The crisis of the euro zone has still not been overcome. That, together with the negative social consequences and problems for democracy resulting from the »rescue policy« pursued to date, has given rise to academic and political debates concerning the fundamental direction of decision-making between rolling back or further expanding EU integration.

Against this background this contribution is an attempt, first, to show that and why rolling back – in other words, the return to national currencies and the creation of a »European Bretton Woods system« – is not a solution. Nevertheless, the arguments of critics of the integration process hitherto, culminating in the single currency, and the consequences of the crisis management pursued to date are to be taken very seriously indeed.

We then look, with a glance at experiences with integration thus far, at the structural and political barriers to deepening integration. These are not considered insuperable, however, all the more because reform proposals on the restructuring and expansion of the Union or of the euro zone have made their way from the academic ivory tower and now dominate the political agenda of the EU institutions, where the question about measures to deepen integration is no longer »whether« but »how?«

Within this horizon, finally, we shall outline the paths that may be taken towards deepening in terms of both timing and substance, as well as what needs to be put across in the forthcoming European elections in order to come closer to the goals of an economically more efficient, socially more just and more democratic EU.
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1. Initial Situation and Basic Alternatives

Dismantling or rolling back European integration – in other words, the failure of European economic and monetary union in terms of its current functional logic and/or membership structure – as a result of the politically uncontrollable turbulence that might arise from future developments in the international financial markets and banking system or due to political upheavals in individual countries in the euro zone (still) cannot be ruled out.

Political strategies aimed at a »negotiated and organised dismantling«, whether along the lines of renationalising EU competences, as favoured by the British Government, or ideas directed towards dismantling the economic and monetary union – for example, transforming it into a »European Bretton Woods system« – are not a solution, however. They are mistaken – as we shall show – about historical experiences of EU integration policy to date; they do not take sufficiently into account the »costs of dismantling« given the current level of economic integration and interdependence in the EU single market; and they overlook the political, political-psychological and economic consequences of an integration-policy »spillback« – in terms of both internal relations in the EU and the role of the EU in the globalised world economy and multipolar world order. Instead, what is needed is an integration-policy strategy that aims at restructuring and expanding the EMU and the EU (see Platzer 2012).

In that regard corrections would have to be made in the integration path pursued to date within the framework of crisis management for reasons of democracy and on economic and social-policy grounds. This course of integration, consisting, among other things, of the fiscal compact, the ESM, ECB interventions and the »six pack«, has already – measured by the rules on EMU contained in the Maastricht Treaty – de facto led to »deeper integration«, although one that is asymmetrical in terms of economic and regulatory policy and precarious in terms of integration policy and democracy. The economic and regulatory policy asymmetry results from the fact that the instruments aimed at bringing about budgetary discipline and the »supply side« of the economy have not (hitherto) been backed up with adequate instruments aiming at the »demand side« of the economy and which would enable efficient macroeconomic steering and substantial market regulation. The problems affecting democracy consist – even though crises may sometimes be the »hour of the executive« – of the strengthening of technocratic, hegemonic and intergovernmental policy patterns at the expense of democratic parliamentary principles and the Community method as a result of the management of the euro-crisis. Progress such as that made with the EU reform treaty, which came into force in December 2009, in the area of »democratisation through parliamentarisation« – in other words, through the strengthening of the European Parliament’s co-decision-making rights and of national parliaments as »guardians of subsidiarity« – are in this way being undermined and partly even annulled.

Whatever way you look at it, the arguments of critics of the integration process hitherto culminating in the single currency and the consequences of the crisis management pursued thus far are to be taken very seriously indeed. To take one example, Streeck argues that the EU, with its current crisis management strategy, will end up in a »neoliberal consolidation state« or in a »democracy-free single market state« (Streeck 2013).

2. Why Dismantling Is No Solution

Streeck, who here is taken as the most prominent voice of the »roll-back school«, proposes the establishment of a »European Bretton Woods« (Streeck 2013: 250) as an alternative to monetary union and to the »euro as a frivolous experiment« (Streeck 2013: 237). In other words, a return to national currencies with the possibility of devaluation. In a chapter entitled »In praise of devaluation« (Streeck 2013: 246ff) he elevates the »right of devaluation« to almost constitutional status because it is the »institutional expression of respect for nations represented by their states as sui generis economic living communities and communities of fate« (Streeck 2013: 246f). Having one’s own currency with the option of devaluation protects national sovereignty against the »totalitarianism of the single market« (Streeck 2013: 247).

1. »Communities of fate«: originally, groups in distress who clearly recognise a shared problem; latterly invoked in the context of trying to instil such a sense in people who had never or only dimly thought of themselves as belonging to the same community. (Translator’s note.)
Against this option we can set historical experience and current cost-benefit analyses. One of the main objections to this roll-back position is that it »distorts« the European and international experiences of the 1980s and early 1990s, both economically and politically.

Experiences from this period show that devaluations, which generally have to be accompanied by restrictive wage policy constraints, are a monetary-policy vehicle that provides only short-term relief. National competition-relevant structural problems, such as clientism, corruption, tax avoidance and the shadow economy, cannot be eliminated in this way (admittedly, even a supranational »economic government« could have only a limited effect).

National currencies were – as in Europe before the introduction of the euro – and would be in future (in countries threatened by devaluation) the target of financial speculators in whatever kind of fixed exchange rate system. With today's transnational mobility of capital and the sheer volume of capital flows waves of speculation are even bigger than in the 1980s and the options open to governments or central banks, to decide »freely« whether to re- or devalue, are correspondingly smaller.

Devaluations are not a sustainable instrument for reducing public debt because (chronic) devaluation countries are largely indebted in foreign currencies. Countries in a »European Bretton Woods system« would only de jure recover their currency and monetary sovereignty; de facto they would remain dependent on a leading currency or currencies of one or more leading nations. The problem of »German hegemony« that has arisen in the wake of euro-crisis management would not be solved in this way.

At this point it is worth looking back briefly: the project of a common currency was negotiated during the time of German reunification, which undoubtedly worked as a catalyst (Platzer/Ruhland 1994: 85ff): the integration and self-integration of Germany was at stake. EMU was supposed to – for example, in accordance with the interests of France – break the previous dominance of the deutschmark and prevent it from re-emerging in future. However, the deeper integration involved in a common currency was not only the political »price of reunification« (or, as Le Figaro then put it, a »Versailles sans guerre«) but to a considerable extent due to an economic-functional dynamic (completion of the single market alongside ongoing currency instability and the shortcomings of the European Monetary System). We mustn’t forget that the then Commission president Jacques Delors was tasked with working out a phased plan for monetary union at a time when German reunification was not on the cards.

If devaluation, as outlined above, was in the past overrated as a way of solving problems while protecting national sovereignty, it is all the more so now, that is, »against the background of such a highly advanced transnational integration of product, service and capital markets and production logistics as has developed in Europe under the umbrella of the common currency and the single market« (Deutschmann 2013: 4).

Devaluations would make exports cheaper. However, apart from the fact that they would at the same time make imports more expensive cheaper exports improve »competitiveness only nominally, not in real terms. In order to improve it in real terms foreign capital is required. But who will lend to a country whose currency is in free-fall? In short: a devaluation represents a drastic economic remedy for the country concerned, which differs little in its material effects from the measures being imposed by the »Troika« on the crisis countries« (Deutschmann 2013: 4). Evidently, the majority of people and the political and economic elites in the affected countries know that.

Restructuring and further expansion of the EU is needed in order to avoid majorities turning into minorities. The approach to problem-solving pursued hitherto has contributed – in particular in terms of social policy – to the delegitimisation of the EU. Not least this has nourished the ominous advance of right-wing populist tendencies and nationalist forces in numerous EU countries.

In any case, the remnants of the radical free-market »Hayekian utopia« that Streeck has analysed profoundly and justly criticised will not be overcome by renationalisations or an »isolation in sovereign impotence of an overwhelmed nation« (Habermas 2013: 62). It requires a reform offensive in integration policy that must make it clear to the public that there certainly are alternatives to the crisis management pursued to date, but also that none of them are risk- or cost-free.
3. The Difficulties of Deeper Integration: Historical Experiences and Fundamental Conflicts

Any approach to deeper integration aiming at democratising the EU’s decision-making system and strengthening the social dimension in the EU or in a further reformed EMU confronts multiple dilemmas and political obstacles. The reasons for this are clear from the historical experience of integration.

The question of how to organise a »social Europe« arose at the founding of the EEC, which was aimed economically (at first solely) at the free movement of goods between six comparatively »homogenous« member states with similar welfare state structures and economic conditions in circumstances completely different from those that prevail among the current EU28. The current EU after the most recent enlargement rounds is characterised, on one hand, by unprecedented wealth disparities between the member states and a plurality and heterogeneity that have increased considerably in terms of national production and distribution regimes. In the realm of economic integration, on the other hand, the EU today is characterised by unprecedented market liberalisation (which now encompasses the labour, capital and service markets alongside product markets) and due to the »vice« of the common currency (whose conditions also spill over to the EU member states outside the euro zone) subject to an historically unprecedented interdependence. In such a socially and economically heterogeneous EU there are substantial obstacles to balancing interests and profound reform measures. The reasons for this are analytically evident and explicable if one considers that a constitutive role has been played by three interdependent axes of conflict:

- a regulatory policy axes of conflict: market versus state; competences and instruments for deregulation versus competences and instruments for reregulation;
- an integration policy axes of conflict: nation-state versus supranational union; subsidiarity versus transnational solidarity and socio-economic cohesion;
- a distribution policy axes of conflict: different (adjustment) costs of the Communitisation of policies depending on the varieties of capitalism of the member states (compensated by elements of EU-distribution policy – hitherto in the form of the structural funds).

An EU policy that seeks to promote harmonisation and deeper integration of the »social dimension« is thus structurally prone to obstruction because (compromise) solutions have to be found not only in terms of the traditional right/left arrangement of party competition and the public-policy axis of conflict (market versus state), but also in the two other conflict dimensions. This at the same time touches on the question of the relations between »negative« (»market creating« in the broadest sense) and »positive« (in the broadest sense »market correcting« or »common policy constituting«) integration. In terms of policy analysis we have to distinguish here between regulations concerning products and mobility and regulations concerning production and location. The former are more susceptible – as the social policy acquis shows – to harmonisation. In all treaty negotiations from Rome to Lisbon the development of a common labour and social policy was one of the most sensitive and controversial issues because it involved both fundamental conflicts of interest concerning the nature and form of the union – a specifically economic association or a political union – and member state reservations about sovereignty, not least grounded in the traditions and structures of national welfare states.

Although European integration was a »political project« from the outset the economy has formed the core and axis of strategic development. The prioritisation of the economy over social-policy integration is manifest in the course of integration through the stages of the Common Market (EEC Treaty), the single market (Single European Act) and the monetary union (Maastricht Treaty).

Overall, an asymmetrical basic architecture has emerged between the EU’s economic-and social-policy competences, which characterises the union to this day. The ten years or so of negotiations that led up to the current EU reform treaty gave rise to only a »constitutional minimalism« (Platzer 2009) in this connection. However, there has also been normative progress, in particular regarding:

- the EU’s social-policy aims;
- the legally binding Charter of Fundamental Rights (even though it now appears only in the annexed protocol and the United Kingdom, the Czech Republic and Poland are exempt from its social-policy obligations); and
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- the introduction of a horizontal social clause (Art. 9 TFEU) by which the EU is obliged, when laying down and implementing EU measures, to take into account the need to boost employment and ensure adequate social protection, combat social exclusion and bring about high levels of education and health care.

At the same time, however, the Reform Treaty largely maintains the status quo ante with regard to competences and procedures; in other words, on the core institutional issues.

These primary law provisions are also reflected in secondary law in the *acquis communautaire*: despite clear growth in the social and labour policy *acquis* (including a number of innovative solutions) the regulations on market freedoms (whose priority has been further underlined by recent ECJ rulings) are preponderant. The institutionalisation of the »social dialogue« in the treaties and the creation and extension of »soft« forms of governance in the form of the »open method of coordination« cannot – or only to a limited extent – correct this imbalance.

4. Attempts at Policy Reform by the EU Institutions towards Deeper Integration

Reform-policy concepts aimed at supplementing the current approach to crisis management and to deepen EMU and the EU have now left the academic ivory tower and entered into political discussions and decision-making. Besides the banking union, which politically is already under way, this includes, first, the idea of »genuine economic and monetary union« (on this see Hacker 2013) and, second, preliminary European Commission policy drafts to strengthen the social dimension (on this see Busch 2013).

The debate on a »real« or »genuine« economic and monetary union has been under way since the presentation of the Quadriga Report (2012). The four presidents (of the Council, the Commission, the ECB and the euro group) identify four key components in the reform of the euro zone’s architecture that are to be implemented in stages over ten years:

- a banking union with European oversight and a mandate on restructuring and deposit guarantees safeguarded by the European Stability Mechanism (ESM);
- an integrated budgetary framework combining a stringent state budgetary policy (for example, in the form of a debt repayment fund) and a fiscal capacity;
- an integrated economic-policy framework to promote sustainable growth, employment and competitiveness on the basis of the European semester and the Euro-Plus Pact, in particular in relation to labour mobility and tax coordination;
- strengthening the democratic legitimacy and accountability of new mechanisms of joint decision-making on financial and economic issues.

The European Parliament, too, formulated a strategic concept, in a resolution passed at the end of November 2012 by a large majority, that provides for ambitious steps in the direction of a federal Europe (by means of a banking, a fiscal, an economic and a political union).

In the meantime an approach has evolved in the course of political discussions that provides for treaty agreements on national structural reforms and fiscal obligations between EU institutions and each member state in the monetary union. This programme of structural reform is to be endorsed by the relevant member state’s parliament. To support a treaty-conform implementation, the prospect of financial support, supplied by earmarked new funds from the EU budget that would not be a component of the multi-annual financial framework, is to be provided as an incentive to the states.

Discussions so far on strengthening the democratic legitimacy of the new procedures and instruments of economic governance remain relatively vague. The summit declarations of the European Council are limited to ideas about closer cooperation between the European Parliament and national parliaments. The European Commission’s ideas amount to strengthening the information and consultation possibilities of the European Parliament within the framework of the European semester. Furthermore, the contours of a future institutional architecture for EMU are crystallising out of the discussions and individual position papers (European Commission, the Franco-German paper); in the Council the Euro-zone would be strengthened within Council formations; in the Commission a financial administration for EMU would be created and a vice-president responsible for the Euro; and in the European Parliament a »Euro Committee« would...
be established whose authority would surpass that of other committees.

In the narrower domain of social policy the European Council decided in December 2012 (under pressure from France) that the issue of the social dimension should be examined and taken into consideration in the roadmap to be worked out for the June 2013 summit.

In a semi-public first paper Social Commissioner Andor developed far-reaching ideas that break with the prevailing neoliberal logic of Commission policy. The paper »The social dimension of a genuine Economic and Monetary Union« (Non-Paper 2013) calls for an integral role for the social dimension in the plans on deeper economic and monetary union. The proposed expansion of the social dimension has three components:

- enhanced coordination and supervision of social policy (a scoreboard of employment and social indicators reflecting macroeconomic developments; thresholds to indicate when action is needed and trigger certain preventive or corrective measures);
- minimum standards at national level (including a guarantee for young people, who must be offered either a job, a training place or further training measures); a minimum of active labour market policy measures; a minimum subsistence income and minimum access to social services; a minimum wage for all employees;
- treaty agreements on social-policy reform measures, accompanied by a financial solidarity mechanism (whereby the financial instrument is to be expanded in the medium term into euro-unemployment insurance capable of performing anticyclical fiscal policy functions).

This ambitious effort has already been diluted considerably in a follow-up paper (April 2013). Although the European Council’s Conclusions of June 2013 confirmed that EMU’s social dimension would be strengthened the social-policy innovations developed in the European Commission’s policy paper do not appear. All that is taken up is a (diminished) system of indicators in accordance with which the social and labour market situations are to be monitored (by including corresponding social- and employment-policy indicators in the process of the European semester). Ultimately and substantively the policy approach that remains in place is aimed (taking into consideration individual member-state competences) at better coordinating employment and social policies and using existing instruments – such as the European employment strategy – more effectively.

5. Reform Options: Europe – How Much, How Fast, How Far?

First of all, the plans and conflicts succinctly outlined here both within and between EU institutions show that it is no longer a question of »whether« there will be deeper integration but »how«; and that also means that in the political arena options concerning a rolling-back of EMU are not being considered. Even so, this does not solve either the technical or the political questions about whether the proposed development paths are adequate to the problems or feasible.

There are three (interlinked) issues that sound simple but are difficult to answer:

- Europe – how much? To what degree should integration be deepened in terms of policy areas and decision-making procedures?
- Europe – how fast? Ongoing pressure to solve problems in the face of more pronounced »public disenchanted with Europe« and rising anti-Europe forces; time required for European decision-making; phased plans with extended timelines; solving problems within the existing treaty framework or (timely) calling of a convention?
- Europe – how far? Reform options concerning the Euro Zone or the EU28; differentiated or phased integration by means of »enhanced cooperation« (as in the case of the planned financial transaction tax), by means of interstate agreements with variable participants (as in the case of the fiscal compact), and so on?

We can outline a »bold« scenario as a thought experiment. Such a scenario would reflect – in shorthand – how the processes of exchange and compromise-building might look along the abovementioned axes of conflict in terms of integration, regulatory policy and distribution and within the framework of a »grand bargain«. This scenario is – even if it includes substantial building blocks that are already in the political arena, as already
mentioned – »bold« not least because it refers to the EU28 (even though focused on EMU reform) and because it would require treaty amendments. In any case, this »boldness« is not totally unrealistic because, for example, the experiences of the convention on a constitutional treaty show that large-scale »reform syntheses« are definitely possible.

In terms of integration policy Germany and other countries of the stability-oriented »northern axis« negotiate on the premise or condition of »Communitisation of risks« – for instance, by means of European bonds – only in the case of supranational fiscal governance with specific Community/European rights of intervention in national budgetary and fiscal policies. »Soevereignistic« countries – including, essential for any new reform synthesis, France – tend in the direction of supranational institutional solutions on this integration-policy axis (in »exchange« for solidarity-based debt management).

In terms of regulatory policy (also with a view towards the left-right schema of party competition) EU competences and legal instruments would be altered and rebalanced in such a way that in a future fiscal union not only an austerity logic, but also social and welfare-state policy interests would be observed (social stability pact, minimum standards and so on). In that case it would undoubtedly be difficult to get the Scandinavian countries – despite their welfare state traditions – on board.

When it comes to distribution policy compensation and incentive mechanisms would be brought into the negotiations (for example, expansion of the EU budget, fiscal capacity, re-orientation of the structural funds, increase in the EIB's own resources, introduction of a European unemployment insurance).

In terms of democracy a compromise would be found between countries that openly oppose a strengthening of the parliamentary-representative principle at the supranational level (including Germany, Finland and the Benelux countries) and the countries that are defensive or even hostile in this regard (including France, the Czech Republic and Sweden). Such a compromise would consist, for example, of providing the European Parliament with the right of legislative initiative and heightened control and co-decision-making rights (for example, transfer of ESM rules to the regular legislative procedure, a demand that the European Parliament has – in vain – already made in relation to the intergovernmental arrangements with regard to the ESM).

Such a reform scenario would not be a »constitutional treaty for a federal EU« but a »Lisbon Plus Treaty«. Because such a reform path, oriented towards the EU28, would require bigger treaty reform and thus necessarily a convention process, it entails considerable imponderables and risks. These would diminish – although they would still be substantial – if the negotiations on deepening the treaty were limited to the Euro Group and countries that wish to enter the Euro, on the premise that »instead of ad hoc repairs we need a qualitative leap with regard to integration – a Euro-treaty« (Glienicker Gruppe 2013).

The author of the present paper has developed similar ideas elsewhere (Platzer 2012) on an EMU-centred strategy of a »Euro-core Europe«.

In order to minimise – or avoid – the time required and the risks attached to ratification (referendums in several member states) due to the regular treaty-amendment procedure, while at the same time deepening the euro zone substantially, Joschka Fischer (2012) has proposed a »bridging measure of intergovernmental treaties«.

Thus the Euro Group would be developed in the direction of an »intergovernmental federalism«. The Euro Group is already de facto led by an economic government, namely the heads of state and government (and their finance ministers). The European Parliament could not fill the looming democratic vacuum because it lacks budgetary sovereignty, which remains with national parliaments and is likely to do so for the foreseeable future. A kind of »euro-chamber« is thus to be constituted from representatives of national parliaments that would control – in terms of a yet to be determined division of labour with the European Parliament – European economic government.

The gains in terms of efficiency and time that this option would provide can be achieved only at the price of weakening the democratic legitimacy of the EU at the supranational level and at the expense of the »Community method«. This option – advancing in a circle of states in favour of deeper integration by means of intergovernmental changes to the treaties – would only be second-best, although (in particular with regard to social-policy regulation and macroeconomic governance, which are prone to obstruction) it would have to be taken into consideration in calculations on reform policy.
The following guiding principle can be derived from the preceding analysis: better to regulate at the expense of technically and/or temporally »phased integration« than not to regulate at all and better an intergovernmental agreement than constant obstruction in the existing EU treaty framework.

It can be assumed that in the short to medium term we can only count on policy courses that are possible within the existing treaty framework or ones that at best require »small treaty amendments« (in accordance with the procedures of the Lisbon Treaty). In any case, most of the reform ideas described above, which currently dominate the policy agenda of the EU institutions, are in this framework. This is the expression of an integration-policy realism and pragmatism, which is not in itself something to be criticised, but requires amplification.

For a policy oriented towards deeper social and democratic integration a dual reform strategy appears advisable (Platzer 2012), to be implemented and presented to the public on two levels and within two time-horizons: the identification of short- and medium-term solutions that are possible (in principle) within the existing treaty framework (and the red lines of the German Constitutional Court) and the design and »selling« of a longer-term target-model, namely that of an expanded or new EU treaty framework (and thus, depending on its scope, an amendment of Germany’s Basic Law).

The upcoming European elections in 2014 offer an opportunity to proactively put across the dual-track reform perspective.

As we have seen, »building blocks« already exist for the first strategy element, which have already found their way into the »official« EU agenda and can be bundled to form part of a programme: they include the financial transaction tax, the proposals of the first Andor paper (even though they are still not in a form that could command majority support), the proposals of the Quadriga Report aimed at innovative and solidarity-based debt management and macroeconomic governance to promote growth. On top of this come proposals aimed at a sustainable infrastructure policy in the EU, resembling, for example, the DGB’s »European Marshall Plan« (an approach based on calculated action that would be financed from a (corporation) tax policy harmonised at European level, which is possible in principle both politically and in terms of the treaties). These potential building blocks would by no means replace advisable social and economic reform measures at member state level, but rather optimise governance capacities at European level within the framework of the »EU’s multi-level system of governance«; and in particular by means of a combination of instruments including enhanced coordination, regulation, distribution and conditionalities (by means of substantive reward mechanisms).

With a view to the second strategy element two things should become clear in the European election campaign: that it should be an important task of the newly elected European Parliament to initiate a convention process and what core demands must be met by any treaty reform in order to get closer to the goal of deeper and democratically legitimised economic, social and political union. Here, too, well-founded ideas are available on the social architecture (Vandenbroucke 2013) and on the political architecture and democratic constitution of a future EU (see, among others, Habermas 2011, Franzius/Preuß 2012, Piris 2012).


