New Pact for Europe
National Report
GREECE

JUNE 2017

www.newpactforeurope.eu
NEW PACT FOR EUROPE – Rebuilding trust through dialogue

Project description

Launched in 2013 by the King Baudouin Foundation and the Bertelsmann Stiftung, and supported by a large transnational consortium including the Open Society Initiative for Europe (OSIFE), the Calouste Gulbenkian Foundation, the European Policy Centre (EPC), the BMW Foundation Herbert Quandt, and the Open Estonia Foundation, the New Pact for Europe (NPE) project aims to promote a European wide debate and develop proposals on how to reform the European Union in light of the manifold challenges Europe is currently facing.

After a first successful period in 2013-2015, which included more than 80 events in 17 EU countries and the publication of two major reports, which elaborated five strategic options on the future of the EU, the NPE project entered a new phase in 2016-2017. The ultimate aim of this new phase of the NPE project is to work out the details of a wider ‘package deal’ to equip the EU with the tools it needs to meet the internal and external challenges it faces. This proposal will contain solutions generated by connecting the discussions on the key policy challenges, and propose changes in the way the EU and its policies are defined to avoid future fundamental crises.

Building on the analysis and proposals elaborated in the previous phase, the NPE has in this period explored how the EU can better serve the interests of its member states and citizens, through a series of 30 national and transnational debates on key policy challenges (including the migration/refugee crisis, internal and external security, as well as economic and social challenges).

National Reflection Groups have been created and met specifically for this purpose in ten EU countries (Belgium, Estonia, Finland, France, Germany, Greece, Italy, Poland, Portugal and Slovakia), followed by transnational exchanges between these groups. This national report is the result of the work and discussions of one of these National Reflection Groups.

The discussions within and between representatives of the ten National Reflection Groups will be discussed by a European Reflection Group of eminent persons, which includes all the national rapporteurs. It will be tasked to produce a final NPE report taking into account the national and transnational debates, scheduled to be published at the end of 2017.

The project also benefits from the overall guidance of an Advisory Group of high-ranking policy-makers, academics, NGO representatives and other stakeholders from all over Europe. It is chaired by Herman Van Rompuy, President Emeritus of the European Council and former Prime Minister of Belgium.

For more information on the NPE project, please see the project website: www.newpactforeurope.eu
MEMBERS OF THE GREEK REFLECTION GROUP

George PAGOULATOS
(Rapporteur)
Professor, Athens University of Economics & Business (AUEB),
Member of the Board of Directors, ELIAMEP & EPC; Member of the
“New Pact for Europe” European Reflection Group

Eleni PANAGIOTAREA
(Rapporteur)
Policy Financial Analyst and Research Fellow, ELIAMEP, Athens

Marianthi ANASTASATOU
Economist, Unit of Economic Research and Analysis, Council of
Economic Advisors, Ministry of Finance

Kostas BAKOYANNIS
Regional Governor of Central Greece

Spyros BLAVOUKOS
Assistant Professor, Department of International & European
Economic Studies, Athens University of Economics and Business
(AUEB)

Filippa CHATZISTAVROU
Research Fellow, ELIAMEP

Spyros DANELLIS
Member of the Hellenic Parliament, To Potami; former Member of
the European Parliament

Thanos DOKOS
Director-General, ELIAMEP

Tassos GIANNITSIS
Professor, University of Athens, former Minister of Interior

Gikas HARDOUVELIS
Professor, Department of Banking and Financial Management,
University of Piraeus; former Minister of Finance

Panagiotis IOAKIMIDES
Professor Emeritus, Faculty of Political Science and
Public Administration, University of Athens

Giorgos KALPADAKIS
Visiting Scholar, Centre of Development Studies,
University of Cambridge

Niki KERAMEUS
Parliamentary Representative, MP, New Democracy party; lawyer

Xenia KOUNALAKI
Head of Foreign Desk, Columnist, Kathimerini daily

Dimitris KOURKOULAS
Former Deputy Minister of Foreign Affairs, former Director
General, DG Enlargement, European Commission

Ioannis KOUTSOMITIS
Independent Journalist

Yannis MASTROGEORGIOU
Director, DIKTYO - NETWORK for reform in Greece and Europe

Achilleas MITSOS
Professor of International Economic Relations, University of the
Aegean; member of the Board of Directors, ELIAMEP; former
Director-General, Directorate-General for Research, European Commission
The views expressed in this report reflect the result of the work and discussions of this National Reflection Group, enriched by exchanges with two other National Reflection Groups, but they do not necessarily represent the views of each member of the group or the institutions they are affiliated with.
TABLE OF CONTENTS

LIST OF ABBREVIATIONS .............................................................................................................. I
FOREWORD ........................................................................................................................................ II
EXECUTIVE SUMMARY .................................................................................................................... III
PART 1: STATE OF THE UNION AND THE NATIONAL NARRATIVE ............................................ 1
  STATE OF THE UNION ..................................................................................................................... 1
  THE NATIONAL NARRATIVE ......................................................................................................... 3
PART 2: KEY CHALLENGES AND REFORMS: INNOVATIONS TO TACKLE POLICY CHALLENGES .......... 6
  ECONOMY: NATIONAL ADJUSTMENT TOGETHER WITH COMPLETING THE ECONOMIC AND MONETARY UNION ................................................................................................................. 6
  MIGRATION: TOWARDS AN OPEN, FAIR, AND COMMON EUROPEAN POLICY ON MIGRATION ........ 9
  SECURITY: EUROPE AS COMMON AND EFFECTIVE SECURITY PROVIDER .................................. 12
PART 3: THE EUROPE WE NEED .................................................................................................... 15
LIST OF FURTHER READINGS ....................................................................................................... 19
LIST OF NATIONAL PARTNERS
LIST OF ABBREVIATIONS

AMIF  Asylum, Migration, and Integration Fund
CSDP  Common Security and Defence Policy
CFSP  Common Foreign and Security Policy
ECB   European Central Bank
EDA   European Defence Agency
EFSI  European Fund for Strategic Investments
EIB   European Investment Bank
EIF   European Investment Fund
EMU   Economic and Monetary Union
ESM   European Stability Mechanism
EU    European Union
EU GDP European Union Gross Domestic Product
EU INTacen European Union Intelligence and Situation Centre
EUROJUST European Union’s Judicial Cooperation Unit
EUROPOL European Union’s law enforcement agency
FRONTEX European Border and Coast Guard Agency
NATO  North Atlantic Treaty Organization
NPE   New Pact for Europe
NPLs  non-performing loans
PESCO Permanent Structured Cooperation
QE program Quantitative easing program
TFEU  Treaty on the Functioning of the European Union
UK    United Kingdom
US/USA United States of America
FOREWORD

This report is inspired by the discussions of the Greek National Reflection Group enriched by exchanges with National Reflection Groups from France and Estonia. It reflects on the ‘state of the Union’ from a national perspective and discusses the main challenges the EU and its members are facing, taking into account both the European and national perspective. Finally, it proposes ideas and recommendations on how the EU and its members should react to these main challenges and sets out how the EU and European integration should develop in the years to come.

This paper is part of a series of ten national reports. These reports and the debates in the member states will provide a solid basis for the discussions in the NPE European Reflection Group. The latter will be asked to take the reflection a step further through in-depth and thorough discussions at the European level. The Advisory Group chaired by Herman Van Rompuy will provide input into this process. All these reflections will lead to a final NPE report that analyses the current ‘state of the Union’ and contains several proposals on how to re-energise the European project. It will be published at the end of 2017.
EXECUTIVE SUMMARY

State of the Union: At 60, the European Union (EU) can take pride in an unrivalled record of historical achievement. Among others, European integration has transformed the EU periphery. While the integration acquis needs to be consolidated and expanded, the EU faces an unprecedented “polycrisis”. At its core, and main cause of Europe’s vulnerability, lies the Eurozone crisis. Shared responsibility falls upon national governments, which have obstinately refused to transfer further powers and competences to the EU institutions.

Incomplete and unable to overcome its leadership deficit, the EU has become the scapegoat for nationalist-populists. Growing socioeconomic inequality and insecurities are fuelling anti-systemic and anti-European sentiment, conveniently exploited by demagogues. It is unfair to bash the EU for national failures in implementing adjustment policies. On its part, the EU needs to more effectively address the security, economic, and social integration challenges, exert a greater influence globally and help member states to reform, foster economic growth and better adjust to globalisation.

The National Narrative: Greece continues to be in a state of vulnerability, the result of severe domestic errors, glaring gaps in the EMU architecture, and unfortunate Eurozone crisis management. Even though the crisis was also produced by EMU systemic failures, adjustment has been highly asymmetric, focusing almost exclusively on the national level. The sense of vulnerability is exacerbated by the effects of the refugee and migration crisis. The transfer of power from EU supranational institutions to the most powerful member states, and the shrinking capacity of national government, have contributed to a decline of trust in the EU, raising legitimacy questions. A public opinion majority continues to support EU and euro membership, but this support is weakening in the face of persisting economic adversity.

KEY CHALLENGES AND REFORMS

Economy: Economic adjustment in the Eurozone has been highly asymmetric. To help deficit countries shoulder the burden, Europe needs a growth- and investment-friendly policy mix, greater fiscal integration, a financial union, and a drive to integrate digital, energy, and capital markets. Appropriate instruments include a fiscal capacity/Eurozone budget, drawing on joint bond issuance and a European Unemployment Insurance scheme. They include full completion of the financial and banking union, acquiring a fiscal backstop to the Single Resolution Fund and a Euro-wide joint deposit insurance scheme. A Eurozone level Asset Management Company (as a European “bad bank”) should break the bank-sovereign doom loop. Alternative financing tools should be developed to move beyond excessive reliance on bank-based finance. Harmful tax competition, tax avoidance and tax evasion should be addressed more boldly at a pan-European and global level.

The ESM could further evolve into a real stabilisation budget and actual Treasury for the Eurozone. It should be brought under the authority of the European Commission, accountable to the European Parliament or its Eurozone chamber. The Eurozone cannot function without some degree of risk-sharing; risk-sharing itself leads to risk reduction. The Eurozone should make job creation and the reduction of unemployment its paramount priority. A ‘golden rule’ for public and social investment spending (under clearly defined criteria) would allow for investment projects to be treated more flexibly. The EIB/ EIF should play a more extensive role. Resources from the European budget should be directed towards supporting new technology and
innovation. Re-skilling, backed by the European Social Fund and national policies, should facilitate the integration of the jobless into the labour market.

**Migration:** A common migration policy should be based on proper burden-sharing, and solidarity, constituting an organising principle. Conditionality could propel a better implementation of member states’ commitments, including reinvigorating the relocation programme. The Asylum, Migration, and Integration Fund (AMIF) must alleviate short-term pressures and guarantee long-term integration prospects. Effective border-control management depends on a clear refugee/migrant distinction and on Frontex becoming a European Border and Coast Guard. Although flawed on many grounds, the 2016 EU-Turkey agreement has contained refugee flows, and should not be abandoned before a better alternative is in place. A concerted effort is required, utilising the new Partnership framework, establishing filtering structures in transit countries, and implementing a proactive EU development policy in countries of origin. A Common European System of Asylum must rely on a radical revision of the Dublin Convention. Funding from Europe’s Structural Funds needs to be better targeted towards improving human conditions for refugees on the ground, and facilitating the social integration of refugees and migrants.

**Security:** Security is an area where European citizens demand a truly common European policy. The common tools that have been created must be utilised fully, providing incentives for closer cooperation. The unified stance achieved in the EU’s sanctions on Russia or in the nuclear deal with Iran should be built upon and expanded. Building up an EU military capacity and knowledge of members’ sensitivities is critical, as is post-Brexit Britain remaining engaged with the CSFP framework. A Security Union is feasible, with the Permanent Structured Cooperation (PESCO) functioning as a mid-term platform. At the same time, the EU should invest in its European neighbourhood and search for a new *modus operandi* with NATO. Institutional improvements could be instrumental in facilitating a multi-dimensional approach to global and regional threats.

**The Europe we need:** Europe needs to deliver effective EU policies in foreign affairs and security policy, defence, the protection of the multilateral global order and the environment, and, at the same time, promote greater risk-sharing though the fiscal and the financial channels. To move beyond the current state of muddling through, larger member states have a greater responsibility to pursue a grand bargain or, at least, smaller package deals. Tighter coordination of economic policies to preserve our “European way of life” should go hand in hand with instruments to enhance productivity and competitiveness. In tandem, Europe must implement the social dimension clauses provided for in the Treaties. Responding to growing geopolitical risks, Europe needs to defend and further enhance its global power and influence.
PART 1: STATE OF THE UNION AND THE NATIONAL NARRATIVE

STATE OF THE UNION

At 60, the European Union (EU) represents the most formidable achievement of peaceful transnational cooperation and institution building in human history. Europe’s greatest accomplishments remain the consolidation of peaceful coexistence and democracy across a continent that was once devastated by wars. The European project has been pivotal in overcoming historical divisions and assuaging the passions of nationalism and irredentism. The European Union has been a consistent defender of human and civil rights. It has upheld tolerance and respect for different national, ethnic, religious, cultural, ideological, and sexual identities. The EU has delivered seminal improvements for the lives and well-being of its people, in a wide range of areas such as mobility, access and opportunities, workplace and consumer rights, investment, the environment, research and education.

The European Union can take justified pride in an unrivalled record of historical accomplishments. The single market and the single currency, the creation of investment tools, a sophisticated body of law governing Europe’s social economy, the protection of competition, are all part of the European acquis. Tight cross-border interdependencies have forged functional bonds based on the rational pursuit of enlightened mutual self-interest. Especially for the EU periphery, European integration has carried a momentously positive transformative role. The EU has underwritten democratisation in its Southern and Central-Eastern periphery, it has catalysed political stability and institutional modernisation, it has led the opening of relatively closed markets, economies and societies to the rest of Europe and the world. It has directed development funds to weaker economies, allowing them to improve their infrastructure and living standards. More specifically, the EMU framework has generated exogenous economic discipline for the economies of the South, economies with long traditions of weak and unstable currencies, profligate spending, politicised institutions, and pork barrel policies. Overall modernisation has been synonymous to Europeanisation in the EU periphery. And the advanced economies of the EU core have thrived in a deepening and expanding single market and single currency in Europe.

Europeans relate positively to the single market and the emerging banking union. They credit the Schengen agreement as a major achievement, even if border controls have been re-instated in several member states. They tend to appreciate (especially from the standpoint of smaller member-states) the role of supranational institutions such as the European Commission, the European Court, and the European Parliament, and would like to see their powers further strengthened vis-à-vis the forces of intergovernmentalism. All such acquis need to be consolidated and expanded.

At the same time, the EU is currently faced with the most critical confluence of challenges of its entire lifetime since the Treaty of Rome. What has been coined as Europe’s ‘polycrisis’ (comprising the Eurozone crisis, Brexit, the refugee and migration crisis, security challenges, and the rise of nationalistic, demagogic and illiberal forces on both sides of the Atlantic) threatens to undo many of Europe’s seminal achievements. At
the core of this polycrisis and the EU’s vulnerability lies the Eurozone crisis. The Eurozone periphery remains fragile. The Eurozone centre has helped to put forward several economic stabilisation tools. Nevertheless, divergences in economic performance, borrowing costs, and unemployment levels remain; unless they are addressed, they may spark the next crisis.

One of the greatest challenges for the EU today is to protect the European way of life, and to reinvent a framework of stability, shared prosperity, and security for most EU citizens, across member states and age cohorts. Part of this is related to the broader socioeconomic challenges of globalisation. There is a growing sense of stagnant incomes, low-skilled and precarious forms of employment, and a weakening capacity of national welfare states to sufficiently cushion or compensate the losers of globalisation. Those have more to do with technology flows and robotisation rather than global trade flows as such. Growing socioeconomic inequality and insecurities are fuelling anti-systemic and anti-European sentiment, and are being conveniently exploited by demagogues on both sides of the Atlantic. The spectre of ‘secular stagnation’ overhanging advanced European economies is further contributing to the risks and insecurities, calling for far-reaching structural reforms across Europe combined with more active demand policies in the economies that have the fiscal space.

Europe often appears incapable of upholding its own acquis and values, especially where deeper integration is needed; the case in point is EMU. Growing disparities are evident both between and within countries, with economic growth rates, financial costs, and unemployment levels suggesting a trend of divergence rather than convergence. The mechanisms of convergence, cohesion or risk-sharing remain glaringly weak, particularly in the context of Eurozone interdependence. Ambitious growth policies have not taken off, even if tools have been created at the European level. Policy performance would have been higher if more initiatives were delegated to the European Commission without being blocked by the European Council.

The leadership deficit, the deficit in structures (and actors to run them) that could provide direction towards achieving collective win-win outcomes, remains a great hurdle. Despite the urgency of the multiple solutions the polycrisis calls for, there is no shared vision, concrete destination and detailed guidance on how Europe should proceed, no agreement on how to supersede the minimum common denominator approach that has prevailed or on who should be in charge. To a certain extent, the European leadership deficit so far is an inevitable function of the EU institutional status quo. But the greatest responsibility falls upon national governments, which have obstinately refused to transfer further powers and competences to the EU institutions, of the type that would allow the EU to more effectively manage the common challenges.

Indeed, the European Union today has become the convenient scapegoat and punching bag for a motley of nationalists, bigots and demagogues. Illiberal forces are on the ascendance in the world and inside Europe. They have become adept at exploiting security, financial, and social integration challenges, particularly those associated with the migration and refugee crisis. They have also systematically distorted any public discourse or policy aimed at addressing these challenges. They are out to undermine the traditional openness and tolerance of European societies. Europe must address all these challenges effectively while upholding its liberal values and giving priority to their protection.

European leaders and citizens have had the tendency to treat the EU as a convenient scapegoat: contrary to national politics, which afford the opportunity of sharp political change between government and opposition, the EU, requiring institutional continuity and a wide pool of consensus to function, appears as an immutable
status quo. Many Europeans believe that no matter what they vote for, European ‘diktats’ will always produce the same policies. In the eyes of the younger generation, especially from the older member states, the EU has come to embody the ‘establishment’, while young people living in countries with high rates of joblessness, identify Europe with unemployment queues and job insecurity. These younger European citizens have never experienced and are incapable of even imagining a Europe divided by national hatreds or the Cold War, a Europe where Erasmus was still a great theologian and not a path-breaking European program, and where travelling, studying or living in another European country was considered a remote luxury.

EU and Brussels-bashing is unfair for many reasons. First, the EU represents a formidable form of collective governance embracing a very diverse set of national systems, political interests and complex challenges. Brussels is unfairly blamed for the failures of national governments or the shortcomings of globalisation. But the highly divergent performance of EU countries in terms of institutional quality, economic efficiency and social equity is a steady reminder that the equalising force of European integration cannot override national political systems or diverse forms of capitalism. As for globalisation, Europe has championed global rules and multilateral cooperation to better govern it. The responsibility for failing to adjust to globalisation or cushion the victims falls mainly upon national governments, as their diverse record in that respect demonstrates. That said, the European Union and the Eurozone are heavily underperforming in their tasks of exerting a greater influence in the global sphere, and in supporting the role of governments to foster job-creating economic growth while providing effective social protection.

THE NATIONAL NARRATIVE

Greece continues to be mired in a painfully prolonged crisis. It finds itself in a grave state of economic and financial vulnerability, testament to calamitous domestic errors and political failures. By mismanaging the economy up to the crisis, and deferring necessary reforms, Greek governments share great responsibility for the country’s current condition. Up to 2008, throughout the increased growth period, Greece failed to sustain primary budget surpluses and reduce public debt; pre-crisis governments avoided to undertake a wide range of highly necessary reforms (in social security, tax administration, the wider public sector, the justice system, labour and product markets, the health system, and several other areas) which would have been easier to implement in a favourable economic environment. Yet, since 2010, under different governments and with the support of the broad majority of its political forces, Greece has undergone an unprecedented magnitude of economic adjustment to defend its position as a member of the Eurozone. A solid, though weakening, majority of Greeks continue to support the country’s participation in the EU institutions and the euro.

National responsibility, however, is combined with glaring gaps in the EMU architecture, and a gross mishandling of the crisis by the Eurozone. Europe demonstrates a growing fatigue to help the under-achievers and it has yet to assume responsibility for a series of critical failures in crisis management. The Eurozone crisis has largely been a systemic crisis of the EMU, associated with large capital flows from the surplus economies of the core to the deficit economies of the periphery. Macroeconomic imbalances were the key factor that led to the crisis: excessive lending by the creditors of the core, excessive borrowing by the borrowers of the periphery. Yet the burden of adjustment was asymmetrically distributed, falling almost exclusively upon the borrower countries, while the creditor governments preferred to bail out the indebted borrowers rather than bailing out their own overextended banks. Thus, the borrowers undertook the pain of adjustment, while the creditors took over the credit risk.
While acknowledging the significant progress of the last few years, Europe has not yet produced sufficient Euro-level instruments and policies to compensate for the loss of policy instruments at the national level. In moving towards monetary integration, the EU also failed to strike a grand bargain of the kind that emerged in the 1980s and 1990s (which then combined the single market with structural and cohesion funds, and further deepening). Thus, the Eurozone has not quite managed to balance the members’ loss of control over national sovereignty with broader burden-sharing.

Creditors refer to the size of economic solidarity, extending to the countries that received significant financial aid, especially Greece. Among them, those that see the periphery as a liability and are tempted to leave it behind forget that diversity has always been a force of unity and strength for Europe, and a balancing factor for the euro. At the same time, there is widespread perception in the periphery that the creditor countries have failed to appreciate the economic and social destruction caused in the adjustment countries, and especially the enduring effects of long-term unemployment, disinvestment, and brain drain on suppressing the economic growth potential of these countries. There is also a sense that the larger creditor countries, with sufficient fiscal space, are not providing ample assistance in efforts of adjustment in the periphery, by loosening their own economic policies or by observing the rules concerning excessive current account surpluses. This is made worse by the lack of closer coordination of economic policies in the Eurozone.

From the Greek standpoint, there is grave concern over the shrinking capacity of national government – especially when it comes to a depressed economy with non-existent fiscal space – to take care of large segments of the population that are falling behind (with unemployment rates at 23% and risk of poverty or social exclusion rates at 36%). The widespread sense of national vulnerability is only exacerbated by the effects of the migration and refugee crisis upon Greek society and social welfare structures. Local communities most exposed to large waves of irregular migration and refugee inflows have seen their public resources and infrastructure strained. Xenophobic reactions have plummeted. In some of these communities (urban neighbourhoods and islands directly exposed to large migrant inflows from Turkey), the extreme-right Golden Dawn has recorded its highest percentages. In the eyes of public opinion, this crisis too testifies to the grave incapacity of the Greek state and the lack of sufficient burden-sharing and solidarity by the EU. This is the social material of collective helplessness and insecurity that feeds the populists and the Europhobes who threaten to bring down our common European edifice.

Surveys, both national and Eurobarometer, record the declining trend in the way Greeks perceive EU membership and its benefits. In contrast to the 1990s and 2000s, where positive views consistently ranged between 65 and 80 percent, Greeks today tend to have the most negative view of Europe (47 percent vs 25 percent for EU28), with well above average pessimism about the future of the Union (63 percent vs 41 percent for EU28) (Eurobarometer, 2017). In a recent public opinion survey (Dianeosis, March 2017), support for Greece’s euro-membership is down to 60 percent (from 74 percent in April 2015) and 53.5 percent view Greece’s EU participation as overall positive (down from 69 percent in April 2015).

The country’s dire economic situation largely explains why the EU is seen to be trailing behind in terms of legitimacy and accountability. Both input legitimacy (the EU’s responsiveness to citizen concerns) and output

---

legitimacy (its effectiveness in addressing policy challenges) are being fundamentally questioned. Program countries have been forced to overcome the pervasive effects of their national electoral cycles upon the economy, yet they have been repeatedly subjected to the electoral cycles and domestic politics of creditor countries. In Greece, serious questions regarding the legitimate functioning of ad hoc institutions such as the “troika” or “quartet” have been left unaddressed. The European Parliament and the national legislature have often been side-lined.

The transfer of power from supranational institutions to the most powerful member states, the erosion of the community spirit and the community method by a highly asymmetric intergovernmentalism has undermined the acceptance of the European Union and the EMU. This perception looms big from the standpoint of the Eurozone periphery. To be sure, Germany did not seek its leadership role, which emerged from the growing asymmetry of influence between Berlin and Paris. Germany continues to be too big for the Eurozone though not big enough as to operate as a true EU hegemon. But having emerged (albeit very reluctantly) in its leadership position, it should also inevitably carry the responsibility of ensuring that the Union delivers for all its members, that it continues to remain a win-win for all countries involved. In other words, Germany must lead the process of developing the EMU into a genuine and sustainable economic union, for all member states. Since it is economies like Germany that have the greatest to gain from the single market and the single currency, its European responsibility is well aligned with its national interest. Optimally, more power should be transferred back to supranational EU institutions.

With the EU perceived as having lost the drive towards forging a shared common destiny for the European people, pro-European forces are losing ground and the people’s trust. Widespread diffuse anti-EU sentiment has been added on to traditional right-wing and left-wing Euroscepticism. Nationalists, populists and demagogues have been adept at exploiting the growing insecurities that Europeans experience in their daily lives. In Greece, they scapegoated ‘Europe’ for national political and policy failures, and sabotaged national consensus around much needed reforms. The European Union should seek to empower pro-EU and reform-minded coalitions, support their effort to modernise national economies and institutions, deliver welfare enhancing policies, and better address the anti-EU nationalist-populist challenge.
PART 2: KEY CHALLENGES AND REFORMS: INNOVATIONS TO TACKLE POLICY CHALLENGES

ECONOMY: NATIONAL ADJUSTMENT TOGETHER WITH COMPLETING THE ECONOMIC AND MONETARY UNION

Economic adjustment in the Eurozone has been highly asymmetric, the adjustment burden falling almost exclusively on the deficit countries of the periphery. Against a background of near-zero average inflation, they have been forced to undergo painful internal devaluations to rapidly curtail their deficits. They also implemented far-reaching national structural reforms, in a heavily recessionary environment, without the 'cushion' of a Eurozone stimulus. Financial fragmentation and the lack of a truly single market for financial services have amplified the pain of adjustment, raising capital costs for the periphery and accumulating cheap excessive liquidity in countries perceived as safe havens. More expansionary policy by the creditor member states, especially those posting large current account surpluses, would have helped a more symmetric rebalancing of the Eurozone, supporting a faster recovery, and raising the level of Eurozone inflation closer towards the 2% target. The obligation of all member states to implement the adopted rules regarding excessive external imbalances should be enforced.

It is certain that the challenge of shifting to sustainable economic growth is primarily a responsibility of the national economies of the Eurozone. A country on the receiving end of austerity like Greece needs to accelerate reforms that can allow it to attract private investment (especially foreign direct investment), and strengthen the economy's orientation towards higher value added sectors and exports. These priorities require further reforms in a wide range of areas, from tax administration, market regulation and social security reform to bolstering state capacity and the enforcement of contracts as well as supporting entrepreneurship and investment in infrastructure and skills, innovation, research and education. At the same time, in the eyes of countries that have undergone prolonged austerity, Europe lacks a strong drive for growth. While paying lip service to the need for an EU-wide growth strategy, it is not sufficiently devoting EU instruments on the ground or supporting policies applied at the national level. There is a challenge, particularly in the Eurozone, of fostering and institutionalising a pro-growth, job-creating culture to offset the institutionalisation of austerity.

An important starting point would be the implementation of a more growth- and investment-friendly policy mix. This would facilitate the implementation of adjustment and reform policies by offsetting the pain and deflationary impact that they generate at national level. The EMU would function better by allowing greater fiscal flexibility – within a strict and credible framework – oriented towards an aggregate Eurozone fiscal stance. A ‘golden rule’ for public and social investment spending (under clearly defined criteria) would allow
such investment projects to be treated more flexibly, with greater strictness and rigor applied for current public expenditure items.

Moving faster towards a capital markets union would help reduce dependence on national banking systems, especially those with highly impaired balance sheets. Europe, in any case, needs to create alternative financing tools and move beyond its excessive reliance on bank-based financial systems.

The drive to integrate the digital, energy, and capital markets and narrow the well-documented gaps between member states should be equally strengthened. Europe needs to create the tools that will enable businesses to bolster their external competitiveness. Additional resources from the European budget should be directed towards supporting new technology and innovation. Re-skilling, backed by the European Social Fund and national policies, should help boost productivity and meet labour market needs.

At the same time, the Eurozone lacks both an integrated crisis management capacity, and the ability to exercise countercyclical stabilisation whenever this is necessary to respond to crises. The EMU needs to move further along the path of fiscal, economic, financial and political integration, as outlined among others in the Five Presidents Report – and in fact move even beyond their recommendations. Special emphasis must be given to the acquisition of a fiscal capacity, a Eurozone budget, as an integral part of fiscal integration; this will be premised on joint budgetary control and fiscal discipline. The Eurozone budget should be able to provide countercyclical investment stimulus to countries and regions that are affected by asymmetric shocks, thus supporting their national adjustment policies. Similarly, a European Unemployment Insurance scheme should be able to support the effort to counter an upsurge of cyclical unemployment, while national reforms address structural unemployment. The Eurozone budget should be preferably funded by own resources (including joint bond issuance and a Eurozone-level corporate income tax) and controlled by a Eurozone chamber of the European Parliament.

The European Stability Mechanism (ESM) has quickly established itself as an important institution. Starting from its current role as a rescue mechanism in financial and sovereign debt crises, the ESM could further evolve into becoming a real stabilisation budget and actual Treasury for the Eurozone. It should be brought under the authority of the European Commission, accountable to the European Parliament or its Eurozone chamber. An upgrading of the ESM into a real Eurozone Treasury, introducing elements of fiscal federalism, would be more effective and credible in upholding the fiscal discipline of member states. It would also buttress the supranational nature of Eurozone governance by strengthening the European Commission as key defender of the common European interest, offsetting the excessive power that has accumulated in the hands of an intergovernmental and largely informal collective body such as the Eurogroup.

Even in its current form, the ESM should be empowered to provide a proper fiscal backstop in the face of Eurozone banking crises, undertaking direct bank recapitalisations, as envisaged but not yet applied. Instead, indirect recapitalisations so far (loading the cost on the public debt) have accentuated the bank-sovereign doom loop in the Eurozone. The banking union needs to advance further, acquiring a fiscal backstop to the Single Resolution Fund and a Euro-wide joint deposit insurance scheme as the banking union’s third pillar.

Turning the EMU into a proper financial union (with a true banking and capital markets union) would help implement greater risk-sharing through the financial system, leading to the reduction of overall risk. Finally, the European Union must strengthen its presence in areas where it can make a difference and provide added
value: going after global bank secrecy and tax havens, tackling harmful tax competition, tax avoidance and tax evasion. Brexit provides an opportunity for the EU to set commonly agreed ‘floors’ on corporate tax rates, and to further accelerate the process of harmonising the tax base.

Unemployment in Europe, particularly in the Eurozone periphery, remains unacceptably high. The long-term unemployed, as well as the young, find themselves in debilitating disadvantage; the former face grave difficulties in re-entering the labour market and claiming jobs that correspond to their skills and experience. The young get off to a slow start in a closed job market, facing the risk of a lifetime of lower earnings. Declining wages and/or precarious employment feed into the rising levels of poverty and social exclusion. Sizeable parts of the population have fallen through the social safety net. Intra- and inter-generational solidarity needs to be placed at the centre of future policies to help improve employment and earning potential, also considering the current state of many pension systems.

The objectives of job creation and social cohesion remain paramount in Greece, where unemployment and poverty indicators have reached alarming levels. In an environment of extensive disinvestment, it is imperative for Europe to exploit the near-zero interest rates and finance a wide range of investments (in R&D, new technologies and innovation, skill-building, renewable energy, security and the integration of refugees) that will enhance the quality of human capital and productive capacity. The EIB/ EIF should be playing a more extensive role; the ECB could expand its purchases of EIB bonds as part of its QE program. The economies of the South have lost a great part of their human capital to brain drain during the recent crisis; the EU should facilitate their repatriation by among others improving the cross-border portability of pension rights. Finally, and specifically with regard to Greece, bold debt relief (by way of reprofiling/ net present value reduction) should be provided at the soonest possible, on the back of strong national reforms and realistic primary budget surplus targets, so that the economy can be able to grow again and service its debt.

The EU has the capacity to arrive at ‘game changers’ that can generate great added value. Apart from fiscal capacity, debt mutualisation (either by introducing Eurobond-type instruments or by allowing the ECB to act as a lender of last resort) could provide welcome relief for many countries currently struggling with a debt overhang. The Eurozone cannot function without some degree of risk-sharing, and risk-sharing itself leads to risk reduction. To assuage fear that the cost of over-borrowing would be borne by other countries and to ensure that fiscal policy incentives would not be dissociated from debt sustainability, a minimalist approach would be to apply such instruments to future, not legacy, debt. Among various alternative proposals, the European Safe Bond, not requiring mutualisation, should be given close attention.3

The remaining post-financial crisis debt overhang, including private debt overhang, might well continue to impede recovery. In the absence of new European institutions, a Eurozone-level Asset Management Company (as a “bad bank”) could break the negative feedback loop between debt overhang, deleveraging, and stagnation, and allow banks to resume their role of financial intermediation and financing economic growth. A European Asset Management Company would benefit from economies of scale in tackling the high

3 The European safe bond (ESB) is a Eurozone-wide safe asset, formed from the senior tranche of a diversified portfolio of Eurozone sovereign bonds. ESBies entail no joint liability among sovereigns, which remain responsible for their own bonds, which would still be traded at a market price. A sovereign could default on its own obligations without others bearing any bail-out responsibility and without holders of ESBies bearing any losses. See M.K. Brunnermeier, S. Langfield, M. Pagano, R. Reis, S. Van Nieuwerburgh, D. Vayanos, “ESBies: Safety in the tranches”, Working Paper Series No 21, European Systemic Risk Board (ESRB), September 2016.
rate of non-performing loans (NPLs) more efficiently. It would catalyse the development of a single market in banking, facilitate institutional reforms in the countries with the highest levels of NPLs, and enable the development of a distinct European market for distressed assets as part of a European capital markets union.

More than any other Eurozone member state, Greece remains under major strain to implement the reforms its economy needs; foot-dragging comes at the expense of the real economy and of future generations. Greece and other countries faced with the momentous task of struggling to recover from prolonged economic depression with impaired state capacities, would benefit from technical assistance to help adopt best practices, overcome bureaucratic impediments, and develop institutional capacity. Transfer of know-how and expert personnel should be targeted, specific, and time-bound. Appropriate institutional and administrative reforms, and a useful adoption of the better regulation agenda, should enable the national administration to acquire the capacity to connect with best practices available in other member states.

MIGRATION: TOWARDS AN OPEN, FAIR, AND COMMON EUROPEAN POLICY ON MIGRATION

Migration constitutes a challenge for the Union and not just for the member states managing its external borders. Wars, destitution and climate change force people to migrate towards developed countries. These factors create security risks; climate change has resurfaced as one of them again now that US policy on global climate is shifting. A proactive EU development policy directed towards countries of origin of migration and refugee flows must be a necessary pillar of any strategy in containing migration inflows.

A genuinely common migration policy should be based on proper burden-sharing and understanding that migrants arrive at the EU borders to live in countries they consider to be beacons of security, prosperity and welfare. Under the Lisbon Treaty, immigration policies are supposed to be governed by the principle of solidarity and fair sharing of responsibility, including its financial implications between member states (Article 80 TFEU). Solidarity should constitute an organising principle, shown towards the countries at the epicentre of the problem, and informing decisions that affect resource allocation and relocation. At the same time, with enforcement of agreed programmes and commitments lacking in many countries, the principle of conditionality or a ‘carrots and sticks’ logic should inform, going forward, EU-level funding decisions. For example, the more one country complies with the agreed relocation quotas or the migration policy ‘acquis’ more generally, the more this country could have access to side budgetary flows and even derogations from other policy measures. Reinvigorating the relocation programme and providing the incentives for it to reach the largest possible number of refugees should be made a priority.

‘Sticks’ aside, funds made available to support the ‘willing’ could expand the already established Asylum, Migration, and Integration Fund (AMIF). In the short run, they should alleviate much of the pressure put on the EU member states most affected by migration and asylum flows. In the medium- and longer-run, they should facilitate the integration of refugees and migrants in European society, targeting exclusion, radicalisation, and ghettoisation but also offering reskilling and labour market accession opportunities (see also further below). A full review of the way the AMIF has been managed so far should also examine whether it has strengthened the Common European Asylum System, supported legal migration to the member states, enabled effective return strategies and enhanced solidarity and responsibility-sharing, particularly towards the member states most affected by the crisis, and propose the appropriate amendments and fine-tuning.
When considering optimal policies, it is important to disentangle the free movement of labour (one of the four fundamental freedoms) from migration in the public discourse. Often this is not properly understood and a lot of the rising populist rhetoric is based upon this wide misconception. Equally, it is important to distinguish between refugees (who must be protected under international human rights law) and (economic) migrants. This distinction should also inform the protection of the borders, with efficient border control management constituting a priority. Frontex (European Agency for the Management of Operational Cooperation at the External borders) should be allowed to evolve into a new fully fledged European Border and Coast Guard; no country can protect Europe’s external borders on its own. ‘Positive conditionality’ (more for more) for countries of origin should also come into play, to tackle pressing issues, including assisted voluntary return, readmission policy, legal migration procedures and respect for human rights (in the event of forced return).

The new Partnership framework with third countries needs to create credible development and neighbourhood policy tools that reinforce local capacity-building, including for border control, asylum, counter-smuggling and reintegration efforts. Bringing order into migratory flows will require a concerted effort, among member states, EU institutions, and key third countries. The EU-Turkey Statement of March 2016 is a highly problematic agreement on many counts, as it was not put forth to the European Parliament, it remains outside the scope of the EU Court of Justice, it has shifted the burden of responsibility for readmissions on Greece and it ignores Greek asylum appeal authorities’ claims that Turkey is neither de jure nor de facto a safe third country. However, the EU-Turkey agreement should not be abandoned before a better alternative framework is well in place; the number of crossings continues to be substantially reduced and the loss of life stemmed. Given the magnitude of the problem, effective and extensive work is needed at senior political level to tackle the root causes of irregular migration and forced displacement by applying sustained, medium and long-term policies, and to better use existing processes and programmes. Respect for international law and fundamental rights must remain paramount.

Legal migration, on the other hand, must become a solid alternative, as it undercuts smuggling profits, reduces loss of life, and provides remittances. When combined with acquisition of skills and education, legal migration can prove beneficial to the country of origin on return (particularly if combined with the required investment). Legal migration should also be an option for asylum seekers, through humanitarian visas, family reunification, or education visas. Other proposals on the table should include the filtering of migration and refugee flows in the countries of transit. It is imperative to create a coherent, credible and effective policy regarding the return of irregular migrants (with the goal of avoiding the loss of lives of migrants undertaking hazardous journeys), to improve management of the EU’s external borders, to respect the principle of non-refoulment, and to guarantee fair treatment and humane living conditions for those seeking asylum. EU assistance and resources should be channelled to foster cooperation between countries of origin, transit, and destination, with an eye to managing migration while respecting dignity, allowing for mobility, and fostering integration. Implementation difficulties aside (in countries like Turkey and Libya), such an approach could debottleneck over-burdened entry points.

The time has also come for Europe to consider adopting a common European system of asylum, not the various rules that are in operation today. A unified set of rules would help relieve the pressure upon the first reception countries, and ease the expectations and management difficulties attached to the relocation program. In this context, the Dublin Regulation should be radically revised in favour of a fairer, more balanced
and inclusive system. Dublin III places an unfair and excessive burden upon the external border regions of the EU, where most asylum seekers enter the EU and where states are often overstretched when it comes to offering support and protection. To address current and future challenges, provisions should be established to address the sharp geographic asymmetry of responsibility, to ensure mutual recognition of positive national status-determination decisions and consider the possibility of transfer of international protection status between EU member states, thus creating a ‘European refugee’ status. In the meantime, as a country of first entry, Greece needs to speed up its asylum awarding process, which remains slow and cumbersome, burdened by the sheer number of applicants, staff shortages and administrative bottlenecks.  

Going forward, funding should be channelled to facilitating integration of refugees and migrants and assist their access to the labour market. Successful integration examples are rather thin on the ground, hence more targeted programs should be considered, including language and orientation classes; they should emulate best practices and put to better use the European Structural and Investment Funds, by examining current implementation of migration-related measures and by re-examining how they are co-ordinated on the ground. In addition, the European Social Fund (which in most countries supports asylum seekers who already have access to the labour market) could, for example, help integrate refugees into the labour market by provide funding for training, language courses, counselling, coaching and vocational training. Supporting anti-discrimination initiatives and reinforcing the technical capacity of public administrations, including child protection systems, could help maximise positive results. In similar manner, the European Regional Development Fund (ERDF) could provide much needed investment in social, health, education, housing and childcare infrastructure, propping up deprived urban areas where refugees/asylum seekers tend to concentrate.

The demographic dimension should play a key role in formulating present and future policies. Demographic projections of the EU workforce suggest that in the coming decades European countries will need substantial pools of employable young people. Depending on their education, skills, and readiness to culturally integrate in European societies, migrants and refugees could contribute to that effect.

For certain countries like Greece, the refugee crisis multiplies the already existing social cohesion challenges generated by the economic crisis, thus constituting a crisis within a crisis. Social integration becomes even more demanding a task in economies whose welfare state structures and local communities are severely stressed. The risk of a humanitarian crisis should not be underestimated, especially if refugee flows persist at the same level, let alone increase. Such a crisis could take the form of inadequate coverage of basic needs, most notably nutrition, shelter, and hygiene, and would accentuate already tense socio-political conditions within local communities. Funding remains critical, if they are to guarantee decent living conditions for the refugees/migrants living within their borders. A stronger EU monitoring of the national management of resources is equally warranted to ensure humane conditions on the ground. The Asylum, Migration, and Integration Fund (AMIF) should sharpen its focus on all aspects of migration, including asylum, legal migration, integration and the return of irregularly staying non-EU nationals. It should set clear priorities to assist the countries that have become principal destinations.

---

4 According to the Alternate Minister of Migration, Greece is the fourth country in absolute numbers as regards asylum applications and the second in proportion to its citizens. In April 2017 there were more than 50000 asylum requests pending, though after the significant increase in personnel the process lasts less than in Germany.
In terms of linking policy lessons to the migration crisis, Europe has failed to acknowledge the grave foreign policy errors made in the Northern Africa and Middle Eastern region, or understand the pockets of instability that eventually erupted in the aftermath of the Arab Spring. It has not even been acknowledged how the half-baked national migration policies that were being implemented prior to the crisis burdened national systems and complicated European-wide solutions. While trying to catch up with difficult realities on the ground, Europe should lead towards forging a more decisive international development policy to help prevent and tackle the crisis; it is global rather than local and it requires concerted efforts to be managed.

SECURITY: EUROPE AS COMMON AND EFFECTIVE SECURITY PROVIDER

Security is one of the areas where European citizens demand more from the European Union. Europe needs a truly common foreign and security policy (CSFP). Over the refugee/migration crisis, the EU practically outsourced the security of its external borders to NATO, in full awareness, of course, of the Alliance’s inability to play anything more than a symbolic role. The establishment of a European Borderguard/Coastguard Agency is a step in the right direction but much more is needed. Europe’s continued – and almost exclusive – reliance on NATO and the United States for its security fails to assess the challenges that the EU is currently facing. These challenges include increasingly fraught relations with Russia and Turkey, the situation in the Middle East (resulting into an array of asymmetric threats for European security), Britain’s preparations to leave the EU, and an increasingly isolationist US repeatedly criticising Europeans for free-riding on the back of American defence.

A first step towards a ‘European’ CSFP would be to make full use of the common tools that have been created, including the mutual defence clause in the Lisbon Treaty (Article 42.7. of the Treaty on European Union), the solidarity clause (Article 222 of the Treaty on the Functioning of the European Union) or, more recently, the Global Strategy on Foreign and Security Policy. Given the very limited use of these arrangements so far, their synergies and exact mode of application require further elaboration. They do have a significant potential and, if appropriately used, could provide great impetus for closer cooperation in the foreign and security policy realm. The more such instruments are employed, the more incentives they create for others to use them. A more unified stance should be further pursued, building on important existing achievements such as the EU’s leadership in securing a nuclear deal with Iran in 2015 or the unanimous support for the sanctions imposed on Russia after its annexation of Crimea and invasion of eastern Ukraine in early 2014. The EU should build on the progress made since the adoption of the ‘Council conclusions on implementing the EU Global Strategy in the area of Security and Defence’ in 2016, which reflected the 2013 and 2015 Council conclusions. It should set capability development priorities, deepen defence cooperation, adapt structures, tools, and financing for the permanent planning and conduct of CSDP missions, draw on the full Treaty potential towards developing an inclusive Permanent Structured Cooperation (PESCO), and promote a strategic approach to CSDP partnership cooperation with partner countries that share EU values. The Council should be held accountable for any delays or missed opportunities in strengthening the Union’s ability to act as a security provider and to enhance the Common Security and Defence Policy (CSDP) as an essential part of the Union’s external action.

Further progress needs to be made on a number of issues, including building up an EU military capability (even setting up an operational military headquarter), raising defence spending, but, most importantly, using available funds more efficiently in the direction of specialisation, strengthening Europe’s defence technological and industrial base, promoting internal security for all member states, and effectively
controlling Europe’s borders. There is a need to better acknowledge how countries in the East perceive Russian aggression or how countries in the South perceive asymmetric threats from the Mediterranean and the Middle East. The EU should overcome the reluctance of member states when it comes to doing anything tangible or expending real diplomatic capital. Post-Brexit Britain should remain engaged with the CFSP framework, which could also involve Norway and others. Institutional engineering could operate full swing to create various forms of association, including observer status, partial or associate membership to secure, in turn, continuous cooperation and solidarity.

A narrative of the EU as a security provider has been central to Greek thinking for quite some time. This probably explains why Greek governments, independently of their political leanings, have systematically espoused the idea of moving to a common security and defence policy (CSDP) as the operational branch of the CFSP. While recognising that the absence of common interests or structures that encourage joint action preclude significant progress, Greece supports a comprehensive approach to confronting crises, with the two branches of the CFSP (military and civilian) being developed in tandem and in a balanced manner, while employing the whole range of tools at the EU’s disposal. A Security Union, which transcends the dichotomy between security and defence, is feasible. It should be pursued, building on the European Agenda on Security, which seeks to ensure an effective EU response to terrorism and security threats. The Permanent Structured Cooperation (PESCO) could function as a mid-term platform to move from cooperation to deeper integration in this field. Participation should remain voluntary and the participating member states should decide on the pace and areas of progress. The plans and projects developed by the European Defence Agency (EDA) could constitute a first-step towards joint and integrated EU defence capabilities.

In the field of internal security, more coordination and better cooperation, top-down or horizontal, at national and European levels is deemed necessary to prevent future threats. Of importance is the improvement of the information-sharing channels, with emphasis laid both upon the political will to share ‘national’ information resources and the technical steps required to increase the inter-operability of many databases currently used by national anti-terrorist services, intelligence services, police forces, and judicial authorities, as well as Europol, Eurojust, EU INTCEN and Frontex. Europe should accelerate efforts to pave the way towards a Security Union, increasing the collective capacity to tackle terrorism and other asymmetric threats. The EU counter-terrorism strategy should be reviewed with an eye to clarifying the measures to be implemented by the EU and member states and to create incentives to expedite implementation. At minimum, border security should be further strengthened to prevent entry of criminals and terrorists but also to orderly manage refugee and migration flows into Europe.

The EU should also invest in the resilience of its European neighbourhood. For security purposes the Western Balkans are de facto already a part of the Union. Europe, from the Atlantic (UK included) to the borders of Belarus, Russia, Ukraine and Turkey should be treated as a single security space because of the various networks connecting those countries with the EU and the high permeability of the Union’s external borders with those countries. The concept of the single security space and the treatment of countries in the Western Balkans as both security partners and as a security buffer zone to prevent the spill-over of security problems from or through this fragile region to the EU itself look almost like mandatory choices for the Union. Europe must search for a closer modus operandi with NATO to address new security threats facing the West. NATO’s involvement in the migration crisis – however unfortunate, being a result of the EU’s weakness not a choice of the Union – still opened possible leads for further joint work. We need to proceed to a careful assessment
of the new status to explore further synergies in view of a potential operational and strategic merger. In this vein, steps taken by NATO’s Maritime Command and the EU’s Frontex, enabling the exchange of liaison officers and the sharing of information in real time, must be accelerated. Operational and tactical level arrangements need to be expanded, with the view to minimising the duplication of efforts.

Finally, several institutional improvements could be instrumental in facilitating a change in mentality from accounting and ‘bean-counting’ to a more comprehensive and multi-dimensional approach. These could include a European Security Council (modelled after the US National Security Council) under the chairmanship of the High Representative to examine threats and challenges in a comprehensive manner and to coordinate policies and responses; a European Intelligence Agency to act in support of the Union’s foreign, security and internal security policies; a Wise (Wo)Men Committee set up with the participation of senior persons from national governments, the European Parliament, the Commission and the Council (no more than 15 in total) to assist in a purely advisory role; the widespread use of the red/blue team analysis concept to prevent groupthink and single dimension approaches to complex issues, engage in interdisciplinary approaches, and encourage interagency cooperation. All such initiatives would help further strengthen the quality of common security provision in the European Union.
PART 3: THE EUROPE WE NEED

We believe stronger, common, supranational EU institutions should take the lead in forging the future steps of European integration. And the emphasis should be to deliver stronger EU policies in the areas where the EU provides added value: where it can exploit economies of scale to deliver better results for the European citizens; and where it can internalise and manage negative externalities resulting from the close interdependence of European economies and societies. Regarding the first area, we need a more powerful and integrated Europe when it comes to its role in the world, be it foreign and security policy, defence, the protection of the multilateral global order and the environment, or the upgrade of the euro as a global reserve currency next to the US dollar. About the second, we need greater risk-sharing in the Eurozone, through the fiscal channel (fiscal integration, Eurozone budget, fiscal capacity, common debt issuance, an aggregate fiscal stance) and through the financial channel (capital markets union and the completion of banking union).

Europe has been identified with the status quo. It has thus become an easy target for nativists riding the populist wave and exploiting the negative effects of globalisation. Intergovernmental competition, especially between larger states, encouraged by the incompleteness of the Union, is largely to blame for the lowest common denominator outcomes and half-baked initiatives that have become the norm. Held captive to intergovernmental competition, the European project has failed to generate the necessary leaps to further integration. That is why differentiated integration appears as the only path forward, for failure of being able to advance along a mere federalist path.

Europe needs to adapt, if it is not to lose the battle at the national level. Elite competence, civil society dynamism, and citizen engagement hold the key to an effective European leadership, one that delivers on shared prosperity and well-being. It is important to further strengthen the European identity of EU citizens, demonstrating more tangibly the numerous goods that the EU delivers (from infrastructure investment funding to Erasmus programs to vocational training), and undertaking new bold initiatives that symbolically underscore European values, such as the European Peace Corps.

A Europe that remains incomplete, unreformed, and detached from EU citizens, will not indefinitely remain sustainable and will continue to disappoint. Larger member states have the power and resources – and therefore increased responsibility – to pursue a grand bargain or, at least, smaller intra-policy and inter-policy package deals. It is imperative to move beyond the current state of stagnation and the low ambition of simply muddling through.

A way forward for Europe is to turn to the Community method to overcome stifling intergovernmentalism while, at the same time, to think of new ways and tools of conducting business. At a minimum, the intergovernmental logic needs to be contained via establishing credible and mutually beneficial synergies between national parliaments and the European Parliament. Europeans are looking for transparency and accountability, for a system of checks and balances that works.

Deploying the underutilised capabilities provided for by the treaties, putting to use existing tools, exploiting opportunities to be innovative, should constitute a credible strategy going forward. Though closer integration
should realistically take the form of differentiated integration, the possibility of working towards a new Treaty
should not be given up.

The EU has effectively become multi-speed, though it should not surrender the objective of further unifying its
parts into becoming a real Union. Those willing to integrate further should be able to move to closer integration
under the enhanced cooperation procedure. But creating a ‘core’ Europe leading to the marginalisation of those
left behind should never be accepted. The integrity of the Eurozone-19 should be preserved, and the economic
pillar in the Economic and Monetary Union should be strengthened for all its members.

The political procedure to be followed in order to reach a formal and institutionally compact “multi-speed
Europe” of differentiated integration needs to be sufficiently open and inclusive. The criteria for entering or
exiting different speeds need to be transparent and equitably applied. Three basic conditions should apply:
a) the criteria should be ‘universally’ defined, b) the procedure should be open to all interested parties, no
one to be excluded a priori, permanently and arbitrarily, c) the procedure should be transparent. At
minimum, any movement towards more integration should not violate the European acquis, should uphold
the pursuits of convergence, cohesion and solidarity, and should come with guarantees for the members not
participating in the first speed. The entire Eurozone, with all its members, must form the first EU speed.

When it comes to the Eurozone, capability to deploy countercyclical tools must be built up, providing much
needed fiscal space during recessions, or funding for investment in the countries experiencing asymmetric
shocks. The end game should be a fiscal union with a fiscal capacity or common Eurozone budget, resting on
conditional debt mutualisation. The latter could take various forms, including euro bills, debt redemption fund,
stability bonds or the “European safe bond”. Mechanisms for risk-sharing will eventually lead to risk reduction.

Two significant preconditions for turning the EMU into to a closer fiscal union would be: first, rules are uniformly
implemented and, second, a non-negligible degree of control is conceded to the European level. Moral hazard
concerns can be addressed with the institutionalisation, where necessary, of the principle of conditionality.

Reproritising real convergence and cohesion is critical. To promote efficient growth-oriented policies,
structural transfers to regions in need should be established. A closer coordination of economic policies,
including tax policies, should go hand in hand with instruments to enhance structural competitiveness. The
approach should be to raise total factor productivity and to stop producing negative externalities and then
exporting them onto others. Structural reforms enhancing productivity and competitiveness (on labour
markets, education and training, product and services markets, infrastructure, entrepreneurship and
innovation, regulation and the welfare state) should be undertaken at national level and effectively supported
by the EU. Harmful tax competition and high-end tax avoidance and tax fraud should be decisively addressed
as a matter of both social equity and raising fiscal resources. This would also allow to lower the currently high
tax rates on companies and working taxpayers that negatively affect the Eurozone’s growth potential.

Further Eurozone integration should devise ways to enhance the role of the European Parliament in the
formulation and oversight of Eurozone policies. A European Treasury should also be set up, with the mandate
to break the vicious cycles of overhanging debt, low growth and high unemployment. The EU budget should
be increased from its meagre current levels of 1% of EU GDP, targeting access to own resources in line with
the Monti proposals on restructuring budget financing.
The pre-crisis period was one in which economies were financialised, real productive activity was put aside, which ended up delaying the much-needed restructuring of the productive base in several countries. Attention needs to refocus on the real economy, enlisting available financing tools, including private equity, venture capital, and micro-finance to the objective of revitalising productive investment and entrepreneurship. Europe has a role to play, both with a streamlined and revamped European Fund for Strategic Investments (EFSI) and by giving more firepower to institutions like the European Investment Bank (EIB). Localised branches of the EIB, for example, could help companies enhance their capital base and arrive at better business models. European Structural and Investment Funds should provide funding for ‘crisis’ countries committed to opening-up their economy and improving the business environment. For the enduring negative effects of prolonged economic depression (e.g. disinvestment, debt overhang, low employment, brain drain) to be reversed, one must acknowledge that extraordinary initiatives are required, at national and Eurozone levels. Sticking to business as usual will not suffice.

Europe should implement the social dimension clauses provided for in the treaties. On the social front, Europe should opt for a functional approach to strengthening the social dimension, rather than a (less feasible) single European ‘social model’. To recognise the social costs of the crisis, a re-balancing of governance should systematically consider social and employment indicators, alongside macroeconomic ones, in the European Semester. Program countries should also be included in the Semester. European governments should seek to enforce the so-called ‘social clause’ of the Lisbon Treaty, initiating a credible drive to promote social inclusion and combat poverty systematically.

Europe must be proactively adapting to the changing geopolitics. It must determine the role that it should play in the world, especially its relations with the USA, Russia and its neighbours. The EU must respond to external calls and efforts to divide it, by sticking together and asserting greater determination and unity. It should address calls for protectionism, emanating from the Trump administration, by opposing the return to zero- or negative sum beggar-thy-neighbour economic nationalism and protectionism, and by defending the multilateral global order. Europe must maintain its global leadership in upholding international institutions, agreements and treaties, including the Iran nuclear deal and the Paris agreement on climate.

There should be a sense of urgency in defining Europe’s global role, particularly in the context of growing political risks. Following Trump’s election, the EU has become the principal remaining defender of open society values, respect for civil rights, and global multilateral institutions. Europe needs to more effectively uphold these values, working to support democracy and civil rights in the world, but also arresting the wave of illiberalism brewing within its own borders.

Europe’s global role and hard power must be underpinned by the strengthening and/or creation of political and military capabilities. In addition, Europe’s soft power status should be solidified and enhanced, by putting available funds to better use in its wider neighbourhood. An entire toolbox should be created to this effect, and expanded.

Europe should develop a common migration policy, based on burden sharing. Thus, it would be far better positioned to absorb the influx of migrants and refugees, while addressing negative externalities and achieving economies of scale. At the same time, Europe must develop a long-term view of how refugees should be integrated in European societies, by treating them as tomorrow’s European citizens. Given the enormity of the undertaking, migration management in member states could be funded by the issuance (as suggested by the
Italian government) of common EU migration bonds. Clearly, a more active foreign policy or, at minimum, a better containment strategy than was evident in Syria, should also be on Europe’s agenda.

The ultimate objective is to consolidate our European Union as the 20th century’s greatest historical achievement of bringing together in peaceful cooperation and mutually beneficial co-governance the nations and peoples of a war-torn continent. Moving forward to our common future means further deepening our Union wherever it is needed – and it is needed in many areas. Not for the sake of an abstract federalist ideology, but for preserving our European way of life, by developing a Union able to deliver for all its member states and for all its citizens.
LIST OF FURTHER READINGS


Dimitriadi A. (2017) Irregular Afghan Migration to Europe: At the Margins, Looking in, Springer


## LIST OF NATIONAL PARTNERS

<table>
<thead>
<tr>
<th>Country</th>
<th>National Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>BELGIUM</td>
<td>Egmont – Royal Institute for International Relations</td>
</tr>
<tr>
<td>ESTONIA</td>
<td>Open Estonia Foundation</td>
</tr>
<tr>
<td>FINLAND</td>
<td>Finnish Institute of International Affairs</td>
</tr>
<tr>
<td>FRANCE</td>
<td>EuropaNova</td>
</tr>
<tr>
<td>GERMANY</td>
<td>Jacques Delors Institut - Berlin</td>
</tr>
<tr>
<td>GREECE</td>
<td>Hellenic Foundation for European and Foreign Policy</td>
</tr>
<tr>
<td>ITALY</td>
<td>Istituto Affari Internazionali</td>
</tr>
<tr>
<td>POLAND</td>
<td>Institute of Public Affairs</td>
</tr>
<tr>
<td>PORTUGAL</td>
<td>Calouste Gulbenkian Foundation</td>
</tr>
<tr>
<td>SLOVAKIA</td>
<td>GLOBSEC Policy Institute</td>
</tr>
</tbody>
</table>