Björn Hacker

Germany's Options for European Policy Reform

Instruments for Progressive EU Economic and Social Policy

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SUMMARY

In the task of shaping and designing progressive European policy, three topical areas readily stand out above all the rest: the future of Economic and Monetary Union, how to sculpt the EU's social dimension and the Multiannual Financial Framework 2021–2027. The Coalition Agreement of 14 March 2018 concluded by the CDU, CSU and SPD contains some pretty clear statements in some areas (EU budget, corporate tax regulation), but is rather vague and open to interpretation in others.

By virtue of their programmatic demands for European policy, the Social Democrats are the progressive force in the German coalition: donning the guiding vision of a Political Union that takes a leading role in shaping policy, Social Democrats have been calling for the completion of Economic and Monetary Union for years, for the establishment of a social dimension of the EU and an increasingly shared division of tasks backed up by corresponding financing requirements.

An analysis of seven handpicked instruments (see Table 8) in the field of European economic and social policy indicates:

– With regard to **reform of EMU** (1) limited potential for progressive policies in the transformation of the ESM into an EMF, (2) a possible opportunity to strengthen policy coordination through the office of a European minister of finance while at the same time risking that this will be put into practice in the form of a budgetary monitoring institution, and (3) convincing models for the step-by-step implementation of an automatic stabiliser, which will probably run up against strong opposition both within the coalition as well as from Member States though;

– With regard to the **establishment of a social dimension of the EU** (4) a good opportunity to

Table 8
Summary of Instruments and Evaluation

	Lines of Conflict	Opportunities / Risks	(alternative) Policy Options
1. Further development of the ESM into an EMF	Credit-based support instrument for liquidity risks *vs.* disciplinary instrument for the reduction of sovereign debt	Not very productive	Step-by-step expansion of ESM functions
2. European minister of finance	Wide-ranging coordination of economic policy *vs.* institution for stricter budget controls	Great danger of one-sided orientation	Expansion of the European Semester
3. Financing instruments for the euro zone	Automatic stabiliser at EMU level *vs.* support instrument for structural reforms	Major potential to shape development; true gain in stabilisation of EMU, but the transfer issue is highly controversial	Investment budget via the proposed investment stabilisation function of the European Commission
4. Wage policy coordination	Reasonable minimum remuneration and hindrance of extreme wage-dumping vs. low wages as a competitive factor	Very productive; social addition to existing wage policy interventions by the EU	Minimum wage standard at 60 % of the median wage through European Pillar of Social Rights
5. European Social Pact	Minimum social standards at the European level *vs.* competition among welfare states	Very great potential to shape development; option of different policies and stages	Expansion of the binding effect of the European Pillar of Social Rights and added targets *(inter alia* within the framework of basic social security systems, minimum level of social benefits)
6. Regulation of corporate taxation	Minimum tax standards at the European level *vs.* competition between corporate taxes	Very productive; great potential for consensus in Germany	Obligatory Common Consolidated Corporate Tax Base (CCCTB) and minimum tax
7. Multiannual financial framework	Additional financial resources of the EU for new Community tasks *vs.* restructuring and cut-backs in existing budget	Very productive; great potential for consensus in Germany	Support for the European Commission's plans and additional resources for a European Social Pact

enter into a debate on wage policy coordination in EMU through a European minimum wage standard, (5) A broad field of conceivable activities shaping the social dimension and numerous starting points for implementing a European Social Pact, and (6) a possible consensus within the coalition to limit tax dumping and tax competition in the EU;

– With regard to the next **Multiannual Financial Framework of the EU** (7) support consistent with progressive demands for the budget plans submitted by the EU Commission, which should be capable of obtaining a consensus within the coalition on the basic orientation.

The central conflict line pervading all these projects runs between the **model for Political Union** and a **view of the EU that primarily assigns it a market role.**

In the plans for **reform of the euro zone**, the progressive demand for a **Fiscal Union** stands in stark contrast to the insistence on a **Stability Union**. While the latter alternative is reluctant to depart from the status quo of budgetary control guided by fiscal policy for which individual states are responsible due to a fear of moral hazard, the model of co-operation on fiscal policy can be viewed as the capacity to react to asymmetric shocks with an active economic policy.

With regard to the **social dimension of the EU**, the progressive perspective conceives of an **EU that is built on solidarity**, intervening to correct market flaws in the common economic area and regulating the market. The opposing view sees a **Europe based on competition**, in which the welfare states compete with one another to find which model fits best with integration of the market.

With a **view to the EU's financial resources**, the progressive position emphasises **growing transnational challenges and risks** facing numerous policy areas that can only be coped with in a sustainable manner if the Member States work together. While the lengthening list of tasks logically enough translates into a **need for greater expenditures at Union level**, conservative forces insist on decision-making remaining **the preserve of sovereign nation states** and call for a **reduction in powers and resources** at EU level.

I INTRODUCTION

The Coalition Agreement of 14 March 2018 between the CDU, CSU and SPD (2018: 4) opens with a commitment to Europe right in the Preamble: »It is only through a new beginning for Europe that Germany will be able to guarantee long-term peace, security and prosperity.« The Grand Coalition underscores the importance of this complex of issues by making its plans and intentions for Europe the first chapter in the Agreement while affirming the fundamental need for Germany to shape policy at the Community level, but also the urgent need for reform of the EU in view of the new challenges facing it.

The European agenda was a pivotal reason, especially for Social Democrats, to enter into this coalition that had been a subject of controversy for so long. Leading Social Democrats campaigned for this, citing the threat posed to European integration by right-wing populists, who gained a foothold in the Bundestag in 2017 elections, where they have been questioning whether and why European policy is needed in the first place. The campaign for a progressive reform agenda also asserted a need for Europe to confront new challenges in a world that has become more complex: transnational responses to deal with migration, economic crises, trade disputes, tendencies towards divisions in society and many more challenges are still insufficiently developed.

At the same time, Germany is under pressure: Neighbouring countries have been waiting for Germany to stake out a position in the reform debate over the future of the EU for some time. The European Commission (2017e) launched a broad discussion process on this topic in 2017, forwarding various development scenarios and political reform options. French President Emmanuel Macron won presidential elections there with an unabashedly pro-European agenda, calling for comprehensive reforms to strengthen integration at public speeches in Athens, Paris, Strasbourg and Aachen. The German government's responses to these proposals or to the various reform packages being sponsored by the European Commission so far have been hesitant and incomplete though. In fact, the chapter on European policy in the Coalition Agreement for the most part remains quite vague. Not until two months after the government was formed, Chancellor Merkel explained in an interview her priorities for European policy (FAS 2018), which are partly at odds with a disclosed paper by the CDU/CSU parliamentary group (Schwenn 2018) as well as with a position paper of the SPD parliamentary group on the future of the EU (2018). Finally, with the Meseberg Declaration of 19 June 2018, German-French intergovernmental consultations have introduced a number of declarations of intent, inter alia a common »roadmap for the Euro Area« (BMF 2018), into the debate in Brussels. At the end of June, however, the European Council and the Euro Group Summit could only agree on a fraction of reform plans, in particular on migration and the banking union. The particularly difficult negotiations on the reform of the monetary union were postponed to the December meeting of the Heads of State or Government (Euro Summit 2018).

The postponement of decisions on a new Eurozone architecture for lack of agreement, which has already been practiced for many years, exemplifies that socioeconomic issues in particular loom high on the European reform agenda – and that they are particularly controversial: How can the euro zone be made more resilient to crises? What strategy can the international community come up with to cope with migration? How can social convergence be brought back on track in the wake of the crisis? What resources will the EU invest and what priorities will it set in financing policies to meet new challenges? Additional aspects highlight the urgency: the ten-year strategy Europe 2020 ends in 2020; a new

Multiannual Financial Framework (MFF) will have to apply from 2021; Banking Union is to be completed by 2023.

Particularly in the second half of 2020, the eyes of Europe's neighbours will be riveted on Berlin, as Germany will be taking over the reins of the Council Presidency. The Coalition Agreement provides sufficient indications that this will not be an administrative chore, but rather an opportunity to shape and mould things. Nevertheless, much of this Agreement only contains vague statements regarding European policy; specific, concrete instruments are lacking. Some places contain contradictory notions pointing to different European models advocated by the coalition partners.

Here we describe in the field of economic and social policies to what extent seven key instruments discussed in the reform debate across Europe, namely a European Monetary Fund, a European Minister of Finance, a fiscal capacity for the euro zone, coordination of wage policies, a European Social Pact, the regulation of corporate tax competition and the alignment of the next Multiannual Financial Framework, are compatible with the European agenda of the German government. Various forms and options of these instruments will be pointed out with the aim of illustrating the philosophies upon which they are based and what opportunities they portend and what risks they entail.

II PROGRAMMATIC DEMANDS FOR A PROGRESSIVE EUROPEAN POLICY

A quick glance at the different demands on party platforms in the 2017 federal German elections suffices to grasp how divisively the political parties represented in the Bundestag today view European policy. The spectrum ranges from a project to modernise the EU with a new socio-economic orientation advocated – with differing nuances – by the SPD, Bündnis 90/Die Grünen and Die Linke parties, to the grudgingly open-minded conservative attitude underlying the CDU's »carry-on« position and demands by the CSU and FDP to partially roll back more recent integration instruments, all the way to the AfD, which wants to bring the process of integration to a grinding halt and dismantle substantial parts of it. Hence, merely the centre-left parties cited here, the Social Democrats, the Greens and Die Linke, can be regarded as progressive in the sense of advocating a type of progress that involves further EU integration under new portents. The focus here is on the SPD as coalition partner. In past legislative periods since the beginning of the euro crisis, it has repeatedly vacillated in its party platform position of a progressive reform party in favour of an alternative course for Europe (Hacker 2015) and, in the two Grand Coalitions entered into with the CDU/CSU, for the most part backing the essentially unchanged »carry on« course of the Chancellor.

But the SPD (2007) did adopt comprehensive proposals for changes in the European architecture relatively early on – namely before the outbreak of the global financial, economic and, at a later point, euro crisis – in the guise of its Hamburg Platform on Fundamental Principles. More than ten years later, it is still worthwhile reading this – at a distance, the farsightedness of the fundamental positions towards European policy laid down in it at the time is striking. At the heart of it, and apparently in anticipation of many of the challenges posed by the last decade, it asserts: »Where the nation state is no longer able to provide the markets with a social and ecological framework, the European Union has to take over. The European Union must become our response to globalization. […] Our model is a political union […]« (ibid.: 15). It advocates strengthening European democracy, close coordination of economic policies and the establishment of a European social union that is on a par with monetary union, with binding rules and minimum standards for social and educational expenditures, workers' rights and corporate taxes. The **model of a Political Union** is clearly discernible and even explicitly stated here. Despite the economic foundations for European integration provided through the mammoth projects of the internal market and monetary union, faith in the market is rejected as the purpose of the Community. Instead, the principles call for politically shaping the integration process by policies crafted at a level above and beyond national borders.

This position has been updated and spelled out in more detail in numerous position papers issued by the party and by the parliamentary group in the Bundestag. In particular, detailed proposals can be found in resolutions adopted by the SPD parliamentary group »Strengthening Europe – Further Developing Economic, Monetary and Social Union« (2016a) and »Social Europe« (2016b) and in the draft paper »Response to President Macron« issued by the SPD Commission on Fundamental Values (2018). In these papers, Social Democratic actors always remain true to the model of Political Union. Among other things, the instruments called for include

– **Completion of Economic and Monetary Union** (EMU) – in the form of a European economic government, a fiscal capacity that allows stabilisation following asymmetric shocks, an investment fund to coordinate and promote cross-border projects, the transformation of the European Stability Mechanism (ESM) into a European Monetary Fund (EMF), the establishment of a »euro commissioner« or minister of finance to strengthen decision-making structures in the scope of EMU, and full implementation of the agreed-upon banking union;

– **Development of a social dimension of the EU** – through minimum wage corridors and minimum standards for workers' rights, social security systems and social investments in a social stability pact, the protection of fundamental social rights in the form of a protocol on social progress and a framework to underpin national basic income systems, strengthening of the Europe 2020 strategy and transformation of the European Pillar of Social Rights (EPSR) into a strategy for prosperity, boosting resources to combat youth unemployment, elimination of unfair tax competition through a common base corporate tax (CCTB) and minimum tax rates, and furthermore by reinforcing the stabilising function of national social security systems by means of a European unemployment reinsurance in EMU.

Thematically, this set of instruments – which is only listed in incomplete form here – illustrates the centre of gravity in the requisite reform of the economic and social sectors from a progressive perspective. It is with this in mind that the following analysis explores three areas in the context of an analysis of various instruments: The future of Economic and Monetary Union (chapter III), the social dimension of the EU (chapter IV) and the EU's Multiannual Financial Framework (chapter V).

III THE FUTURE OF ECONOMIC AND MONETARY UNION

In the discussion over the reform of the euro zone architecture, which has been officially conducted at European level since 2011, a Stability Union and a Fiscal Union are juxtaposed as the main models. The conflict between these alternatives dates back to EMU's founding phase and has been rekindled by the euro crisis (cf. Brunnermeier et al. 2016; Hacker/Koch 2016). The **perspective of a Stability Union** advocates a focus on price stability and budget controls on fiscal policies, with responsibility remaining in the domain of the individual Member States. To preclude moral hazard, liability and oversight must happen at the same level, sanctions must be imposed on misconduct and any and all forms of cross-border risk-sharing disallowed. Under this model, asymmetric shocks can only be dealt with locally; they can best be prevented by means of structural adjustments and mobility of labour.

This is opposed by the **perspective of EMU as a Fiscal Union** which seeks to temper asymmetric shocks by means of economic policy measures taken at the Community level. In this view, it is only through a fiscal policy counterpart to the common monetary policy that the architecture of EMU can be completed by enabling active countermeasures to be taken during economic downturns, thereby at the same time relieving the central bank. Risk-sharing systems are proposed to prevent the Member States drifting apart due to different credit ratings driven by the financial market. Structural reforms are deemed to be necessary in this model, but the monetary area is considered too heterogeneous to prevent imbalances over the medium term through convergence and mobility of labour.

In the euro crisis, the hardening of the Stability and Growth Pact, the Fiscal Compact and the Euro-Plus Pact have been in tune with the model of the Stability Union, while the establishment of the ESM, the monitoring of macroeconomic imbalances and banking union are along the lines of the Fiscal Union model.

Viewed from the perspective of the Stability Union, the reason for the euro crisis since 2010 is to be found in a careless budgetary policy, delays in reform and feeble competitiveness due to high unit labour costs in individual Member States. From a Fiscal Union point of view, in contrast, the crisis is systemic and demonstrates that monetary policy is not up to the task of reconciling diverging unit labour costs and current account balances in the face of heterogeneous economic developments and insufficient economic policy coordination.

A. EUROPEAN MONETARY FUND

Following initially bilateral credit assistance for the crisis states and temporary bailouts in the form of the European Financial Stability Mechanism (EFSM) and the European Financial Stability Facility (EFSF), the ESM has been in existence since October 2012 as a permanent instrument for extending financial assistance in the form of an international treaty. This assistance can be provided in the form of loans in the event of a shortage of government liquidity and to recapitalise financial institutions. In cases of exception, the ESM may participate in purchases of government bonds in primary and secondary markets and, as a last resort in the face of cascading liability, may undertake direct bank recapitalisation with the participation of the owners and creditors (bail-in) as well as the Member State concerned. The lending volume totals EUR 700 billion with EUR 80 billion to be paid in by the Member States; the German liability limit is fixed at a maximum of EUR 190 billion. Credit lines to Member States are only awarded subject to the fulfilment of certain conditions through a macroeconomic adjustment programme (Memorandum of Understanding, MoU), implementation of which is monitored by three institutions, the European Commission, European Central Bank (ECB) and International Monetary Fund (IMF). The German Bundestag has to provide its approval for all liability-related issues; the government representative on the ESM Board of Governors is obligated to adhere to respective instructions.

The establishment of a European Monetary Fund (EMF) was being contemplated as far back as 2010. Upon the insistence of the then Federal Government, a decision was made *inter alia* to establish a stability mechanism as an international financial institution with a separate treaty under international law for all EMU Member States. A key argument in this regard was the integration of the IMF's many years of expertise in the granting, stipulation of conditions and execution of loans to states. In the wake of economic policy reassessment of crisis management being instituted in EMU by the IMF (Blanchard/Leigh 2013), the call for Europeans to cut the umbilical cord from the IMF in its capacity as a central player in the euro crisis has become louder again. This is particularly the case with regard to the defenders of a **Stability Union**, as the IMF's at least rhetorical departure from austerity policy and the call for debt relief for Greece (Obstfeld/Thomson 2016) are viewed just as critically here as is the proactive interference in the debate over reform of the EMU, for example in the guise of a proposal to establish a macroeconomic stabilisation fund (Arnold et al. 2018). But the project has also found supporters among the proponents of a **Fiscal Union**. These include French President Emmanuel Macron and European Commission President Jean-Claude Juncker. These actors, however, have completely different goals. While the fundamental transformation of the ESM into an EMF meets with widespread support, the central line of conflict is the question as to whether the future EMF is to be developed more as a disciplinary instrument or as an instrument of support for the euro states.

Table 1
Further Development of the ESM into an EMF

Opportunities	Risks
– European independence by virtue of the EMF	– Loss of IMF expertise in the event of a crisis
– Durability of the ESM by linking the EMF to Union law	– Loss of national rights of appeal – Necessitates amendment of treaties
– Greater stability of financial markets by reinforcing the banking union with a backstop for the SRF	– Greater transnational liability risks
– Greater stability of the euro zone by confirming transnational financial solidarity on a credit basis in the event of a crisis through institutionalisation of the crisis mechanism in the meaning of Article 136 (3) of the TFEU restricting the no bailout clause.	– Greater uncertainty due to stricter conditions for granting loans in the form of conditions for debt restructuring, so that the old no bailout clause (without the restrictive Art. 136 (3) of the TFEU) effectively applies again and no lending is guaranteed in the event of a crisis.
– Faster EMF decisions thanks to majority rules	– Too much autonomy on the part of the EMF – Insufficient control and oversight – Lack of parliamentary legitimacy
– Ease on national budgets through the development of new financing instruments, e. g. common EMU bonds	– Overstepping the liability limits of the EMF through excessive use of financial market instruments – Disregard of national liability limits
– Correction of one-sided MoUs aimed at austerity and supply-side-oriented competitiveness to prevent pro-cyclical effects in a crisis	– Strengthening of pro-cyclical elements through new ex-ante functions of the EMF, which use the Stability and Growth Pact and the Fiscal Compact as references
– The ability to link up to other progressive reform ideas such as fiscal capacity, closer economic policy coordination and new financing instruments for the euro zone	– EMF as an initial step towards restrictive reforms such as a European Finance Minister, competition pacts and an insolvency regime for Member States

The European Commission (2017a) has presented the most comprehensive approach to an EMF in the form of a proposal for a Council regulation. It aligns almost completely with the perspective of a Fiscal Union by preserving the basic functions for granting financial stability assistance from the ESM. In addition, it is also to serve as a backstop for the Single Resolution Fund (SRF), which will be available in the second pillar of the banking union beginning in 2024 and funded with approximately EUR 55 billion in bank levies. Furthermore, the proposal provides for a move away from the unanimity rule for certain decisions in the EMF, an independent role managing adjustment programmes and the development of new financial instruments to perform its tasks. The European Commission would like to enshrine the EMF in Union law, although responsibility is to remain limited to the domain of the euro Member States.

Opposing to this perspective are the ideas of former German Minister of Finance Wolfgang Schäuble (2017), which envisage granting the EMF greater rights of intervention for crisis prevention, with the Fiscal Compact and the Stability and Growth Pact serving as reference frameworks. A key feature of the EMF is the provision of a mechanism for debt restructuring in order to include the risks of a state bankruptcy in the equation. The role as a backstop is only to be assumed in the resolution of banks after the risk of bad loans has been significantly reduced. In the continuation of the ESM, the EMF is initially to be established through an intergovernmental treaty. A proposal by Franco-German scholars (Bénassy-Quéré et al. 2018) is even more restrictive in the direction of a Stability Union and calls for the granting of credit lines from the ESM or EMF to be linked to the condition of debt restructuring by the Member State concerned, which is to be an automated process that takes place via the European Safe Bonds (ESBies) instrument.

The parties of the Coalition Agreement have clearly spoken out in favour of developing the ESM into an EMF that is to be laid down in EU law (CDU, CSU and SPD 2018: 9). It is to be subject to parliamentary scrutiny, which suggests involvement of the European Parliament.

It is not currently involved in the ESM, which is institutionalised in the form of an intergovernmental treaty. At the same time, the parties emphasise the irrevocable rights of national parliaments as these are exercised in the ESM today. Since capital for the future EMF is to be put up by the Member States, budgetary autonomy and participation of national parliaments must be upheld and maintained – at least in Germany according to the ruling BvR 1390/12 on the ESM handed down by the Federal Constitutional Court on 18 March 2014. This stands in contradiction to the greater institutional footing at European level envisaged, and to more comprehensive, faster decision-making in crisis situations partly based on majority decisions by the Board of Governors.

Weighing out the opportunities and risks (see Table 1) associated with an EMF indicates that there are a number of positive points which correspond to developing the EMF as an instrument of support along the lines of the EMU model as a Fiscal Union. Nevertheless, the reform may also backfire if reforming the ESM were used to limit its status and scope in the sense of a return to the no bailout-clause. This would deprive EMU of its main crisis mechanism. It should become a priority task to prevent such a negative downgrading of EMU, all the more so given that it is unlikely that any agreement could be reached on comprehensive alternative models for crisis management in the medium term. If one assumes that the EMF is bound closely to decisions by national parliaments as a legal requirement, the European Commission's plans for urgent decisions by majority voting could become irrelevant pretty quickly. From a progressive point of view, the backstop for bank resolution and the development of expertise independent of the IMF in managing lending and conditions related to this would remain as an alternative to pro-cyclical adjustment programmes, i.e. reinforcing and further fuelling economic downturns, like those practiced in the past. The ability to reach a consensus on this is constrained both within the coalition in Germany and at EU level. While France, Italy, Spain, Portugal, Belgium and Luxembourg would probably support such a path, in March 2018 the ministers of finance of the Netherlands, the three Baltic states, Ireland, Finland, Denmark and Sweden called for an EMF to serve as a disciplinary instrument with a mechanism to ensure orderly state insolvencies and debt restructuring along the lines of a Stability Union (The Netherlands et al. 2018).

In view of this mixed situation, not much can be expected from the establishment of an EMF compared to the already existing ESM from a progressive perspective. In order to stabilise the banking union, a backstop function for the SRF – already envisaged at EU level as far back as 2012 – is unavoidable. The ESM could also address creating specifically European expertise, realignment of adaptation programmes and development of new financing instruments on a step-by-step basis. Only at the end of a reform agenda that would need to be drawn up would the intergovernmental treaty then need to be transposed into EU law, possibly outfitted with the option of majority decisions in specific fields.

B. EUROPEAN MINISTER OF FINANCE

Jean-Claude Trichet, President of the ECB at the time, was calling for the establishment of a European ministry of finance as far back as 2011. It »should not necessarily oversee a large European budget«, and instead primarily be responsible for »supervising budgetary policy and competitiveness as well as making sure countries' economic policies are on the right track« (Trichet 2011). The narrowing of the focus to budgetary aspects and a European minister of finance (for the possible function to be performed by this office, cf. Enderlein/Haas 2015) had been preceded by a broader debate on strengthening economic policy coordination in the euro zone. »European economic government« (for an overview of the early debate, cf. Heise/Heise 2010) was understood to mean a comprehensive system of coordinated economic policies and joint crisis instruments. Parts of it were speedily implemented early on in the guise of the Broad Economic Policy Guidelines and the Stability and Growth Pact. It was not until the European Semester from 2010 onwards, and in particular the Macroeconomic Imbalance Procedure (MIP) launched in 2011, however, that economic governance of the euro zone was pooled and institutionalised. This does not go far enough for advocates of EMU becoming a **Fiscal Union**. They disparage the ineffectualness of the multitude of individual coordination instruments – like the ten-year Europe 2020 strategy, the macro-economic dialogue, recommendations to specific countries – and the overly one-sided focus of the Stability and Growth Pact on public deficits and debt. From this perspective, what is needed is a separate EMU-wide fiscal policy position, and on this basis to extrapolate economic policy targets and objectives to prevent imbalances and, accordingly, monitor macroeconomic developments in the Member States in a comprehensive manner. The monitoring of numerous economic policy variables by means of a macroeconomic scoreboard initiated with the MIP is held to be too feeble in actual practice compared to the deficit procedures in the area of the Stability and Growth Pact. A European minister of finance would be the individual figurehead here for more effectively integrated economic policies, which would make it possible for EMU to embark on a common fiscal policy course. French President Macron places an emphasis on such a minister having the explicit authority to steer policy and links this to his call for fiscal capacity for the euro zone (cf. chapter III C.).

This view is opposed by the notion of a European minister of finance who assumes a purely monitoring role watching over the budgetary targets of the Stability and Growth Pact and the Fiscal Compact, possibly also intervening in the event of non-compliance with recommendations regarding competitiveness coming from the European Semester. Trichet is to be understood in this vein of thought, and former German Minister of Finance Schäuble also made comments along similar lines: »Ideally, there would be a European minister of finance. He would have veto rights over national budgets and his approval would be required for the amount of new debt to be taken« (Der Spiegel 2012). In this perspective, the new post would help snatch the right of political initiative

Table 2
European Minister of Finance

Opportunities	Risks
– More coherent economic policy coordination between Member States in order to identify macroeconomic risks in good time	– Over-extension of coordination efforts – Restrictions on national freedom to make decisions due to peer pressure
– Development of an own fiscal stance for the euro zone to serve as a counterpart to monetary policy	– Concentration of fiscal policy on compliance with budgetary rules – Depoliticisation of governance, thereby cementing the status quo (roll-back of flexibility since 2015)
– Greater relevance to the coordination of policies outside the Stability and Growth Pact (MIP, Europe 2020, European Pillar of Social Rights)	– EU interference in areas of policy that have not attracted much notice to date
– Greater political visibility of coordination by merging functions in one person who serves as a reference point both internally (interfacing with national parliaments, governments, EU institutions) and externally (IMF, OECD, G20, etc.).	– The minister has no relevance whatsoever, as the soft form of European governance to which each Member State reacts as it sees fit (»cheap talk«) remains unchanged.
– Enhancement of the role of the minister by coordinating use of financial resources to support reforms, for investment and to address asymmetric shocks	– Unclear interpretation of the coordination function – Development of access rights to funding – Disregard for process of parliamentary legitimation

out of the hands of the European Commission when it comes to the opening of an excessive deficit procedure under the Stability and Growth Pact. In the view of champions of EMU as a **Stability Union**, the European Commission has politicised and thereby watered down Community rules through its more flexible interpretation of budget criteria for the euro zone, which it has been applying since 2015. They do not share the European Commission's argument (2015a) that structural reforms, investment activities and the cyclical situation should be weighed up against deficit and debt criteria. Instead, they want a European minister of finance to ensure the execution of budget rules on paper *ceteris paribus*.

The European Commission (2017b) argues in its Communication on the subject more from the broader angle of economic policy coordination in EMU. A European minister of finance, it contends, could accordingly be a step towards an aggregated economic policy for the euro zone by serving as a link between Member States and European institutions. In addition, the minister should be assigned a monitoring and control function, which, however, would not be limited solely to policies bearing relevance to the budget and competition, but also include explicitly promoting »macroeconomic stabilisation and convergence«. To this end, the minister should also have an undefined coordinating function for financial resources coming from the EU budget or the European Fund for Strategic Investment (EFSI), as well as play a central role in the ESM or EMF. To this end, the European Commission envisages a dual role to be assumed as vice-president of the European Commission and chairperson of the euro group. This would place the European minister of finance in an exceptional, albeit dual, position both as a representative of the Member States and as a member of a supranational authority. The similar example of the EU High Representative for Foreign Affairs and Security Policy demonstrates the possibility of political freedom associated with such an office. In its proposal, the European Commission thus departs from a static and apolitical functional narrative for a minister of finance like the one advocated by proponents of a Stability Union.

The Coalition Agreement makes no reference to a European minister of finance. It does mention, however, that »the intention is to move forward with fiscal control, economic coordination in the EU and the euro zone […]« (CDU, CSU and SPD 2018: 9).

A comparison of the opportunities and risks of establishing a European minister of finance (see Table 2) indicates that the creation of such an office is »nice to have«, but not an urgent reform project. From the perspective of a Fiscal Union, EMU is about strengthening economic policy coordination, not creating new offices. If a common minister proved to be helpful here, the office could be established so as to have a »figurehead« at the front of coordinated policies, but such an office is not necessary to ensure the proper functioning of a reformed euro zone. Moreover, closer coordination of economic policy will in any case have to be made a reality above and beyond any such office and rest on corresponding coordination instruments, especially in the European Semester. Past experience has shown that reforms of the governance framework have for the most part invariably led to a strengthening of the Stability and Growth Pact and support for structural reforms bearing relevance to competition. Conceiving the European minister of finance as a sort of »austerity commissioner« in the Stability Union perspective on EMU reveals the problems that such an office could entail if there were gaps in its design. From a progressive perspective, the debate over a European minister of finance should be leveraged to strengthen coordination procedures that have already been established aside from the budget rules that are already being adhered to – MIP, Europe 2020, European Pillar of Social Rights. This can be achieved, for instance, by using the corrective arm of the MIP and setting targets for the European Pillar of Social Rights' Social Scoreboard. This could presage a higher priority being assigned to issues whose coordination is meant to prevent macroeconomic as well as social imbalances. This would facilitate a better balance between budgetary and other economic policy aspects in the European Semester. France, Italy, Spain, Portugal, Belgium and Luxembourg would probably agree to this, although Ireland, Austria and Slovenia have also expressed positive attitudes towards a higher priority for further coordination processes in the past. On the other hand, almost all countries except Germany and France are sceptical about the idea of a European minister of finance.

It makes little sense to establish an office for a new European minister of finance as mere window-dressing. Only in the larger scenario of more closely interlinked policy coordination in EMU will the issue become relevant from the progressive perspective. If the minister should fashion himself as a political lever serving to deepen governance processes all way to formation of an aggregate fiscal policy course for the euro zone, the European Commission is on the right track with its communication on the subject. If it turns out that the main intention underlying establishment of the office of minister was to act as a »watchdog« over national budget policies, however, it would not only miss the boat with regard to the institutional need for change in EMU. Such an office could possibly even have a regressive effect, ignoring the lessons painfully learnt in the euro crisis regarding the wide-ranging origins of socio-economic imbalances as well as the need to avoid pro-cyclical effects by means of political rather than automated rule-based decisions. Progressive strategies for improving governance in EMU – upgrading of processes, involvement of parliaments and civil society actors, encouraging more resolute commitment – could also be set in motion without any finance minister.

C. FINANCING INSTRUMENTS FOR THE EURO ZONE

As early as the 1970s, in the first attempt ventured towards monetary union (Werner Plan) and within the framework of the »snake in the tunnel« fiscal policy synchronisation, a coordinated economic policy and a Community budget were all contemplated. The McDougall report (European Commission 1977) assumed that at least five per cent of total gross domestic product would be needed as a budget for a functioning monetary union. The aim was to finance structural, cyclical, employment and regional policies in order to curb divergent developments. Even back then, basic forms of a European unemployment insurance and fiscal capacity as well as an »cyclical convergence facility« were forwarded as possible instruments. The reasons for a system of fiscal transfers for economic stabilisation created in this manner using Community funds include the prevention or containment of negative shocks affecting demand that do not affect monetary union as a whole, but rather only individual states. The Maastricht Treaty did not succeed in establishing a specific financial instrument for EMU. The euro crisis subsequently demonstrated that asymmetric shocks can put EMU to the test: The single monetary policy inadvertently exacerbates economic crises in individual countries because it cannot confront divergent economic developments in a differentiated manner by means of interest rate policy. To date no fiscal policy counterpart to the ECB exists that could make possible nominal convergence – such as with regard to current account balances, inflation rates or unit labour costs.

In the **Fiscal Union** EMU scenario, an automatic transnational stabiliser of the type that has been successfully employed within nation states for some time would be needed. In Germany, for instance, healthy economic development with rising employment fills the coffers of the Federal Employment Agency through increased social security contributions, adding to economic stabilisation by enabling payment of greater unemployment benefits during economic downturns with rising unemployment. Such a stabiliser for the euro area solely based on cyclical ups and downs can be established to provide fiscal capacity by means of a separate EMU budget (Pisani-Ferry et al. 2013) or as a Community insurance mechanism (Dullien 2014; Enderlein et al. 2013). This would institute elements of European fiscal federalism at a low level for the euro zone. The fact that their impact would be solely cyclical distinguishes them from the broader notion of structural convergence of national economies by means of a financial equalisation mechanism at the European level. This would seek reinforcement of the structural and cohesion funds provided for in the EU budget to achieve a sustainable convergence of production and living conditions.

The defenders of EMU as a **Stability Union** are also concerned about the vulnerability of the euro zone to asymmetric shocks. Any form of financial transfer is perceived as a moral hazard problem, however, that tempts free-riding in the guise of a standstill or slow-down in reform and a disincentive for sound financial management by individual states to the detriment of the Community. In this view, an EMU budget or European unemployment insurance are therefore non-starters. Instead, the aim is to stifle asymmetric shocks before they arise by relying on structural convergence of economies. This is not to be achieved through fiscal redistribution elements in a federalist structure, however, but rather through structural reforms of product and labour markets, the public administration and taxation system, the education system and supply-side improvements in underlying conditions for companies. In addition, a deepening of internal market integration and, in this context, in particular greater mobility of labour (economic migration) and capital (capital market union) are assumed to be a sufficient compensating factor for decentral economic crises: »A more flexible single market would be able to better absorb shocks, especially those hitting single member states

Table 3
Financing Instruments for the Euro Zone

Opportunities	Risks
– Demand stabilisation (investments, consumption) through fiscal capacity in the event of severe asymmetric crises above and beyond the automatic stabilisers of the nation state	– No crisis management through a supply-side instrument rewarding structural reforms
– Automatic stabiliser (insurance mechanism) with cyclical impact is replenished and made use of by every state over the course of economic cycles. – States make fair contributions based on economic strength and draw on funds to the extent they are affected by the crisis	– Structural differences in national economies lead to unequal use of fiscal capacity
– In the European unemployment insurance model, the allocation of funds is tightly aligned with cyclical factors	– Possible system incompatibilities as a result of different labour market and social security systems – Fear of expansion to include structural aspects (moral hazard)
– Loans instead of transfers in the investment stabilisation function model serves as the cornerstone of European reinsurance to confront unemployment and/or fuel investments	– Competition with ESM – No impact due to insufficient volume
– Leveraging of private funds for investment without Member States' participation by strengthening the EFSI	– Only a supply-side impact: Slumping demand during a crisis means investments will not pay off – Knock-on effects by investments that have already been made

(so-called asymmetric shocks)« (Schäuble 2017). The only conceivable transnational financial instruments from this perspective are the purely supply-side activation of private funds through a Community guarantee (such as the European Fund for Strategic Investment, EFSI) and a reward instrument for the implementation of structural reforms.

In the euro crisis, the debate has been rekindled over new financial instruments for EMU. The Four-President Report (2012) and the European Commission's Blueprint (2012) for EMU reform both mention the need for fiscal capacity. The German government back then, a CDU/CSU-FDP coalition, intervened at the head of a group of stability-minded countries to thwart these plans in Brussels, endorsing its own model of reform partnerships based on direct treaties between all the euro states and the EU, achievement of which was to be supported by a so-called solidarity mechanism. This instrument for enhancing convergence and competitiveness devised by the European Commission (2013) with these ideas in mind was just as unacceptable to the euro states as were ideas for attaining fiscal capacity. The line of conflict described above has not changed down to the present day. The European Commission has attempted to blend or reconcile both perspectives on various occasions, for example in the Five-President Report (2015b), in the Reflection Paper on the deepening of EMU (2017c) and, most recently, in proposals for new budgetary instruments for the euro zone (2017d, 2018a). The latter communications thus propose both a »reform delivery tool« as an instrument for implementing structural reforms as well as an »investment stabilisation function«. The reform delivery tool, according to which the Member States would receive funding for the implementation of reform pledges within the framework of the recommendations of the European Semester, corresponds to the **Stability Union** perspective. The amount needed for the Multiannual Financial Framework (MFF) over seven years is estimated at EUR 22 billion (cf. European Commission 2018b). The investment stabilisation function, whereby Member States hit by a severe asymmetrical shock would have access to loans totalling EUR 30 billion backed by the EU budget, only corresponds to the **Fiscal Union** perspective to a certain extent. The mechanism is to be triggered automatically, e. g. by measuring unemployment and investment rates. Loans are to be tied to strict conditions of compliance with budget policy rules and earmarked for specific investments (cf. European Commission 2018c). This would in de facto terms be tantamount to a re-launch of the EFSM, but not the development of fiscal capacity. The European Commission mentions a possible step-by-step development towards an insurance mechanism that could be replenished as a special fund outside the EU budget on a voluntary basis with contributions from EMU Member States.

The Coalition Agreement contains a commitment to the expansion and continuation of the EFSI (CDU, CSU and SPD 2018: 7) on the one hand, and support for »specific budgetary resources for economic stabilisation and social convergence and for the support of structural reforms in the euro zone that could be the starting point for a future investment budget for the euro zone« (ibid.: 8) on the other. This is pretty vague and touches on many of the instruments discussed in the foregoing. Consideration of the opportunities and risks of new financial instruments for the euro zone (see Table 3) indicates that an extension of the EFSI would not pose any major problems and would probably find ready acceptance among the coalition partners and the Member States – but the contribution it could make fails to add anything to the edifice of a crisis-proof EMU architecture. Given existing and long-standing conflicts, the European Commission's proposal appears to constitute a good compromise. It pays heed to the Stability Union perspective by relaunching the solidarity mechanism from 2013 as an instrument for implementing reforms and strengthens support for structural reforms called for in the Coalition Agreement. At the same time, a relaunch of the EFSM in an investment stabilisation function would facilitate a move towards credit-based support to combat severe asymmetrical shocks at a low level. This is not yet an investment budget, but could be an initial step in this direction.

From a progressive perspective, a mechanism to reward self-imposed reform commitments using the EU budget would not be harmful as long as it remains voluntary and is designed to remain at a low volume. On the contrary, it could even encourage more intensive consideration of all aspects of the European Semester at national level. It is conceivable, for instance, that parliament would call on the government to obligate itself to meet macroeconomic (MIP), economic (investment rate), employment (Europe 2020) or social policy (European Pillar of Social Rights) targets. In some cases, governance procedures outside the Stability and Growth Pact could be successfully upgraded (cf. chapter III B.). This mode of procedure would become perilous, however, if budgetary and competition-related targets and objectives were assigned priority over expanded economic policy or social commitments as well as if it all went beyond a limited mechanism and a link were established between target attainment and conditions governing the use of other resources from the EU budget.

In any case, it is far more important for EMU to be resilient to crises by making possible a fiscal capacity capable of dealing with asymmetrical shocks. This instrument – which comes in various forms – is unavoidable if we want to preserve monetary union. Efforts towards structural convergence and activation of private resources do not stand in the way of this, but from a progressive point of view they must be considered irrelevant to the task at hand. Financial support for the implementation of structural reforms based on recommendations for specific countries is popular in states such as the Netherlands, the Baltic States, Ireland, Finland, Denmark and Sweden (The Netherlands 2018), although these reject budgetary instruments for macroeconomic stabilisation due to moral hazard and concerns about permanent transfers. On the other side of the fence, the southern European countries, Belgium, Luxembourg and in particular France (Macron 2017) are calling for fiscal capacity for the euro zone in the form of a separate budget.

If both sides could reach an agreement on the basis of the European Commission proposal, from a progressive perspective it would first of all need to be ensured that the reform delivery tool for rewarding structural reform commitments remains voluntary. Secondly, the very low-threshold for the investment stabilisation function to activate would have to be supplemented by clearly defined and timely phases for expansion in the direction of an insurance mechanism.

IV SOCIAL DIMENSION OF THE EU

Under the presidency of Jacques Delors, the European Commission advocated the addition of a social dimension to the economic integration projects of the internal market and EMU as far back as the early 1990s. These take the form of common rules on occupational health and safety, equality and anti-discrimination, rules on the portability of social security entitlements, codetermination forums (European works councils, social dialogue), furthermore project funding under the European Social Fund, the Globalisation Fund and the Youth Guarantee. All these measures fail to rectify a fundamental asymmetry in the process of integration, however: Down to the present day, the removal of barriers to integration that disrupt the market – such as borders, tariffs and price differentials – is easier to achieve and as a result has advanced far more than the rudimentary level attained in the establishment of new structures, mechanisms and institutions that serve Community policy-making (Scharpf 1999). This is in particular due to the distribution of competencies: While supranational institutions are in charge of protecting internal market freedoms, competition law or monetary policy, many economic policies, collective bargaining, employment and social policy remain the preserve of national states. Market and currency integration produces a need for adjustment and coordination, however, and this often leads to conflict.

The area of policy coordination, which has been growing since the mid-1990s, seeks to create a temporary bridge between projects that have already been integrated and the normative claim to a social dimension, which is in de facto terms the domain of responsibility of the Member States. All attempts undertaken so far (European Employment Strategy, Lisbon Strategy, Europe 2020), however, show that coordination can only be successful where there are points of linkage and objectives with treaty status. This is the case already at present with closely synchronised budgetary coordination, for example through the Stability and Growth Pact and the European Semester. On the other hand, the coordination of policies for the labour market, old-age pensions, combatting poverty or wage policies quickly become dependent on better integrated areas and are thus often identified as a cost factor. However, no social dimension can arise from the result of a coordination effort aimed at deregulation, flexibility and privatisation of social security from budgetary and competitive aspects. Moreover, lack of European regulation of the market invites dumping strategies by means of low wages, taxes and social security contributions, which have a transnational impact to the detriment of national welfare states that maintain relatively higher levels in this regard.

The euro crisis has most recently shown that the **perspective of a competitive Europe** in which welfare states compete for the best market position is diametrically opposed to the **claim of an EU based on solidarity** that corrects market errors and regulates and contains market effects. The increasing convergence not only of economic but also social factors that could be witnessed up until 2010 has reversed, slipping into a process of divergence due to austerity policy, in which the crisis states are drifting further apart from their neighbours once again (Dauderstädt 2014).

A. COORDINATION OF WAGE POLICY

As the example of Germany in particular shows, wage policy is a key parameter in the growth or avoidance of macroeconomic imbalances. It is therefore necessary for wage rises in the Member States on average to exhaust the distribution-neutral room for manoeuvre in accordance with the Central Bank's rule of thumb – gains in productivity growth plus the inflation target – in order to avoid distortions of competition and help move the current account balances towards equilibrium. Countries with high deficits are thus supposed to limit the growth of unit labour costs, while surplus countries are called upon to abandon wage moderation. Trade unions in Europe were aware early on that renunciation of national monetary policy in favour of the single currency could shift the costs of adjusting to divergent economic developments away from the ECB – which with its single interest rate policy cannot do a great deal about asymmetries, anyway, and which is even forced to inadvertently strengthen them – and more towards wage policies (Busch 1994). This will be the case at least as long as there is no adequate fiscal compensation mechanism and close economic policy coordination at European level as discussed above. For example, when the trade union confederations of the Benelux countries and Germany stated in the Doorn Initiative (1998) that they aimed to communicate with each other and coordinate national collective bargaining and wage policies, this meant that they would not design these on their own at the national level. As a rule of thumb to serve as an orientation for national wage agreements, the sum of productivity gains plus the inflation target are supposed to be attained at a minimum. At European level, the Macroeconomic Dialogue was established in 1999 as a coordinating body to liaison between the Council, the European Commission, the social partners and the ECB. But diverging unit labour costs in the 2000s indicate that this form of soft coordination is not working adequately. The reasons for this are to be found in the lack of commitment on the part of social partners to self-imposed European rules and procedures in the face of growing competition to attract companies and industry within EMU, but also in the increasing weakness of employers' associations and trade unions due to the erosion of blanket collective agreements, declining numbers of members and a growing service sector, which is difficult to organise by labour unions.

From the EU's point of view as a **community of competition**, the latter aspects would appear to hold out advantages: from a neoclassical perspective, increasing competition between locations for business in the internal market creates more pressure on companies to innovate and to lower prices for consumers. The flexibilisation of labour markets through lower job security, and the creation of a low-wage sector through the expansion of agency and temporary work combined with lower amounts of passive unemployment benefits paid over shorter periods of time and greater pressure on unemployed to seek jobs through activating labour market policy measures brings about more jobs and ensures that the national economy is better positioned in global competition. By promoting alliances for labour at the company level, blanket collective agreements are losing importance and, as a result, the collective bargaining power of the social partners is dwindling and companies can adapt more flexibly to the conditions of international competition. This is the foundation upon which reform programmes such as Agenda 2010 in Germany, but also in many other EU countries, are based – Macron's labour market policy is also geared towards it. The euro crisis revealed how strongly European politics are shaped by adaptation to the exigencies of transnational competition. An accelerated shift of collective bargaining policy to the company level was imposed on the crisis states as a condition in the MoU as were flexibilisation of labour market policy and direct interventions in wage systems, for example through cuts in the salaries of public employees and avoidance of increases, or even a decrease, in minimum wages (Keune 2015). From the perspective of the Union of competitiveness, coordination of wage policy is definitely a useful instrument, but wages are regarded here exclusively as a macroeconomic lever. The core task ascribed to the collective bargaining policies of trade unions – improving working and living conditions of workers – is irrelevant here. Coordination is also understood centrally and is solely regressive in its orientation. This is apparent, for example, in the Euro-Plus Pact (2011), which seeks to monitor unit labour costs in terms of adjustment requirements to increase competitiveness: »Large and sustained increases [in unit labour costs] may lead to the erosion of competitiveness, especially if combined with a widening current account deficit and declining market shares for exports«. Measures contemplated include *inter alia* a review of wage formation systems and the alignment of collective bargaining agreements in the public sector.

This contrasts with the perspective of an **EU based on solidarity**, which is not satisfied with constraints forcing it to adapt to intensified competitive conditions in the common market. This assumes regulatory containment of free market activities, as was once done through the creation of national welfare states. Since the EU has no competence in wage and collective wage policy, the only solution is to establish a coordination framework that must also respect the collective bargaining autonomy of the social partners, an arrangement that is enshrined in the constitution in Germany, for example. European social partners should foster and encourage a strengthening of the macroeconomic dialogue. New forms of governance in general wage policy coordination, such as the Euro-Plus Pact or the MoU on the adjustment programmes, are viewed by employers' and employees' associations as interference in collective bargaining autonomy. The proposal inserted by the European Commission

Table 4
Wage Policy Coordination

Opportunities	Risks
– Elimination of deficits in fiscal policy coordination to prevent macroeconomic imbalances in EMU	– Understanding wages as a purely macroeconomic adjustment variable
– Avoiding too high or too low wage developments in EMU by aligning wage policies with the formula of national trends in productivity plus the ECB's inflation target	– Exclusively avoiding excessive unit labour costs through one-sided focus on strengthening competitiveness through low wages – Thereby current account surplus of EMU as a threat to world trade
– Strengthening the social partners through a renaissance of macro-economic dialogue and the establishment of transnational wage negotiation networks	– Weakening of the social partners through centralised steering of wage policy – Interference in collective bargaining autonomy
– Uniform minimum wage standard as first step towards comprehensive wage policy coordination	– Minimum wage standard as first step towards centralised steering of wage policies
– Strengthening the system of collective agreements in order to enforce wage policy coordination	– Ineffectiveness of wage policy coordination due to a network of collective agreements that has already been excessively undermined by company agreements – Lack of implementation in countries with minimum wage regimes under collective agreements on a sectoral basis (FI, SE, DK, AT, IT)
– Prevention of extreme wage dumping through the European framework for minimum wages to secure a relative lower limit	– Agreement on the lowest common denominator for the level of the minimum wage floor, thereby counteracting its intended effect – Concentration on maximum limits by introducing a minimum wage corridor

(2015b) in the Five-President Report to create national competitiveness-monitoring councils was swiftly killed by intervention of the German Social Partners. On the one hand, the trade unions recognise the need for wage policy coordination in EMU, but on the other hand they fear mechanistic control from a central level in Brussels (cf. the debate in Pusch 2011). All the more so because, as experience to date shows, only deviations from unit labour costs in an upward direction appear to be contained, while deltas in a downwards direction, which make macroeconomic imbalances possible in the first place (Germany's current account surplus has long since been fuelling the deficits of the crisis states), are even advocated as a sensible strategy. Apart from this complex of problems, the notion of coordinating minimum wage systems has become a fixture as a sub-area of wage policy in the progressive reform discourse. While this would not make it possible to fully exploit the potential for macroeconomic correction offered by wage policies, at least floors for minimum wages could help check arguments based purely on the logic of competitiveness.

The aim and objective underlying a European framework for minimum wage systems is first of all to stabilise wage developments by preventing strategies based on competition in the form of lower wages and, further, to establish an appropriate minimum wage for all employees. In view of the economic heterogeneity of the EU states, a minimum wage framework cannot prescribe any uniform minimum wage floor. The European Trade Union Confederation argues for a relative minimum level of at least 50 % of the respective average national wage level or 60 % of the median wage (ETUC 2012). Minimum wage systems also differ institutionally so strongly in terms of their statutory footing or collective bargaining arrangements, their adjustment rules and rules regarding exceptions (cf. Schulten/Müller 2015), that not the form but rather merely the existence of minimum wage security can be laid down in a European framework.

The Coalition Agreement cites development of a framework for minimum wage arrangements in the EU States as an objective. A postscript emphasises the need to combat wage dumping in economically weaker countries (CDU, CSU and SPD 2018: 7). This of course involves preventing wage dumping in individual sectors, for example in Central Eastern Europe. But this explanation has a self-righteous ring to it, as in the last 15 years it has been Germany in particular that – measured in terms of its high productivity – has seen too few wage increases. Examining the opportunities and risks, minimum wage policy coordination in EMU takes on the semblance of a minefield (see Table 4). It is an important matter in need of reform, but this can only be approached as a long-term project in close consultation with the social partners. Nevertheless, it is evident that attempts by European governance to intervene in national wage and salary determination systems are becoming more frequent (Euro-Plus Pact, MoU/Troika, councils for competitiveness). This trend will continue to gain momentum as long as there are no economic policy coordination and fiscal compensation mechanisms in place at EMU level (cf. chapter III B. and III C.).

A European framework for minimum wages would constitute a very sensible step along the lines of the model for a Europe of solidarity that would serve to stimulate the debate and at the same time set an explicitly socio-political project in motion. Conservative critics could also be won over by arguing the need to curtail dumping practices. Difficulties in the debate in the EU will be compounded on the one hand by the Scandinavian countries, which do not have any legal minimum wage, which means that they cannot agree on target values or similar, and on the other hand through the central and eastern European countries, which tend to have the lowest minimum wages in comparison to the median wage, leveraging these in a conscious strategy of helping their economies catch up with the West – and in conformity with the competitiveness perspective outlined above. In some cases, it could be helpful to limit the minimum wage standard to the euro zone and allow other States to participate in it as an option. This is also an argument in favour of starting out as a coordination instrument without being of a legally binding nature, for example within the framework of the European Pillar of Social Rights and the European Semester. In order for this to have any impact in the first place, however, the intention of making a minimum wage standard into a legally binding obligation in the form of a European directive should already be announced now. The period up until such point in time could be used by all countries to adjust their minimum wage systems, which the European Commission and the Council would take into account in their country-specific recommendations. Margins could be specified in terms of time and minimum wage levels which in turn correspond to country-specific indicators. With regard to the German debate, it must be borne in mind that the minimum wage here also falls short of the requirement of amounting to 60 per cent of the median wage by about ten percentage points.

The arguments put forward by the defenders of a competition Union against a minimum wage floor can be countered from a progressive point of view by citing the effects of the highly controversial introduction of a minimum wage in Germany, which have not been harmful from a competitive point of view. Moreover, it is necessary to be ready for economic crises by having instruments available to stabilise demand and to reinforce a European model which is now aimed primarily at market competition with social policy strategies. Caution is warranted with regard to possible demands for ceilings for minimum wages. Even negotiating the relative minimum level will be a political high-wire act, in which from a progressive point of view it is still possible to argue for a level that is above the poverty line, however. In terms of a ceiling (minimum wage corridor), it is difficult to specify an objective figure as a yardstick. Moreover, this would obviate the EU's interference in the specific social claims of various welfare states along the lines of a market model constraining policy in a particularly deleterious manner.

B. EUROPEAN SOCIAL PACT

The European Trade Union Confederation has published an early draft of a Social Progress Protocol (ETUC 2008), a protocol declaration on the EU Treaties in the domain of primary law which stipulates that social and labour rights have at least the same status for all EU States as the four freedoms of the internal market for goods, labour, services and capital. In the wake of negative experiences in the form of rulings handed down by the European Court of Justice having a detrimental effect on employees' rights under collective labour agreements (Laval case), the Swedish Trade Union Confederation LO (2014) and Sweden's Social Democratic Workers Party have taken the initiative to develop a social protocol. A European Social Pact goes further than such a social protocol, but there is no uniform concept available for it. It is not much more a blanket demand that has been forwarded for years by Social Democrats and the trade unions as an instrument for balancing economic integration with a social dimension. Its possible content varies accordingly: everything from a social protocol laid down in primary law to a procedure working against social imbalances in EMU, binding framework directives on social benefit quotas to minimum social standards could be included in such a pact. The European Commission has launched its model of a Social Pact as a European Pillar of Social Rights. All models have in common the creation of a framework that explicitly establishes social goals for the Community. These seek to ensure that national achievements of welfare states are not completely dismantled in favour of exigencies of market competition and the development of transnational regulatory competence.

A European Social Pact follows the same normative premises as the claim of wage policy coordination by means of a framework for minimum wage systems (cf. chapter IV A.). The position against such a project is also very similar: social regulation of the market runs per se against a broad notion of competition. The aim of those in favour of the **EU as a competitive Union** is to keep any social regulation to a minimum as long as there are no undue distortions of competition. This explains, for instance, support for the European anti-discrimination policy, which has been comprehensively developed as a policy aimed at ensuring equal opportunities for market access (Höpner/Schäfer 2010). Furthermore, from a competitive perspective, policy coordination processes in the social sector are of interest if they contribute to the diffusion of supply-side models or trigger reforms that focus on the dismantling of social benefits guaranteed by the state in favour of market-based solutions. European efforts to combat youth unemployment through the youth guarantee also contribute to the promotion of a specific training model along these lines, for instance. It seeks to bring about changes at a structural level while at the same time ignoring the cyclical causes of soaring youth unemployment (which can be found in austerity policy, for example). Attempts at European level to better adapt national social systems to the economic area also find support. The Euro-Plus Pact (2011), for example, proposes reforms to »ensure the sustainability and adequacy of pensions and social benefits« such as raising the retirement age and putting constraints on early retirement schemes, citing the need for »full implementation of the Stability and Growth Pact«.

Contrasting with this is an understanding of the **EU as an area of integration based on solidarity**, in which national social systems are not allowed to be undermined by arrangements concerning the internal market and EMU, but at the same time not be replaced by regulatory steps by the Community in the social field. The problem of national legislative competence in the social field should be solved by means of a coordinating European Social Pact. In order to ensure that neither too little nor too much is demanded from Member States, there is an orientation towards national socio-economic indicators. The instruments are not primarily intended to dampen economic crises. Instead, they should preserve a minimum degree of social cohesion, prevent dumping strategies and prevent excessive social costs from arising through economic adjustment processes:

- The concept of minimum European standards is intended to prevent social dumping by agreeing on minimum levels that must be met for certain policies. This could be in the form of a common framework for basic income security systems, for example. Minimum requirements could involve the provision of a basic income in each Member State and a procedure for relatively simple adjustment of the benefits associated with this (Kingreen 2017). An additional minimum European standard for the benefits under basic income security systems could be based on respective national poverty rates.

- Another minimum standard could be an obligation for Member States to provide an adequate minimum level of social benefits of a monetary and non-monetary nature (often referred to as the Social Stability Pact or the corridor model, cf. Busch 2011). This would be measured in terms of per capita expenditures on social protection in conjunction with the respective national growth potential in the multi-year trend without taking short-term economic fluctuations into account. As economic prosperity increases, states would successively rise above jointly specified thresholds and have to raise their social benefits accordingly.

- It would also be conceivable within the framework of a European Social Pact to establish a minimum level of consultations with social partners in all Member States before fiscal, wage, labour-market and structural policy decisions in the event of declining economic growth rates for more than three consecutive quarters as an indicator of a severe recession.

- In particular, the European Pillar of Social Rights could be strengthened by a European Social Pact. Many of the social rights of European citizens listed here are not enforceable; their implementation is largely at the discretionary latitude of the Member States. The European Commission has also implemented a Social Scoreboard for the European Semester, a set of 14 indicators and 21 sub-indicators with which to obtain a regular snapshot of labour market access, poverty risks and income inequalities. Instead of an orientation towards European averages employed to date, target values and benchmarks should be established, possibly for different groups of welfare state models or different socio-economic development levels. Member States would have to be measured in terms of their achievement of these targets. The three instruments cited above could be integrated into the Social Scoreboard.

The ideas put forward here are based on an expansion and strengthening of coordinating social policy, which was originally envisaged in the Lisbon Strategy, but then replaced by the principle of competition. Coordination instruments will not succeed in strengthening the EU's social dimension in every area. Thus, a social progress protocol on the EU's internal market and EMU acquis would only be effective if it became part of the acquis itself. A framework for European basic income systems and the other possible elements of a European Social Pact discussed here would only begin to take on importance if it were moved from the realm of soft governance to legally binding force by means of European directives.

The Coalition Agreement addresses several of the aspects mentioned here: Youth unemployment is to be combatted with more resources, basic social rights are to be strengthened in a Social Pact and a framework for national basic security systems is to be developed (CDU, CSU and SPD 2018: 7). From a progressive point of view, the mobilisation of greater resources to combat youth unemployment would be unproblematic, but very selective and not very effective from the perspective of the model of an EU based on solidarity. The strengthening of basic social rights in a European Social Pact cited in the Coalition Agreement – see Table 5 – leaves a lot of room for interpretation. The framework for national basic income systems, the social progress protocol and a more binding nature for the European Pillar of Social Rights containing the elements discussed in the foregoing can all be understood as partial components of such a Social Pact. None of these are new goals, and have been subjects of discussion in the field of research and the political arena for years, without any real breakthrough having been achieved, admittedly.

While the social dimension of the EU has not been a priority topic on the political stage for a long time, social divisions – *inter alia* extremely high rates of unemployment and poverty – have led to an increased awareness of Europe's role in social matters due to the euro crisis and in part counterproductive crisis management (European Commission 2012). The first comprehensive result produced by this is the European Pillar of Social Rights. Progressive actors should use this pillar as a starting point for the realisation of additional projects. Otherwise there is a danger that following the proclamation of the European Pillar of Social Rights this field of activity will be regarded as having been completed without anything concrete resulting from the lofty plans spelled out therein. The European

Table 5
European Social Pact

Opportunities	Risks
– Enabling a social dimension for the internal market and EMU by agreeing on a framework for coordinating minimum social standards	– No relevance or subordination of social policy coordination to tighter competitive and budgetary coordination
– Avoiding demanding too much or too little from Member States by aligning targets with national socio-economic parameters and institutional characteristics	– Arbitrary targets – Difficulties with comparability – Excessive demands for special conditions
– Avoiding subordination of national social and labour law provisions to internal market freedoms through a European social progress protocol	– Protection of national social and labour law provisions as a defensive strategy without establishing common standards
– High relevance of social policy instruments through the adoption of European directives	– Strong changes in nation-state sovereignty in the social sector bearing relevance to the treaties
– Avoiding extreme poverty through a framework for European basic income systems	– No significant limitation of poverty-induced migration to rich EU countries, as the prosperity gap remains the same
– Prevention of strategic cuts in social spending through a mandatory minimum level of social benefits	– The effectiveness of social protection expenditures would be obfuscated
– Support for the social objectives of the European Social Pact and the European Pillar of Social Rights through MFF funding	– Beginning of more stringent conditions to preserve EU funds, in which budgetary targets and targets relating to competitive structural reforms subordinate social goals.
– Strengthening of programmes against youth unemployment	– Structural measure that does not address crisis-induced causes of unemployment

Commission's proposal (2018a) to increase resources in the European Social Fund from EUR 74 billion in the last MFF and to EUR 100 billion in the future MFF to cope with new tasks emanating from the European Pillar of Social Rights constitutes a step in the right direction. Financial resources at European level can only be employed to a limited extent as a result of existing competencies, however, in particular with respect to youth employment, qualification and retraining of workers and combatting poverty. For some of the aspects proposed here, European support could be progressively envisaged, for example by setting up a basic income system aimed at preventing poverty. It may be warranted to link cohesion and structural funds to the achievement or willingness to achieve social objectives (Kingreen 2017), but this could then open the floodgates to a similar – but more effective – linking of financial inflows to the implementation of budgetary and competition-related structural reforms.

At European level, linking social objectives to MFF support funds enjoys considerable popularity, with only Hungary, Poland, Denmark and Austria adopting a very critical stance here. Especially in the wake of experience in connection with the euro crisis and the social divergence emerging from it, many Member States have been calling for a coordinated European reduction of inequalities, while at the same time demanding greater flexibility with regard to national specificities. Far-reaching regulation through a social progress protocol would open up a deep East-West chasm, however. France, which is interested in a mechanism to regulate competition over low social security contributions along the lines of a social stability pact and in closer cross-border cooperation between government authorities responsible for social security, is strongly in favour of the model of an EU based on solidarity. In this context, the European Commission's initiative to establish a European employment authority in an advisory capacity is welcomed. Italy, Greece, Belgium, Luxembourg and Austria are also showing considerable interest in this perspective and are advocating a strengthening of social indicators within the framework of the European Semester. The ideas of former Commissioner for Social Affairs László Andor (2013) that the existing economic governance of EMU also needs to reflect social challenges are being examined (including strengthening the EPSCO Council). Concentrating the European Social Pact on the euro zone – with voluntary accession by non-euro states based on the Fiscal Compact model – could offer a quicker, albeit intergovernmental solution to strong opposition.

C. REGULATION OF CORPORATE TAX

One of the clear competition-enhancing elements in the EU is competition to attract business enterprises in the area of taxes, particularly corporate taxes. Tax rates within the EU differ considerably and there is a downward trend in levels. From the point of view of companies with multinational structures, it is advantageous to tax profits and losses at different tax rates in different geographic locations in the common internal market thanks to the free movement of capital. This has led to competition between Member States in which the Member State with the lowest tax rates wins. On top of this, there are special exceptional arrangements for tax reduction or exemption as a policy to attract investors. The focus is waning on industrial production facilities, and instead moving to the location of company headquarters to handle service business in the EU. The main actors that are being courted are non-European providers, in particular big-name American companies operating in the Internet economy. The public budgets of the states are affected by low corporate taxes and tax exemptions for outside capital. Lack of tax regulation at Community level can furthermore lead to the formation of macroeconomic imbalances, as capital, in search of lucrative investment opportunities, can lead to an overheating of individual states' economies.

The most important argument against this type of tax competition is regulatory, however: If transnationally operating companies can choose to produce in countries with a well-developed socio-economic infrastructure while outsourcing ledger profits to low-tax countries, the market will not work. In addition, due to the decline in revenue from the taxation of large multinational companies, Member States are increasingly taxing small and medium-sized enterprises by broadening tax bases and are increasing the burden, or at least not relieving it, on the factor of labour through indirect taxes. This clearly illustrates the socially skewed results produced by tax competition: »In a nutshell: The real tax competition provides preferential treatment to internationally mobile companies and wealthy individuals at the expense of employees, consumers and less mobile capital« (Rixen/Uhl 2011: 6f.).

To curb the skewed incentives existing at present, the European Commission has submitted (2011) a comprehensive proposal for a Common Consolidated Corporate Tax Base (CCCTB). The underlying idea is to determine the total profit or loss of a multinational company (»corporation«) across national borders and to net (»consolidate«) the different country results. The total income for tax purposes (»tax base«) is determined on the basis of European (»common«) rules and split up among the countries involved. The European Commission's proposal did not meet with the approval of the Member States, particularly as regards the cross-border netting of profits and losses. The European Commission (2016) therefore submitted a revised proposal for a CCCTB providing for a two-phase model: Consolidation will not be negotiated until the Council has reached an agreement on the common corporate tax base (CCTB).

From the **perspective of an EU based on solidarity**, the CCCTB offers the advantage of combating tax avoidance in the internal market. It promotes the transparency of tax rates in the Member States because it abolishes exemptions as well as the practice within companies of using transfer pricing to shift the location of profits. The CCCTB can help to recover revenues lost due to tax avoidance strategies for public budgets again and to strike a better balance regarding the tax burden between large international companies on the one hand and SMEs and labour and excise taxes on the other. However, there needs to be an obligation to use the CCCTB – in the European Commission's 2016 proposal this is only to be the case for groups of companies with consolidated income above EUR 750 million. If all other companies were free to use the CCCTB system, tax competition could even intensify, as in future a 29th tax system would be added to the 28 Member States' existing tax systems for companies to select to use for internal transfer pricing. Moreover, only a parallel agreement on a minimum European tax rate could restrain Member States' practices of tax dumping through low corporate tax rates. The CCCTB would put an end to exemption rules and make companies (at least in the case of compulsory use) liable to pay taxes wherever production takes place. In the absence of downward tax rate caps, however, this could especially lead to an acceleration of companies relocating to neighbouring countries with lower tax rates (Rixen/Uhl 2011; Rixen 2016).

The CCCTB also offers advantages from the **point of view of the EU as a competitive area** in that it restores proper functioning of the market. The reduction of administrative expenses and compliance costs through the system of transfer pricing, double taxation expenses in favour of a reduction to a single EU-wide system for calculating taxable income would lead to savings for businesses. In addition, there would be increased market transparency and enhanced legal certainty. These advantages would only materialise if the CCCTB were made compulsory for all multinational companies, however. In this perspective, the introduction of EU-wide minimum tax rates is rejected because tax competition between the Member States is generally seen to promote the attraction of capital while increasing the efficiency of the state by reducing revenues while at the same time freeing up a greater supply of entrepreneurial investment resources and jobs (cf. on the ambivalent attitude towards the regulatory framework for corporate taxes from a liberal point of view: Brauckhoff 2012).

The Coalition Agreement states in no uncertain terms: »We fight tax dumping, fraud, avoidance and money laundering both internationally and in the EU. We support fair taxation of large corporations, especially Internet companies such as Google, Apple, Facebook and Amazon. In future, companies must no longer be able to evade their social responsibility by playing off the EU states against each other. Tax dumping must be prevented. We support a common, consolidated tax base and minimum rates for corporate taxes« (CDU, CSU and SPD 2018: 7). Elsewhere, it is emphasised that in EMU priority is to be assigned to the »fight against tax fraud and aggressive tax avoidance« (ibid.: 9; similar: 12, 68).

Table 6
Corporate Tax Regulation

Opportunities	Risks
– Transparent company taxation through CCCTB with compulsory use for very large multinational companies	– Increased complexity due to insufficient obligation to use together with a de facto offer of a 29th tax model
– Elimination of exemptions and special rules in Member States' tax legislation to attract capital (unfair tax competition) in accordance with OECD rules (BEPS)	– Maintain, possibly increase, competition for low corporate tax rates without adding minimum tax rates
– Improving the balance between the taxation of big business and taxes for SMEs, employees and consumers through mandatory CCCTBs with minimum tax rates	– Transfer of tax competencies to the EU, requirement of unanimity among Member States
– Use of a share of the expected additional revenue from a CCCTB with Europe-wide minimum tax rates for task financing in the EU budget, which has been lost so far	– No significant increase in revenue in national budgets without adding minimum tax rates

The opportunities offered by the CCCTB (see Table 6), both along the lines of the model for an EU based on solidarity and an EU primarily based on competition, suggest that a consensus could be quickly reached in Germany. From a progressive perspective, the European Commission's proposals need to be supplemented by demands for a general obligation to use a CCCTB along with introduction of an accompanying minimum tax rate. It will be difficult to reach any agreement on this in the EU. While France, Italy, Spain, Austria, Portugal and Belgium are clearly in favour of EU-wide regulation, many smaller Member States, such as Luxembourg, Ireland, Malta, Cyprus and many central eastern European countries such as the Baltic States, Romania, Hungary and Croatia, purposefully apply the competitive paradigm in the area of corporate taxation. This division is already apparent in the implementation of the OECD's BEPS guidelines in the EU and it recurs in the CCCTB. This will make it difficult to implement consolidation, and the same goes for further-going demands for an expanded usage obligation or a minimum tax rate. It would be conceivable to introduce the CCCTB within the framework of stronger cooperation and minimum tax corridors by groups of countries while taking into account the state of economic development, however. On the occasion of the Meseberg meeting, Germany agreed on a common position with France which in principle supports the European Commission's plans and calls for an extension of the scope to all companies (BMF 2018). This move is going in the right direction, but from a progressive point of view it still needs to be improved with regard to a minimum tax rate.

V MULTIANNUAL FINANCIAL FRAMEWORK OF THE EU

There has been an awareness of the need to reform the EU's common budget for many years now. Criticism can be broken down into the following points (cf. Becker 2012):

– The insufficient amount of financial resources available as the number of tasks grows, with these resources only amounting to about one per cent of the gross national income (GNI) of all EU States;

– The inflexibility of financial resources fixed for seven years in the Multiannual Financial Framework (MFF), which allows a rapid response to new challenges only to a very limited extent;

– The structure of expenditures, whereby approximately three-quarters of the financial resources are used for agricultural policy and structural funds;

– The revenue structure, which is an extremely complex, historically evolved system consisting of customs duties, value-added taxes and payments by Member States in accordance with their GNI and replete with special rules and rebates;

– The lack of autonomy possessed by the EU budget, regarding whose expenditure the European Parliament has a say, but about 90 % of whose revenue side depends on contributions paid by the Member States. These are entangled in a »*juste retour*« approach, whereby even the most prosperous regions benefit from European funding.

Two new aspects have been added to the next financial framework, which have only proved to be important focal points of activity in recent years:

– Britain's exit from the EU will result in a substantial loss in revenue in the realm of around EUR 10 billion, which will have to be offset by the remaining 27 Member States.

– Interference by the right-wing conservative Polish government in this country's separation of powers by restricting the independent judiciary has given rise to a debate over tying the flow of funds from Brussels to Union rule-of-law principles.

The progressive approach would be to address all these critical points. The most important one is the Union's basic financial resources: Many challenges and future risks increasingly indicate a **growing need for common regulation**, which no European nation state will be able to meet on its own no matter how large, influential and economically powerful it is. Crises in financial markets, migration movements, environmental and climate policy, economic and social rules for the internal market, economic policy in monetary union, but also issues such as energy supply, defence, foreign and security policy, can best be tackled jointly, and in some cases can only be coped with jointly, due to their transnational character in an interdependent world. The growing need for the Union to perform additional tasks inevitably translates into a need for greater expenditures. The need for new budgetary priorities does not change any of this either.

This position advocating greater EU funding resources is opposed by the view that transnational challenges are best tackled by sovereign national decisions so as not to have to cave in to the interests and possibly majority opinions of neighbouring countries. In addition to the **preservation of national sovereignty**, which ultimately also translates into a roll-back of the current level of integration, the demand for a different allocation of budget resources constitutes an argument in favour of a continued modest or even lower level of EU funding.

The European Commission (2018a) attempts to address some of these problems in its proposal for MFF 2021 to 2027. The overall level of the budget and some individual items in it are difficult to compare with the current MFF period, as the number of Member States has been reduced by the previous net contributor, the United Kingdom, and some departments have also changed. According to the European Commission, the overall projected level of 1.11 per cent for EU-27 GNI, with a combination of additional contributions and cuts, remains roughly comparable to the present financial framework. Cuts are to be made in particular in the area of the Cohesion Fund and agricultural subsidies, according to calculations by Jens Südekum in the total volume of 7 (cohesion) and 15 (agriculture) percent. The funds that are freed up will be invested primarily in areas with »European added value«, as the European Commission calls it, e. g. migration, research, security and defence. One new item is the creation of a separate budget line for EMU – reform implementation instrument, investment stabilisation function – as a possible nucleus of a future fiscal capacity (cf. chapter III C.). The European Commission also proposes a greater flexibility reserve for unforeseen events. The European Commission justifies the planned linkage of financial allocations to respect for the rule of law by arguing that legal certainty is needed as a prerequisite for efficient budget management. The Council is to decide on established rule-of-law deficits by a reverse qualified majority after consulting the Member State concerned, and this is to be followed by sanctions commensurate with the deficits in rule of law. The European Commission intends to leverage the exit by the UK to phase out all the rebates of the past that have accumulated over time. In addition, it intends to introduce new resources of its own amounting to approximately twelve per cent of total budget revenue, which is to be obtained from the European emissions trading system, earnings from the planned CCCTB (cf. chapter IV C.) and a new tax from the Member States on non-recycled plastic waste.

The Coalition Agreement makes reference to the topic of EU finances in several places. For instance, the EU should be strengthened in its capacity to act »so that it can perform its tasks more effectively. We will ensure this when we draw up the next multiannual financial framework. […] We are prepared to increase Germany's contributions to the EU budget. We want a budget that is clearly geared to tasks of the future containing European added value« (CDU, CSU and SPD 2018: 8). Elsewhere it is stated that investment in Europe is investment in one's own country. At the same time, it is emphasised that »EU cohesion policy should be maintained in all regions, especially in current transitional and more developed regions« as well as the Structural Funds (ibid.: 7). Nor should the budget volume in the area of agricultural policy be changed (ibid.: 83).

The position is very clear: the coalition partners identify a number of areas of future importance – such as education, research and innovation – for which more money is to be spent at European level. At the same time, existing major categories of expenditures in the domain of agricultural, structural and cohesion funds are not to be touched. Ultimately, all that remains is a massive increase in funding, prospects for which are also raised in the form of greater contributions. In the sense of a progressive position, this cannot only translate into a proportionate fill-up of the Brexit gap if policy-makers are serious about new financing requirements due to the multiplication of Union tasks (see Table 7). This holds especially true for the social area, if a European Social Pact should be implemented (cf. chapter IV B.). The amount of Germany's additional contribution and how this is to be tied to the behaviour of other Member States will be a subject of political debate.

There is broad agreement in the EU that greater attention needs to be devoted to new political priorities. Even central eastern European countries that are critical of the EU's role in migration issues are in favour of strengthening common border management. Member States also widely share a belief in the need for better funding for new Community expenditures in the area of security and defence policy and for investment in the development of the digital infrastructure. Nevertheless, the level of inertia to maintain all previous budget priorities is considerable: Ireland, Poland, Germany and France have no interest in major cuts in agricultural policy or in the Structural and Cohesion Funds. A comprehensive increase in the budget as the only progressive way out would have to be defended against strong resistance from the Netherlands, Austria, Sweden and Denmark, for example. The worst-case scenario would be a rejection of major reallocations in the existing budget coupled with a rejection of greater own resources. It will only be possible to meet relatively rich regions' expectations that they will continue to receive EU funding if

Table 7
Multiannual Financial Framework

Opportunities	Risks
– Better EU funding for new tasks in the fields of migration/border protection, environment/climate protection, security/defence, research/digitalisation, etc.	– Compensation for the gap caused by Brexit without significant increase of the MFF for new tasks
– More sensible distribution of funds through cuts in the agricultural sector in particular, which makes only a small contribution to the EU's gross domestic product	– Too few shifts to topics with »European added value« due to strong inertia in the agricultural lobby
– Greater flexibility between budget departments in the event of unforeseen events	– Risk of cuts being preferred in departments with »European added value«, since relatively little resistance is to be expected here
– Strengthening rule of law in the EU by linking the inflow of funds to respect for rule-of-law principles	– Counterproductive effect as an instrument of punishment causing citizens to close ranks with their government
– Reform of the own resources system, *inter alia* through the introduction of new own sources of finance or financial sources earmarked in the Member States for specific purposes	– Newly emerging complexity to determine the distribution of funds between the EU and the Member States – Questionable democratic legitimacy of nationally instituted levies/taxes earmarked for the EU
– Overcoming »*juste retour*« thinking by understanding the EU budget as an instrument for financing Community tasks, which must also contain redistributive elements in order to harmonise economies and living conditions	– Considerable reduction in cohesion and structural fund resources for states with relatively strong economies – Massive financing problems in municipalities and states if cash inflows to regions in Germany cease

there is more to distribute overall. The related discussion about intelligent management of both financial contributions to the EU and expenditure items could facilitate calls for a substantial budget increase. These include, on the one hand, the development of new financial sources for the EU and, on the other hand, conditions being tied to funding commitments. In both cases, selected policy objectives can be linked to financial issues (e.g. climate and environmental protection, corporate tax regulation, respect for rule of law). The current EU political system cannot be about the long-term project of an EU having its own tax. Rather, earmarked levies from the Member States, the imposition of which is directly linked to objectives that are to be regulated at European level, should be contemplated (Schratzenstaller 2018). The euro crisis has made it clear that a system of punishing Member States for failure to meet targets and objectives along with recommendations and requirements has its limits. From a progressive point of view, therefore, a system of incentives and rewards should be considered for certain Union objectives, which would be in line with the European Commission's desire for greater flexibility of financial resources.

VI CONCLUSION

A look at the instruments in the areas of economic and social policy indicate how broad and how polarising the extrapolation and evaluation of political initiatives can be. Just like in the case of national politics, there is no such thing as no-risk approval of new instruments in European politics. Progressive actors also need to weigh out opportunities and risks before calling for deeper integration. It is an old misconception in European policy that every European regulation stands for progress. In the preceding analysis, it has become clear how »more Europe« can have both a progressive and a regressive effect. The design of new integration instruments, for instance, depends on the underlying model of Europe.

Among progressive actors in Germany, Social Democrats formulated their model for a Political Union for European integration over ten years ago. In various sectors, this model can be distilled into prospects of 1) a Fiscal Union for EMU, 2) an EU based on solidarity and 3) a realisation that there is an increasing division of tasks in tandem with corresponding financing requirements. This perspective contrasts with a model which views the Union mainly as a market. In the policy areas addressed here, the aim is to achieve 1) a Stability Union for EMU, 2) a Competitiveness Union for the EU and 3) a sovereign national solution to common challenges.

Against this background, an investment budget for the euro zone, a framework for minimum wage systems, a European Social Pact, the CCCTB including minimum tax rates and an increase in contributions to the next MFF appear to be the primary objectives in a progressive European policy. On the other hand, risks of the projects of an EMF and a European minister of finance being designed along the lines of the Stability Union's model are relatively great. The CCCTB project and an increase in the MFF and the German contribution to it are characterised by particularly salient opportunities for a consensus within the coalition. The European Social Pact and a financing instrument for EMU in particular offer tremendous potential in terms of initiative and profiling. The conceptualisation of both these instruments has yet to advance much and been decided upon least of all. Both exhibit a high potential for conflict, however.

This potential for conflict already became apparent in June 2018, when the Chancellor interpreted any new funding instruments for EMU as disciplinary measures for budgetary and competition-related reforms in line with her policy of »conditioned solidarity« initiated during the euro crisis (FAS 2018). According to her plans, the EMF would only take action after domestic debt restructuring and would be organized on a purely intergovernmental basis. Yet this would mean that the ESM would be deprived of control by the Commission and be buried as a key instrument to overcome the crisis in favor of reinstating the no-bailout clause. In the Chancellor's view, the proposal for an investment stabilisation function, too, should be used in the same way as the reform delivery tool – linked to strict conditions for pro-competitive structural reforms. In contrast, the SPD parliamentary group (2018) argues – in addition to financial incentives for structural reforms – also in favour of resources to boost joint growth-enhancing investments as well as to stabilize member states' economies in the event of a crisis. It also calls for a social dimension of the EU in order to prevent wage, social and tax dumping, whereas Merkel only refers to the fight against youth unemployment on this issue.

The antagonism between primarily political or market objectives for the EU also runs through the Franco-German declaration of Meseberg. On the one hand, one wants to set up the ESM or future EMF as a backstop for the banking union, on the other hand, this should not encompass its entire volume, but only twice the amount of the SRF. Similarly, on the one hand, one would like to set up a Eurozone budget, on the other hand, it is emphasized that the option of a European unemployment reinsurance should be strictly conditioned and work on a credit basis, avoiding any transfers (BMF 2018).

There will be more, even fiercer disputes between the coalition partners as the first hurdle to cross and between the European partners as the second. The pressure described above, which weighs heavily on Germany, for example with regard to formulating a position on EU reform or in preparation for the Council Presidency in 2020, can be helpful in finding compromises. Yet, wherever deviations from the model of a Political Union that is currently being pursued by progressive actors become so great that one's own goals are no longer recognisable, the question of willingness to compromise arises anew.

Abbreviations

BEPS	Base Erosion and Profit Shifting
CCCTB	Common Consolidated Corporate Tax Base
CCTB	Common Corporate Tax Base
ECB	European Central Bank
EFSF	European Financial Stability Facility
EFSI	European Fund for Strategic Investments
EFSM	European Financial Stabilisation Mechanism
EMF	European Monetary Fund
EMU	Economic and Monetary Union
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council
EPSR	European Pillar of Social Rights
ESBies	European Safe Bonds
ESM	European Stability Mechanism
GNI	Gross National Income
IMF	International Monetary Fund
MFF	Multiannual Financial Framework
MIP	Macroeconomic Imbalance Procedure
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium-sized Enterprises
SRF	Single Resolution Fund

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