

The Lisbon Treaty in the financial and economic turmoil

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I have had the privilege of getting to know my colleague Fausto de Quadros, of working with him and exchanging ideas since I first started participating in the Jean Monnet Conferences. At the November 2013 Conference, the President of the European Commission José Manuel Barroso invited Professor de Quadros and myself to collect papers from the Jean Monnet Chairs on the future of the EU, the Eurozone and how to recover from the economic and financial crisis. We received some 80 reports of which the first overview was presented by Fausto at the last Jean Monnet meeting in Brussels from 1-2 October 2014. As a follow-up, he will submit an application to the Jean Monnet Action to provide us with the possibility to edit and publish a collective work. Beforehand, we intend to organise seminars and symposia in Rome, Lisbon, Geneva as well as in Brussels. This is the proof that we are collaborating more and more closely besides being good friends. The following article, which is my contribution to the *Liber Amicorum* in honour of Fausto, is the expression of my esteem for my colleague and friend.

I. Institutional balance or imbalance. The weight of the intergovernmental method

A major innovation: the President of the European Council

The European Council, consisting of the Heads of State or Government and the President of the Commission, has been given a permanent President and its own role in the Union's political system has been reinforced. According to this sys-

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tem's logic, the more the Union's work involves problems of increasing political importance, the greater the need for its European and national leaders to become involved. Issues of 'high politics' involving sovereign powers, such as currency or economic or external policy, require commitment on the part of the European Council members. At the same time, globalisation, multipolarity and the rise of the emerging powers alongside the United States demand greater unity in external policy if the Union is to assert itself as a global player and legislative power. That is why a permanent President is needed.

Electing the President by a qualified majority avoids any vetoes and facilitates consensus, as in the case of Donald Tusk. He is responsible for chairing and driving forward the work of the European Council, and also for ensuring the preparation and continuity of this work in cooperation with the President of the Commission and on the basis of the work of the General Affairs Council. He endeavours to facilitate cohesion and consensus within the European Council. In addition, he represents the Union in its dealings with the outside world, at the level of the Heads of State or Government, in matters of common foreign and security policy, without prejudice to the powers of the High Representative of the Union and, I would add: or to those of the President of the Commission. The Union's international representation at the highest level actually requires the presence of both Presidents, and also the High Representative, particularly as foreign policy has a strong economic dimension and, in turn, security extends far beyond the narrow concept of military security, and tends to encompass economic, social and cultural activities as well as scientific and technological activities. Although the European Council acts by consensus, confidence gained as a result of cooperating in practice should enable it to adopt and gradually extend the scope of qualified majority voting. As a result of these new powers and through the actions of its President, the European Council is already reinforcing intergovernmental power within the Union.

A dual presidency within a community system

In the case of the dual presidency, governmental authority is exercised on the basis of two institutional pillars: the European Council and its right-hand men, namely the Councils, on the one hand, and the European Executive embodied by the European Commission on the other. With its permanent President, the European Council has assumed full responsibility for the general strategies and guidelines defined in the basic text. In the future, close collaboration between the two Presidents and the High Representative will probably be imposed by *de facto interdependence* between economic and monetary policies and external relations, including security and defence. As a result, even in these political matters

par excellence, at some point in the future the European Council will probably become responsible for these decisions, acting on a proposal from the Commission and the General Affairs Council. That at least is my prediction, which aims to guarantee, using the community method, optimum coherence according to the European public interest.

For its part, Foreign Affairs will require joint action by the Foreign Affairs Council, chaired by the High Representative, and the Commission. In the long term, the community method will tend to become more widely used, guaranteeing *efficiency* and ensuring *democratic control* by the European Parliament over the Commission and its Vice-President. However, in the current crisis, the European Council, its President and also the Council of Heads of State and Government of the euro area seem to be overtaking the Commission at the expense of institutional equilibrium.

The Council or the confusion of powers

Together with the Commission, the Council plays a key role in the decision-making process of the European Community. It forms the final stage in the *legislative process* under the codecision procedure with the European Parliament. Its dual role in the adoption of legislative acts and common policies proposed by the Commission and its governmental authority, which it often shares with the Commission and the European Council, reinforce its position within the community system. On the other hand, the proliferation of specialised Councils undermines its coherence and hinders the rotating presidency in its task of coordination. Like Janus, it has two faces, one with *legislative power* and the other with *governmental authority*.

With the extension of the sovereign areas of the European Union, the Council has become, together with the European Council, the main holder of the new powers conferred on the Union under the CFSP. In fact it lies at the very heart of the debate on the intergovernmental or community nature of the European Union. Its inherent ambiguity is due to the fact that it not only escapes control by the European Parliament when acting as the community legislature, which is quite natural, but also when it takes governmental decisions, which is less so. Paradoxically, the Commission, which proposes, is subject to the democratic control of the European Parliament whereas the Council, which decides in its governmental capacity, escapes any parliamentary control. Is it not often said that Montesquieu has not yet made a detour via Brussels?

In the Union's *legislative process*, the Commission makes proposals and tries to maintain both the consistency and the balance of community legislation. It has a tool for this purpose: the requirement for unanimity in the Council for any

amendment to its proposal, which the Commission alone is authorised to make. As the source of European legislation, its scope of operation has expanded in line with the extension of codecision powers. This point has often been omitted in recent assessments of the division of powers. *Legislative codecision* has gradually been extended, increasing the power of the Commission and the European Parliament, and also the functional capacity of the Council due to the extension of qualified majority voting. It is logical to wonder whether we are not heading towards a *bicameral legislative power*. This dual participation of the Member States in the Council and of the Union's citizens in the European Parliament is evidence of the Union's move towards a federal system. Without creating a 'legislative Council'¹, the Treaty has kept the distinction between the two functions of the Council, with the legislative function being carried out in total transparency. However, the Council's ambivalence has been accentuated in that it now has more governmental functions in the foreign policy area. The confusion of powers remains the fundamental problem of the Council.

A breakthrough for federalism: a new voting procedure

As of November 1st 2014, a double qualified majority is defined as at least 55 % of Council members representing 65 % of the Union's population. It reflects the *federative principle* of the dual representation of Member States and citizens. This procedure applies when the Council acts *on a proposal* from the Commission, which shows the trust enjoyed by the Commission. On the other hand, if the initiative stems from one or more Member States, the majority required is 72 % of members representing 65 % of the population. This new rule takes account of the population criterion and underlines the importance of proposals made by the Commission or High Representative². In practice, the Council votes only rarely; instead it tries to reach decisions by consensus. However, qualified majority voting avoids paralysis and helps to speed up the reconciliation of positions and decision-making. It increases the system's capacity, while moving it towards a federative community.

The role of the community institutions

The European Parliament: the big winner

The *European Parliament* has emerged stronger, thus giving the Union a more democratic dimension. Its legislative function under the *codecision* procedure

¹ The German government made proposals based on the ideas of Karl Lamers and Wolfgang Schäuble, CDU/CSU-Fraktion des Deutschen Bundestages, Bonn, 1 September 1994.

² At the insistence of Poland, this procedure will take effect, following a further delay, in 2014, with an additional transitional period to 31 March 2017.

with the Council has been extended to around 50 new areas requiring proposals to be made by the Commission. Its legislative powers are comparable to those of the Council. The same is true on budgetary matters, where it has decision-making rights equal to those of the Council. Moreover, its powers of political control over the Commission and its President have been consolidated, as well as its power over the collegial body's investiture. Its authority has therefore been reinforced. However, the main advance is still the extent of its legislative codecision power and its influence over the Commission, of which it is also the natural ally. The best evidence of this progress towards a federative democracy is, firstly, the importance afforded by the Commission and the Council to the European Parliament and, secondly, the fact that it has become the target of interest groups and lobbyists. These are all indicators of the increased power that the European Parliament now has.

What about the Commission, the driving force of the Union?

As an executive and independent institution, the Commission enjoys the right of initiative and proposal, together with supervision and management powers. It is the only institution invested with *active powers* of initiative, which has *responsibility for identifying and guaranteeing the European public interest*. As the legislative codecision procedure has been extended the Commission has seen its own scope for proposal expanded. Consequently the Commission actually plays a *pivotal role in legislative matters* in correlation with the extension of qualified majority voting to the Council. However, it has been reduced to a *rather marginal role* in the CFSP and in the CSDP, where the intergovernmental method and unanimity are the rule. A similar trend was observed during the crisis. On the other hand, in Justice and Home Affairs, the Commission tends to assume more direct responsibility.

As the main driving force of integration, its role is to assume governance of the Union. Quite clearly, it is the only institution consisting of full-time members with *active power*, and enjoying sufficient independence to offset the national interests represented by the Councils. It is the main guarantor of overall cohesion within the Union. In order to maintain its role after enlargement and reinforce its *collective responsibility* and *efficiency*, the Treaty of Lisbon in particular limits the number of its members to 15. Overall, it exercises political responsibility through its 'small' administration³.

In its approach, which mainly involves consulting experts and the main stakeholders, the Commission looks for balanced solutions that protect the inte-

³ The Commission's administration is small considering the Union's field of action and compared to national administrations, and even regional or metropolitan administrations.

rests of the small and medium-sized Member States, while taking account of those of the large Member States. This statement explains the attachment of the former to the independent role assumed by the Commission, as these States find it more difficult to assert their interests in intergovernmental structures that are generally dominated by the large Member States. With this in mind, the Treaty of Lisbon includes a series of articles which aim to reinforce the authority of the President and the collective responsibility of the Commission.

The Commission's right of proposal, taking into account the balance between the interests of countries and sectors of activity, has helped to extend qualified majority voting. The Commission now has a more direct basis of legitimacy, which results from the more effective involvement of the European Parliament and European political formations in the choice of its President, during hearings and at the time of the investiture of the Commission.

The Treaty of Lisbon has consolidated and expanded the role of the President, whose dual legitimacy stems from his nomination by the European Council acting by qualified majority and his election by the European Parliament⁴. The European Council chooses the candidate proposed by the party winner. In turn, Parliament elects the President of the Commission by a majority of its component members⁵. The President decides on the internal organisation of the Commission, ensuring that it acts consistently, efficiently and as a collegial body. In addition, the Treaty of Lisbon has consolidated his authority by giving him the power to lay down guidelines within which the Commission is to work.

The Juncker Commission composed of 28 members should be reduced in the future, based on a system of *equal rotation*, to a core of 15 decision-making members. Does this equal rotation of Member States in the allocation of Commissioners not risk weakening the Commission and, at the same time, the community method? Good sense has prevailed, as this reduction stipulated by the Treaty may be amended by the European Council acting unanimously, thus opening the way to postponement.

A rapidly expanding area: External relations and security

Responsibility for taking fundamental decisions under the CFSP and the CSDP, which involves a specific procedure, *should* lie, in a federative context, with the

⁴ The European Council of 19 June 2009 unanimously supported José Manuel Barroso for a second term.

⁵ On 16 September 2009 the European Parliament resulting from the European elections on 7 June 2009 elected José Manuel Barroso by a majority of 382 votes. On 15 July 2014 the candidate of the European People's Party, Jean-Claude Juncker, was elected as President by 422 MEPs in favour, 250 against, 47 abstentions and 10 invalid votes.

European Council acting on a proposal from the High Representative and – as often as possible – jointly with the Commission. The consistency and efficiency of external policy depend, to a large extent, on joint proposals being made by the High Representative and the Commission, in close cooperation with the Foreign Affairs Council chaired by the High Representative. In this way discussions would be held on a proposal based on a common vision. In addition, in this configuration, democratic control would be exercised by the European Parliament, before which the Commission is fully responsible. In practice, the more problems fall within the area of “high politics”, the more the European Council’s commitment is needed. As a result, the scales are tipped in favour of the intergovernmental approach, which has weakened the capacity of the Union⁶.

The key role of the High Representative

One of the Union’s main handicaps remains the gap between community affairs and common foreign, security and defence affairs. The High Representative is intended to bridge this gap. In these sovereign areas, the Commission has a marginal role. A modicum of progress has been made: the High Representative has the power to present proposals in his or her own name or on behalf of the Commission. However, the fact remains that, in these sensitive areas, unanimity is still strictly required, with the President of the European Council and the President of the Foreign Affairs Council having the task of facilitating consensus. We can therefore expect them to try to keep the deliberations in the institutional context and avoid any *bypassing* by the large Member States. These cleavages reveal the arduous task facing the High Representative. However it is clear that their close collaboration and their mutual trust will be decisive for the future of the Union and its global role.

The ambiguous role of the task force

In order to facilitate the recovery from the financial and economic crisis, the European Council set up a *task force* under the presidency of Herman Van Rompuy. This move involved informal meetings between the Finance Ministers, together with Olli Rehn, Commissioner, Jean-Claude Trichet, President of the ECB, and Jean-Claude Juncker, President of the Eurogroup. In my opinion, the functions of the President of the European Council should not include the presidency of a *task force*. What is more, this *task force* encroached upon the powers of the Commission and upon the Community method.

⁶ cf. cases of Libya, Mali and Ukraine-Russia conflict.

The long experience of the European Community, and the more recent experience of the European Union, confirm the efficiency of the community method, which is an original characteristic of the European Union. This institutional invention differentiates the European Union from international organisations and associates it with federative-type communities, provided that the balance of powers and institutions is respected. Besides, this method ensures democratic control by the EP of the Commission's activities.

Furthermore, the community method is the only one that allows participatory democracy at the European level. When drawing up its proposals, the Commission does not limit itself to questioning governments and their administrations, but also consults socioeconomic participants. The long experience of the European Community and the European Union has shown the advantage of a proposal from the Commission being submitted for approval by the Council and the European Parliament: it places, on the discussion table, a document which presents a view of the European common interest and which takes into account the balance between various national and sectoral interests and between the large, medium-sized and small Member States. It is on this basis that negotiations begin. Conversely, intergovernmental procedures are more at risk of being dominated by the large Member States.

II. The European Union trapped by the financial crisis

The financial crisis represents a severe test for the Treaty. The response has been slow, piecemeal and on a case-by-case basis. At a time when financial, economic and social crises are striking one nation after another in the euro area, these countries as well as the other Member States are in urgent need of an act of commitment, an unfailing and immediate undertaking. This is the only response possible to the «default scenario», even if planned in the case of Greece. A strong signal of solidarity sent out to the people and the financial markets is likely to restore confidence and put an end to the *vicious circle of speculation*. Europe needs a grand design, a clear sense of vision and strategy based on a political strength of will which unequivocally attests to European solidarity, rather than faltering measures and imposed compromises. This is the price to be paid in order to pull out of the crisis, boost the economy and employment and entertain the prospect of dynamic growth.

In the meantime, the domino effect is underway and the public deficit and debt crisis which is leading to speculation, unemployment and social unrest, is striking the most vulnerable countries, without even the large Member States being safe. Consequently, after Greece and Ireland, Portugal called upon the Union for help, the next in line being Spain and Italy. A threat is hovering over

the euro area, the very core of the European Union. As regards regulation, a step has been taken in the right direction through the Commission's proposal to adopt four European Authorities to supervise markets and forecast systemic risk.⁷ Scepticism about the Union's ability to help Member States which are particularly at risk is gaining ground: if the Union is not in a position to efficiently provide aid to Greece (2%), how will it be able to come to the rescue of those countries such as Italy and Spain which represent approximately 1/3 of the total GDP of the euro area? In the meantime, the financial crisis may well spark off social unrest. The violent demonstrations in Athens, Dublin, Rome and Madrid are examples of a warning, followed by the rise of nationalism, populism and europhobic extremist movements. The last European elections confirmed this forecast.

Although the Treaty of Lisbon was drawn up at the start of the financial crisis, it *does not provide any positive provisions* to counteract it. It was only after having resorted to last-minute, sparing rescue plans that the European Councils of 29 October and 16 December 2010 decided to replace, as of 2013, the two existing temporary mechanisms, the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM), with a permanent mechanism to safeguard financial stability. The Treaty of Lisbon is to be revised in order to provide this mechanism with a solid legal basis.

On top of this barrage of declarations and viewpoints, which are often contradictory, there is the debate on the financial capacity of the European Financial Stability Facility (EFSF). According to Jean-Claude Trichet and the Belgian Minister of Finance Didier Reynders, who was the Council's President during the second semester of 2010, the facility's resources ought to be doubled, or at least substantially increased. This opinion was rejected by Jean-Claude Juncker, at that time Eurogroup President, as well as by the German Chancellor's predominant voice followed by France.

Other voices can be heard advocating an idea already put forward some time ago by Jacques Delors regarding the issuance of *eurobonds*, supported by Jean-Claude Juncker, Giulio Tremonti and Tommaso Padoa-Schioppa. The aim of this initiative is to send out a clear signal to the markets of the «irreversibility of the euro». In order to counter this idea, Chancellor Angela Merkel has put forward two arguments, namely the competition between interest rates and the incompatibility of *eurobonds* with the Treaties. One should not forget that this method of pooling European debt, even if only partially, would result in an increase in German interest rates, which are currently the lowest, while at the same time

⁷ European Systemic Risk Board (ESRB), European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA).

being of benefit to countries such as Greece, Ireland, Portugal, Spain and Italy which borrow on the markets at high rates. According to Jacques Delors, *euro-bonds* could serve another purpose: the funding of extensive work on European infrastructure, European research and education projects, as well as industrial cooperation programmes. The Commission has carried out a study on this idea. Apparently, it has numerous supporters, including several Member States and also the European Trade Union Confederation (ETUC). Other initiatives have been discussed: a tax on financial transactions, tax on carbon emissions, etc. There has been no shortage of new ideas, however the 19 members lack the political will to transform their words into actions and thereby prove a sense of European solidarity.

The assessment of Paul De Grauwe is clear: the financial markets were guilty of a lack of discipline, whereas the governments accepted responsibility for rescuing the banks and the financial system. This led to the excessive rise in public debt. In Paul De Grauwe's opinion, the rigorous mechanism imposed by Germany is based on a wrong diagnosis which is the cause of some concern.

According to the economist Thierry Malleret, the cost of non euro is too high to be seriously considered.⁸ Since the crisis broke out, the European Commission has introduced a series of directives to supervise the functioning of the markets, banks, hedge funds, rating agencies, followed by numerous projects such as the proposal to increase the transparency of stock markets. In a nutshell, it has tackled the problem of restoring order to the financial markets.⁹ Hasn't the time come to present a clear and coherent overview of the situation to European citizens and to the markets, in order to put an end to the uproar and lack of unity?

The Maastricht Treaty created the economic and monetary Union, its twin, the economic Union, was neglected. Moreover, the Maastricht Treaty's legal provisions for excessive deficit were contravened initially by Germany and France. For a long period, the efforts to coordinate economic policy and the proposals for economic governance, first introduced by Jacques Delors and taken up again by subsequent French governments, came up against German reluctance. Yet in order to consolidate monetary Union, economic Union must urgently be implemented. Efficient *economic governance* and a merging of economic policies, supplemented by *fiscal and budgetary union* as proposed by the President of the ECB, and referred to in other terms by the French President and German Chancellor,

⁸ "The cost of non euro", *Informed Judgement*, January 2011.

⁹ The European System of Financial Supervisors (ESFS) includes : European Systemic Risk Board (ESRB), European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA), European Securities and Markets Authority (ESMA) and "Omnibus" Directive.

are all initiatives requiring a political will which also includes an examination of draft budgets and supervision of the implementation of this uniform system. At this point, the Commission resurfaces and initiates the codecision procedure.

The example of initiatives dictated by national interests and the ineffectiveness of measures taken by a Member State or a group of Member States highlights the inherent defects of the intergovernmental method. It is my firm belief that this method tends to intensify the impact of national interest and neorealism, to strengthen the domination of large States to the detriment of the public interest and general balance. Using this approach, negotiations are based on divergent initiatives which generally lead to a decision imposed by the large Member States, or to an incoherent decision, or to a watered-down compromise.

Greece, the Achilles' heel of the eurozone

The Greek crisis broke out following the discovery by Papandreou's government of the immense scale of the public debt and deficit, buried beneath fudged statistics. It escaped the notice of Brussels, Eurostat and Basel, or at least did not give rise to any preventive measures. The response has been as drastic as the crisis itself: severe *austerity measures* and reforms subject to strict conditionality and *community sanctions*¹⁰. According to Tommaso Padoa-Schioppa, tough fiscal retrenchment would plunge Greece as well as Portugal and Spain, with repercussions in other eurozone countries, into a depression which is now triggering off a deterioration in their budgetary situation and a shortfall in growth¹¹.

Rather than demonstrating solidarity, the German Chancellor has advocated discipline under the threat of sanctions. Her dilemma was whether to rescue Greece and defend the euro, or follow the constraints of domestic policy. Abounding criticism of Greece has created a «media war», accompanied by lessons on good management of public finances. It took three months of indecision for the leaders of the eurozone, with Germany at the helm followed by France, to realise the necessity of bailing out Greece in order to avoid contagion. By acting quickly, in a unified manner, many setbacks and risks could have been avoided.

The members of the eurozone contented themselves with providing for an intergovernmental *European Stability Mechanism* as of 2013, equipped with an effective lending capacity of approximately 500 bn euros. The aim is to preserve

¹⁰ Article in the *Financial Times* by Peter Bofinger, Henrik Enderlein, Tommaso Padoa-Schioppa and André Sapir, 28 September 2010.

¹¹ Tommaso Padoa-Schioppa: *The determination of a Euro's architect in the face of crisis*, Notre Europe, March-December 2010.

financial stability in the whole of the eurozone.¹² Of course, particular attention will be given to coordinating fiscal policies. Yet doubts remain about the capacity of the ESM to provide a global solution. Instead of taking preventive action, it is only supposed to intervene when a State is already struggling with the final stages of a crisis. The main emphasis is on conditionality and austerity coupled with sanctions.

The eurozone crisis is likely to trigger off a crisis in the whole of the European Union. As pointed out by Mario Draghi, the new President of the European Central Bank, default by Greece, Ireland and Portugal would have *systemic effects*. He has warned against the “systemic fallout” of the public debt crisis: “in the eurozone, the sovereign debt crisis in three countries, which together represent 6% of the area’s GDP, has the potential to exert significant systemic effects”. In his opinion, the eurozone “is facing its most difficult test since it was created. European surveillance over national budget policies, which was weakened in the middle of the last decade on the initiative of the three biggest countries, showed itself wanting just when it was most essential”.¹³ A return to budgetary discipline should be coupled with a clear assertion of the Union’s solidarity consisting of preventive measures. In fact, the Eurogroup applied severe austerity measures, particularly in Greece, which was obliged to adopt the measures imposed by the “troika”.

Undeniably, the euro has become a major currency used to carry out a quarter of the world’s total trading activity. Consequently the European Union, and in particular the eurozone, have a responsibility towards the whole world. To enable the Union and its federal core, namely the eurozone, to get back on its original path, a political choice has to be made involving the immediate introduction of *economic governance* and *political Union* as put forward some time ago by Wolfgang Schäuble¹⁴. Inspired by the spirit of this proposal, the European institutions and Member States would commit themselves wholeheartedly to the creation of a European federation. It seems that the current German Minister of Finance has forgotten his ambitious initiative! This is the price to be paid for stability and growth, as well as a return to prosperity. Obviously, the very survival and future of the European project is at stake.

¹² European Council conclusions of 24 and 25 March 2011.

¹³ *Le Temps*, 1 June 2011.

¹⁴ Wolfgang Schäuble in collaboration with Karls Lamers, *Reflections on European Policy*, CDU/CSU parliamentary group, Bundestag, Bonn, 1 September 1994. These reflections state the need to reinforce the federal core of the European Union and to transform the Commission into the Union’s government.

III. The comeback of the community method?

During the Franco-German summit at the Elysée Palace on 16 August 2011, President Sarkozy and Chancellor Merkel proposed electing the European Council President as leader of the eurozone at the level of Heads of State and Government. This proposal confirms a subtle insistence on the increased powers of the President of the European Council and a shift towards the intergovernmental tack. It tends to break the institutional balance in favour of the Franco-German pair. How can this Council of national leaders, which only meets four times a year, «govern» without the support of the Commission? In order to maintain the balance between governmental power and that of community institutions, the presidency or co-presidency of the Council of Finance Ministers should be assigned to the Commissioner in charge of economic and financial affairs. This would be an initial step towards the type of economic government formerly proposed by Wolfgang Schäuble.

This rebalancing is necessary due to the Commission's competence and vocation to make proposals. Its dynamic role was partially confirmed by the large programme of proposed guidelines aimed at regulating the financial market, controlling financial institutions and proposing preventive measures¹⁵. If we wish to maintain the mechanism of parliamentary control, the Commission should be reassigned its role at the centre of the European village. European democracy depends on the Executive and the codecision of the Council and the European Parliament. It is also determined by the effective participation of the Commission in decision-making processes related to «high politics».

Right at the start of the crisis, originally marked by the Greek crisis, there were obvious demands for a show of solidarity. And yet acts of procrastination, vetoing by the German Chancellor, followed by sparing measures, have done nothing but intensify the financial and psychological cost by undermining confidence and allowing the contagion to spread within the euro area. The crisis has pervaded various economic sectors, destabilizing social and political structures. After a long period of hesitation, the European Council adopted the decision to enhance the lending capacity of the European Financial Stability Facility (EFSF) and increase the flexibility of the rules governing its intervention by allowing it to carry out preventive measures. This disparity in time is additional proof of the inadequacy of the instruments provided by the Treaty of Lisbon to deal with a major financial and economic crisis. This has been confirmed by the growing role of the ECB and its decisive initiatives.

¹⁵ Michel Barnier, «Cinq clés pour une gestion européenne de la crise. Il faut rétablir la confiance en faisant preuve d'unité», *Le Monde*, 21-22 August 2011; see the table of this whole group of measures presented by the Commission.

A global political approach

These numerous, diffuse sectorial policies require political vision and a pooling of resources. It is the Commission's responsibility to present an overall programme. Since the start of the crisis, the Commission has made a succession of analyses and proposals without a global approach. Isn't it time for the Commission and its new President to take full responsibility for their role as leader of the European Union and to take the necessary steps to combat the challenges with which Europe and the world are confronted? Jean-Claude Juncker's *investment plan*, combined with the issuing of *eurobonds*, could signal European economic take-off: growth, employment, investment in education and professional training, solidarity in response to the destruction of social and political networks. The EU has sacrificed billions of euros to save the banks and only 6 billion have been provided for youth programmes!

By way of conclusion***Ingredients of a European vision***

What are the main points which emerge at the end of this period marked by the simultaneous occurrence of the running-in of the Treaty of Lisbon and the ravages of the crisis? In these conditions, does the Treaty still hold out hope for progress along the federalist path? Or has the impact of the crisis revealed the shortcomings of the new Treaty, of which the provisions inspired by federalism are likely to be swept away by the financial tsunami? Amidst the confusion and the tremors sparked off by the chaotic movements of the markets and the mass sense of panic, can we start to see signs of a way out of the crisis and a revival of the integration process?

Undeniably, the crisis has exposed the indecisive and unpredictable functioning of the Treaty of Lisbon caught between its innovations and the temptation of a reversion to the intergovernmental method, which has been encouraged by the defensive reactions to counter the crisis. Nevertheless, it is the crisis which has gradually proven the irrefutable necessity of the community method, which alone will allow a common, coherent strategy to be formulated and applied. This is my firm conviction.

The strong *de facto* solidarity and inextricable mutual dependence between the members of the eurozone, in particular, became obvious from the onset of the Greek crisis through the risk of contagion. Meanwhile this solidarity is gradually taking precedence over a defensive attitude which is more a response to the constraints of domestic policy than to the European public interest. The Franco-German pair, swept along by Germany, also fell prey to the failings of such an attitude. Obsessed with budgetary austerity and public debt, it has taken

a long time to try and promote a balance between the necessary budgetary discipline and the necessity of growth. Yet while declaring her firm commitment to the euro, Chancellor Merkel refuses to have recourse to eurobonds. How long will she be able to withstand pressure from the opposition and from German exporters? Amidst all this indecision and procrastination, it is up to the Commission to present a coherent plan which can easily be understood by European citizens. But above all, the Commission is expected to fill the current vacuum by resuming its function as the community institution in charge of defining and promoting the European public interest. In this capacity, the President of the Commission has the duty to present, in the name of the College, the *action plan* consisting of the *European New Deal*. This is the price to pay to emerge from the crisis and boost the economy and employment.

The only way to achieve this large-scale initiative is by having recourse to the community method and appealing to complete European solidarity. This approach implies the creation of a *real economic government* of the euro area. This body of leaders will be responsible for defining political direction acting on proposals made by the Commission and the Council of Finance Ministers of the Eurogroup co-chaired by the competent Commissioner. This suggestion could quickly be studied and adopted, improving working methods and reinforcing crisis management in the eurozone.

Evidently, in order to get round the inertia of the decision-making processes which correspond to situations in periods of economic growth, it is imperative to revise the current procedures governed by the unanimity rule which requires ratification by all national Parliaments. Two rectifications should be enforced: establish qualified majority voting and ratification by MEPs of the eurozone.

By bringing the crisis under control and thereby safeguarding its own future, the European Union will strengthen its influence within the G-20 and assert its legislative power. In this way, it will be in a position to assume its role as an innovator at a global level. At the same time, it will be able to fulfill its responsibilities as the largest commercial and economic community in a world in which mutual dependence is increasing. Failure by the European Union to manage the crisis would trigger off a worldwide domino effect. This is proven by the United States' eagerness to promote a European upturn, by the fact that BRIC have offered their contribution, and by the wave of anxiety which has hit countries in Asia, Latin America and Africa.

Undeniably, the EU still accounts for 20% of world trade and 23% of global GDP. It is a major world economic power on the decline which has no head, no common strategy in the globalized world. It has potential but lacks the capacity to act. The Union in spite of its name is still a lame edifice with sectoral policies

and the coexistence of community, intergovernmental and classic international processes governed by the unanimity rule in sovereign matters and ratification of the treaty-constitution.

External threats to peace, the challenges with which the EU is faced both from within and without, attacks on democracy and freedom all require a pooling of political, economic, social and technical resources. A common vision, a global approach and a new perspective call for the urgent creation of a European Federation, composed in the first instance of the Eurozone but open to all EU members. It is obvious that the Eurozone and consequently the Union cannot survive in the long term without an economic union, without active solidarity and a step towards political Union. History has taught us that a single currency has not existed without shared sovereignty.

At present, the EU has reached a crossroads. It is facing new challenges and risks yet at the same time has the opportunity to move forward. For example, Greece still represents the Achilles' heel of the Eurozone and the crisis is not being tackled through growth and employment. It is obvious that in the case of Greece, poverty and depression have been increasing at the same time as rising unemployment and public debt. Austerity has generated populism and euroscepticism as a reaction against the draconian policies imposed primarily by Germany. The consequence has been the vote against austerity and the rise to power of Syriza in coalition with a small nationalist party. This trend has been confirmed by the increasing popularity of the *Front national* in France, *UKIP* in the UK, *Podemos* in Spain and the Blocher movement in Switzerland. The common denominator of these parties is their reaction against Brussels. At the same time separatist, regional movements as for example in Catalonia, Flanders, Northern Italy and Scotland are gaining strength. Simultaneously there is a tendency towards decreasing trust in national governments and the EU. The process of integration and the «spillover» theorised by Ernst B. Haas and applied by Jean Monnet may turn into a self-destructive «spillover» effect.

Even more threatening are the militants in Syria, the DAESH supporters operating within European countries who are jeopardising the internal security of our society (e.g. the attack against Charlie Hebdo in Paris and the terrorist shootings in Denmark).

In the face of these challenges some positive action has been undertaken recently, helped by the depreciation of the euro which favours European exports, and the fall in the price of oil. In addition an investment plan was adopted by the Juncker Commission worth 315 billion euros to be financed primarily by the private sector with only a 10% contribution by the public sector. At the same time, the ECB has decided to provide more than 1,000 billion euros for the purchase

of public and private debt over the next 18 months. The banks benefiting from this measure are expected to develop loans to businesses thus contributing to growth, a revival of the economy and employment.

Moreover, the EU's response to the terrorist attacks in Paris and Copenhagen will hopefully result in increased coordination of security measures. However, these threats are not exclusively internal. In fact, we observe numerous threats from without which could promote the building of common external, defence and security policies. In the history of federations and federal states, external threats have provided stimuli for greater integration and the constitution of the federal community, as for example in Switzerland or in the United States. This could herald the evolution of the Eurozone, and hopefully of the whole of the EU, towards a European Federation. In his study of federal communities, Karl W. Deutsch confirms the dynamic role of the core area, as in the case of the Eurozone¹⁶.

A dangerous external threat is the conflict inside the Ukraine and the tensions between the EU, NATO and the US with regard to Russia. After the break-up of the USSR in 1990, President Mitterand, with the approval of President Gorbachev, proposed the creation of a « Common House » between the EU and the new States resulting from the ex-Soviet Union. This proposal was vetoed by President Vaclav Havel of Czechoslovakia who had experienced the Soviet occupation during the Prague Spring. Simultaneously, the Warsaw Pact was disbanded, while NATO under the influence of the US and urged on by the Baltic States and Poland was expanding beyond the agreed line. In 2008, on the initiative of the Commission the EU created the Eastern Partnership composed of 6 post-Soviet States, including the Ukraine but excluding Russia. I consider this to have been a major error which denied Russia's participation in its own environment. Instead of creating a common area under the auspices of the EU on the one hand and Russia on the other, the Eastern Partnership appeared as a move against Russia in the eyes of its President and political leaders, a view soon to be supported by the general public.

This humiliating treatment of Russia was confirmed when the EU offered an Association Agreement to the Ukraine after the Maidan revolution. Many European leaders have asserted that the Ukraine as a sovereign State has the right to choose between Russia and the EU. The newly elected President of Ukraine declared himself in favour of the European option and stated in his first official presidential speech that he wants to guarantee the integrity of the country and to reinforce the centralised Nation State. It is difficult to have a Nation State

¹⁶ K.W. Deutsch et al., *Political Community and North Atlantic Area*, Princeton University Press, 1957.

where Russian speakers account for around 20% of the population. The biased character of the new State after the Maidan revolution was confirmed by a decision declaring the Ukrainian language to be the only official one. At this point, the EU unanimously opposed such a discriminatory measure and the Ukrainian parliament rescinded its decision. This underlines the ambition of the new leaders in a country which has been profoundly destabilised. Crimea's return to Russia can be justified by a population composed of 80% of Russians, by the fact that it was given as a gift by Khrushchev to his country of origin and probably by the fact that Crimea is the main port for the Russian navy. Under these circumstances and the promise of recovering other pro-Russian territories such as Donbass, a civil war has broken out in the Ukraine. This has led the way towards a more widespread conflict supported by sanctions against Russia as well as by Russian support for the separatist areas in Eastern Ukraine. Bit by bit we are heading in an atmosphere of indifference towards a large-scale conflict unless the spread of the civil war is stopped and unless the Ukraine, as proposed by the Swiss President of the OSCE, is organised as a federal State which recognises a high degree of autonomy for the large Russian-speaking minority in the East. President Poroshenko is still refusing to adopt this new federal structure which was also recommended by President Putin.

The EU is facing many other external threats, such as the creation and expansion of the Islamic State in the heart of the Middle East. It is discouraging to see that instead of presenting a united front in the face of these dangers, the EU remains divided, counting on a few of the large Member States to take action. In the case of Mali, the French army is intervening against Al-Qaeda. In previous military interventions in Libya, France and the UK were acting alone supported by US logistic aid. This case as well as the intervention in Iraq and the emergence of the so-called Islamic State are the signs of a lack of vision and a united strategy on the part of the EU.

These different factors, whether internal or external, are converging towards closer European political union. The main crisis occurred when the French refusal of the European Defence Community led to the collapse of the project of the European Political Community in 1954. From this period on, the European Community and later the European Union it had become diminished and limited mainly by the crisis to the economic and financial sectors. In this respect, Jean Monnet was wrong when he proposed a sectorial strategy and the spillover which was supposed to culminate automatically in the political Union. Unlike this fragmented approach, Denis de Rougemont and myself were promoting a political Union and a European Federation. It is now time to make a fundamental choice and to decide between an English market approach or a European Federation.