also necessitates further democratization and the macroeconomic stabilization of the monetary union. Part of that is the need to enhance the role of the European Parliament further and to allocate competences more strictly. For this reason a Eurogroup should be established within the European Parliament, made up of parliamentarians from the eurozone countries, in parallel with the Eurogroup that already exists in the Council. This Eurogroup can then take democratically accountable decisions for the monetary union as a whole and monitor the enhanced role of other supranational institutions in a democratic way.

Decentralized public service provision

Access to public goods is a key prerequisite for the social participation of citizens in the life of their society, and for the exercise of their democratic rights. It encourages social cohesion and social integration. Public service provision therefore plays a central role in a revitalized European social model.

However, deciding which areas of public infrastructure should be organized by the state, and in what form, cannot be the exclusive domain of the EU, but must remain a matter for local government or national legislatures. As well as social services, this includes a broad spectrum of public services, education and healthcare, water and power supplies, transport, communications, housing construction, banks, public broadcasting, a large number of

cultural institutions and much more besides.

Sustainable public funding

In addition to their regulative function, adequate sources of national revenue are essential to guarantee long-term provision of social welfare services. Here too the EU must play a more positive role in future, in particular by putting a stop to tax competition, not least in the area of business taxation. Action needs to be taken at a European level to prevent this ruinous race to the bottom on taxes, and to ensure that the burden of Community financing can continue to be fairly apportioned in the future.

The macroeconomic stabilization of the monetary union would also be best served by a common eurozone budget. Such a budget, which would be in addition to the normal EU financial framework, could generate revenues from a new eurozone tax, such as a financial transaction tax that would apply throughout the euro area. It is also conceivable that a portion of the existing national tax take could be diverted into such a budget. Budgetary deliberations would take place within the Eurogroup in the European Parliament, delivering new investment in the poorest regions in the overall interests of the euro area and thus creating a bigger buffer against asymmetric shocks. Infrastructure projects in particular, which would promote greater structural integration within the eurozone and increase competitiveness, could be financed from a eurozone budget of this kind.

Minimum social standards

The European Union contains within it a wealth of different welfare-state traditions that cannot, even in the foreseeable future, be merged into a single, standardized model, but must be nurtured through coordination and the creation of an appropriate framework. A certain degree of assimilation is already taking place across the different welfare state models. The European Union needs to play a greater role in the development of a "Social Europe". Particularly in the area of regulatory social policy it already has the necessary Treaty powers and instruments to intervene in all the key areas. Europe's social democrats must see to it that full use is made of them.

Harnessing European diversity: the case of renewable energy

One example of how the provision of essential public goods in the EU needs to respect the principle of subsidiarity, despite the importance of action at the European level, is the energy sector. The example of the expansion of renewable energy shows how private, regional and state involvement opens up opportunities for cooperation for the Community

as a whole.

Germany's Renewable Energy Law of 1999, which many other European countries have since adopted, has required the participation of diverse players – private agencies, local authorities, public utilities and cooperatives – encouraged the development of regional value-adding cycles and strengthened regional structures both socially and economically. The expansion of renewable energy is thus a classic example of subsidiarity in action, harnessing the specific resources of individual members of the community of states. But a European harmonization of operating conditions for the energy industry, of the kind now being pursued by the EU Commission, would subvert these opportunities for development and identification. The decentralized generation and use of renewable energy calls for a refocusing on decentralized spheres of action, cultures and human capabilities, which offer us a roadmap for rediscovering the inner logic of the European Union, amongst other things.

4.2 More transparency and codetermination

Crises put policy-makers under pressure to act. Decisions have to be taken quickly. Trade-offs and compromises, ideally arrived at through political dialogue or parliamentary deliberations, look like a democratic luxury at times of crisis. Exceptional political circumstances call for speedy and simplified decision-making processes. The distinction between the executive and the legislative becomes blurred. In the hour of crisis, the executive takes charge. This is the political pattern that has been followed by liberal-conservative ruling coalitions throughout Europe.

Efficiency versus democracy?

The massive intervention by the European Central Bank on the financial markets effectively takes place without democratically authorized agencies such as the European Parliament or elected governments, and only – in the absence of other effective instruments – under the pressure of economic imperatives. Only the comprehensive guarantees of the European Central Bank were able to prevent speculators driving up interest rates on government bonds issued by some vulnerable countries to unsustainable levels, making it impossible to finance them. This argument may make economic sense, but it fails the test of democratic politics.

Democracy demands that with every augmentation of the ECB's powers the opportunities for democratic participation and supervision are also strengthened. If that doesn't happen, democracy in Europe will be diminished. This applies both to debtor nations and donor nations. As instruments of monetary policy the *Bundesbank* and the ESM (European Stability Mechanism) both encroach drastically on the budgetary policy of member states – the former by buying up bonds, the latter by linking credits to savings deposits. The power

of the purse, the most hallowed of all parliamentary rights, is being constrained for many years to come by the export throughout Europe of the debt cap devised in Germany. This has a hugely negative impact on the high-spending government departments responsible for social and educational policy. Core sectors of Social Europe are thus starved of funding, and the principle of fairness in the EU is seriously violated.

Such curtailments of democratic supervision could conceivably be justified with the argument that since the continuation of the existing economic dislocations would be more damaging for Europe's citizens than the sacrifice of democracy, people would accept them. This kind of trade-off of fiscal benefits against democratic deficits, on the principle "less democracy for the sake of preserving political freedom of action vis-à-vis the financial markets" is problematic, but not something to be dismissed out of hand.

It is an open question whether further communitarization of national law and national policies is possible without a sacrifice of democracy at the national level. The history of democracy has witnessed major geographical transformations. These have made democracy less direct, but more inclusive. In the EU, therefore, it is important to ensure that the transfer of competences to the European level is matched by adequate opportunities for democratic participation, representation and supervision. In particular, the democratic goods of transparency and monitoring of decision-making must be significantly improved at the European level. Every subsequent step towards greater integration must be accompanied by a deepening of democracy.

Democracy has an *input* and an *output* dimension. The *input* dimension consists of the institutions and processes of democratic participation, representation and decision-making. The *output* is represented by the material outcomes of the decisions made. This applies to peace, economic wellbeing, legal and social security, and in general to the opportunities for a better life for all. The achievements of the European Union are impressive. Output legitimacy in the European Union is currently more robust than input legitimacy. Two-way trade-offs between the two dimensions are entirely legitimate, as long as they are accepted by Europe's citizens and do not jeopardize the normative or procedural substance of democracy. Neither of these things is at all certain at present. The current efforts to propel Europe out of the crisis through greater communitarization undoubtedly need to be more firmly embedded in democratic processes and controls. In other words, Europe needs to become more efficient *and* more democratic.

Solidarity and responsibility: the case of fiscal union

Fiscal union without political union lacks democratic legitimacy, because fiscal union means that Brussels has the right to intervene in national budgets. Such a right encroaches on the sovereignty of national parliaments, and therefore requires proper democratic legitimation at the European level.

But democratizing the European Union does not mean weakening the national democracies of the member states. On the contrary: given the greater threat to national democracy posed by dependency on global capital markets and international aid, only joint action can create room for manoeuvre on decision-making. The crisis has shown that the failure to proceed with the deepening of European integration and the democratization of the EU has put national democracies at risk. However, the transference of national sovereignty to the European level must be kept within defined limits, as for example in the case of the right to intervene when a euro area country is in breach of joint fiscal policy.

More Europe must mean more democracy

As a fundamental principle, whenever we create scope within the EU for policies that result in redistribution effects across national borders, a European legislator with extensive powers, who is the elected representative of the citizens, must be involved in the enactment of these policies.

Upgrading the European Parliament to a fully functioning legislative body does not necessarily mean enlarging the role of the Union, which would ultimately make national parliaments redundant. Far from it: democratic legitimacy in the EU calls for parliamentary supervision operating at all levels of the multi-level system. Where the Union's writ runs, the European Parliament must decide. In all other areas responsibility continues to rest with national parliaments.

Effective supervision by the European Parliament is only possible, however, with a democratically elected parliament, which is reliant upon a political public of European citizens and is the product of European elections with European lists and European candidates for the European executive. There can be no democratic legitimacy without politicization and a European democratic public. We could then have, for example, a red-green executive made up of social democrats and Greens, backed by a red-green majority in the European Parliament, or a conservative-liberal alliance, or a grand coalition of left and right etc. In other words, a normalization of the political decision-making process at the European level in the shape of competing political programs and the option for Europe's citizens to vote for a change of direction, if they wish to, every five years.

In the case of European elections, a fundamental principle of democracy must apply in future: one person, one vote. Giving preference to the voters of smaller states would then no longer be justified. But there should be a two-chamber system. The second chamber would represent the community of member states. They would be involved in the legislative process, and in certain central areas they could adhere to the principle of unanimity, in order to safeguard national sovereignty there. This should apply, for instance, to the rules of fiscal union, where compliance is enforced by European powers of intervention.

The national parliaments of the member states would not be turned into mere spectators

by such an extension of parliamentary powers in a reformed economic and monetary union. In those policy areas where the EU has no powers, they would continue to make the decisions. And in those areas where the European Parliament decides, either now or in the future, they would still exercise two important functions:

- By monitoring subsidiarity, national parliaments would still have an indirect input into the European legislative process. So they would continue to play a significant part in the representation of their national interests and also in the exercise of power in Europe.
- National parliaments strengthen the political independence of their electorates and function as mediators and translators of political ideas between the citizens and their government organizations. Because of the language barriers in particular, national parliaments are responsible for weaving a network of connections between each other and with the European Parliament, which keep them in touch with the people at a national and subnational level.

The legitimation of decisions in the European Union is therefore not, as often portrayed, a zero-sum game, but a matter of dovetailing the different parliamentary levels – supranational, national and subnational. In specific terms that means working on other institutionalized or ad hoc forms of dovetailing in addition to the existing Conference of European Affairs Committees of the national parliaments. One idea might be for the European Parliament to invite a cross-party group of representatives from the national parliaments to participate on a regular basis in the discussions about the new “European Semester”. In the case of Germany, with its federal system, that would also mean involving the *Bundesrat* or state parliaments in these deliberations. In this way our political parties would become more Europeanized, since national MPs, obeying their political instincts, would look for guidance within their party family at the European level.

The ongoing Europeanization of economic and monetary union does not follow a linear pattern. When people talk today about “more Europe”, that can mean different things, in terms both of substance and procedures. And it cannot be automatically assumed that a comprehensive communitarization of competences hitherto held by member states, with strong powers for the Commission, Council and EP, is always the best and most democratic solution. Europeanization through the transfer of competences was the old cry, and the standard paradigm for a long time; but with the growing number of members and interests and the deepening of integration, it has now reached its limits.

Another variant of Europeanization today might take the form of closer coordination between governments, buffered by the supervision of national parliaments. We need to abandon the old dichotomies (“national capitals versus Brussels”, “European Parliament or national parliaments”, “supranational or intergovernmental”), in order to gain a fresh perspective on the dovetailing of the national and European levels which focuses on what is feasible. The citizens and states of Europe, with their own individual identities, will remain

part of the Union, and not be absorbed by it.

Blueprint for a supranational democracy

The constitutional model that seems to accord best with current political realities is that of a supranational democracy, which allows for shared government without assuming the shape of a federal state. The European federal state is the wrong model, and demands too much solidarity from the historically independent nations of Europe. The deepening of the institutions that is now needed could be guided by the principle that a democratic Europe should represent the totality of the citizens from the EU member states, but each individual in his or her dual capacity as a directly participating member of the reformed Union on the one hand, and an indirectly participating member of one of the European member states on the other.

A more deeply integrated Europe of this kind is compatible both with federally constituted and centrally constituted member states. This would not be a superstate, nor a United States of Europe on the US federal model. This Europe would be multinational, multilingual and multicultural, it would be polycentric, and its organizing principle would be cooperation rather than hierarchy. The distribution of responsibilities across the different political levels from local government to Brussels, budget contributions, the degree of influence exercised by European legislation on national law would not be predetermined by this arrangement. Even if deeper integration served only to stabilize the common currency, leaving budget funding at the European level unchanged, such a form of democratization would still be desirable. And in principle devolution of competences would be conceivable under such a model.

Such a Europe cannot be created overnight – but the process of getting there is of such momentous importance that the reform of the EU cannot be left to a conference of the governments of the member states, as in Maastricht, Amsterdam and Nice. It is of such momentous importance that a convention is needed, which has broad parliamentary legitimation derived from all the citizens of Europe.

- A constitutional convention should therefore confer retrospective democratic legitimacy on the emergency measures implemented during the crisis, and also provide the necessary legitimation for the new, politically unified European monetary area.
- In a referendum the people should then be asked to vote on the new arrangements for the reformed monetary union. Holding such a referendum seems almost reckless, given Europe's overall political situation. But it is absolutely essential. And if it is accompanied by a clear vision for a democratic and social European Union, then it is entirely winnable.

In the more immediate future the European elections in 2014 give us opportunities to argue for a just, social and democratic European Union and to present the case to voters. The Treaty of Lisbon states that the European Council, in proposing a candidate for the office of Commission President, will “take account of the elections to the European Parliament”. In practice the European Council is tied to the candidate of the strongest parliamentary grouping to emerge from the elections. The personalization of the European elections that we can expect to see in 2014 is likely to have the effect of mobilizing the citizens of the Union, and the national party representatives should do everything in their power to encourage this. 2014 could thus turn out to be the first European election campaign in which personalities, and the issues they stand for, reverse the trend that has seen a steady decline in voting numbers since the first direct elections to the European Parliament in 1979.

The decision taken by the social democrats in the European Parliament to go into the next European elections with a joint candidate for the post of Commission President should therefore be wholeheartedly supported by the social democratic parties of the EU member countries. 2014 could thus become the first genuine European election campaign – the first campaign in which there is a real chance of changing direction and charting a course for the new democratic and social Europe.

4.3 Different speeds, different paths

A realistic integration policy, especially if it is pursuing ambitious goals and refuses to capitulate to narrow interests, must expect that even after extensive debate not every step along the road will automatically be welcomed and approved by every member country and its citizens. This applies especially to major steps such as the impending Europeanization of the currency area. There are countries that have already decided that they do not wish to see further integration within the monetary union and beyond. And there are other countries that are not yet members of the monetary union, but have committed themselves to joining and are playing an active part in dealing with the crisis. And future elections and referenda may well reveal – even if governments are bent on going down the road towards a new eurozone – that they do not (or not yet) have the support of their electorates.

In the wake of the crisis EU countries have experienced the shock of inequality with full force – both economically and politically. But how much inequality can the eurozone bear? How much in the way of differences can it continue to accommodate before everyone starts to pay the price and the system itself breaks down? Economic productivity, cyclical development, established welfare state practices and traditions, institutional designs, regional characteristics and a range of views about the final destination of the integration process – these need to be factored in, instead of attempting a quick fix by levelling out differences. This is one of the crucial lessons of the crisis. Differences, inequality, asynchronicity: these have all come to the fore again, but they should not be seen as

insuperable obstacles to a strengthening of the new EU.

The outlook for differentiated integration

Against this background, the attainment of European goals has to be approached more in terms of groups of countries. Until a short time ago the prospect of differentiated integration was used as a threat, designed to pressurize reluctant governments into agreeing to further integration in the future. The last two decades have been full of such threatening gestures. But further differentiation in integration should be seen as an opportunity and not a taboo. It already exists today – the euro and Schengen are the most obvious examples – and the prospect of reforming the European currency area will take it to a new level.

While in many respects it would be kinder on the Community to organize the next steps towards integration in concert, the current political situation in Europe leaves no choice but to take the risk of a new form of tiered EU membership. The prospect of a new level of inequality between euro countries and non-euro countries needs to be discussed not just from the perspective of European law – which is what happens all too often in Germany; it is first and foremost a political decision.

A Europe that deepens the divide between euro and non-euro countries raises the fundamental question of how much asynchronicity the “ever closer union of nations” can accommodate. How can the foreseeable new level of different speeds be reconciled with the continuing cohesion of the EU? This question poses itself with a new urgency, given the prospect of an extension of the incomplete monetary union and the associated decoupling of the euro countries – for a time at least – from the intentional and involuntary stragglers. As one of the most important countries at the heart of the eurozone, Germany needs to take on a bridging function here – a role that it has frequently assumed in the past, to the benefit of the EU, and to which it should now revert. The question itself can only be answered through resolute but prudent practical action.

The Europe of different speeds that the reform of the currency area is now set to deliver in a more extreme form than we have previously seen is not without its risks. For a transitional period at least it makes the EU not more transparent, but less so; it puts its political and economic cohesion to the test; it risks creating different judicial areas, which may end up competing with each other – intentionally or otherwise. If differentiation leads us down this road, its effect will be to divide rather than consolidate. Mitigating these risks must therefore be an integral part of the strategy for differentiation adopted by the EU and its member states. To put it in positive terms, the aim is to give every member the place that it is willing and able to take up following a democratic process. Of course, all this presupposes a fundamentally positive attitude and a loyal commitment to the achievements of the EU, in particular its values and its internal market.

The picture of a new Europe

In sum, the picture of the new Europe that can be constructed out of the crisis will look more or less like this. At its core are the eurozone countries, which are ready to move ahead towards genuine, integrated monetary union. Ranged around that central core are other countries within the EU that have differing ambitions with regard to joining the euro area: those countries that committed themselves when they joined the EU in 2004 to joining the euro area as and when conditions permit; other EU countries whose currency systems are already closely entwined with the euro, but which do not wish to join the eurozone for now, even though they could; and finally countries like the United Kingdom, which seem increasingly unlikely to seek membership of the eurozone.

Forming a further ring around the integrated currency area are various countries outside the EU which, situated as they are close to the European Union, have an interest in the internal market or other areas of cooperation, but do not wish, or are not able, to become EU members. By allowing more room for internal diversity than in the past, the EU could give a new and constructive momentum to its sometimes difficult relations with its neighbours (Turkey might be a case in point here): these countries could then more easily become members of the European Union, if not necessarily of the currency area.

A key feature of the currency area has to be, however, that it is open in principle to the accession of further members, provided mutually agreed conditions are met. The aim is to restore the monetary union to health at its core, so that it becomes an attractive proposition and can admit new EU countries. In this respect differentiation is simply a roundabout way of achieving a united European currency area. This model should not be seen as static or restricted to economic and monetary union. On the contrary, it offers other countries outside the central core of monetary union the possibility of assuming leadership in other areas, such as foreign policy or security and defence policy, and developing new forms of cooperation. The United Kingdom would be one example of a country that does not feel at home at the heart of monetary union, but is nevertheless interested in closer collaboration – at an intergovernmental level – in matters relating to security.

By its very nature, however, the integrated currency area would be the powerhouse of the EU. But we cannot rely solely on the efforts of individual governments to restore the eurozone to health. More money must also be made available at EU level, which can be used to get the crisis-hit countries back on their feet again. But social democrats especially must see to it that the eurozone does not become a club for the rich (unlikely as that might sound in the present situation – but it is a future possibility). The danger is that the significant step towards the unification of continental Europe that was taken with the accession of the Central and Eastern European countries would then be undermined. The countries of the integrated currency area must therefore work hard to ensure that the new depth of integration does not ultimately become an insuperable obstacle for EU latecomers.

In accordance with the Treaty of Lisbon, which provides safeguard mechanisms for differentiated integration, those nations that recognize progress on integration as the best solution for overcoming the present crisis, the loss of trust by Europe's citizens and the diminution of the EU's international standing and power to act, should now boldly lead the way. Their success will be the strongest argument for persuading those who are today holding back to join the forward march of the European project when the time is right. Allowing greater internal differentiation could be one way, both internally and externally, of freeing up the logjams that are paralyzing the EU – not just since the crisis, but in a particularly acute form right now.

5. Where to begin?

In the short term the drift towards break-up must be halted, because it is leading us in the wrong direction and making long-term solutions impossible. To that end a change of course in the current crisis management policy is urgently needed.

1. As a first step, the ECB's commitment to the unlimited refinancing of those countries at risk from the speculators is absolutely necessary in order to relieve the pressure of high interest rates and to refinance these countries at affordable rates of interest through the ECB or the ESM (with a banking license).
2. The fundamental willingness of the European states to accept joint liability through the ESM or ECB as lender of last resort is necessary in order to ensure the survival of the euro in the face of speculation on the financial markets. At the same time the acceptance of joint liability is an important confidence-building measure among EMU member states, and necessary for securing the continuing cooperation of European neighbours on joint debt management and effective bank regulation.
3. An end to austerity: because the fixation of the conservative-liberal German coalition government on budgetary discipline enforced through savage cuts in public spending is only adding to the burden of debt, and is not doing anything to get us out of the recession caused by the financial crisis. It must be ended for instance by extending debt repayment periods and taking the changing economic situation into account.
4. A joint European growth strategy is needed for budgetary consolidation and economic recovery, e.g. a "European New Deal" in the shape of a program of investment for the future in education, research and development or energy and climate-protection projects, in line with the key points set out in the "Pact for growth, not competition" approved by the SPD presidium in March 2011.

In the medium to long term viable solutions must be developed for the reform of the European Union with a more deeply integrated eurozone at its core. This calls for a broad-based process of societal consultation aimed at maximizing the participation of the people in the work of reformation. This will be a core task for the next decade.

1. Introduction of minimum standards or so-called corridors. These include tax harmonization, minimum wage, minimum social standards, coordination of welfare spending (e.g. on a "corridor" model, which links the size of the welfare state to the level of economic development reached by each country, in order to accommodate the interest of the Eastern European countries in particular in

catch-up development).

2. Institutional Europeanization: strengthening of the European Parliament and the European competences of national parliaments; inter-parliamentary committees for budgetary and financial matters, joint constitutional committee for monitoring application of the subsidiarity principle.
3. National budgetary powers to be exercised in accordance with common rules, criteria or corridors – with the aim of promoting convergence of social standards or fostering closer European cooperation. The criteria or corridors would need to be approved by the various national parliaments and the European Parliament. The reform of the EU's own funding must also be on the agenda: Brussels needs greater scope for supporting national structural policies and eradicating glaring economic imbalances between member states.
4. The extension of democratic rights of participation cannot happen overnight, but requires an ongoing process of confidence building between national and European institutions – not unlike the “confidence-building measures” designed to break down the barriers between East and West.
5. Where Europe needs to act transnationally and bears a global responsibility – in areas such as climate change, natural resources, energy, peace or security – common interests and identities will be strengthened through a process of public consultation and decision-making.
6. What binds the peoples of Europe together is their shared educational and cultural heritage. Education and culture are integral to the European way of life that we must work to strengthen.

6. Europe in the 21st century

The classic narrative of European unification as a credible and far-sighted plan for securing a peaceful future for the peoples of Europe after centuries of self-destruction can and could only ever be a starting point. It is important to remind ourselves how it all began, but the appeal to Europe's spiritual heritage is no more likely in itself to inspire the younger generations with enthusiasm for the grand project of unification than reminders of the conflicting experiences of global politics that this divided continent has endured. The original goals of unification, which in their time were only a grand and distant hope, now seem achieved. But the recent crisis has shown them to be a lot less secure than we thought. Safeguarding these gains requires a substantial renewed effort, in which the appeal to tradition will need to be supplemented by a great deal of institutional imagination.

In today's globalized world, where emerging nations such as India, China, Brazil and others are getting ready to shape the political, economic and social destinies of our planet alongside the USA, and to some extent in competition with it, the nations of Europe, which are very small by comparison, can only safeguard their political self-determination, their prosperity and their social achievements by joining forces and standing together on all the key issues. That will require a new step towards European unification, and a strengthening of the capacity of the European Union and its members to take effective action at every level.

We need to augment the narrative of peace, freedom, prosperity and security from the founding phase of the European Union with the compelling argument that our countries will only be able to retain their freedom of action and their capacity for self-determination in today's globalized world if they show themselves capable of banding together politically within the EU. For its member states and citizens, the European Union is the place where they can live out freedom and self-determination in solidarity together. But freedom and self-determination will only be possible in the future if these countries and their citizens are prepared to accept a greater degree of responsibility for each other than in the past. If they can be persuaded of this, then the European idea can regain its appeal for future generations and become the foundation on which to build a new, united Europe for the 21st century.

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