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'Strategic autonomy': the next true strategic debate for the EU

Ondřej Ditrych & Martin Michelot

SO WHAT

The EU Global Strategy (EUGS) set reaching an ‘appropriate level of strategic autonomy’ as the Union’s ambition. A paradigmatic turn in the declared relationship with the outside world, following a period first of a principled rejection of geopolitics, and then of translating the ‘European’ model of governance abroad, the ambition corresponds to the perceived changes in the external security environment. This consists of new conflicts and sources of instability in the neighborhood, global multi-polarism (great power competition), and more assertive means of exerting influence (including those conceived as ‘hybrid threats’) by outside powers that now directly impact the EU. It is likewise a response to the criticism that the EU ignores the realities of the modern (rather than postmodern) world that most people around continue to inhabit.

However, the term ‘autonomy’ as used in the current debate implies a negative definition of freedom; emancipation from someone or something rather than the capacity to act on one’s own. Moreover, it has been a subject of controversy – even a certain *Definitionenstreit* –, revealing fault lines between different member states. While originating in the Greek *αὐτονομία*, it has been inserted to the debate from French, giving rise to a (misplaced) contention that the objective of *autonomie stratégique* is nothing but a continental military power with uniquely French attributes. Indeed, in the Central and Eastern Europe (CEE) region, it has often – perhaps deliberately – been interpreted as challenging the fundamentals of the Transatlantic alliance.

Alternative concepts such as ‘European sovereignty’ or ‘empowerment’ have been fielded in European debate recently. Neither is particularly felicitous even as the latter fittingly points to the actual focus of the EU’s practice on capacity development. In the case of key new instruments such as PESCO, that focus nonetheless responds to CSDP’s rather worn-out ambition of crisis management rather than seeking, for example, improved defence and deterrence posture, or effective tackling of risks and vulnerabilities at the nexus of internal and external security.

There is, therefore, much ambiguity lurking in the key concept that should govern EU external policies – driven by perceived insecurity, yet comprehensive (‘global’) in their reach –; and even attempts to displace it as these policies’ guiding compass. The concept of strategic autonomy may indeed serve as such a compass. Yet to do that, we argue, the ambiguity must be openly confronted and then settled in a new strategic concept that draws on the EUGS but is much more detailed than the current Implementation Plan (2016), reaching beyond security and defence policies to govern investing resources and developing repertoires to build peace and security but also effectively steer global economic and security regulation.

BACKGROUND

There are some undisputed achievements. Standing among them is the launch of the permanent structured cooperation in defence (PESCO) in December 2017. To date, 34 joint projects have been agreed. France and Italy lead participation in the project (21 projects each); Germany (13) is bested by Spain (18) and tied with Greece (13). The Baltic countries (with no more than 3 projects each), together with Ireland and Slovenia, form the tail. There are other important milestones in deepening security and defence integration: the Coordinated Annual Review on Defence (CARD), providing insights to Member States’ defence planning and expenses, setting targets in line with the Capacity Development Plan (CDP); the establishment of Military Planning and Conduct Capability for CSDP military training missions (EUTM); or setting up the European Defence Fund (EDF) with research and capacity windows and European Peace Facility (EPF) to cover off-budget

CSDP operations. EDF, moreover, marks a paradigmatic shift insofar as it previews a more important role of the European Commission in this traditionally strictly intergovernmental domain.

At the same time, as noted above, the capacity development, while a welcome progress, fundamentally comes two decades too late while the EU is faced with multitude of new security vulnerabilities excited and/or exploited by outside powers. There are the ‘hybrid threats’ preying on European societies’ infirmities. There is, no less importantly, the seemingly irreversible decay of the arms control system of which the termination of the INF treaty is another milestone. It may lead to more escalation dominance for Moscow and resulting in the risk of a strategic *découplage*, undermining the credibility of the common defence commitment. It likewise broadens the void of cooperation practices that constrains norm adherence among great powers and increases the risk of conflict which balances of power and deterrence cannot effectively prevent on their own.

The EU funding earmarked for capacity development is, as of now, far from producing a real change in the game; not to speak of the failure of most EU Member States to meet their commitment to 2% GDP spending on defence (pledged to both NATO – where applicable – and the EU). The CARD Trial Run only confirmed what could be expected – EUMC’s input in the final report emphasised that there are not sufficient capacities to meet CSDP’s current military ambition. Moreover, meaningful capacity development must come hand in hand with defence industrial autonomy. That necessitates a consolidation of the European defence market; a project seen in many quarters as a parochial power play of competing, often nationally protected, industrial interests.

Finally, to be meaningful, strategic autonomy must reach beyond security and defence policies. It must not only govern investment in peace and security, but also make the EU an economic and diplomatic power to be reckoned with, one which can make an effective contribution to the maintenance – and adaptation – of the international rules-based order from which Europeans draw substantial benefits. Needless to say, not much has been done toward that end.

WHAT COMES NEXT

The challenges (and opportunities) of the ‘more connected, contested and complex world’ remain; so does the need for effective, pragmatic and adaptive yet ethical solutions that mind the security and prosperity of European societies, but also of humankind as a whole. The concept of strategic autonomy may guide the EU’s role in the world provided a clear vision beyond the lowest common denominator of the Member States’ interest is (re-)produced at all important fora and translated into concrete political objectives in various domains. This necessitates no small degree of technocratic competence; but, above all, political leadership that would create effective bridges Member States’ initial positions to answer the fundamental question of autonomy for what (rather than from whom). What concrete benefits can the EU (and others) derive from reaching strategic autonomy in political, diplomatic, economic and military fields?

For example, in the realm of defence, strategic autonomy must mean more than crisis management – i.e. stabilisation of the immediate or wider neighbourhood. Yet what precisely? Short of pooled capacities of independent collective defence, is it sensible to speak of strategic autonomy even at the lowest ‘appropriate level’ imaginable? Having passed this test – a distant prospect indeed at present time – how should the EU project military power to protect global commons above the scale of notable but limited instances such as EU NAVFOR ATALANTA?

CHARTED COURSES

With the 'wind back in Europe's sails', the EU needs to devise a balanced concept drawing on EUGS but at the same time more comprehensive and specific than the Implementation Plan on Security and Defence (2016) to effectively respond to the dynamic security environment. Such a concept should pave the way to removing the infirmity in the Transatlantic alliance, and competently steering the adaptation of global governance mechanisms and evolution of the norms of international society. Such a concept, governed by the (clarified) ambition of strategic autonomy, should entail strategies of investing resources, and developing means and repertoires to build peace and security at home and (more or less) further abroad, but also of efficient participation in the shaping of global security governance – including arms control in both traditional and new weapons systems – and economic regulation to maintain favourable global dependencies while reducing vulnerability and developing resilience against adverse effects. The foreign investment screening framework is one important step in that direction.

In the Transatlantic conversation, deep and continually existing linkages between strategic autonomy and membership in NATO should be stressed. The means strategic autonomy should be perceived of as enabling, rather than incapacitating, the indivisible Transatlantic security relationship. The return of Madeleine Albright's trope of '3Ds' – delinking of decision making, duplication of efforts and discrimination against non-EU members – in the critical reflections of EU's security and defence integration in U.S. circles is symbolic of the lack of genuine interest in European initiatives. It should be a call to action for European leaders to actively engage their counterparts on what a stronger CSDP means for their commitments to NATO, and also to set a narrative that would shape European interests in the security and economic spheres (including stressing the effort made to integrate third countries in European Defense Fund projects). The narrative should set priorities for areas crucial to European security and the stability of the European neighborhood, and should be associated with a clear capability development plan that is complementary with NATO's, in order to ensure that ambitions are translated into means of fulfilling them. These leaders should recognise that the concerns about the fourth 'D', decoupling – familiar throughout NATO's history – are not the exclusive domain of strategic thought in European capitals but are shared also in the Beltway.

The currently ongoing process of defining proper military level of ambition should be followed by a white paper on security and defence sanctuarising this ambition for foreseeable future and proposing steps toward upgrading EU's planning process. Given the importance of technological superiority in modern contingencies, of the cost of modern weapon systems and the very long time span necessary for their production, defense planning is now more than ever a crucial element in the preparedness and efficiency of armed forces. The currently embraced inclusive model under PESCO may promote a culture of defence cooperation in joint projects but, without presuming any future assessment, it may need to be complemented by the emergence of several magnetic cores around which cooperation – research and development projects, pooling and sharing including integrated forces based on a revised EUBG concept – may proceed in a more substantial and focused manner. Genuine defence planning at the EU level that would be streamlined with, yet not subservient to, that of individual Member States or NPDD would indeed constitute a small revolution. Yet it is the ultimate building block of any meaningful strategic autonomy, and the key element facilitating EU's move from defence cooperation toward integration.

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Europe on the precipice: can the populist tide be turned

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SO WHAT & BACKGROUND

Populism is on the rise across the globe. In the past decade, the phenomenon has widely migrated towards Europe where it did not have much of a hold before. Populist parties and movements in Europe are flourishing across the continent and even in countries with hitherto low rates of populism such as Germany, Spain or the Scandinavian countries. Populism has also assumed a much more widespread form than in the past. While still being primarily national in character, populism has become more international, particularly in Europe as a result of the existence of the EU level of governance. Populists have already advanced into the EU's daily workings through the participation of populist parties in national and EU parliamentary and national government coalitions. In the upcoming EP elections, populists are likely to achieve even greater electoral success, giving them more opportunities to influence workings in the EP.

While the causes and mechanisms of populism emergence depend partly on specific country conditions, there are several overarching causes beyond the rise of populist politics. Institutional explanations focus on the decreasing trust for political institutions, the widespread corruption, the weakening of accountability, the predominance of oligarchic politics, or the occurrence of specific political crises. The repeated economic crises and the worsening of economic inequality have turned voters against mainstream parties for their failure to implement necessary reforms and contain such crises.¹

Various surveys show that European citizens' trust in national and European political institutions has been decreasing since the 1990s, particularly after the onset of the crisis in the eurozone. This trend is particularly pronounced among the voters in younger cohorts and those most directly affected by socioeconomic upheaval. Mainstream political parties are consistently ranked among the most distrusted political institutions in Europe. The euro crisis, austerity politics and the migration crisis have exacerbated these trends as these institutions are perceived as unable to do their jobs. This perception has resulted in the rise of populism, fraying of the social compact and generational contract, and overall participatory political decay.

Structuralist explanations focus on macro-phenomena, such as the spread of globalisation, the rise of neoliberalism, multiculturalism or the rise of post-materialist values. Globalisation has a tendency to turn many hitherto well-off social classes into economic losers while changing social values pose serious threats on how those sectors of population arrange and live their lives. As a result, economic losers with firm traditional values are open to appeals of disruptive populist parties particularly on the right (immigration issue) or, less disruptively and largely as a wake-up call, on the left (economic inequality, concentration of economic wealth, addressing climate change. In the recent poly-crisis of the EU, many centrist European parties embraced globalisation, immigration, and various degrees of neoliberalism while struggling to provide clear policy solutions. This has undermined the trust in these institutions even more in the eyes of many citizens.²

The working and lower-middle class in Europe found itself driven out of work by jobs going elsewhere, immigrants undercutting the price of their labour, a rush of cheap imported goods, or by digitalization and automation. This relates to a sense of powerlessness of citizens as well as political elites to provide an answer to the many contemporary challenges. People then turn to forces, often challenger populist movements, who promise to 'take back control' and restore a perceived loss of sovereignty as evidenced by Brexit among others.

The groundswell of anti-establishment populist parties has triggered greater political polarisation and fragmentation. Greater polarisation makes it more difficult to form stable governing coalitions and pass difficult policy reforms leading to a more

dysfunctional democratic governance. Under the umbrella of Euroscepticism, the EU is a convenient scapegoat through the logic that it constrains the ability of populists to exercise the will of the people.³

Altogether, this leads voters to turn away from established parties to fresh challengers that promise a new direction. This may pose real challenges for current European politics. While not all populist challengers are necessarily anti-democratic, anti-establishment sentiments have benefited parties with deeply illiberal attitudes. In some Central European countries, illiberal governments have already taken major steps to undermine independent civil society and the rule of law. Where such parties prevail, minorities often see their rights and safety undermined.

WHAT COMES NEXT

The populist challenge should be taken seriously. We should be cautious not to denounce anybody who is critical of the status quo as populist. We should recognize that the revolt facing Europe today is a legitimate response to deep-seated problems of our societies. The established political mainstream can no longer afford to ignore these problems. They need to have their own plan to govern at both the national and European level. Otherwise, we run the risk of normalizing the current situation in European politics. Established parties have to reinvigorate their political platforms. They have to formulate political platforms that speak to both the winners and losers of the current status quo so that the 'losers' do not perceive themselves as neglected. It is imperative that globalization is utilized to meet the challenges of today and tomorrow rather than rejected as populists are wont to argue. Nations themselves are manifestly incapable of tackling these challenges alone in an ever-more interconnected world without creating additional 'losers', as Brexit aptly illustrates.

While there are legitimate challenges which need to be addressed to combat populism, revitalize the social compact, and prevent political decay, it is also vital to address the fact that the EU is often perceived from a zero-sum perspective in relation to national sovereignty. This is further substantiated by Danish research that found that despite the majority of the population identifying as pro-European, support for the EU decreased by upwards of 20 percent the moment EU-cooperation entailed anything that was perceived as a relinquishment of sovereignty – irrespective of whether or not sovereignty was actually relinquished or if the relinquishment of sovereignty actually led to more sovereignty.⁴

It is unsurprising that relinquishing sovereignty in order to gain more sovereignty is hard to grasp and communicate, yet it is a vital understanding to institutionalize. Despite all indications that a perceived absolute sovereignty at any cost carries a terrible price, Brexiteers will pursue it nonetheless. The importance of the perception of sovereignty cannot be understated; the majority of research shows that an increasing majority of citizens in EU countries are pro-European⁵ and that a majority of citizens across the Union desire stronger EU-action in a wide range of policy areas.⁶ Meanwhile, the support wanes considerably the moment the debate is framed as a zero-sum equation between the EU and national sovereignty. We must consider reframing the discourse surrounding sovereignty that is fundamental to combatting both populism and political decay.

An example hereof lies in air pollution and the universal desire for clean air. Poland regularly ranks amongst the worst countries on the continent in terms of air quality and air pollution.⁷ However, the impacts of this are not exclusively restricted to Poland – the impact of Polish air pollution negatively affects neighbouring countries. While Poland retains sovereignty over the quality of its air, other affected countries do not possess sovereignty over the quality of the Polish air polluting their own.

Presupposing the desire for clean air is universal, relinquishing sovereignty in relevant areas to the EU, who is the only credible guarantor of the requisite coordination and insurer of fair, sustainable transition through subsidiarity, would increase the sovereignty of all affected countries and their citizens in a way individual nations would not be able to.

Addressing the sovereignty dilemma in a vacuum; however, it is not adequate in order to tackle the challenges of populism and political decay. To argue that would be to diminish tangible, legitimate concerns fuelling the surge in populism. Amongst those concerns, we consider addressing the widening inequality, often termed the defining challenge of our time, of utmost importance. In advanced economies, the current inequality gap is at its widest since 1980, which is only expected to increase.⁸ It is tempting to argue that the solution lies within national policies as differences between high and low inequality growth trajectories within countries have an enormous impact on incomes of the bottom half of the global population.⁹ Part of the solution to this lies in addressing taxation, tax evasion and tax exemptions towards more egalitarian trajectories, and part lies in established more robust frameworks for financial security and regulation to account for globalization's financial interlinking and the risks this poses, exemplified all too well by the Great Recession. Thus, a strengthened financial union within the EU, as discussed by the Five Presidents' Report, could mitigate the impact of future crises to the benefit of the wider population – even if this presupposes yet another relinquishment of sovereignty.

CHARTERED COURSES

Countering populism and political decay – and more importantly, the root causes for them – leaves the EU in a quandary. Many of the challenges fueling these developments can only be solved at supranational level, yet rising nationalism fueled by nationally-elected politicians gladly resorting to credit-claiming, scapegoating and sometimes even obstructionist strategies in order to ensure re-election diminishes the EU's ability to both decisively act on vital issues as well as to communicate its accomplishments to its citizens.

We recommend a two-pronged approach. First and foremost, it is vital that the EU's policies have clear cross-national added value for the people. The recent changes to roaming were widely received positively. There are similar low-hanging fruits that the EU can pursue, such as creating a true single market in telecommunications, preventing geo-blocking in terms of audiovisual services, ensuring sustainable transition to renewables and enforcement of environmental protection, better protection from unfair and predatory market practices, just to name a few. While this should not be construed as legitimacy being solely derived utilitarianism towards the electorate or that simply 'feeding the beast' indefinitely is viable, it is vital that the EU clearly communicates, in both actions and rhetoric, its added cross-national value for its citizens, and thereby enhances its output legitimacy. This should furthermore be supplemented with a committed approach to delivering on the key principles of the EU's social pillar in order to not only provide citizens additional service benefits, but also to improve the fundamental social and labor rights for its citizens across the Union. Divergences across the Union remain large in numerous of those areas, such as gender equality, wages, social dialogue and social protection, making it an essential area in which the EU can strengthen resilience towards the root causes of populism.

Secondly, it is worth looking at ways for the EU to increase its input legitimacy. The current avenues through which citizens can influence the agenda outside of elections are inadequate. The European Citizens Initiative is too prohibitive for especially the segments of the populism most liable to support populist challenger movements, and similar criticism can be levelled at the citizens' consultations. Whether this should be done through e-democracy tools or by more traditional means, such as improving the citizens' initiative, is for the reader

and summit participant to ponder and hopefully discuss.

The EU must also strive to overcome the prevailing narratives pitting the EU against member states in a zero-sum equation. Judging by numerous surveys, support is gaining, particularly after Brexit, for more EU interventions in a wide range of policies and challenges. Meaningful action is prevented by a false dichotomy in which national sovereignty and EU-led cooperation is mutually exclusive. Reframing this debate, coupled with additional focus on output legitimacy and the potential for better input legitimacy, is needed in order to seize the European public sphere that has been occupied by populists for far too long.

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- 2) Michael Cox, "Understanding the Global Rise of Populism," (London: LSE IDEAS, 2018)
- 3) Heather Grabbe and Stefan Lehne, "Could an Illiberal Europe Work?," (Brussels: Carnegie Europe, 2018)
- 4) Catharina Sørensen, "Suveræne Danmark – Danskernes Fortællinger om EU og Suveræniteten," (Tænketanken Europa, 2017)
- 5) Eurobarometer Survey 89.2 report, "Democracy on the Move: European Elections – One Year to Go", pp. 21-26 [Eurobarometer survey commissioned by the European Parliament Directorate-General for Communication Public Opinion Monitoring Unit, 2018]
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Muddling through the reform? The future of the Euro (yet again)

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SO WHAT

Originating in discussions older than most of the PES participants, the eurozone is now only a 20-year-old monetary project. From its first comprehensive vision in 1970, throughout its 1999 coming into existence and to its early to mid-2010s crisis survival, the future of this EU flagship institution has remained in question. While it might outlive us, the euro (as we know it today) must change its form to do so.

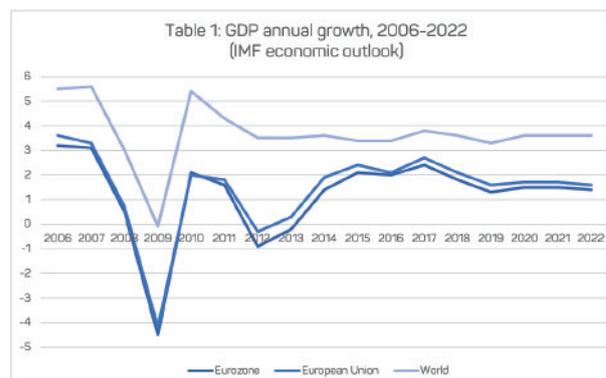
Spring 2019 remains a crucial period for talking about the euro's future yet again as the long-term economic forecasts become gloomier. By the end of 2018, the eurozone's main macroeconomic indicators, such as the GDP growth and labour market data, had improved over four consecutive years. Since then, the forecasts indicate the end of the post-crisis recovery cycle (table 1), which can range from a soft to a hard landing. Recently, the European Commission revised its outlook on the eurozone growth so that the expected growth was reduced from 1,9 to 1,3 percent of GDP for 2019. The kind of landing that will come will depend on the cumulative resolution of external and internal events: global trade conflicts, Brexit, France's social protests, Italy's fiscal question, and Germany's sluggish industrial output. In other words, the window of opportunity for the eurozone reform is rapidly closing.

During these favourable years, the EU's reform strategy brings to mind its past management, which involved muddling through the eurozone crisis. By the Euro Summit of December 2018, the reform process muddled through the approach of the 'deepening by doing' technocratic upgrade without finalizing the political compromise. This especially concerns the completion of (i) the Banking Union and (ii) the eurozone fiscal instrument or, in other words, the eurozone budget. There has been an observable promise rather than a real shift to a more orderly approach since then. The upcoming Euro Summit of June 2019 will be thus another crossroads for shaping the path taken in the eurozone reform process.

BACKGROUND

Historically, there have been two underlying reasons to fix the eurozone. Europe's economic and monetary coordination would have to be synchronized (which is the first reason) in order to retain or empower the EU's position in the global economic order (the second reason). When the European and Monetary Union (EMU) was established in 1999, the monetary side was fixed without being complemented with the economic one. The eurozone crisis and slow post-crisis recovery exposed this unfinished architecture, while weakening the EU's overall position in the rapidly changing global economic order (table 1).

With the supranational monetary policy institutionalized in the European Central Bank, there is an evident need to strengthen economic coordination in broader terms. The Euro Summit of October 2014 recognized this when calling for a "closer coordination of economic policies" to smoothen the eurozone's functioning with respect to further steps in deepening the fiscal and financial aspects of the EMU. Upheld by the Five Presidents' Report in June 2015, the idea received a concrete roadplan which preached the 'deepen by doing'-approach for the initial phase before the political compromise is reached on the substantial reforms to complete the EMU. In May 2017, the roadplan was elaborated by the European Commission's Reflection Paper on the Deepening of the EMU. Much of the process has, however, stalled due to the disagreement on the scale of institutional change. Among the proposed variety of instruments, unions, and schemes, the core cleavage consists in defining the scale of shared responsibility for the macroeconomic and financial sector stability.



This cleavage has a geographical dimension as it divides the member states into two like-minded blocs. The self-proclaimed 'New Hanseatic League' (including, e.g., the Netherlands) calls for a less ambitious framework, and the non-proclaimed 'Mediterranean alliance' (including, e.g., France) advocates an ambitious vision of the eurozone's deepening. Meanwhile, this puts Germany into the position of an indecisive mediator. The indecisiveness regarding reform, however, risks further weakening of the EU's global position.

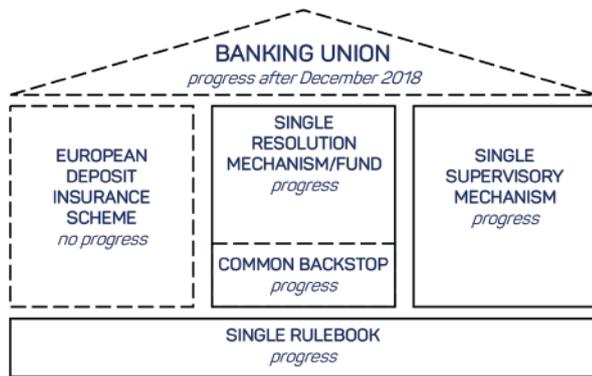
Given its open economic and trade profile, the EU is considerably exposed to the changing external environment. The urgency stems also from the EU's lower growth rates (table 1) and thus also from its rapidly shrinking share of the global GDP, which shrank from 20,3 to 16,3 percent since 2008. Part of this continuing shrinkage coincided with the application of austerity-oriented reforms. Strangling social demand and economic growth at once, such measures aimed to reverse the trend of the growing eurozone public debt. As the recorded eurozone debt was at 86 percent of its GDP in 2018, there is still a long way to reach the 2008 level of 69 percent. Meanwhile, the overall rates of investment were sluggish as the gross fixed capital formation returned to the pre-crisis level only in 2017. The R&D investment grew only thanks to private sources and despite the relative fall in public funding. The price for this is paid in the stagnant productivity growth. Such trends are unevenly distributed across the eurozone, which only reinforces the aforementioned cleavage. This all calls for an orderly approach to a more internally coherent EMU.

WHAT COMES NEXT

The Euro Summit of December 2018 could be interpreted as having made 2019 a year of a potential turning point if the bureaucratic path of muddling through is finally abandoned for the political path of orderly reforms. Agreeing only on finding consensus in the future, the eurozone leaders opened the path to advance in opening concrete political discussions on the two crucial junctures of the reform roadplan: (i) the Banking Union's missing pillar of the European Deposit Insurance Scheme (EDIS) and (ii) the future form of the eurozone budget. The finance ministers in the Eurogroup are now charged with debating the future form of both tools until June 2019.

Forming a third pillar in the completed Banking Union, the EDIS establishes a common insurance scheme for reimbursing a part of the deposits to compensate clients whose bank went insolvent or into a restructuring resolution. Involving deposits below €100 thousand, the EDIS complements the existing national schemes in order to provide a stronger degree of insurance coverage in the whole eurozone. This risk-sharing pillar thus completes the two risk-reducing pillars enshrined in the Single Supervisory Mechanism and the Single Resolution Mechanism. Given that the eurozone crisis exposed the continental financial sectors as a potential threat to overall macroeconomic stability, the Banking

Union facilitates a joint prevention of and a joint response to their crisis-prone tendencies. By doing so, it commits the insurance reserves to one national banking sector to make them supranationally transferable to others in need. That is one of the main reasons why the missing pillar has created resistance on the part of member states such as Germany and the Netherlands since the EDIS was proposed by the Commission in 2015. The agreement on the EDIS is thus still stuck in the phase of debating technical issues.



For a change, the future form of the eurozone budget is already underway. As an additional layer to the EU’s Multiannual Financial Framework (MFF) of 2021-2027, this fiscal instrument should reduce the uneven distribution of economic competitiveness and support convergence in the eurozone and the candidate states involved in the Exchange Rate Mechanism (ERM II). Proposed by France, the instrument’s ambitious vision has been opposed by the prospective net-paying member states again. Although France and Germany agreed on the general vision of its functioning in February 2019, much of its form is still up to the ongoing debate in the Eurogroup and during the MFF negotiations in the Council. Although it was sidelined in the Eurogroup discussion, it is still not certain whether the budget will be short of the principle of countercyclical stabilization in one way or another, which was planned to help the eurozone deal better with asymmetrical external shocks. Its final size and position in the MFF’s formerly expected volume of €1135 billion are not clear either.



CHARTED COURSES

Going back to the future, the Euro Summit of June 2019 will thus be crucial during the advancing in these two junctures in the reform roadplan. The rapidly changing political and economic context of this summit should not be ignored. It will meet a month after the European Parliament elections. It will also convene at the ever more expected end of the post-crisis recovery cycle.

Against this background, the completion of the Banking Union as well as the eurozone budget is thus important in shaping the EU’s path to political and economic resilience. Approving the eurozone budget is a path to its commitment to the combination of political legitimacy (convergence), economic performance (competitiveness), and possibly an anti-crisis buffer (stabilization). Completing the Banking Union fixes the eurozone’s Achilles heel - its supranationally unregulated financial sector.

During the Euro Summit of June 2019, the two eurozone blocs face three options when advancing the roadplan, which will converge somewhere halfway in the actual path taken:

Muddling Through: This is not an optimal approach. The two blocs do not agree on advancing in the roadmap through a substantive political compromise, while remaining stuck in the ‘deepening by doing’-approach as they agree only on finding such a compromise in the future.

The Mediterranean Compromise: This is an optimal path which favours the vision of the Mediterranean bloc. In it, the eurozone budget and the EDIS are approved in an ambitious form. The eurozone budget has the maximal volume possible in order to deliver the added value in all aspects of competitiveness, convergence, and stabilization. The EDIS forms the third pillar of the Banking Union as a fully supranational scheme which brings together the two risk-reducing pillars.

The Hanseatic Compromise: This is an optimal path which favours the vision of the Hanseatic bloc. In it, the eurozone budget and the EDIS are approved in a less ambitious form. The eurozone budget has the minimal volume possible to deliver the added value in the two aspects of competitiveness and convergence, while avoiding the stabilization function. The EDIS forms the third pillar of the Banking Union but is reduced to the basics, which makes it a last-resort instrument to be used after all national measures are exhausted.

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