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THE STATE OF THE EUROPEAN UNION

Europe at the political crossroads

2016

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Presentation

The 4th Report on the State of the European Union –"Europe at the political crossroads"– is published as a contribution to a campaign to relaunch the EU, motivated by the belief that the serious problems with which the Union is currently grappling can only be resolved if we address the political challenges it faces. The publication of this report coincides with perhaps the most difficult moment for the Union since its creation. With the EU still struggling to overcome the drastic impact of the economic crisis, it is threatened by the storm clouds of another recession or, at the very least, weak growth.

Austerity policies are still with us, despite the impact of the ECB's monetary policies and low oil prices. And the Juncker Plan, while well-intentioned, is insufficient to turn things around, and has not even been launched yet, with the result that any impact on jobs will be delayed. One of the most harmful consequences of the crisis and the response to it has been rising inequality, reflected in the falling purchasing power of wages and the increasing deregulation of the labour market. While it is true that social policy is not one of the EU's competencies, the austerity policies that the Union has inspired have contributed to this social deterioration. The resultant inequality has amplified differences within individual countries, but also between states and, above all, between states in the north and those in the south, and between those in the west and those in the east.

It should be noted that the noises emanating from European institutions are generally encouraging (with the exception of the compromises offered in an attempt to prevent Brexit –see below). In particular, the document issued by the five presidents (Council, Commission, Parliament, Eurogroup and ECB) is committed to advancing towards economic union, addressing the crucial issue of fiscal union before moving towards political union. However, for the moment these are just intentions, plans that have yet to find expression in significant progress and for which, moreover, the timescales are excessively long, particularly when compared to the pressing nature of the problems the Union faces. Four of these challenges are considered in detail in this report: the refugee crisis; the terrorism threat posed by the so-called "Islamic State"; climate change and the Paris Summit; and Brexit.

The refugee crisis –a consequence of the wars in Syria, Yemen, Iraq and Afghanistan, the failed state in Libya and the general situation in the Middle East– is the most dramatic episode to be faced by the EU since the Yugoslav Wars of the 1990s. The fact that the Mediterranean has become a graveyard for thousands of migrants, including children, the fences that are springing up along the EU's borders and the need for NATO intervention to stem the flow are all proof, if it were needed, of the failure resulting from the absence of an effective, common migration policy. The agreement with Turkey is a shameful initiative that betrays European values and undermines international legality.

The fight against the Islamic State has suffered from poor intelligence coordination, the absence of a strategy to deal with the wide range of active conflicts and, in particular, the lack of a common defence and security policy, backed by European intervention mechanisms. The proof of this is that, when France invoked article 47.2 of the Treaty of Lisbon, hardly any other countries took note. Instead, the response has been defensive measures, including at times restrictions on freedom or breaches of the Schengen Treaty.

If we move to the crucial issue of climate change and the agreements reached at the Paris Summit, the results are encouraging, even if they are not commensurate to the scale of the environmental challenge facing us. While the Paris Summit represents progress, it is also true that there are a number of problems associated with its application, including the lack of sanctions for countries that breach the targets, and potential barriers in major polluting countries such as the USA, China and Russia. The recent ruling of the United States Supreme Court, curtailing the decisions of President Obama, is proof of this.

Finally, there is the referendum on Brexit called by David Cameron. Nobody wants the United Kingdom to leave the Union, although it has always been lukewarm in its commitment. But neither is it acceptable that, in order to prevent the United Kingdom from leaving, concessions are offered that distort the European project, violate its basic principles, or obstruct the necessary progress towards political union. In this respect, the proposal put forward by Donald Tusk and the European Commission, which ties the hands of the next summit, is unacceptable because it violates the principle of the free movement of people, and creates an obstacle to future political union.

The failure to adequately confront these political challenges has led, in our opinion, to the growth of nationalistic, anti-European (and at times overtly xenophobic) tendencies. The far-right policies being pursued in countries such as Poland and Hungary, and the growth in the vote for anti-European parties such as the National Front in France, UKIP in the United Kingdom, AfD in Germany and similar groupings in the Netherlands and Finland create a disturbing picture, but one that we must not shy away from.

This, then, is the moment to confront these political challenges, as we propose in this report; the moment to engage with public opinion and with political and social forces, to make them see that only by deepening political union can we resolve the problems we face; the moment in which the European Parliament must play its role both of initiating and guiding the institutional reforms that will lead to political union.

I would like to end by thanking the authors for their generosity and dedication, and I would also like to recognise the support offered by the Director of the Report, the Coordinator and Indra.

Nicolás Sartorius
Vice President
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Introduction. The perfect storm

Diego López Garrido

This year's Report on the State of the European Union (2015-16) examines the delicate political situation currently faced by the EU, a complex combination of events that has revealed its underlying weakness as a supranational organisation with historic ambitions. After a 20th century that was largely propitious for a European Community that rose from the ashes of the two world wars, the start of the 21st century has been marked by an air of frustration and pessimism. Moreover, it is those who were most strongly in favour of the European project and most firmly convinced of the importance, benefits and direction of the EU whose ideals have been hardest hit by the crisis. Yet they are also best equipped to keep fighting to preserve the values of the world's most democratic continent.

The contributions to this report examine the reasons why these values, fundamentally based on the welfare state and the rule of law, have been and continue to be severely affected by the critical situation facing the EU in 2016. Firstly, there is the social cost of a financial crisis from which we have yet to emerge. Three chapters of this report are given over to the effects of a European Union that has developed with economic, trade and monetary aspects at its core, focusing on monetary policy in the Eurozone (Adrian Zelaia), the implementation of economic governance (Maria Joao Rodrigues) and inequality (Michael Dauderstät).

The financial crisis that began in 2008 is more than just a crisis, it is a structural problem. This explains why the fiscal (austerity) and monetary policies deployed by Brussels have been unable to reverse the deflationary trends of the economy and spiralling levels of debt. In spite of the expansionary nature of ECB monetary policy under Mario Draghi, the underlying economy remains unchanged and employment has yet to recover. Europe has not returned to the macroeconomic figures of 2007 and lags far behind the performance of the United States, which has applied a braver, more aggressive approach to policy. However, arguably the most concerning impact of all and the great challenge of our time is inequality. This is symbolic of the era in which we live and Dauderstät's analysis shows how nominal economic growth has been unequally distributed among social classes, regions and states. Wages have stagnated, poverty and exclusion have spread and unemployment has become the painful scourge of southern Europe.

The EU does not have the means to address the problem, since social policies are the responsibility of its member states. As a result, the EU lacks a social dimension. Nor does it have the tax powers that are key to the recovery: tax havens persist, some in the heart of Europe, and tax harmonisation is simply non-existent. Instead, we see fiscal dumping, especially in the case of corporation tax, Ireland being a case in point. Economic impotence at EU level, except for controlling public deficits, highlights one of the hypothetical objectives of any political union, namely social cohesion. Moreover, the disintegration of this cohesion works to undermine the legitimacy of the very political structures that should make it possible.

Without having emerged from the crisis, Europe has fallen prey to events that once again shows its weaknesses, this time in the form of the refugee crisis. The real crisis, however, is not one of refugees but of the EU's inability to respond. We know the roots of the crisis lie in the war in Syria, which has dragged on for over five years, causing the EU to experience one of its most painful and embarrassing moments in terms of human rights. To date, of the millions of people displaced by the war, eight million have remained in Syria, while a further four million have escaped to refugee camps in Lebanon, Jordan and especially Turkey. With hundreds of thousands of people heading for Europe, the situation has finally come to a head. The result has been horrific suffering, with refugees drowning in the Mediterranean and arduous journeys on which children have paid the greatest price.

Never before has the fissure at the heart of the EU been so strongly felt, between member states on the one hand and the common institutions in Brussels on the other. The European Commission's warnings and attempts to relocate refugees in Greece and Italy, and to resettle those who have not yet reached Europe, have come to nothing. Its efforts have been frustrated by unprecedented border closures by EU countries, leaving tens of thousands of refugees trapped indefinitely, and resulting in an agreement between the EU and Turkey that directly contravenes the Geneva Convention. As Estrella Galán and Paloma Favieres show in this report, the refugee crisis is in fact a European crisis. The number of people involved is less than 0.2 % of the EU's population and could be assimilated into its social and economic fabric. Indeed, this could even serve to benefit our ageing populations.

When fundamental values such as solidarity and the right to asylum are broken, other principles also suffer, as is the case with the free movement of people, enshrined in the Schengen treaty. Freedom is closely bound up with security and the recent terrorist attacks in London, Paris and Brussels have tainted Europe with fear, revealing the extent of our vulnerability. Once again, all eyes are on Brussels, although this time for a macabre double reason. As Enrique Ayala shows in his contribution, when it comes to European security and government coordination, there is a political vacuum.

The reaction among large sectors of the population and the populist reaction of too many governments is precisely the opposite of what is needed. Populist nationalism, which can only lead to the political fragmentation of an already damaged European project, has quickly become its enemy. José Manuel Albares, Carlos Carnero and Antonio Villafranca discuss some of the many examples of EU member states whose national policies are "European" without being "pro-European". There are regional examples, such as Catalonia, which has seen a surge in support for independence, but also a major example at the national level with the United Kingdom's referendum on EU membership. David Cameron's initiative is a form of escapism, this time from threats inside his own party, and Juan Moscoso's contribution examines the issue in depth, together with the responses from Brussels at a humiliating European Council that would be best forgotten but will likely prove unforgettable. Not only does the agreement reached with Cameron freely concede his demands but it also directly alters the European project by changing the principle of ever closer union, a step that can only be explained by a situation –characterised above all by opportunist decision-making– to which the EU has succumbed with all its weaknesses, falling prey to blatant blackmail whose future consequences cannot be easily envisaged.

There can be no doubt that the EU has reached a crossroads, a moment of unprecedented political challenge. What we are facing is more than an economic crisis, or a refugee or security crisis. These are merely the effects, albeit extremely serious ones. What makes them critical is the EU's failure to provide a credible response. Such a response is not beyond the realms of possibility. The EU could opt for investment-driven economic policies, going beyond the toothless Junker Plan, as the only way to reinvigorate an economy drowning under the weight of monolithic austerity. It could establish a genuinely fair tax policy to finance this investment and production. But it does not. It could act as a community of nations who stand side-by-side to tackle the refugee crisis. It could –and should– comply with international law, the Geneva Convention, the New York Protocol, the EU Charter of Fundamental Rights and the European Convention on Human Rights. But it does not. It could develop a genuine European security policy to counter threats that clearly transcend national security. But there is not the slightest hint of cooperation or a unified direction to tackle terrorism and the deadly strategy of Islamic State.

All this leads us to the central obstacle that must be overcome to provide sufficient means to respond with what the peoples of Europe expect from their politicians: the implementation of decisive measures. When all is said and done, this is a political crisis, whose solution requires, above all else, political action. It is an institutional problem, underpinned by the dynamic described in the contribution by Jonás Fernández, which creates obstacles to action by the European Parliament and Commission, precisely at a moment when political will should strengthen them.

At a time when history appears to be moving in the opposite direction, the call for more Europe may fall on weary ears. However, we must not give in to this weariness. Europe's political crisis lies not in the lack of strengths of the EU but in the lack of badly needed leadership. As Ana Belén Sánchez and Vicente Palacio show, we have seen such leadership in other areas, such as the fight against climate change. The crisis, or crises, we are now facing are the result of a lack of coordination and the short-sightedness of national politics, not of a European politics that remains markedly absent.

The political situation in Europe: threats and opportunities

José Manuel Albares, Carlos Carnero and Antonio Villafranca

On the threshold between national and federal politics

Sometimes we are unable to see something even when it is right before our eyes. This often appears to be the case with analysis of the European Union (EU), which is treated as an autonomous entity, ignoring the obvious fact that its decisions, its institutional development, and its competencies are all directly related to changes within each of its member states.

The 60-year history of the EU provides countless examples of this relationship. And yet, paradoxically, when the Union's political roots are deeper than ever and the first outlines of a federal structure are beginning to emerge, the volatile political situation in the EU's member states is being felt more strongly than ever, and the impact is far from positive.

There are a number of possible explanations of this state of affairs, including the following:

– The trend towards intergovernmental negotiations during the crisis has meant that states now seek to play a more active role in EU decision-making processes.
– The number of member countries (28) is so large that it inevitably produces greater disparities with regard to recent history, the operation of the state, the party system, economic structure, culture and public opinion.
– The lack of a European leadership whose authority is recognised by all the member states and the proliferation of posts within the EU hierarchy is not associated with greater unanimity.
– Phenomena to which the response is initially national –whether economic and social (the crisis, unemployment, inequality, insecurity, immigration) or political (nationalism, populism)– ultimately influence the stance of individual governments *vis-à-vis* Brussels.
– The impact of the gradual downgrading by national governments of concepts such as solidarity and cohesion is amplified by the persistence within the EU of constitutional zones in which shared decision-

making has shallow roots or may even be reversible.

– The existence of governments supported by populist or Eurosceptic parties –which has little impact when decisions are taken on a shared basis (and even less so when implemented through the normal legislative procedure) or when they are taken by the most federal institutions (the European Commission and the European Parliament)– becomes a major obstacle when agreements have to be reached at the intergovernmental level.

During 2015 there were a number of changes in the political situation in member states that have affected and will continue to affect the EU, particularly given the limited tools available to the EU to address this situation in the short term.

The mainstream parties are still in the majority, but not to the same degree as before

If we look at the big picture, we find that the mainstream parties emerged from 2015 in a relatively strong position in terms of their representation in the governments of EU member states.

Formations belonging to the European People' Party (EPP), the Party of European Socialists (PES) or the Alliance of Liberals and Democrats for Europe (ALDE) participate in 25 of the EU's 28 national governments. The three exceptions are Greece, Poland and the United Kingdom. In the latter, however, it is worth noting that the Conservative Party left the EPP for tactical reasons linked to its Eurosceptic position, while maintaining a clear ideological and political affinity to its former partners.

At the same time, there are two countries where members of the EPP are in government with parties of the radical right: in Denmark, where the far-right Danish People's Party is the second-largest party, with 21 % of the vote; and in Finland, whose Foreign Minister belongs to the Europhobic, populist right. And, of course, there is Hungary, which is governed by FIDESZ, a member of the EPP but with far more extreme policies than its sister parties.

It is also important to note that three of the eight general elections held in 2015 produced very significant changes (Denmark, Greece and Poland) while in the remaining five (Croatia, Estonia, Portugal, Spain and the United Kingdom) traditional parties continued to be in the majority.

If we look beyond governments to consider the percentage of the vote won by conservatives, socialists and liberals, these remain very considerable, with the exception of Greece and Poland, where the social democratic left has been all but obliterated.

The conclusions, therefore, are clear:

– Europe's historic political parties continue to dominate the continent's political scene.
– The much-trumpeted advance by new political forces on the left and the right has failed to materialise, with a few exceptions.
– The political majority that governs the EU is thus the same majority that governs in most of its member states (as we will see below).
– Although its lead is noticeably smaller than it was five years ago, the right continues to be the largest political force in member states, with the socialists in second place, well ahead of their rivals.

As a result, the countries of the EU have not experienced a radical change in make-up, although new political forces have appeared at the margins of the traditional parties. However, the radical proposals of old and new governments alike, and of parties of the extreme right or the radical left, are creating serious problems for EU decision-making, challenging its democratic values in some cases, hindering attempts to cope with major challenges such as the refugee crisis, and on occasion influencing the positions of moderate, democratic parties.

To govern alone or in partnership?

In the member states of the EU, everybody knows that it takes two to tango (and sometimes even more!), and this was borne out by developments during 2015. There are currently 21 coalition governments and only six single-party administrations, although one of these – Denmark– is a minority government that needs to form alliances in order to pass legislation. Although Spain is the only country in the EU never to have had a coalition government, and it remains to be seen how events will play out following the general election on 20 December 2015, the only possible outcomes would appear to be a coalition government, some kind of parliamentary agreement involving at least two parties, or fresh elections.

Grand coalitions wield power in several states, including economically and geographically central states such as Germany and Austria, new members like Croatia, and others, such as, Luxembourg where it has become the norm. Several countries are ruled by coalitions between liberals and socialists, leaving the conservatives in opposition, while the socialists have been excluded from power in states where the radical right has entered government with the conservatives (Finland) or supported it without taking office (Denmark).

However, even when they have failed to win the election, the social democrats have opted to enter government rather than remain in opposition wherever possible. This was the case in Estonia, Ireland, Lithuania, Luxembourg, the Netherlands and Slovenia.

There are also countries in which the socialists have formed coalitions following victory at the polls, such as the Czech Republic and Italy. One could argue that Italy is, in reality, a grand coalition, at least partially, as the Democratic Party there governs in partnership with part of what was once Silvio Berlusconi's Forza Italia, while the remainder of that grouping remains in opposition.

Finally, Portugal is governed by a socialist administration that emerged from an interesting election in November 2015 in which the conservatives actually polled the most votes but subsequently proved unable to construct a parliamentary majority. The three parties of the left obtained an absolute majority both of the votes cast and of seats in parliament. The conservatives invited the socialists to join a grand coalition, but the socialists preferred to reach an agreement with the communists and the far left under which the socialists would form a government on their own.

Curiously, Portugal's neighbour, Spain, has found itself in a similar predicament: the PP won most votes in the December general election and proposed that the PSOE join it in a grand coalition, but the PSOE rejected this offer, deciding instead to open negotiations with liberals, the far left and moderate nationalists.

It is also worth bearing in mind that, following the European Parliament elections of 2014, the EU has explicitly been governed by a grand coalition of conservatives, socialists and liberals. Explicitly because the President of the Commission, Jean Claude Juncker, sought the votes of Members of the European Parliament on the basis of a programme negotiated with these political forces and which is to be implemented by a College of European Commissioners which draws 95 % of its members from the ranks of MEPs.

In this respect, the operation of the EU clearly benefits if the governments of its member states, represented in the European Council, consist of grand coalitions, coalitions or single party governments led by parties belonging to one of the three currents that provide Brussels with its political leadership. However, this does not mean that relationships are free of contradictions and conflicts, given that national interests often play a part in EU decision-making, which is not influenced solely by broad political tendencies.

The left-right axis remains a major factor

There were eight general elections in the EU in 2015: Denmark, Estonia, Finland, Greece, Poland, Portugal, Spain and the United Kingdom. So far, there have been two more during 2016, in Ireland and Slovakia.

The left-right axis remains key to determining majorities and identifying the balance of power within the European Council, and in these terms four of the elections were won by right-wing parties. These were the clear victory of David Cameron's Conservative Party in the United Kingdom; the absolute majority obtained by Poland's ultra-conservative "Law and Justice" party; the inclusion as a partner in the centre-right coalition of the populist "True Finns" in Finland following the vote of 19 April; and Denmark, where liberal Lars Rasmussen became Prime Minister with the support of the populist Danish People's Party.

In Estonia, last March's elections returned the outgoing coalition between the centre-right and the social democrats to power.

At the other end of the European political spectrum, two parties shifted to the left: Greece, where Alexis Tsipras, leader of Syriza, is Prime Minister; and Portugal, where socialist Antonio Costa heads a single-party government, but one that relies on the explicit support of the Left Bloc and the Communist Party.

If Spain had a left-wing prime minister, the current left/right balance within the EU would be significantly altered. Excluding Spain, there are twelve left-wing or centre-left prime ministers compared to fifteen from the right or centre-right. Left-wing governments represent 42 % of the EU's population, compared to 58 % who are governed by the right. This percentage would fall to 53 % if Spain were to be governed by the left. If we include grand coalitions in our calculations (those involving ministers both from the left and the right) then the percentages change. Excluding Spain, countries governed by a grand coalition account for 33 % of the European population, those governed by the left represent 36 %, and those ruled by the right are 31 %. If a left-wing government were formed in Spain, the proportion of the European population governed by this current would rise to 42 %, against a figure of only 28 % with conservative governments. Any change of government in Spain is thus bound to have a significant impact on the balance of power in Brussels.

In two countries which voted in 2016 –Ireland and Slovakia– governments have yet to be formed, and the process of doing so promises to be anything but straightforward.

In Ireland, the two parties that had governed in coalition for the previous five years, the centrist Fine Gael and the Labour Party, fell almost 30 seats short of an absolute majority. Although Ireland' GDP has risen faster than any other Eurozone countries, both parties were severely punished by voters for austerity measures and cuts to public spending in the previous legislature. The fall was particularly dramatic for the Labour Party, which was reduced to a mere seven seats, compared to the total of 37 seats that it had won at the previous election. The big winners were Ireland's other traditional governing party, Fianna Fail, which doubled its representation, and the republicans of Sinn Fein, which almost doubled its parliamentary presence with 22 seats, after focusing its campaign on the fight against austerity, instead of its traditional nationalist platform. The weakness of the two main traditional parties is compounded by the presence in the Dail of small parties and independents, which significantly complicates the process of forming a government. If this process is unsuccessful, then Ireland will have to hold new elections in September.

In the other country to have held elections so far this year, Slovakia, the resultant political landscape provides challenging terrain for the formation of a new government. The Social Democratic Party (SMER), until now in government, won the election but fell from 83 to 49 seats. As a result, it will need the support of at least two other parties to form a government, while the main centre-right party would need to find at least five parties to form a government without the social democrats.

The ghosts of the past return, part I: nationalism and Euroscepticism

"Nationalism is war". The words of French President, François Mitterrand, in his speech to the Plenary Session of the European Parliament at Strasbourg in 1995, are often quoted.

He was undoubtedly referring to the kind of nationalism that had led to the outbreak of two world wars during the 20th century, not the small European nationalisms of the 21st century. One of the reasons was that 20 years ago these small nationalisms were simply not on the radar.

In 2015, the only nationalist movement in continental Europe to have a significant impact was to be found in Catalonia. Some political forces in this region of Spain have sought to initiate a process designed to lead to independence, disregarding the constitution which re-established democracy in the country in 1978.

Against the opinion of the majority political forces in Spain, and despite failing to win the support of the majority of the electorate at regional polls in September 2015, which the pro-independence parties had promoted as a plebiscite, Catalonia's hard-line nationalists sought to create a route to independence, but during the intervening months their plans have suffered a number of setbacks, and the future is plagued by uncertainty.

It is important to note some of the differences between the Catalan independence movement and its counterpart in Scotland. While the Catalan movement seeks a unilateral break with Spanish democracy, the Scottish movement mobilised around a legal referendum agreed with the British government, a vote that it lost in September 2014.

There are also legal and historic differences, such as the fact that the United Kingdom does not have a written constitution and therefore makes no stipulations with respect to the possibility of self-determination, or the fact that Scotland was an independent country for centuries until 1707, something that was never the case for Catalonia.

There are, of course, nationalist tendencies and movements in other territories of EU member states, including Belgium, France and Italy. However, unlike the situation in Catalonia, these movements take a less hard-line approach that is not dominated by short-term objectives.

The most important aspect of this in European terms is that the EU has been forced to clarify that unilateral independence within the EU is impossible, among other reasons because Article 4 of the Treaty of Lisbon (included by the Convention on the European Constitution and retained unaltered in the Treaty) obliges Brussels to respect the constitutional and territorial organization of member states.

As a result, Catalan nationalists have come up against the barrier of European rejection, which has probably been the strongest argument against their separatist project and establishes a "political jurisprudence" that will serve as a warning to any who consider setting out on a similar path in the future.

Returning to the United Kingdom, it seems certain that Scottish nationalism will renew its calls for a second independence referendum in the event of the UK as a whole voting in favour of Brexit (and Scotland voting to remain). In this situation, it would be almost impossible for London to refuse demands for another referendum, and the likelihood is that Scotland would vote for independence in protest at being dragged out of the EU against its will.

The campaign for Brexit also presents an example of another kind of nationalism, this time blended with Euroscepticism, in the form of the populist arguments put forward by the Leave campaign, which includes UKIP and a large chunk of the Conservative Party. The EU referendum of 23 June 2016, following on from the Brussels deal, will be a key test of whether those in favour of continued membership of the EU are able to prevail over anti-European discourse.

There is also a third kind of nationalism that has surfaced in the EU during 2015, one that is associated with anti-Brussels populism. From Tsipras in Greece, to Orbán in Hungary, and including Kaczynski in Poland and Marine Le Pen in France, extremist parties have repeatedly sought to contrast national sovereignty with EU decisions, presenting the Union as an external actor that interferes with the decisions of individual countries in an unacceptable manner, whether to impose economic policies or to distort their political structures.

In every case, the EU has remained firm in the exercise of its competencies, and it can be argued that it has emerged as the winner from this debate. The case of Greece is the clearest, with the 13 July agreement between Athens and Brussels and the subsequent implementation of this agreement by the Syriza government.

Nationalist discourse does not appear to have led to an increase in Euroscepticism during 2015. According to the European Parliament's *2015 Parlameter*, the number of interviewees who believe that their country has benefited from membership of the EU is higher than ever before; a majority believe that what unites member states is more important than what divides them; and, finally, the EU is perceived as being best placed to respond to the consequences of the economic and financial crisis.

However, it is important not to forget that far-right populist parties, which have made significant electoral progress and are now in government in a number of member states, count an anti-European stance as a core element of their programme. The mainstream parties should respond by placing pro-European discourse at the centre of their programmes, instead of watering it down or concealing it, something that happens all too frequently.

At the same time, it is important to be aware that Euroscepticism is directly related to the harsh daily realities of the economic crisis. As

Chart 1 shows, during the period 2007-2014, changes in the GDP of member states are closely tied to the growth in Euroscepticism during the worst years of the crisis. In other words, neutralising distrust of the EU is not just a question of words but is, above all, a matter of developing effective policies to promote growth and, as a result, employment and equality.

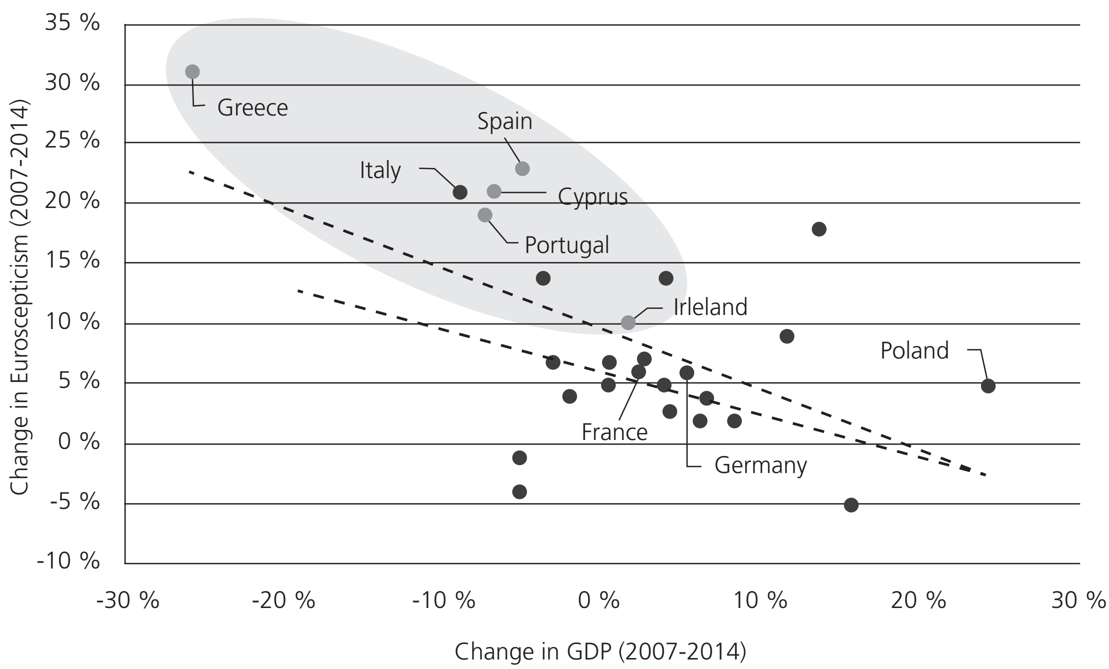
The ghosts of the past return, part II: populism

Populist discourse –often linked to nationalism, Euroscepticism or, directly, to anti-Europeanism– prospered in 2015, despite the fact that mainstream political parties continued to dominate governments, parliaments and public opinion in EU member states. The financial and monetary crisis, combined with the arrival of refugees, has given a boost to these movements during 2015 and into 2016.

Populism has taken three broad forms: far-right, far-left, and ideologically unaffiliated. The most significant developments in EU member states have been the following:

– Germany: the refugee crisis has boosted the growth of populist party "Alternative for Germany" (AfD), ending Germany's exceptional status as the only state in north-western Europe where there was no significant populist anti-immigration movement. In march this year, the AfD achieved major breakthroughs in three elections held in regions where it was previously unrepresented: Baden-Württemberg (15.1 % of the vote), Rhineland-Palatinate (12.6 % of the vote) and Saxony-Anhalt (24.4 % of the vote). In the

Euroescepticism and the crisis (2007-2014)



Source: developed by authors from ISPI data.

first two regions, it became the third-largest party, while in Saxony-Anhalt it overtook the SPD and claimed second place. This means that AfD is represented in eight of Germany's sixteen regional parliaments. These elections have produced political fragmentation and polarisation, as a result of which the formation of an administration in two of these regions required the participation of three parties.

- Austria: the Freedom Party (FPÖ) achieved its best ever result in local elections in Vienna.
- Denmark: the Danish People's Party become the country's second force at the general elections, with 21.1 % of the vote.
- Spain: Podemos is the third-largest party following the general election of 20 December, in which it was competing for the first time.
- France: the National Front won the first round of the regional elections.
- Finland: the "True Finns" came third with 17.6 % of the vote in the general election in 2015, and entered government as a member of the ruling coalition.
- Greece: Syriza won two general election victories, increasing its majority in the second contest, held in September 2015.
- Hungary: the government of Viktor Orbán, whose migration policies are supported by the far-right party, Jobbik, has built a fence to prevent the entrance of refugees and migrants, and has blocked laws to recognise gay marriage.
- Italy: the populist Five Star Movement became the country's second largest party in regional elections.
- Poland: the Law and Justice Party (PiS) won an absolute majority, the country's first since the fall of the Berlin Wall, and has taken decisions that have led to the opening of a commission assessment under the "new EU framework to strengthen the rule of law", which, if this is shown to be threatened in Poland, could lead to the application of Article 7 of the Treaty of Lisbon.
- United Kingdom: UKIP won 12.6 % of the vote at the general election.
- Slovakia: the People's Party Our Slovakia (LSNS), a far-right, anti-European, anti-NATO party, won 8 % of the vote and entered parliament at the last election. In addition, anti-system formations that represent a protest vote took 30 % of the total votes cast.

In other words, populist discourse has met with considerable backing from citizens at the ballot box in a large number of EU member states. However, it is important to distinguish between different types of populism, both in terms of the nature of these movements and with regard to the policies they propose and the effects if these were to be applied.

It seems clear that, in terms of rights and democracy, it is the populism of the far right that is of most concern, aimed as it is at the heart of European values, starting with the principle of non-discrimination.

While it is true that the presence of such parties in countries such as Denmark and Finland is of grave concern, the most drastic attacks on freedom have been implemented by far-right parties governing on their own. This is the case of Hungary and Poland, aggravated in the former by the fact that the ruling FIDESZ party is still a member of the European People's Party, something that ought to prompt some heart-searching within this grouping with regard to its apparent flexibility in admitting certain parties on the basis that this will leave the EPP better placed to exercise a moderating influence on them.

Following the example of Orbán, who modified Hungary's constitution, Poland's Law and

Justice Party under Jaroslaw Kaczynski and prime minister Beata Szidlo has adopted serious decisions designed to impede the operation of the rule of law and to control the media, undermining democracy and the independence of the judiciary, and in clear contravention of the values of the EU.

Faced with these actions, the European Commission has for the first time implemented an early warning mechanism (Figure 2) designed to collect information and opinions from different bodies in order to identify whether there is a systemic threat to the rule of law in a member state, with two objectives: to force the government of the member state to negotiate a solution to remove these threats or, in the worst-case scenario, to activate Article 7 of the Treaty of Lisbon, which provides both for a preventive mechanism and a sanctioning mechanism that, while it does not provide for the expulsion or suspension of a member from membership of the EU, does allow for the suspension of the state's voting rights.

New actors on the far left (when nobody believed in them)

As noted above, there are two other types of populism in the EU: populism that has no clear ideological affiliation, and populism of the far left. The prime example of the first is Italy's Five Star Movement, whose clearest connection to the second (particularly in the case of Podemos in Spain) is its rejection of the "political caste", without differentiating between parties, based on the accusation that this caste has occupied the state and constructed a generalised system of privileges and corruption.

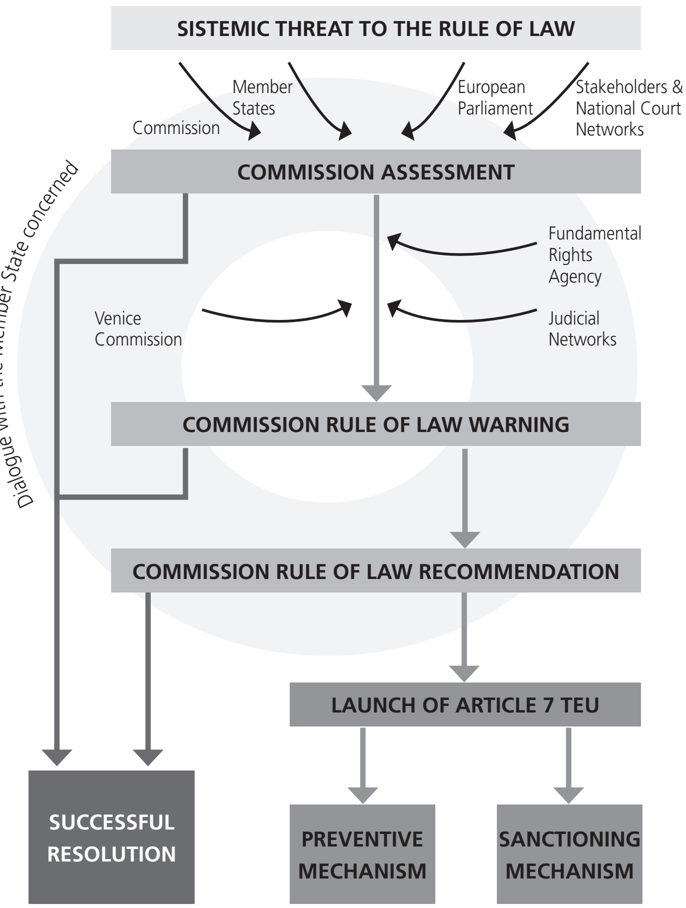
The most outstanding –indeed the only– representatives of the far left have been Syriza and Podemos, the first in government, the second in opposition. It's also important to note that these parties lack any close or even distant forebears within the EU, in so far as they do not openly recognise the heritage either of classical communist parties or of green parties, with their only direct inspiration being the mild recovery of the French radical left in the 1990s and the first decade of this millennium.

The discourse of both parties is based on a radical critique of the "neoliberal" economic and social policies applied by conservative and socialist parties and imposed by the EU, combined with a denunciation of the behaviour in power of these two forces, whom they consider in reality to constitute a single entity, defined as a "caste" (a usage first coined in Italy) or a "bunker". Using this line of attack, and in the wake of the economic crisis, both of these political forces made very significant progress in 2015, although their actions on the ground have diverged.

Once in government, Syriza went from provoking a full-blown crisis in the EU in the first half of 2015 to become the principal guarantor of Brussels' latest economic rescue package for Greece, which had been agreed and applied successively by the social democratic left (PASOK) and the traditional right (New Democracy), to the point where the executive of Alexis Tsipras has become the target of new general strikes against cuts to spending and welfare provision. In other words, Greek left-wing populism has transformed into a party that combines radical slogans with traditional decisions, and is no longer a problem for the operation of the EU.

For its part, Podemos proposes a programme of radical reform to state spending, income and operations, signalling its opposition to the EU's policy of economic austerity, without ever for-

A rule of law framework for the European Union



Source: European Commission.

mally positioning itself as a Eurosceptic party, far less an anti-European one, forming a group in the European Parliament with Syriza and both traditional and reformed communist parties. Indeed, its cooperation with PSOE in Spain is a reality at regional and local level, while negotiations to attempt to form a government in Spain following the general election of December 2015 included talks between the two parties.

The triggers, part I: the crisis

The rise in nationalism and the growth of populist movements in the EU would have been inconceivable without the crisis and, above all, without the mismanagement of this crisis in the member states.

Since the start of the crisis, in 2008, the EU has played the lead role in responding to it, with the result that member states have been viewed by many of their citizens as merely implementing policies dictated or imposed by Brussels. As a result, the EU has come to be identified with a process in which ongoing globalisation has combined with the economic crisis to undermine social rights and create unemployment, in an attack on the bastion of traditional security represented by member states.

Clearly, if European economic policy had yielded positive results in terms of growth and employment, the consequences would have been different. But the reality is that hardline austerity has been the norm, and this has undermined the EU. As a result, in the countries that have suffered most from the crisis, such as Greece and Spain, the discourse of left-wing populism has always included a significant dose of criticism of the EU (if not outright hostility) and persistent calls for a return of the "national sovereignty" that has been seized by Brussels. This has also been reflected in the electoral growth of the non-socialist (but non-populist) left in Portugal, a longstanding advocate of national sovereignty.

This discourse has also had an impact in more central countries, such as Germany, France or Italy, as a result of growing unemployment and increasing job insecurity. In some of these states, and in other wealthy countries –Scandinavia, Finland, the Netherlands– this has been compounded by the growth of selfish sentiments among the population, who refuse to share welfare provisions with those that they do not consider to be members of the national community: immigrants. In other words, although 2015 was a year of recovery, low growth, high unemployment (around 11 % for the Eurozone) and the casualization of the labour market all provided fertile ground for the growth of populism and contributed to Euroscepticism.

The triggers, II: refugees

In the EU, 2015 will be remembered as the year of the refugee crisis. The EU's incapacity to manage this crisis was the result of the inability of the international community to end the war in Syria, the failure to predict the vast numbers of refugees that this would displace, the lack of resources to deal with it, and the refusal of member states to meet the resultant costs in accordance with European values.

Politically, the response to the crisis represents a chicken and egg problem. It is unclear whether member states adopted a stance that rejects solidarity in the face of the flow of refugees, and thus caused the growth of populist, racist and xenophobic discourse, or whether they adopted this posture in response to the prior existence in their countries of these currents of intolerance, with the aim of pre-empting criticism by them, but achieving precisely the opposite effect: strengthening them, and incorporating some of their positions.

Whatever the causes, it is clear that in a large number of EU member states, nationalism and far-right populism have been directly fuelled by the refugee crisis and mistakes in how governments have responded to it, with no signs of any improvement in 2016. The refugee crisis has played an added role in the stance of many European parties with regard to the longstanding issue of immigration in general, and in particular of the flow of migrants across the Mediterranean.

The closure of borders between many member states, the construction of walls (such as the 175 km fence built by Hungary along its border with Serbia), the questioning of the Schengen Agreement, shameful squabbling about the quotas of refugees to be accepted by each country, the refusal of almost all the new members of the EU to accept their share of responsibility for dealing with the problem, and appeals to ethnic or religious homogeneity to justify their approach to the problem: throughout 2015, all of these have simply provided succour to those parties whose electoral programmes thrive on fear and demagoguery.

An example of this is provided by the huge political difficulties faced by German Chancellor, Angela Merkel, whose initial response was to declare an open doors policy, which simply laid bare the "every man for himself" approach that has become the norm among member states after 60 years of cooperation to build the EU.

This is illustrated most powerfully by the fact that very few EU countries have understood and agreed to share the difficulties of frontier countries (Greece and Italy, among others) in managing the situation, and the absence of any national proposals to replace the Dublin Regulation and create a European asylum and refugee framework.

The triggers, part III: terrorism

International terrorism, which is practically the only form of terrorism that currently poses a threat to European citizens and European democracy, exacted a brutal price on EU member states in 2015: the terrible attacks in Paris, both in January against satirical magazine, *Charlie Hebdo*, and the indiscriminate killings in November, were the most dramatic examples of this barbarity.

In partnership with EU institutions, member states responded quickly and effectively to this threat, which caused tension in a number of the continent's capitals, including London, Brussels and others. However, with the exception of France, the governments of member states resisted the temptation to introduce legislation to restrict rights and freedoms in situations of a heightened threat of terrorism.

Notwithstanding, the populist far-right parties quickly established a link between terrorism, religion and refugees with the aim of provoking a spiral of racism and xenophobia. Although they failed to achieve their objective, it is clear that this strategy helped them to gain ground and to increase their support.

There's enough here for everyone: from the absence of a European public opinion to the absence of social agents

Restrictions on rights and freedoms, nationalism and populism are all facilitated by the weakening of civil society. In moments of crisis and threat, group identification and simplistic, demagogic solutions can win out over approaches that emphasise citizenship and democracy.

This explains why the weakness of traditional political parties has been compounded by the ineffectiveness of social agents in stemming the progress of extremist positions. More important still, this has been made possible by the absence of a European public opinion formed on the basis of shared values that transcend national borders.

Conclusion

While the threats identified above have indeed materialised during the course of 2015, it is also true that the gradual recovery now under way, the fact that EU institutions are now exercising their competencies in full, five years after the Treaty of Lisbon came into force, and the political and social majority achieved by conservatives, socialists and liberals –that is, by clearly pro-European forces– all offer an opportunity to confront nationalism and populism with the best tool available: the European Union.

More Europe and a better Europe must mean more democracy, more freedom and a better quality of life for the continent's citizens. In this respect, the objective of constructing a federal Europe that culminates in political, economic and social union is, surely, the most effective antidote to the negative trends that resurfaced in 2015.

The development of the political situation in the EU's member states will be fundamental because, whether one likes it or not, the EU continues to be a union of states, and has yet to become a constitutional union of citizens. A failure to recognise this could see 2016 and the years that follow unleashing a disturbing dynamic of the kind that we thought had been consigned to history. However, for the moment the EU continues to be the largest and strongest grouping of democratic countries on the planet.

The European Parliament and its initiative and oversight capacity. The political agenda of the European Council and the Eurogroup

Jonás Fernández Álvarez

Introduction

There is still some work to do on improving the general understanding of the institutional design of the European Union's political framework in view of the many official or unofficial institutions and the abuse of the intergovernmental method over the last few years. Even so, the Union has a conceptual design comparable to any national democracy, although it does have certain differences that warrant an explanation.

The European Parliament, for its part, as the expression of European popular sovereignty, performs a central role in the oversight of the executive branch, as well as in the legislative process. Even so, the notion of a Parliament with few duties, limited areas of intervention and handicapped by the absence of legislative initiative lives on in the collective imagination. Yet since the Lisbon Treaty took effect the role of the Parliament has ranked equally with that of any national legislative arm, albeit with certain peculiarities that we will analyse below. Nonetheless, the Eurozone economic crisis has driven a substantial part of the integration seen over the past few years outside the community method, with an increasingly marked presence of the European Council and, therefore, of the Eurogroup. All that has reshaped the institutional framework.

In this article we will first present a brief summary of the Union's political and institutional framework to provide an accurate picture of the European Parliament's role within it and its relationship with the Commission, but especially with the Council and the European Council. Next, we will detail the increase in influence of the Union's unofficial institutions, such as the Eurogroup, as well as the European Parliament's relegation in the new measures to control Member States' budgetary policy. In a certain way, the importance gained by the Parliament with the Lisbon Treaty was reduced by the growing use of the intergovernmental method in the decisions of the last term, although there are other important examples of its decisive participation, especially in the area of Banking Union. We will go on to consider the Parliament's real difficulties in exercising control over the Eurogroup or the Union's new budgetary policy, before concluding with a brief reflection on the path to take in the immediate future.

The political-institutional framework of the European Union

Much has been written about the democratic shortcomings of the European Union's institutional edifice. The proliferation of new confederal institutions to manage the economic crisis, such as the European Stability Mechanism (ESM), the growing influence of the Eurogroup, an unofficial body, and even the confusion between the names of the Council and the European Council all complicate the visualisation of the Union's institutional design and the role of the Parliament.

In order to facilitate our understanding of the Union's political framework it might be a good idea to perform a simple exercise of comparative analysis of European democracy with the way it works in the countries around us. This comparison will provide nothing new to readers well-versed in European matters, but it is a simple way for us to familiarise ourselves with Europe again.

Every country has a Head of State in its institutional structure, a responsibility that sometimes falls to the leader of the executive branch, as in the United States. However, in other countries this authority plays a lesser political role. In the European parliamentary monarchies, the Head of State is the King or Queen of the nation, as in the United Kingdom or Spain, and their power is limited to very narrow fields of action. Also, in some republics, the Head of State has minor prerogatives, as in Germany, Italy or Portugal, but in others such as France their powers are very broad. In every case, irrespective of their power, all the countries have a Head of State.

On the other hand, every democratic constitution defines an executive power embodied by the government and its Prime Minister or President. Again, their power varies, particularly in relation to the responsibility of the Head of State. In those countries where the Head of State plays a minor role, the executive task falls more strongly to the government, as in parliamentary monarchies. On other occasions, the Head of State performs a more solid job of executive leadership, as in France, where the Prime Minister obviously has a less important role. Still, it is easy to picture that division of power between the Head of State and the government, along with its Prime Minister, where real responsibility falls more or less strongly to one or the other.

Meanwhile, there are also some not minor differences among the legislative branches of the different countries of the Union. Most of the nations have two chambers that share legislative responsibility and oversight of the executive power. In some federal countries, there is a distribution of powers between a parliament directly elected by the people, as an expression of national sovereignty, and a senate under territorial representation, which looks after the interests of the states or regions of the federation.

Perhaps the most straightforward example is Germany, which divides legislative responsibility between the Bundestag, the parliament elected directly, and the Bundesrat, the Senate, made up of the members of the executives of the Lander. In this latter case, the "senators", the regional ministers, meet ad hoc by area of interest to discuss legislative initiatives already approved by the parliament that have a direct impact on territorial issues, with an individual vote weighted by the population of each Lander. In other cases, such as Spain, the Senate, while defined constitutionally as a territorial chamber, in fact has no greater powers than the additional review of legislative activity, which can be modified subsequently in the Congress, and a lesser oversight capacity over the executive branch.

Without wishing to conduct an in-depth analysis and with the simple goal of analysing the Union's institutional design more easily, this sketch provides a clear enough picture of the legislative work and oversight exercised by the Legislative branch, which is sometimes shared between two chambers.

From this simple model, with which people are more familiar, we will now go on to study the way the Union works, in order to set out clearly the role of the European Parliament and the rest of the community institutions.

Firstly, the Union has an institution that is similar to the office of Head of State in any national democracy and it is called the European Council. Since the Lisbon Treaty, the European Council has had a permanent presidency that is currently held by Poland's Donald Tusk. In any case, unlike the national models, the office of Head of State is not an individual post, but is made up of all the Heads of State or Government of the 28 Member States, depending on the institutional design of each nation, in the light of executive power falling either to the Head of State or the Prime Minister. The Union has this collegial Head of State with a permanent president who keeps part of the executive power for himself. It is a democracy where the office of Head of State has a very high degree of power, with broad scope for action, especially as far as political initiative is concerned.

Secondly, every democracy needs an executive power, with a Prime Minister in charge. That institution is the European Commission, currently headed by Jean Claude Juncker and made up of a "minister", or commissioner, for each Member State. As in most democracies, the candidate for Prime Minister is nominated by the Head of State, the European Council, to the Parliament, the institution that has to approve the appointment. Obviously, the Commission's term of office coincides with the parliamentary term and since the elections of 2014, under a Europeanist reading of the Lisbon Treaty, the person nominated by the European Council has been the candidate for the post from the party that wins the elections.

This election process was a political success for the Parliament, given that until then the result of the elections did not necessarily have any bearing on the candidate nominated for President. Following this precedent, the European Council has had its nominating capacity curtailed, responding exclusively to the election result and thereby making the process more like that of most national democracies.

The makeup of the rest of the Commission falls equally to the President of the institution, who in most countries has full authority to name their government, and the Member States, which put forward names to the head of the executive arm. The requirement of having one commissioner per country has shaped this model of election that, in any case, requires approval one-by-one and as a whole by the Parliament, after gruelling appearances before the appropriate parliamentary committees according to the portfolio to be taken on, where candidates have to demonstrate their professional preparation and proficiency in the specific field. It is important to point out the Parliament's role in that process, insomuch as in most countries around us it plays no part in choosing the government team. So, in the selection process for "ministers", responsibility for nominating is divided among the Member States and the President of the Commission and, moreover, the Parliament has an essential power of veto.

Third, and lastly, the Union has two legislative chambers, the Council –our Senate– and the European Parliament. The general public is not particularly aware if this bicameral model and there is frequent confusion between the Council and the European Council. In the ordinary legislative procedure, the legislative texts submitted by the Commission in response to express requests from the European Council, but also acting on its own initiative, are sent simultaneously to the Parliament and the Council and both chambers have to amend and adopt the bill. On the one hand, the Parliament discusses the bill in the appropriate committee and then it has to be adopted in a plenary session. On the other, the Council, made up of the national ministers of the issue of interest in question, must produce its own text, where the vote of each minister is weighted according to the size of their population, in the style of the German Bundesrat. Council debates are led by a six-month rotating presidency, exercised by the governments of the Member States.

Once a text is approved in both chambers, the process of negotiation between them begins. Under the technical assistance of the Commission, it must end in an agreement (or not) between the parties, to be approved again by the Parliament and the Council. In community terminology, this process of negotiation is called "trialogue".

In any case, there is a part of the legislation over which the Parliament does not have jurisdiction, so that the legislative procedure is concentrated exclusively with the Council. Under this model, the Parliament has a consultative responsibility that should be heeded by the Council, although at the present time we do not know to what extent the Member States respond to parliamentary suggestions. Still, the Lisbon Treaty minimised the issues subject to the consultation process and, therefore, outside the ordinary legislative procedure (since 2014, there have been 274 matters subject to codecision and 73 subject to Consultation). On the other hand, on certain matters, such as taxation, the Treaty requires the unanimity of the Council, and not a qualified majority, which means that neither the Parliament nor the Council have unique competences.

With this simple presentation of the institutional framework, it is easier to understand the Parliament's legislative and oversight role, although there are other complexities that warrant analysis in order to have an overall framework for understanding the role of the Parliament in its entirety.

The para-institutional changes of the last term

From the onset of the economic crisis and especially as a result of the decisions that were gradually taken, the Union's institutional framework has been deformed in some areas. On the one hand, there has been a process of confederalisation, far removed from the federalist dream, with a growing influence of the European Council. However, and above all in the sphere of banking regulation and supervision, the Union has also moved towards greater *communitarisation*, providing itself with new institutions that, like the ECB, are genuinely federal in nature. True, if we had to measure the strength of the two vectors, the federalist one has not been so intense, but in the current term the debate over how to "Europeanise" and institutionalise some of the decisions taken recently is now on the political agenda.

We will begin with the growing role of the Eurogroup, first explaining its nature. The Eurogroup can be described as a satellite institution of the Council, but made up of the economy and finance ministers of those Member States that share the Union's currency, the euro. This institution is not an official body of the Union, but simply a more or less informal forum of the *economics* ministers of the euro countries. It has no legislative functions, given that they are vested in the Council, where all the Member States are present, but nor are they directly executive within the framework of the Union, because the Eurogroup is not the European Council. It is important to point out that the Council made up of the Economy ministers is called ECOFIN, which is not to be confused with the Eurogroup. Apart from that, the Eurogroup presidency is held by one of the economy ministers of the Eurozone members on a non-permanent basis, that is to say, part-time. Until the start of the crisis, the forum certainly did carry less weight in the Union's institutional design, given its *unofficial* nature, but its power has been growing over the last few years.

The reason behind the increase in the Eurogroup's political power lies in the rescue packages that have been implemented in Greece, Ireland, Portugal, Cyprus and Spain. A good part of the funding for those rescues has not gone through the channels of the European institutions, but was provided directly or through mechanisms created ad hoc by the Member States. In this way, in that it was not the Union's institutions that provided the loans to those economies, but the euro countries, through various funds in the face of the risks posed to the single currency by a potential domino effect of sovereign defaults, it has been the Eurogroup –as the forum of those governments– that has played the central role.

Under those circumstances and on a temporary basis, the European Financial Stability Facility –with capital made available by the Eurozone Member States– and the European Financial Stability Mechanism –funded by debt issues guaranteed by the Commission with its budget– were created in 2010. Later, in 2012, the ESM was created to establish a permanent fund for tackling rescue processes for Member States and also to establish a channel for the direct capitalisation of financial institutions. To do so, the Treaty on the Functioning of the European Union was amended to allow potential bailouts through the ESM and the Mechanism itself was created, with a supplementary treaty signed exclusively by the members of the Eurozone. Obviously, the chair of the ESM board of governors was occupied by the president of the Eurogroup, with a managing director who runs the organisation.

Hence the funding of the rescues did not follow the community method, but the intergovernmental approach that inspired the policies to counter the economic crisis, at least until mid-2012. Those rescues were implemented by the *troika*: the Commission, by delegation of the Member States; the International Monetary

Fund (IMF), which provided additional liquidity and experience in crisis management, and the European Central Bank (ECB). The IMF does not answer for its action to the European Parliament. The ECB is only partially accountable, through an inter-institutional agreement that requires periodical appearances before the chamber, annual reports and replying to written questions on an ongoing basis. Lastly, the control that could potentially be exercised over the Commission was much smaller, given the complex institutional design of the bailouts funded in one way or another by the Eurogroup.

Meanwhile, the national parliaments performed part of the oversight role, in that the Member States provided cash to those funds and, for example, the Finnish Parliament required its government to sign bilateral insurance with the Kingdom of Spain before giving the go-ahead to the rescue in the summer of 2012.

In any event, the dispersion of the executors of the rescue programmes and the different sources of funding have prevented effective control by the European Parliament so far. Moreover, insomuch as the Eurogroup is still an informal institution, there were no accountability protocols in place previously either. So the absence of a community method in all this stopped the Parliament from playing a central role in the design and oversight of the Eurogroup's activities, both in its regular functioning and in its mission in the bailouts of certain Eurozone states.

At the same time, Europe has also made progress on fiscal issues, but far removed from the model of accountability to the Parliament on a central issue in any democracy. While the Eurozone members promoted rescue channels that have become permanent, the Union in turn stepped up control over the leeway of Member States' budgetary policies. This greater control has been the price to pay in return for the implementation of bailouts that, in principle, were prohibited by Treaties that it was necessary to reform.

The EU has adopted two legislative packages known as the Six Pack (2011) and the Two Pack (2013), which, without wishing to go into either issue in depth, significantly step up budgetary control over Member States. For example, the States must now submit their draft budgets to the Commission prior to approval by their national parliaments and the Commission can request a review if it believes that they will not meet the agreed deficit targets. What's more, it raises the ex post cost of missing the targets, introducing automatic fines and conferring the Commission executive capacity over national governments to impose measures aimed at meeting those goals.

Once again the Parliament that had to process and adopt all the legislative initiatives introduced in the two packages has been denied real control over the Commission's activities on these matters. So even when there has been progress in the federalisation of the fiscal policies of the Member States, that process has been carried out without appropriate accountability to the European Parliament. This was accepted by the chamber itself in the last term, when, incidentally, there was a very broad conservative majority, thus reducing the lobbying capacity of the Socialists & Democrats group, which is always more inclined toward a federal and democratic design.

As well as this new legislation, all the Member States, except for the United Kingdom and the Czech Republic, signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union in 2012. This treaty complements the Stability and Growth Pact, introducing greater budgetary control and requiring the incorporation of the principle of budgetary stability into national legislation. Spain tackled this requirement in the summer 2011, through the reform of Article 135 of the Constitution, anticipating subsequent European demands. The signing and transposition of the Treaty into national law is, on the other hand, a necessary condition to be a potential recipient of funding from the ESM. Once again, this reform of the institutional framework was done outside the community method, without the States, and, therefore, without conferring additional power to the European Parliament for its supervision.

Therefore, over the last five years, the Union, and especially the Eurozone, has moved along intergovernmental tracks, with a growing influence of the Eurogroup, greater power for the Commission without real oversight by the European Parliament and several Treaties signed outside the community method. There is probably no going back from legislative changes that have imposed this institutional revision, but the political design that has been taking shape must be reviewed to give greater democratic legitimacy to the Union itself. In this respect, in the current term there are moves to redress some of these imbalances, which will be discussed below.

However, not everything done in the last term of office went down that intergovernmental path, reducing the role of the Parliament. Banking Union, launched by the European Council of June 2012, is probably a counterpoint and represents a watershed in the Eurozone crisis. The commitment to banking union and, therefore, to the future of the euro allowed Mario Draghi to announce that he would do whatever it takes (and some measures have been at the limit of his mandate) to ensure the integrity of the Union's currency. That step and its subsequent implementation, following the model of the only truly federal economic policy, monetary policy, has allowed the Eurozone to recover certain stability, with responsibility to finish overcoming the crisis shifting to the execution of fiscal policy.

Banking union brought about the creation of the Single Supervisory Mechanism, under the aegis of the ECB, following a single and common regulation; a Single Resolution Mechanism and the resulting Single Resolution Fund. The legislative activism that crystallised this project, along with the key role of the Parliament, both in its passage and in the ex post selection and control, has been fundamental in the economic improvement of the Eurozone, following the community method and with full supervisory powers on the part of the Parliament. True, the Resolution Fund is short of resources and there is still no common deposit insurance, a regulation that has already been submitted by the Commission and which is now on the desks of the legislative chambers, facing the risk, incidentally, of being blocked. Yet all that, and still pending the completion of the model, represents the greatest progress in a federal union around the euro countries that is set to gain prominence in the present and future of Europe.

Parliamentary competences in the legislative and oversight process

Beyond these twists and turns in the European project over the last few years, it is worth stopping to look at the European Parliament's power as a federalising institution of the Union and a representative of the European demos. Certainly much has been written on the nature and powers of the Parliament, but allow me to run through the main issues of interest.

The European Parliament's role in the legislative process has been detailed previously and is similar to that of any other legislative chamber in a national democracy. True, the Parliament still has some gaps regarding competences, particularly in the tax and fiscal area. However, the absence of powers of the Parliament in these areas is also the result of the lack of the same on the part of the rest of the Union's institutions. Generally speaking, it can be said that only the European Council and, therefore, the Council has any authority on tax matters, leaving the Parliament a consultative role. However, the Council requires the unanimity of its members when taking decisions on those issues. The requirement of unanimity is in fact equivalent to the absence of powers over tax measures in the Union as a whole. If any decision must be agreed by each and every one of the national governments, we have to acknowledge that there is no competence placed specifically in the Union institutions. So neither the Council nor the Parliament can decide, as European institutions, any tax policy.

Therefore, the Parliament's lack of powers on this issue is equivalent to the principle of unanimity for the taking of decisions by the Council. So we cannot speak of a lesser role for the Parliament in tax debates. However, that should not stand in the way of pointing out one of the current European Union's most serious problems, especially within the framework of the Eurozone, which is the lack of a fiscal pillar. That is why, sooner rather than later, it will be necessary to amend the Treaties to allow the European Council and Council to take decisions by majority on this issue and, therefore, also involve the Parliament in the legislative and oversight aspect.

Another recurring issue on the Parliament's shortcomings centres on the absence of legislative initiative. All the national parliaments have that capacity, though we would have to ask to what extent the legislative powers of the Member States make use of that competence. In Spain, even though the Parliament and the Senate have power of legislative initiative, it is no less true that the power is not usually used. In the normal legislative process, it is the government that takes on that power, leaving the legislative arm to debate, amend and subsequently adopt.

In any case, it is true that the Parliament does not fully have this prerogative, though this changed substantially with the Lisbon Treaty. On the one hand, the Parliament takes part in the annual and multiannual planning of the legislative activity, as it is qualified to review the agenda put forward by the Commission, as is the Council. On the other, acting by a majority of its members, the Parliament can request the Commission submit a legislative draft on the issues that it considers to be of interest, in accordance with Article 225 of the Treaty on the Functioning of the Union. So, even when the Parliament does not have the authority to prepare a legislative draft, it has indeed been equipped with the instruments to have a legislative initiative capacity, in which the Commission plays the role of the drafter of the text to be debated. This capacity, then, resembles that of the European Council, which has always led the legislative activity, with the Commission in charge of preparing the initial version of the projects.

Meanwhile, the oversight capacity of the Parliament over the executive powers and other independent bodies is broad and sometime stricter than the one exercised by the national democracies.

Firstly, the capacity for parliamentary control over the activity of the Head of State, of the European Council, is limited. As a collegial body made up of the Heads of State or Government, the European Council does not answer formally to the Parliament, but individually to the different national parliaments. However, since the election of a permanent European Council presidency, the Parliament does have oversight over this figure. So the Members of the European Parliament have the capacity to put written questions to the President of the European Council in the areas of his personal political activity, though not, as we said, over the collegial decisions taken by the European Council as a whole. This difference in the activities capable of being overseen has caused a severe problem of legal insecurity and probably only time and the use of this prerogative will gradually define that parliamentary oversight capacity.

Secondly, the Parliament's control over the Commission is considerably more robust than in many of the Member States. On the one hand, the process of forming the College of Commissioners gives the Parliament a capacity to veto candidates that is unheard of in many countries, in which the makeup of the government is the personal prerogative of the President or Prime Minister. On the other, the strict division between Legislative and Executive Power in the institutional design of the Union, without the required forming of a parliamentary majority to sustain the government's action, affords the Parliament independence from the Executive, both in the processing of legislative initiatives and in its oversight capacity.

Also, oversight of the Executive's action takes place through plenary debates and in the different parliamentary committees, as well as through written questions and the official channels of lobbying on the Commission as a whole. In any event, the functional independence of the Commission and of the Parliament has shaped an institutional design with an infinitely higher capacity for accountability and oversight than in Spain, where the government always has a more or less stable majority, allowing it to run the legislative process, and it is subject to much milder oversight than in the European model, at least from the deputies from that majority.

Thirdly, the Parliament has a stable relationship with the Council, as a territorial legislative chamber. This relationship is established within the framework of the joint legislative work through the *trialogues*, but obviously there is no accountability mechanism between the two chambers. The members of the Council answer to their national parliaments and the work of the European Parliament answers directly to citizens. In the cases that follow the consultation procedure, the Council is under no obligation whatsoever to notify the Parliament whether it is taking into consideration or not the recommendations issued by the Parliament. That gap should be filled with a stricter follow-up procedure for the Parliament's positions and, where appropriate, with an amendment of the Treaties that at least requires the Council to issue a response, while we broaden the scope of the ordinary legislative procedure.

Meanwhile, the Union's independent institutions, from the ECB, taking in the Single Supervisory Mechanism and the Single Resolution Mechanism, to supervisory bodies such as the ESMA, answer directly to the European Parliament. The ECB appears periodically in the Parliament, while annual reports on the Bank's action are written and it is subject to additional control through written questions. Other supervisory bodies limit their accountability to appearances in the Parliament, with greater or lesser control by virtue of the nature of the institution. This oversight by the Parliament is similar that exercised by other legislative chambers in any national democracy. However, once again the problem lies in the control of the intergovernmental institutions that are not fully integrated into the community acquis. The supervision of the EIB is substantially less than what is exercised over the ECB and in the case of the ESM, there is zero oversight at the present time.

The problems of parliamentary oversight are greater when we discuss the role of the Eurogroup, the financial rescues, the revision of the Union's fiscal framework and, in general, all those issues that accentuated the intergovernmental profile in the last term. The Eurogroup's growing power within the framework of Eurozone policy has shaped a de facto institution that is in need of an institutional framework under the community method. True, the Parliament came to an agreement with the Eurogroup president on periodical appearances, but it is also true that the current framework of relations does not include the possibility of making written questions to increase that oversight, or other measures. That lack of institutionalisation allowed the negotiation and monitoring of the rescues to take place outside the scope of the Parliament, even though it has written several reports on their implementation.

In the same vein is the reinforcement of the Commission's role in the monitoring of the Member States' budgetary policy, which was agreed through ordinary regulation, but also through an intergovernmental Treaty outside the community method. The current model of the European Semester, the framework that oversees the conduct of the States, has limited accountability to the Parliament.

An attempt is being made in the current term to partially reverse these problems of democratic legitimacy. On the one hand, a working group has been formed in the Parliament to increase that supervisory capacity, but it is undoubtedly all way too little until the Eurogroup is successfully integrated into the institutions. On the other, the Commission has revised the Parliament's role through a reform of the European Semester calendar, allowing greater interaction, but again this change does not go far enough, suffering from the absence of a genuine European fiscal policy subject to parliamentary control that is complemented with its State-by-State application under the supervision of the national parliaments. It is hard for the Parliament to play a more significant role when the issue is to try to watch over the action of the national governments in the absence of a fully European fiscal policy. In a way, European fiscal policy at the present time is, unfortunately, the sum of the national guidelines supervised by the Commission.

Conclusions

The European Parliament has certain shortcomings, but also important assets, both in the legislative sphere and in its oversight capacity. Its scope in the legislative procedure on economic affairs, even though it appears limited, encompasses the same areas as those that are not subject to unanimity in the Council, in other words, the same ones over which the Union does not have real power outside the agreement of all the Members.

Legislative initiative is somewhat reduced, but, like the European Council, it can ask the Commission to begin the legislative procedure of any proposal. In the area of oversight, its supervisory activity over the Commission is greater than seen in our country, for example, and, moreover, though somewhat vaguely, it can monitor the work of the President of the European Council, an examination of the "office of Head of State" that does not exist in other jurisdictions. In the same respect, the Parliament examines the work of the independent institutions of the Union and also plays a key role in the selection of the executive boards in many of them. The clearest problems are focused on the reduced or zero control over the bodies outside European constitutionalism, such as the Eurogroup, the intergovernmental bailout funds and the supervision of Member States' fiscal policy.

These shortcomings are the result of the decisions taken during the last term and must be revised in the present one, after the effort undertaken in the Lisbon Treaty to confer the Parliament the central role present in any democracy.

In this respect, the Five Presidents' Report (which is presented in the article *The complex development of the Economic Union. The five presidents' document*, by Mario Joao Rodrigues in this same book) advocates the institutionalisation of the Eurogroup with a permanent president who, in my view, should be the commissioner responsible for these matters. That step should enable a global review of the institution's accountability, likening its functioning to the Fiscal and Financial Policy Council present in Spanish law.

In turn, the ESM should "Europeanise", including it within the community's institutional framework and, therefore, making it subject to the European Parliament's oversight. In any case, the Parliament should further its capacity to supervise the current bailouts, giving greater political weight to the working group set up for this purpose last March. In fact, the ESM could be the cornerstone of a Eurozone Treasury, which is present in the Five Presidents' Report, therefore increasing the need to constitutionalise this financial instrument.

Also, the Commission's proposal to increase the role of the European Parliament within the framework of the European Semester does not meet the standards required to afford sufficient democratic legitimacy to the monitoring process of the national budgets. That is why the Parliament itself recently adopted a common position to review its institutional function again in the entire process of analysis and oversight presently lying, almost exclusively, with the European Commission.

Undoubtedly, the necessary incorporation of the Treaty on Stability, Coordination and Governance into the community acquis –something that must be undertaken before 2018, as the agreement itself states– could give rise to that review, with a greater constitutional commitment. That window of opportunity could be the way to shape a constitutional framework again, where a good a part of the excesses of the last term of office is put in order, a review that in some way the Five Presidents' Report also suggests.

In short, the last five years have seen a huge qualitative leap in the sharing of economic policies, especially within the Eurozone. That step was taken with certain institutional disorder that has obstructed the mechanism of coordination and supervision by the European Parliament, narrowing the scope for action extended by the Lisbon Treaty. In any case, it is still possible to use the Treaty itself to increase the role of the Parliament, but sooner rather than later it will be necessary to amend it to give more democratic coherence to all this process of accelerated, yet insufficient and partial integration of the Eurozone.

Monetary policy and the productive economy in the Eurozone

Adrian Zelaia and Carlos Trias Pintó

Introduction

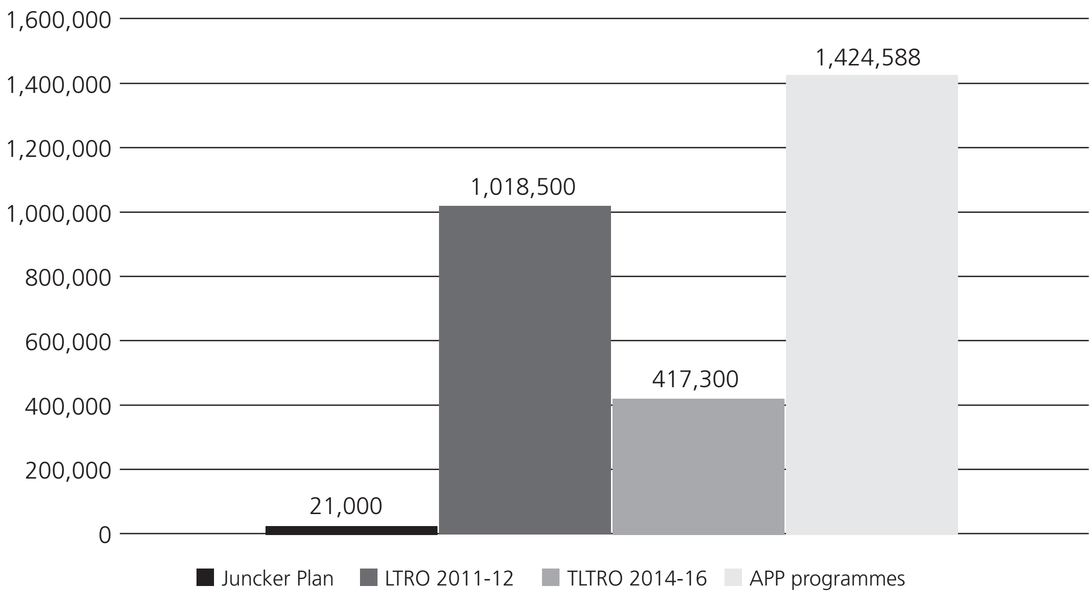
As of 2014, telling data have been made very public about what is happening in the European Union's investment policy as a whole –a policy whose fundamental effort, in political and media terms, is clearly centred around the "Investment Plan for Europe", commonly known as the "Juncker Plan". The fact that the introduction of this plan practically coincided with the long-term monetary expansion programmes promoted by the European Central Bank leads us to figures that we can begin by describing as "surprising", to say the least (**Chart 1**).

The extraordinary contrast between the figures from what we consider to be the European Union's "great effort" to boost productive investment –the Juncker Plan– and the long-term resources delivered to the banking system over the last few years is, at first glance, striking. Based on the figures from the chart above, we find that the resources allocated to monetary expansion have been 136.2 times higher than those allocated to the Juncker Plan[1].

If we prefer, we can compare these figures with the Eurozone's Gross Domestic Product in 2014 (19 States) (**Table 1**).

On the basis of that information, certain players from Europe's productive economy have begun to ask themselves questions. The first of them is to what extent can we say that policy to boost the real economy and the policy of monetary

[1] At its meeting on March 10th, 2016 the Governing Council of the ECB took the following monetary policy decisions regarding the continuity (and reinforcement) of the programs of monetary expansion. Among them: "The monthly purchases under the asset purchase programme will be expanded to €80 billion starting in April. […] Investment grade euro-denominated bonds issued by non-bank corporations established in the euro area will be included in the list of assets that are eligible for regular purchases. […] A new series of four targeted longer-term refinancing operations (TLTRO II), each with a maturity of four years, will be launched, starting in June 2016. Borrowing conditions in these operations can be as low as the interest rate on the deposit facility".



Data to 31/01/2016. **Source:** European Commission/ECB/EKAI Center.

Chart 1. Juncker Plan and long-term monetary expansion programmes (millions of euros)

expansion have nothing to do with one another? Apparently, in both cases we are referring to public resources channelled into the European economy. If that is the case, the key question to consider is why monetary expansion and investment policy are approached in such a different way as to give us such striking figures as the ones we see above.

This backdrop is certainly worth some attention, particularly because of the fact that neither public authorities nor experts nor the media have taken the trouble to explain why, in view of the impressive amounts allocated to the European economy through monetary policy, investment policy is obsessed with raising comparatively tiny budgetary resources and, what's more, the political narrative of our institutions is built around the supposedly extraordinary effort we are making through the Juncker Plan, while we forget what is happening to more than 2.8 trillion euros channelled into monetary policy.

The usual line of argument is apparently simple. It is based on taking it for granted that monetary policy and investment policy have no direct interrelation and, therefore, must be analysed in clearly different ways.

Table 1. Eurozone's GDP in 2014

	Amount (€)	% GDP Eurozone 2014
Juncker Plan	21 billion	0.2 %
Monetary expansion programmes	2.860388 trillion	28.3 %
LTRO 2011-12	1.0185 trillion	
TLTRO 2014-16	417.3 billion	
APPs	1.424588 trillion	

Source: European Commission/ECB/EUROSTAT/EKAI Center

However, the analysis of the goals and instruments of monetary policy clearly show that this is not, or should not be the case. As we will see, the focus of the goals of managing money supply and demand is intrinsically inseparable from boosting the real and productive economy –and that requires the experts to explain clearly and transparently whether monetary policy might be managed more effectively from the point of the view of the European productive economy. Bearing in mind the size of the resources involved, that also requires political players and public authorities to make a swift change of stance. If, as there is every indication, monetary policy can be managed in an appreciably more effective way that prevents the squandering of our resources, then the European political class must act immediately.

The real economy as the purpose of monetary policy

Monetary policy and investment policy

In academic circles and in political circles too it is usual to analyse and manage monetary policy and investment policy as if they were radically independent areas.

However, it seems clear that in both cases we are talking about injecting public money into the economy. That is why the usual dialectic –in informal conversations, comment in the media and so on– interprets both policies to boost investment and expansionary monetary policies as "stimulus policies" or "recovery policies".

Nevertheless, when European Central Bank (ECB) managers or chiefs are quizzed about their potential role in investment policy, the systematic response is always the same: our remit is not investment policy but monetary policy and we cannot step outside this framework laid down for us by the Treaty on the Functioning of the European Union. Similar replies are usual in other institutional and academic areas too.

It is clear that there are substantial structural differences between policy to promote investment and monetary policy, which could well be summarised into two fundamental areas:

– Regarding the origin of the resources used.
– Regarding the purpose of the injection of the resources into the economy.

From the point of view of the origin of the resources, while in the case of monetary policy we find "new" financial resources created by the State, based on the power to create money conferred specifically on the monetary authority, in the policy to promote investment they are budgetary resources from various public bodies usually raised through the collection of taxes or the issuing of debt.

As for the purpose of injecting those resources into the economy, in the case of "policy to promote investment" it is precisely a matter of boosting private or public investment in the economy as a whole, almost always through the granting of credit or guarantees. In monetary policy, on the other hand, the basic objective established in the Treaty of the European Union is to influence money supply and the demand for money in order to maintain price stability.

However, we have already said how the usual language directly links expansionary monetary policy decisions with "boosting economic activity", "reactivation", the struggle against unemployment, and so on. The fact that this is not the case from a regulatory point of view does not stop academics or policy makers from frequently using this language, which is sometimes even used by the European monetary policy makers themselves.

Firstly, it is essential to clarify the true meaning of the narrow conceptual framework that the Treaty of the EU lays down for monetary policy. What should we understand by price stability and what should we understand by a monetary policy to this end? And, on the basis of that clarification, we must focus the analysis on the greater or lesser convergence between monetary policy and policy to promote investment, regarding both the instruments to be used and the possible compatibility or complementarities of their respective objectives.

The Treaty on the Functioning of the European Union

While in general terms it is usual to refer to the idea that the purpose of the ECBand the Eurosystem or the European System of Central Banks (ESCB) is to manage Eurozone monetary policy, the Treaty on the Functioning of the European Union is rather more precise.

Indeed, the Treaty makes a distinction between "the primary objective" and "the basic tasks" of the ESCB. Article 127 Section 1 states that the "primary objective" of the ESCB shall be to "maintain price stability". It is the most important statement that Article 127 as a whole makes on the matter and which, apparently, is possibly the greatest obstacle to Eurosystem activity having a greater structural relationship with the Eurozone's productive economy.

However, Article 127 Section 1 then states that "Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union". And it goes on to state that "The ESCB shall act in accordance with the principle of an open market with free competition, favouring an efficient allocation of resources and in compliance with the principles set out in Article 119".

Taking all that into account, we can say that the objectives of the ESCB according to the Treaty on the Union can be summarised as follows:

- Primary Objective: **price stability**.
- Objectives of the Union gathered in Article 3 of the Treaty.
- Principle of an open market with free competition.
- Efficient allocation of resources.
- Principles of Article 119 of the Treaty (Coordination of Member States' economic policies, internal market, public finances and stable balance of payments).

In short, it seems clear that the primary purpose of Eurosystem activity, according the Treaty of the European Union, is monetary policy understood as "maintenance of price stability".

This is precisely the delimiting framework that the Treaty lays down for the operations of the ECB and of the Eurosystem. This is what was explained in a precise manner by the Advocate General of the Court of Justice of the European Union, whose opinion of 14 January 2015 said the following:

- "130. [...] if a measure belongs to the category of instruments which the law provides for carrying out monetary policy, there is an initial presumption that such a measure is the result of [...] monetary policy [...] a presumption that could be rebutted if [...] the measure were to pursue objectives other than those specifically listed in Articles 127(1) TFEU and 282(2) TFEU".
- 132. [...] in order for a measure of the ECB actually to form part of monetary policy, it

must specifically serve the primary objective of maintaining price stability and it must also take the form of one of the monetary policy instruments expressly provided for in the Treaties and not be contrary to the requirement for fiscal discipline and the principle that there is no shared financial liability".

Therefore, it seems clear that Eurosystem operations must meet the following requirements:

– Have the objective of price stability (the objectives of Article 3 of the Treaty only in the background).
– Take the form of one of the monetary policy instruments (creation or destruction of money through the purchase and sale of financial instruments or credit operations).

From this starting point, we are interested in specifying to what extent this purpose of the Treaty is an obstacle, or not, to linking the activity of the Eurosystem to the productive economy of the Eurozone.

Price stability as the objective of the Eurosystem

It seems clear that, according to the text of the Treaty of the European Union, price stability has to be the primary objective of Eurosystem activity.

It is a good idea, then, to clarify what "price stability policy" is from the point of view of the Eurosystem. According to the Court of Justice of the EU, we should consider the "struggle against inflation" as "price stability policy". However, the usual interpretation of this goal by the European Central Bank is actually quite different. According to the ECB, we should consider "price stability policy" to be both "the struggle against inflation" and the "struggle against deflation", with the objective of keeping inflation "below, but close to, 2 percent".

Irrespective of the analysis of the origin and the consequences of this broad interpretation of the concept of price stability by the ECB, what we are interested in right now is highlighting how this objective is achieved. It is clear, on the one hand, that the basic instruments of monetary policy are, ultimately:

– The base interest rates established by the ECB.
– The creation or destruction of money by the Eurosystem –creation or destruction that is supposed to be aimed ultimately at increasing or reducing the money supply.

As we know, both the management of base interest rates and the creation or destruction of money by the ECB primarily act indirectly on money supply and, through it, on price stability.

It seems clear that the goal of the management of base interest rates is to influence money supply through bank lending. A reduction of the base interest rates tends to encourage bank lending and an increase in the base interest rates tends to shrink credit.

The indirect nature is also evident in the creation and destruction of money by the Eurosystem. Its direct effect is to increase or reduce the "monetary base". But the "monetary base" has only a minor impact on money supply. The fundamental effect of the creation and destruction of money is only achieved insofar as those modifications in the monetary base –in the money directly created by the ECB– are transformed into modifications in the money supply. And that only happens through its impact on the boosting or contraction of bank lending.

The resources provided to the banking system by the European Central Bank are used by the financial institutions to increase the volume of loans in the European economy. This process is considered by some to be "money creation" by the banking system and by others to be an "increase in the speed of circulation of money". In any case, bank lending is the basic instrument for transforming the monetary base into money supply in the economy as a whole.

We can illustrate this monetary policy transmission mechanism in **Chart 2**.

So it seems clear that the policy of "price stability" implemented by the central banks basically operates through bank lending and, therefore, it is also clear that bank lending is not only not unconnected to monetary policy, it is intrinsic in it.

Monetary base, credit and money supply

Economic reality demonstrates the direct relationship between bank credit and money supply, the latter being, as we know, the basic objective of the action of central banks in general and the European Central Bank in particular, since, logically, price stability is directly linked to the balance between supply and demand for money.

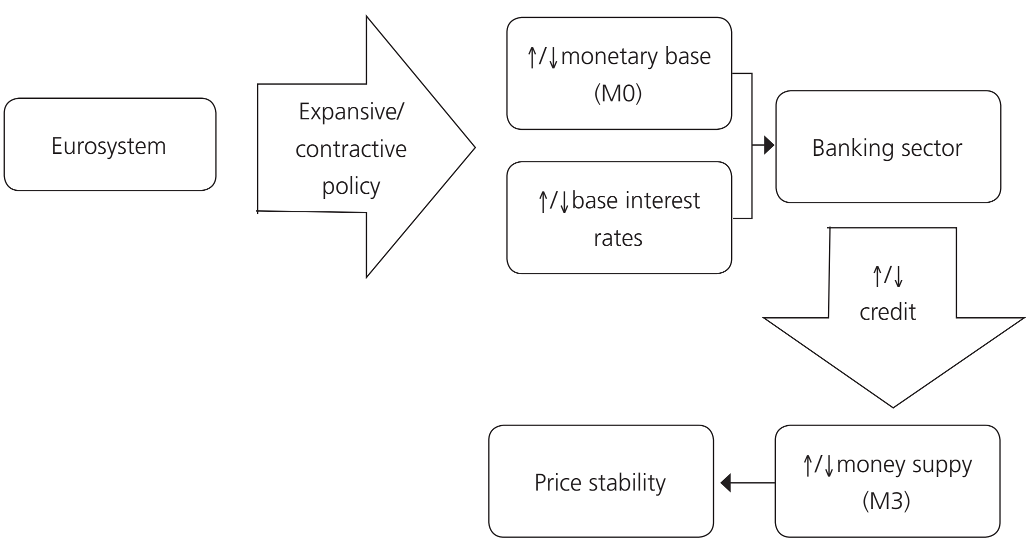
As we can see from past data (**Chart 3**), money supply in the Eurozone (M3) and bank credit follow a clearly parallel development.

This parallel development of credit and money supply is not connected to any specific characteristic of monetary policy in the Eurozone. We can see that equivalent effects also take place in other types of economy as disparate as those of the United States and China (**Chart 4**).

On the other hand, for the reasons that we set out earlier, the relationship between the monetary base (M0) and money supply (M3) is only indirect (**Chart 5**).

And, for the same reasons, we can see how the relationship between the monetary base and private credit is also clearly indirect (**Chart 6**).

Indeed, what happened during this economic crisis clearly reveals that increasing the monetary base is absolutely no guarantee of increasing either credit or the money supply.



Source: EKAI Center.

Chart 2. From Eurosystem to price stability

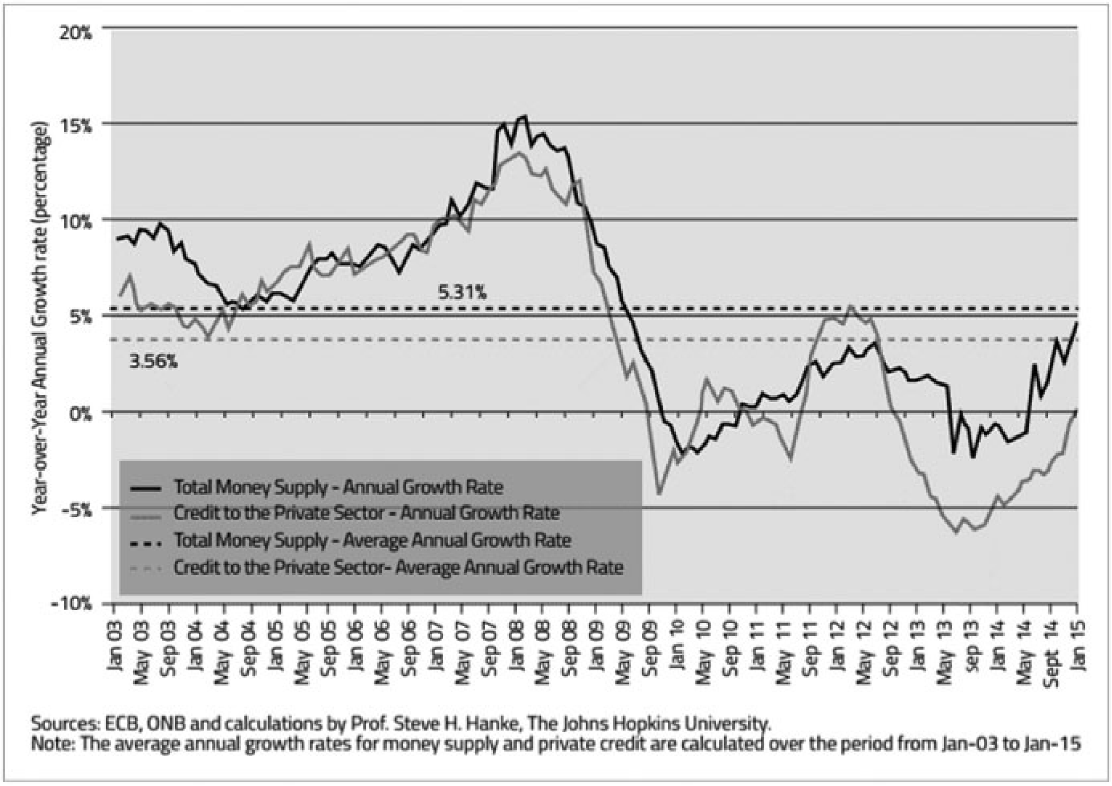
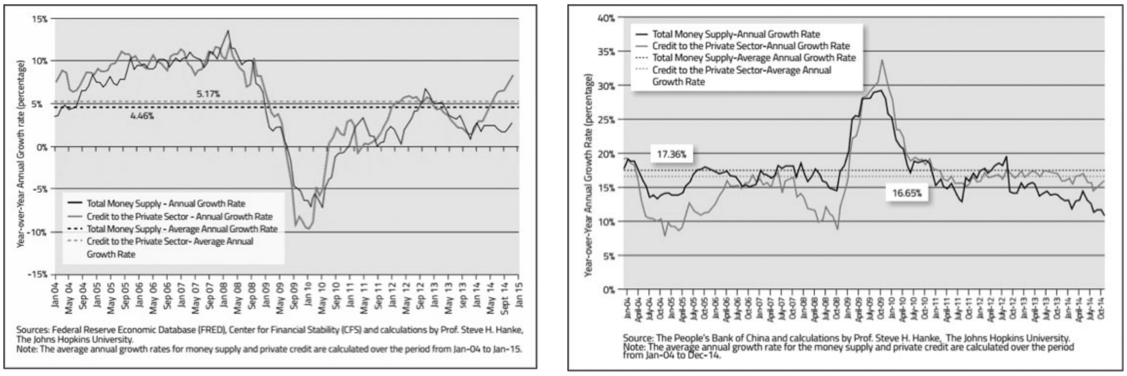


Chart 3. Eurozone money supply (M3) and private credit

This reasoning is also applicable to the management of interest rates by the European Central Bank. There is no point in the ECB lowering or raising base rates if that does not affect the banks' activity as lenders and generate an increase or reduction in bank credit as a result. As we know, only this increase or reduction in bank credit means, in turn, an equivalent increase or reduction in the money supply.

As we can see, monetary policy is not only a question of supplying or keeping financial resources from the banking sector, or financing the sector in more or less favourable conditions. These actions are only intermediary instruments devoted to a purpose. The true purpose of monetary policy is, as we know, getting the banking sector to increase or reduce the flow of credit to the real economy in the right amount to effectively influence money supply and, therefore, price stability.

We are getting close, then, to the key question we discuss in this report: the extent to which monetary policy transmission mechanisms are truly effective, from the decisions taken by the Eurosystem to their impact on bank credit.



A) **B)**

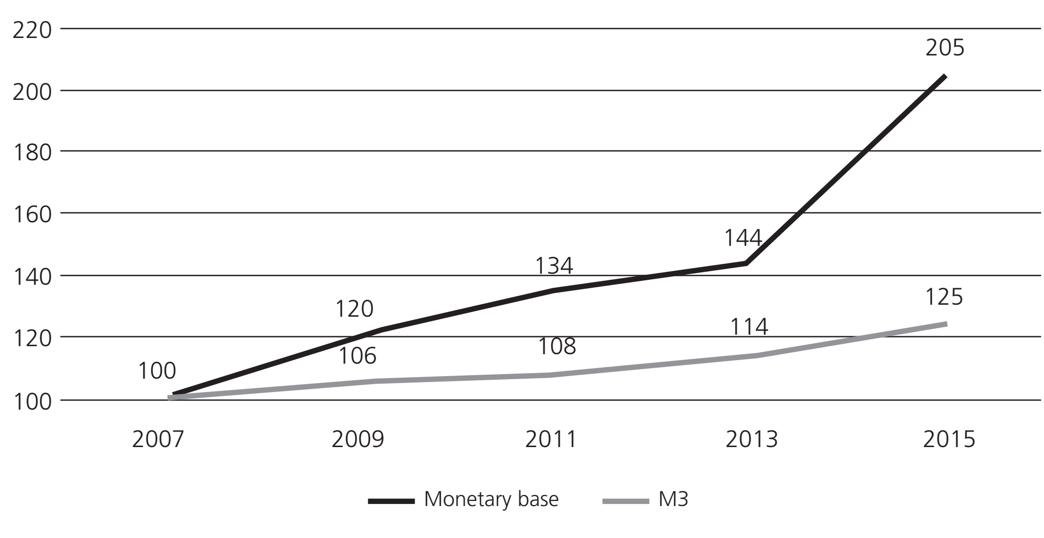
Chart 4. A) United States money supply (M4) and private credit. **B)** China money supply (M2) and private credit

Need for a new approach

Structural inefficiency of monetary policy

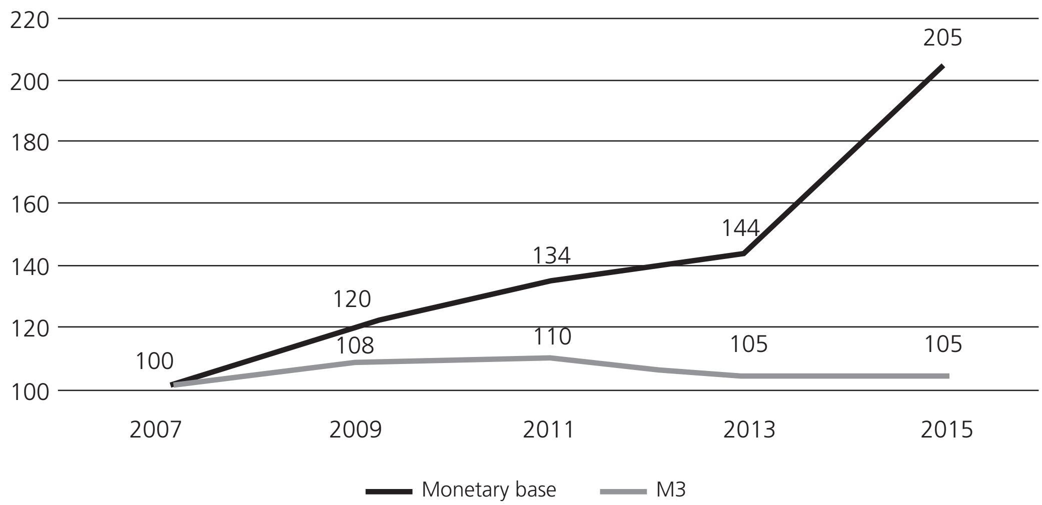
In order to understand what is happening to European monetary policy it is important to take into account that the fundamental instruments of monetary expansion are nothing other than subsidies. It is aid handed over massively and systematically to the banking system, be it the shape of granting loans or via especially low interest rates when providing them. There is no reason why the fact that these instruments are aid or subsidies should be negative in itself. Public aid makes sense when it has a proportionate or significant favourable impact on the general interest.

Similarly, this massive and systematic assistance for the banking sector through monetary



Source: ECB.

Chart 5. Eurozone: monetary base and M3 2007-2015



Source: ECB.

Chart 6. Eurozone: monetary base and private credits 2007-2015

expansion instruments is only justified insofar as it has a clear public interest purpose –public interest that, in this case, and according to the Treaty of the European Union, is defined as price stability through the boosting or contraction of bank credit.

Logically, the public assistance or subsidies are always handed over on condition that they are allocated to the general or public interest purpose for which the assistance has been established. However, the major problem –and the major question mark– of our current monetary policy lies in the fact that the assistance delivered to the banking system via the aforementioned instruments is delivered –save for a few exceptions– without any type of conditionality, without even requiring that they actually be allocated to the purpose for which monetary policy as a whole has been shaped.

As a result, it is certainly striking that the banking system is entirely free to allocate the aid received through loans and discount interest rates to the uses and purposes that it sees fit, whether they have any relation with the goals of monetary policy or not –something truly unthinkable in any subsidy or public aid programme. The banks that receive resources from the Eurosystem are free to allocate those resources to the ends that they deem appropriate according to their own interests, even using them to refinance themselves, with no requirement to provide any explanation whatsoever on the matter.

In practice, this situation has meant that a substantial part of the potential impact of the assistance and subsidies channelled into the banking sector through monetary expansion has been lost, for having been allocated to different purposes to those supposedly intended to have an influence on the Eurozone money supply.

Interest rate policy and quantitative easing are put into effect by delivering resources to the banking sector without any type of conditionality and, in practice, alongside bank credit to the Eurozone's real economy, a substantial part of the resources are allocated to other purposes, such as the purchase of tangible or financial assets, credit to customers located outside the Eurozone and even the simple refinancing of the recipient financial institution, either with a view to improving its liquidity or replacing another type of current liability.

The fact that the banks can make this type of use of public resources is striking in itself. Yet there are two circumstances that prove even more surprising: on the one hand, the high-profile manner in which this massive diversion of resources takes place; on the other, the enormousness of the resources diverted from their purpose, which frequently appears to have even a majority impact in the quantitative easing operations.

The scale of the problem

It is certainly difficult to accurately quantify the amount of aid transferred to the banking sector by monetary policy that is diverted to other purposes –primarily because of the lack of information available. The banks that receive the ECB's subsidised loans are not even required to report on the use made of those resources.

To date, the TLTRO 2014-16 has been the only programme to have demanded from the recipient banks some sort of requirement on the use to be made of the funds received –very general requirements that have proven clearly ineffective as far as securing the goal of channelling the monetary expansion towards Europe's real economy is concerned.

Every quarter, the ECB publishes the results of a "survey", the "Euro area bank lending survey", in which the banks are quizzed about the uses made of the quantitative easing programmes. It is a merely "qualitative" survey, from which –as we shall see– it is practically impossible to draw quantified conclusions.

Some type of analysis on the matter was attempted in Issue 7/2015 of the *ECB Economic Bulletin*, which published the article "The transmission of the recent non-standard monetary policy measures".

From the point of view of our report, the conclusions of the article are disappointing: "The empirical evidence suggests that these policies have successfully improved credit conditions in the euro area and supported the ongoing recovery in lending activity. The TLTROs and Asset Purchase Programme have significantly lowered yields in a broad set of financial market segments. Reductions in bank bond yields, i.e. less expensive market-based financing for banks, have improved their funding costs, enabling a more forthcoming bank attitude towards lending. Overall, the non-standard measures have helped to push the intended monetary policy accommodation through the intermediation chain to reach final borrowers, i.e. households and firms. This contributes to the recovery in lending and economic activity, which is expected to produce a sustained adjustment of inflation rates towards levels below, but close to, 2 % over the medium term".

As we see, not a word about what we are concerned with in this work, that is to say, about the extent to which the resources provided to the banking system have been allocated to their purpose. The fact that these extraordinary programmes should have positive effects on boosting lending and reducing interest rates seems almost inevitable. It could hardly be any other way after allocating no less than 28 % of Eurozone GDP to the banking system. The key issue lies in the question mark hanging over the effectiveness of the monetary expansion. In other words, the extent to which, with stricter management, similar results could have been achieved with a substantially lower monetary effort, or whether –the other way round– substantially better results could have been achieved with the same monetary expansion effort.

As we can see, the virtual absence of oversight and responsibility over the contributions of resources to the banking system makes it impossible to accurately quantify what is going on. Yet there certainly are sufficient data to demonstrate the enormousness of the diversion of resources that the monetary expansion as a whole represents.

We will provide some data concerning the TLTRO programmes later. Meanwhile, let us look at, for example, the ECB's own calculations on the use of the Asset Purchase Programme funds, based on the analysis of the banks' balance sheet movements (**Chart 7**).

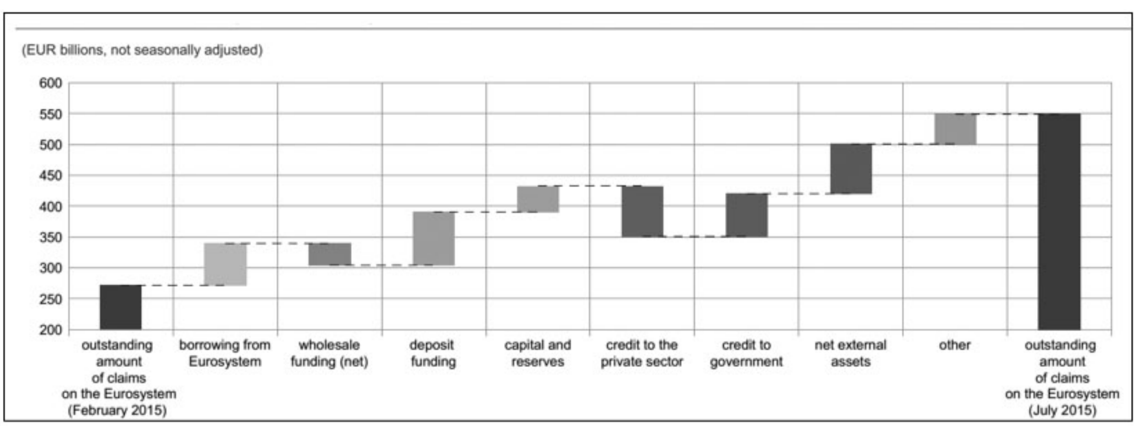
As we can see, if converting these data into quantified conclusions is complex, it does seem clear that the transfer of these resources to lending is only partial and minor.

The information repeatedly provided by the aforementioned quarterly survey conducted by the ECB among the European banks that tap its resources leads us to the same conclusion. In response to the question on the use made of the funds received, only 30 % of the banks acknowledged that the money tapped "has contributed considerably" or "has contributed somewhat" to boosting lending (**Chart 8**).

These data reveal, on the one hand, the visibility with which it is conveyed that the resources received from the Eurosystem are not allocated to monetary policy purposes. On the other, they also demonstrate the huge scale of this diversion of resources in relation to the Eurozone's monetary policy as a whole and, of course, in relation to the European economy as a whole.

The significance of the TLTRO programme

From the point of view of our report, the TLTRO programme, based on "targeted" long-term quantitative easing operations, holds particular interest.



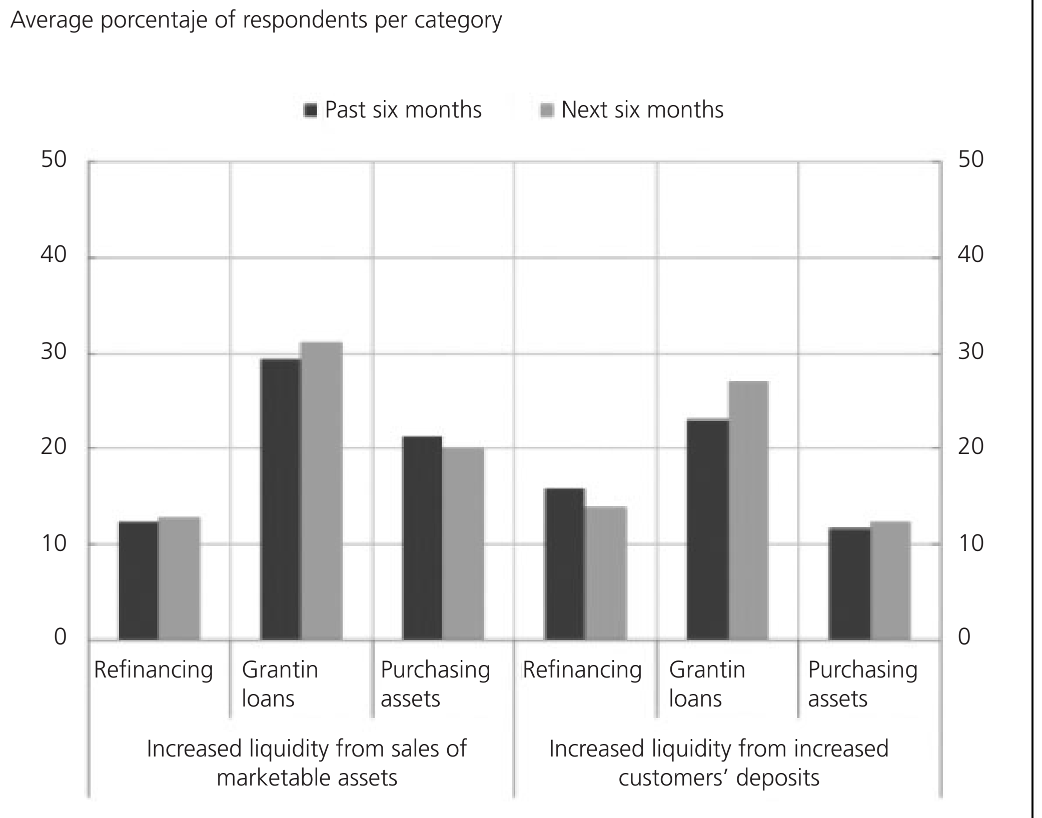
Source: ECB.

Chart 7. Balance sheet movements of MFIs other than the Eurosystem that correspond to the change in reserve holdings between end-February and end-July 2015

The fundamental characteristic of the TLTRO programme is precisely that "targeting". If Eurozone monetary expansion as a whole is realised through the delivery of resources to the banks without any type of requisite that links the tapping of these funds to their purpose, the TLTRO Programme is, in this respect, an exception.

Indeed, the Programme is based on loans granted to the banks on condition that there is an increase in the total balance of lending by the recipient bank.

The Programme planned to channel "a minimum of 1.14 trillion euros" and has already delivered over 0.4 trillion euros to the European banking system.



Notes: the percentages are defined as the sum of the percentages for "has contributed (will contribute) considerably to this purpose" and "has contributed (will contribute) somewhat to this purpose". The results shown are calculated as a percentage of the number of banks which did not reply "not applicable".

Source: ECB.

Chart 8. Purposes for which euro area banks use the additional liquidity from the expanded APP-overview

However, the results of this apparent targeting effort are more than limited.

Let us see, firstly, the results of the analysis that the ECB itself conducted in July 2015, based on the changes reported on the balance sheets of the banks receiving funds from the TLTRO Programme (**Chart 9**).

As we can see, it seems clear that in the case of the TLTRO too, the success in the allocation of these funds to bank lending is very limited.

Surprisingly, despite the objectives explicitly defined by the Programme, the banks receiving funds are apparently quite unashamed when it comes to declaring that they have not allocated the funds received to boosting lending, but to other purposes (**Chart 10**). This is also demonstrated by the aforementioned *"Euro area bank lending survey"*, the periodical survey of the Eurozone's main banks.

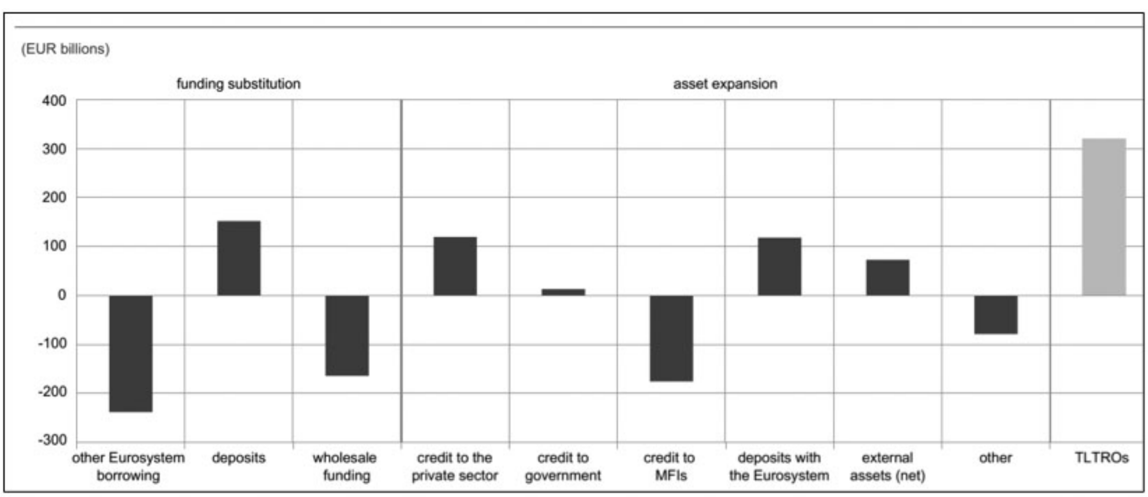
As we can gather from the chart, even in this "targeted" programme the group of banks that replied that the resources tapped contribute either "considerably" or "somewhat" account for only 41 % to 64 % of the total recipient banks.

The question is how it is possible that around half of the banks can say that these resources have not contributed at all to an increase in lending.

The answer lies in the fact that the "targeting" that the programme appears to boast is only limited:

– The banks can finance themselves through the programme for two years without fulfilling any requirement about the purpose of the funds.
– Only the banks that want to keep the funds beyond 29/09/2016 are obliged to observe the "targeting" requirements.
– In approximately half of the resources provided so far –200 billion euros out of a total of 400 billion– the only requirement lies in increasing the balance of net lending, without demanding a specific amount of increase.

This being the case, it is hardly surprising that the TLTRO Programme has been a fresh fail-



Source: ECB.

Chart 9. Changes in the balance sheets of banks participating in the TLTROs ure from the point of view of its targeting towards bank lending.

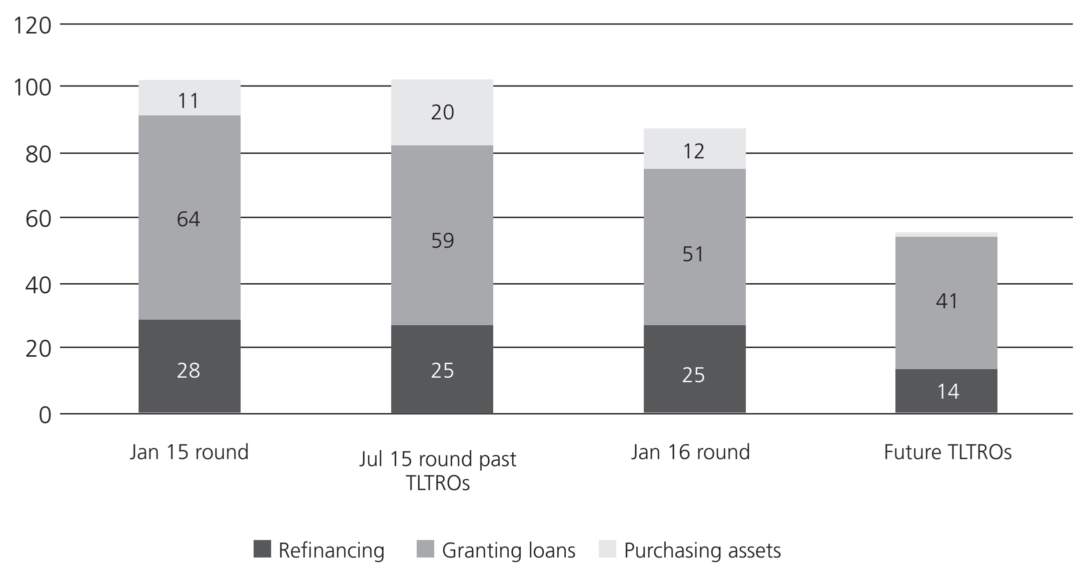
However, the conceptual importance of this programme is very high. Through it the European Central Bank is acknowledging that laying down conditions to ensure the link with the real economy is not inconsistent with Eurozone monetary policy – and nor is establishing reporting requirements for the banks that tap the resources, as is done in Article 8 and in Annex II of the ECB Agreement of 29 July 2014 that implemented the TLTRO Programme.

It seems clear that from this precedent the question that immediately arises is why the rest of the monetary expansion programmes are not regulated as "targeted". And why similar reporting requirements are not laid down in them.

Monetary policy and growth policy

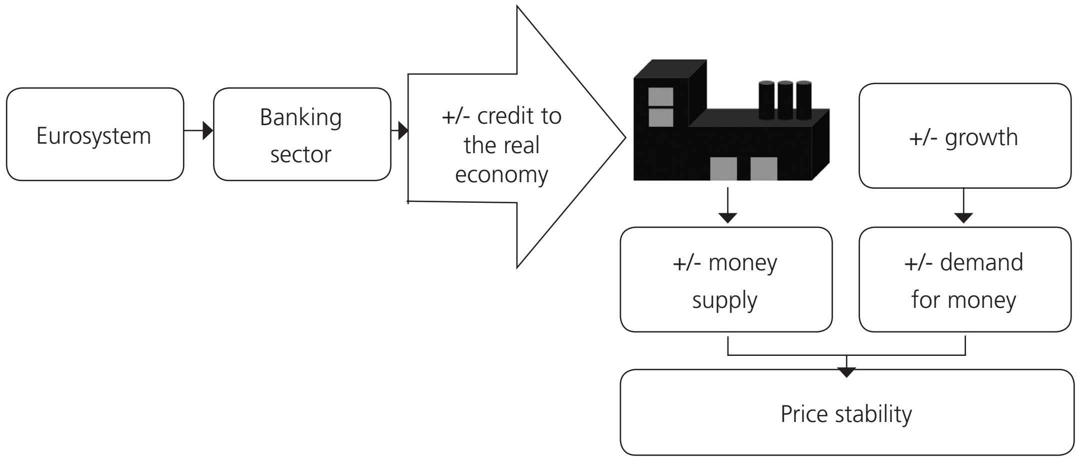
The relationship between monetary policy and economic growth tends to be focused from the standpoint of the traditional dispute between those who champion more expansionary policies and those who advocate restrictive policies. The latter tend to argue that monetary policy cannot be an instrument to boost growth. It is not the aim of this document to enter into that dialectic. Our standpoint has no bearing on whether monetary policy should "be used" as an instrument for economic expansion in general or not. What we are interested in highlighting in this report is how, from another standpoint, economic growth is inseparable from monetary policy.

While it may seem obvious, price stability is not just the result of money supply developments, but also of developments in the demand for money. While monetary policy tends to fo-



Source: ECB.

Chart 10. Use of funds from the past and future TL TROs



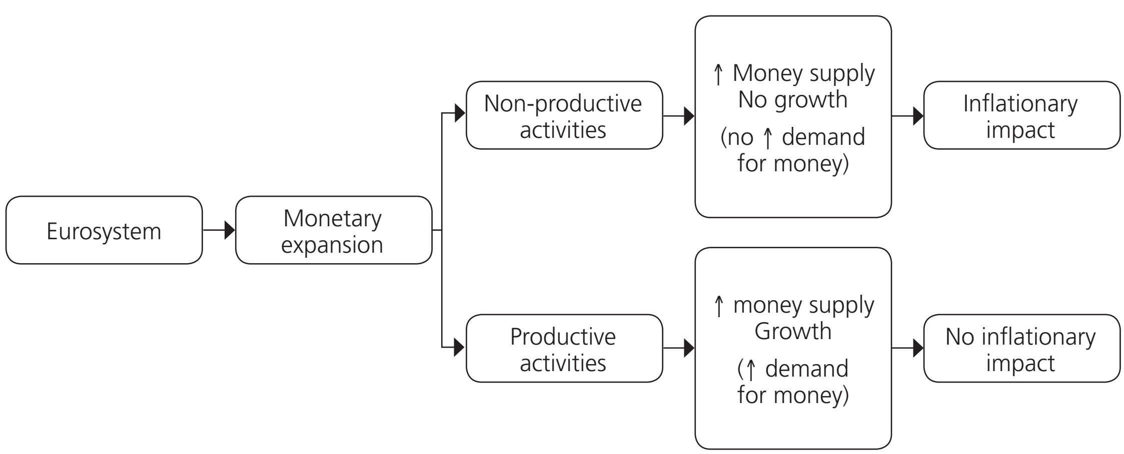
Source: EKAI Center.

Chart 11. Bank credit is also the link between monetary policy and the demand for money

cus on the impact on money supply, the fundamental reference regarding price stability is the balance between supply and demand for money (**Chart 11**).

Therefore, following the regulatory criterion of the Treaty of the European Union, any policy that by making use of the creation of money has a positive or negative effect on the demand for money meets the requirements to be described as an integral part of monetary policy.

It is essential, in this respect, to recall that economic growth is the most direct influencing factor on the demand for money, especially in the medium and long term.



Source: EKAI Center.

Chart 12. Monetary policy and growth policy

Hence, taking into account the impact on the growth of monetary policy action, interrelation with economic growth is not an option for monetary policy (**Chart 12**). It is a need.

This means that if, as we have set out so far, monetary policy should in every case be clearly focused towards lending to the real economy as a whole, it seems clear too that, within the real economy, monetary expansion should in every case be focused preferentially towards the productive economy capable of boosting economic growth.

In practice, this should mean, firstly, having sufficient information about which resources of those received by the banking system are channelled into the productive economy; secondly, probably, prioritising channelling monetary expansion into productive activities, either through the actual granting of resources or through a differentiation in interest rates. It would seem there is nothing more logical than establishing differential base rates in monetary expansion operations according to whether they are used in productive activities; for non-productive bank lending purposes and, if it is considered acceptable, for other purposes, respectively.

Completing and rebalancing the economic and monetary union

Maria João Rodrigues

The Eurozone has failed to deliver on the main goals of the European Union (EU) in terms of sustainable growth, employment, social progress, cohesion and stability.

Flaws in the initial design of the single currency have made the effects of the global economic crisis deeper and longer, generating huge economic costs, social suffering and political tensions within and between Member States.

Without major reform, aiming at the completion of the Economic and Monetary Union (EMU), neither will the crisis be properly overcome, nor will the EU succeed its necessary transformation into a democratic, sustainable, cohesive and competitive growth model, without which it will ultimately fail to safeguard and reinforce its democratic and social values and standards in an increasingly competitive and fast-changing world. To guarantee the EMU's sustainability in the long run, the EMU reform process should also involve re-launching a dynamic process of structural convergence amongst its member countries and regions within an inclusive and competitive Single Market.

This reform of EMU must address its inherent flaws and weaknesses upfront, through courageous and intelligent political, economic and social change. Key proposals made by the Group of Socialists and Democrats include:

– A major qualitative leap in democratic decision-making processes.
– Closer economic policy coordination and the development of an EMU economic policy based on a truly joint approach regarding the Eurozone's aggregate fiscal stance –in particular, to take proper account of the impact of aggregate EMU fiscal policy on the Eurozone's domestic demand and its financial resources– regarded as a necessary condition for an improved macroeconomic policy mix, to allow for proper aggregate demand management and clear measures to reduce social and gender inequalities.
– Balanced monitoring of national current accounts in order to address both deficits and surpluses through country-specific recommendations in a way that supports structural convergence.

- A progressive growth agenda combining much higher investment and socially balanced structural reforms.
- Common fundamental social standards and a common consolidated corporate tax base to prevent a social and a fiscal race-to-the-bottom between countries.
- An EMU fiscal capacity, encompassing own resources and a borrowing facility with two main aims:
  - Providing a tailored instrument to improve the absorption of country-specific economic shocks.
  - Boosting social investment, helping to restore structural convergence between Eurozone members during the crisis exit phase.

In June 2015, the Five Presidents' report made proposals for stronger economic, financial and fiscal union with greater democratic accountability and legitimacy. It foresees a two-stage process towards completing the EMU, involving essentially: 1) completion of banking union and greater structural convergence based on the existing Treaty framework, and 2) creation of a euro area fiscal stabilization function.

In October 2015, the Commission followed this up with a first set of legislative proposals concerning the first stage of EMU completion (national competitiveness boards, advisory European fiscal council, external representation of the Euro area) and a communication explaining how the European Semester for policy coordination would be revamped from the 2016 cycle onwards.

In November 2015, the Commission tabled a legislative proposal on a European Deposit Insurance Scheme (EDIS).

An unfinished job

The EU as a whole is confronted with a reality that cannot be denied –the Economic and Monetary Union has so far failed to deliver the main goals set out in the Treaty on European Union: sustainable and balanced growth and price stability, with full employment and social progress and economic, social and territorial cohesion.

This has been felt particularly hard through the crisis.

After the initial European Economic Recovery Plan of 2008-9 was replaced with a policy mix of austerity and internal devaluation, a second recession hit most of the Eurozone from 2011 onwards, youth unemployment and long-term unemployment soared to unprecedented levels, wages and collective bargaining systems have come under severe attack, on out of four Europeans are at risk of poverty or social exclusion, with women being the most hit, inequalities have risen, lower-income groups are exposed to economic insecurity, investment collapsed by nearly 20 % from pre-crisis levels, debt/GDP ratios have worsened in many countries, and the Eurozone is on the verge of deflation.

The internal divergences of the Eurozone were magnified by the financial crisis and the process of economic and social convergence which has characterised European integration for decades has been reversed.

This is already translating into serious political tensions and risks, as anti-European and extreme political forces are gaining important ground in a number of Member States.

Unfortunately, none of this is yet over. The mild recovery driven primarily by low oil prices and expansionary monetary policies remains fragile, deflationary risks persist, companies and households are struggling to repay old debts and sovereign debt/GDP ratios are likely to decline only very slowly, while national fiscal policies will remain heavily constrained. The Eurozone is confronted with a serious risk of secular stagnation, with nominal growth below 2 percent for 5-10 years. The euro area would be unlikely to survive such a Japanese-style decade because the necessary adjustment processes in crisis countries would take far longer in such an environment than would be politically, socially and economically bearable.

During the crisis, the EU and the Eurozone have accumulated huge economic and social costs, including additional forms of macroeconomic as well as social and gender imbalances, which must now be fully addressed. This will not be possible without the completion of the EMU.

The crisis has laid bare the structural deficiencies of the Eurozone's political and institutional build, which date back to the EMU's origins in the early 1990s.

Major flaws, such as its limited democratic dimension, the weakness of its economic policy coordination (despite increasingly complex and legally binding policy processes) or the lack of an anti-cyclical fiscal capacity to tackle asymmetric shocks, have been identified since many years. The over-reliance on an excessively rules-based system has constrained the Eurozone's ability to deal with its economic crisis and hindered the emergence of real and common policy-making. Accordingly, the Four Presidents' report "Towards a Genuine Economic and Monetary Union" of December 2012 formulated the need for a banking, fiscal, economic and political union. However, lack of political will and prevalence of national narratives about the Eurozone crisis have until now prevented adequate EMU reform from being implemented.

When the global financial crisis hit, the Eurozone was just not equipped to effectively resolve it, and the sovereign debt crisis brought it to the edge of survival.

Governments have responded to this crisis in an incremental way, through several EMU-specific initiatives and others at the EU level. This notably brought about the launch of financial stabilisation mechanisms including the European Stability Mechanism, the European Semester process, the revision of the Stability and Growth Pact, the intergovernmental Treaty on Stability, Coordination and Governance, the two-pack regulations on fiscal surveillance, a new Macroeconomic Imbalances Procedure, the banking union, the important recent clarification of SGP's in-built flexibility, a range of unconventional monetary policies deployed by the ECB, or the newly proposed European Fund for Strategic Investment (EFSI).

These changes now need to be completed by several major reforms to the EMU's way of working - on how decisions are taken and implemented, with which instruments, and along which rules and policy concepts. The Eurozone must now, once and for all, move away from ad hoc instruments and funds created under emergency towards a structural and coherent institutional framework endowed with adequate resources and democratic legitimacy.

In June 2015, the European Parliament and Council reached agreement on the regulation on the European Fund for Strategic Investments (EFSI). The EFSI became operational later in 2015 and by the end of 2015, the European Investment Bank Group already approved investments worth about €10 billion under the EFSI, i.e. about one-sixth of the target volume for the three years of EFSI operations.

Proposals for a democratic, sustainable, cohesive and competitive Economic and Monetary Union

In order to deliver fundamental treaty goals, the EMU needs to reform its architecture and its system of governance in the following way:

A democratic offensive

A stronger European and national democratic dimension is indispensable to secure robust political legitimacy of EMU policy-making. The current decision-making approach is not viable, and –if remaining as it is– will end up endangering the very political survival of the Eurozone. Furthermore, it is unthinkable to develop new EMU instruments and to deepen governance processes without democratic progress. Stronger democratic legitimacy is equally indispensable in order to strengthen the effectiveness of policy implementation on the ground, especially with regard to structural reforms. However, this does not require new institutions, especially at parliamentary level, but should be facilitated through the realisation of EMU membership for all Member States legally committed to joining within a clear and transparent timetable, and beyond.

EMU policy coordination should, in future, be democratically legitimised throughout the European Semester process:

– The Commission's Annual Growth Survey (AGS) should be presented at the start of the Semester jointly with the Integrated Guidelines (IG) on economic and employment policies. This EU-wide policy package, which sets the focus for national reform programmes and provides basis for Country-Specific Recommendations (CSRs), can only be made democratically fully legitimate at European level through the co-decision procedure, involving both the European Parliament and the Council on an equal footing. However, this requires a Treaty change, and can therefore not be achieved at present. Therefore, the three European institutions should without delay agree an Inter-Institutional Agreement on Improved Socio-Economic Governance, notably in order to ensure the due respect of Parliament's political views on the AGS/IG package. The call for an Inter-Institutional Agreement has been reiterated in the Parliament's resolution on the 2016 Annual Growth Survey (Rodrigues report). The Parliament held a plenary debate on the priorities of the Annual Growth Survey 2016 on 11 November 2015, two weeks before the AGS was adopted by the Commission. Another important change in the "revamped" structure of the European Semester was that the Commission tabled its draft **recommendation on the economic policy of the euro area** already in November 2016, together with the AGS. The Parliament discussed this recommendation with the President of the Commission and the President of the Eurogroup in a plenary debate on 16 December 2015, before the draft recommendation was approved by the Council and endorsed by the European Council.
– Powerful additional democratic legitimacy must also be achieved at national level. All national governments should ensure that their National Reform Programme and Stability and Convergence Programme are duly debated, amended and adopted by their National Parliament according to appropriate national procedures. The Commission's Country Reports should also

be thoroughly discussed with National Parliaments and social partners before the Commission proposes Country-Specific Recommendations (CSRs).

– Within the existing Treaties, the role of the European Commission should also be strengthened and inter-institutional political processes should thereby be streamlined in the Eurogroup, endowing the competent European Commissioner with a more central and formal role in this group, for instance as a Eurogroup coordinator alongside the Eurogroup president. This should go alongside full accountability of both to the European Parliament. These elements should all be laid down in the above-mentioned Inter-Institutional Agreement.
– Last, but not least, the European Stability Mechanism should be brought back into the EU normative framework, and further on it should be integrated into the Treaty. This also implies a restructuring of its decision-making procedure in line with EU democratic principles, such as in the case of the European Central Bank.

Beyond the parliamentary dimension, democracy within the EMU should also be more broadly reinforced through better social dialogue on Eurozone issues.

Closer economic policy coordination and a better macroeconomic policy mix

Changes are needed in the Eurozone's macroeconomic policy mix in order to strengthen recovery in the short term and avoid a deflation. In particular, internal demand remains low, as evidenced by near-zero inflation and high unemployment. Deficient demand is linked to the increase in income inequalities and reduction of the wage share in total output over the past two decades as well as to the substantial weakening of national automatic stabilisers since 2010. Demand could be therefore stimulated by more progressive fiscal policy (with more favourable treatment of lower-income groups) and by continued wage increases in high-surplus countries, helping to strengthen consumer confidence.

Aggregate demand and reduction of social and gender inequalities should become a fourth pillar to be added to the "virtuous triangle" of fiscal responsibility, structural reforms and investment, put forward in the Commission's Annual Growth Survey for 2015. This should include a gender equality dimension within the AGS and relevant CSRs.

Furthermore, as emphasised also in the Parliament's 2015 report on the review of the economic governance framework, economic policy coordination needs to be further deepened in order to ensure that all Eurozone countries contribute to macroeconomic adjustment and convergence, including those who have greater fiscal room for manoeuvre and could afford to run more expansionary fiscal policies given their extremely low borrowing costs. The Commission should therefore propose a target for the Eurozone's aggregate fiscal stance and its country-by-country composition in its annual recommendations to the Euro Area, to be discussed by the Eurogroup and approved by the Council and by the European Parliament under the ordinary legislative procedure.

Closer economic policy coordination goes beyond fiscal policy and demand management. The financial crisis is closely related to unsustainable macroeconomic imbalances within the Eurozone, notably excess savings and speculative investment. Hence, both national current account deficits and surpluses must be closely monitored, treated equally seriously and corrective measures on both sides be formulated in the relevant country-specific recommendations.

The European Parliament adopted its three **reports relating to the 2016 European Semester** on 25 February 2016, i.e. three weeks before the Spring European Council:

- The ECON Committee report (rapporteur: M.J. Rodrigues) emphasizes the need for a coordinated effort by all Member States to strengthen internal demand and reduce macroeconomic imbalances without resorting to harmful internal devaluation. It outlines a new agenda of reforms and investments (including social investments and the energy/ecological transition) and emphasizes that the European Semester should be much more in line with the Europe 2020 Strategy. It calls for fully using the existing flexibility of the SGP, also to deal with new security threats and the refugees crisis. Moreover, it pays particular attention to the euro area recommendation, stressing that the Eurozone is one economic entity, and calls for further democratizing the European Semester. It calls for regular monitoring of the Eurozone's aggregate fiscal stance in view of the existing investment gap and notes that a current account surplus which is too high due to underinvestment and suppressed domestic demand has adverse consequences for growth and employment. On this basis, the report highlights the possible contribution which high-surplus countries could make towards stronger domestic demand and stronger recovery in the Eurozone.
- The EMPL Committee report (rapporteur: S. Ribeiro) calls for socially responsible reforms based on solidarity, integration, social justice and a fair distribution of wealth. It highlights that investment in people is an important objective in itself, not just a means to economic development. Moreover, it identifies several actions to strengthen the social dimension of the Eurozone, notably enhanced democratic accountability mechanisms at both EU and national levels; wage floors set at adequate levels and with the involvement of social partners; joint meetings between the EPSCO Council and ECOFIN; and meetings of the euro area Labour and Social Ministers;
- Finally, the report of the IMCO Committee (rapporteur: C. Stihler) highlights that underinvestment over the past years has significantly held back Europe's economic development. It calls for regular monitoring during the European Semester of country-specific barriers to the Single Market and evaluation of Single Market integration and competitiveness, focused on a set of priorities where action would generate the most impact in growth and jobs.

A better macroeconomic policy mix will not be achieved without a new approach towards stability and growth-oriented Eurozone debt management, focusing on long-term sustainability, while avoiding risks of moral hazard. First of all, this will require a more favourable macroeconomic framework made up of higher growth, limited inflation and financial stability generating the lowest possible interest rates, within which the ECB will have to play an essential part. Within such a frame, a new debt management approach could encompass:

- A European long-term borrowing facility for major investments corresponding to EU and EMU priorities.
- A more cyclically-sensitive approach to debt reduction than what is currently laid down in the Fiscal Compact (debt rule), which may include the possibility for short-term borrowing.

– A limited and strictly framed redemption of certain existing public debts; in order to join such a redemption scheme in the most orderly way, Member States could subscribe to a "debt sustainability plan" lodged within their national stability and growth programme.

A progressive agenda of transformational investment and socially balanced structural reforms

In order to support stronger and truly sustainable growth by closing the output gap and by achieving massive and quality employment creation in future years, the EU and the EMU must develop a sustained and transformational investment policy at both European and national levels.

Some positive progress is now being made in this direction through the forthcoming European Fund for Strategic Investment (EFSI) and through the recent Commission communication on making the best use of flexibility within the existing rules of the Stability and Growth Pact.

However, these solutions will not on their own fill Europe's investment gap. Investment required in coming years is estimated at around 1.5 trillion euros just up to 2020 in particular on infrastructure and network systems in transport, energy and broadband, in order to shift Europe's economy towards a new sustainable and competitive growth model. Significant additional social investment will be required in conjunction, notably in the field of education, vocational training and lifelong learning systems, including in digital skills and new growth areas. Attaining such high levels of investment will demand a major and sustained increase in both national private and public investment levels across good and bad economic times, beyond the current capacity of the EFSI. This should be more adequately coordinated at EMU and European levels, in order to guide national public investment flows sufficiently towards European objectives, and to foster synergies and exploit positive spill-overs. Beyond the medium term, as detailed in section 2.5, an EMU fiscal capacity, including a borrowing facility, could further complement European investment, as an addition to, or integrated into, an evolved EFSI.

The forthcoming mid-term review of the Europe 2020 Strategy should contribute to the EMU completion process by helping to refocus structural reforms from labour cost- cutting to competitiveness based on factors such as innovation, resource efficiency, sustainable re-industrialisation, a well-functioning Single Market and social cohesion. It should also emphasise the link between growth-enhancing structural reforms and investments. The 2016 National Reform Programmes should clearly identify through which reforms and through which budgetary resources each of the national Europe 2020 targets is to be achieved.

A more progressive, socially balanced, agenda of structural reforms should encompass measures such as decisive shift of taxation away from labour to wealth and pollution; stronger employment and social policies that empower people, including more women, to productively participate in the economy and society, fight against tax avoidance through significantly improved transparency, notably ensuring that national tax policies and cooperation among tax authorities is in full line with the principle of sincere cooperation; strategies for innovative and sustainable re-industrialisation; and improvements in education and training systems, notably in new growth areas such as the Digital

Single Market. Reforms should be aimed at supporting the broader transformation towards a fully sustainable new growth model by driving both stronger competitiveness for sustainable growth and social upward mobility, cohesion and fairness. All such reforms will need to be accompanied by sufficient levels of investment.

Common and fundamental social standards and norms to prevent a social race-to-the-bottom

A sustainable Economic and Monetary Union requires processes and instruments able to maintain social cohesion. Macro-economic policy strategies must be complemented by macro-social strategies, preventing excessive social inequalities within and between EMU countries and better connecting growth and public finance objectives to employment, income and social fairness objectives.

It goes without saying that this needs to be underpinned by sufficiently strong common social standards and norms within a well-functioning Single Market, especially in order to provide boundaries to internal devaluation processes where cost-cutting is required and thus to eliminate the risk of social dumping as a harmful source of social regression within Member States, leading to a social race-to-the-bottom within the Eurozone as a whole. A basic set of common and fundamental labour standards, active labour market policies, minimum income schemes and national floors on statutory or negotiated minimum wages, as well as standards of protection in unemployment should be established in the EMU.

Moreover, the recently strengthened monitoring and surveillance of employment and social imbalances and challenges in the context of EU economic governance should be adequately followed up in Country-Specific Recommendations. A minimal reform would consist of equipping the scoreboard of key employment and social indicators in the Joint Employment Report with warning thresholds highlighting the most worrying social situations and developments, triggering in-depth analysis in the Country Reports and where relevant Country-Specific Recommendations setting out how to address the identified employment and social problems. The scoreboard should also be presented in gender-disaggregated form. A more advanced reform of the existing processes would be to create a proper Social Imbalances Procedure (SIP) joined up with the existing Macro-Economic Imbalances Procedure, and providing for a legally enshrined macro-social surveillance and, as far as possible, for an enforcement of corrective policies when unemployment, poverty or inequalities reach alarming levels.

Such reinforcement in the EMU's socio-economic governance could also guide the use of funding provided from the EMU's fiscal capacity and would help to ensure that social crises undermining the whole EMU's functioning and growth potential are tackled in a timely and effective way. In this context, the role of the social economy –especially as a factor of resilience during bad economic times– should be properly recognised and fostered.

In the 2016 alert mechanism report of the macroeconomic imbalances procedure, the Commission paid increased attention to three employment-related indicators: the participation rate, youth unemployment rate and long-term unemployment rate. The Parliament's reports on the 2016 European Semester stressed also the importance of properly reflecting in policy guidance key social indicators, such as household incomes, poverty and inequality.

In the second half of 2015, under the Luxembourg Presidency of the Council, two meetings of the Eurozone ministers of Labour and Social Affairs were organized, focusing on was to deepen employment and social policy coordination in the EMU and develop alternatives to harmful internal devaluation policies.

The European Parliament established in early 2016 a Financial Assistance Working Group, bringing together members from ECON, EMPL, REGI, BUDG and CONT committees, in order to strengthen democratic accountability for the implementation of the on-going financial assistance program for Greece.

On 8 March 2016, the Commission launched a public consultation on a European Pillar of Social Rights, relevant for whole EU but particularly for countries committed to using the euro. The consultation is to be concluded by the end of 2016 and followed by legislative proposals in 2017.

At institutional level, this approach should entail a stronger role for Employment and Social Affairs Ministers from within the Eurozone, alongside the institutionalised Eurogroup of Finance ministers, in order to ensure a properly joint up and balanced contribution to the socio-economic policy agenda of EMU. Regular ministerial meetings within a Social Eurogroup should become the norm in the future to provide input to the Euro Summits on macro-social developments in the EMU.

Last, but not least, this new approach would greatly benefit from stronger social dialogue at EMU level, including exchanges of views on convergences or divergences in wage and productivity levels that could help inform national and sub-national collective bargaining.

Developing a comprehensive emu fiscal capacity

A monetary union can only be strengthened if it can rely on a fiscal capacity enabling it to effectively develop, finance and implement union-wide economic policy strategies and to fight adverse economic shocks affecting one or more of its members, or the union as a whole, in particular when this leads to a major and long lasting crisis exhausting national automatic stabilisers, such as now. Private risk-sharing through financial markets can complement but cannot substitute fiscal shock absorbers.

Time has clearly come for EMU member countries and for the European institutions to accept this reality and to act accordingly by gradually developing a comprehensive fiscal capacity.

The key functions for a fiscal capacity are:

– Addressing asymmetric, country-specific economic shocks.
– Addressing symmetric economic shocks affecting the whole of the Eurozone.
– Supporting adequate levels of investment in conjunction with national investment policies, targeted so as to promote balanced and sustainable growth.
– Redressing macroeconomic imbalances and promoting structural convergence among its members.

Each of these functions requires specific instruments and processes, financing modes, and political/institutional settings.

A powerful symmetric shock management capacity and a strong Eurozone-wide investment capacity would need to be supported through a public borrowing capacity backed up by a Eurozone budget, at least partly financed by its own resources. This would of course equip the Eurozone with a fully-fledged capacity to manage its destiny through good and bad times and must remain the ultimate goal for EMU completion. However, this is a far reaching change and would require a major breakthrough in EMU- specific political integration.

To some extent, investment needs will now be better addressed across the EU as a whole through the European Fund for Strategic Investment and thanks to a more flexible and investment-friendly use of the fiscal rules. However, beyond the medium-term, a proper EMU investment facility could be developed as part of a proper Eurozone fiscal capacity, financed by own resources and borrowing.

Symmetric shock management, as long as not supported through a common budgetary capacity, can at least be improved in future through closer economic coordination built on a truly common economic policy strategy and, again, on a more flexible and counter- cyclical use of the fiscal rules.

Growing divergences among Eurozone members have a destabilising effect on the zone as such and members of the EMU cannot use the exchange rate as an adjustment mechanism. The promotion of structural convergence beyond what the EU budget already provides through its Structural and Cohesion Funds should be complemented by a fiscal instrument to address asymmetric shocks and on a social investment scheme to support structural convergence and implementation of progressive reforms. Both instruments should be subject to strong democratic oversight by the European Parliament.

In December 2015, a High-Level Working Group on the deepening of Economic and Monetary Union[1] has been established by the Party of European Socialists, exploring inter alia several options for an EMU fiscal capacity.

In the European Parliament, joint work has been launched by the ECON and BUDG committees on a report on a Eurozone budgetary capacity (rapporteurs P. Berès and R. Böge). Two working documents[2] have been elaborated so far and an expert hearing has taken place.

A fiscal instrument to address asymmetric shocks

A countercyclical instrument, the importance of which was already clearly underlined in the Four Presidents' final report back in December 2012, would protect EMU Member States in worst-case scenarios and would provide immediate stability and confidence. It may take different forms enabling to partly insure participating countries against asymmetric shocks, without generating permanent fiscal transfers. Possible schemes of EMU Economic Insurance could provide either general or targeted budgetary support in cyclical downturns, for instance in order to maintain public investment levels in key areas. A relevant proposal favours a system of partial complements to national unemployment benefit systems in times of economic downturn (EMU Unemployment Insurance Scheme) as a way to avoid a pro-cyclical fiscal stance in the Member State(s) concerned during a certain time period.

Since autumn 2015, European unemployment insurance[3] as a suitable form of an EMU

[1] Cf.: http://www.pes.eu/pes_kick_off_work_for_a_more_sustainable_social_and_democratic_economic_and_monetary_union

[2] Cf.: http://www.europarl.europa.eu/committees/en/budg/working-documents.html?ufolderComCode=CJ16&ufolderLegId=8&ufolderId=05365&linkedDocument=true&urefProcYear=&urefProcNum=&urefProcCode=

[3] Cf.: http://sep.luiss.it/sites/sep.luiss.it/files/PAdoan%20note_unemployment_insurance_2015_5OCT.pdf

fiscal capacity has been advocated at a high political level notably by the Italian Government.[4]

Participating Member States would need to respect certain pre-requisites, as common budgetary resources are transferred to national budgets. However, these should be defined reasonably within the existing legislative framework, instead of creating yet new and potentially counter-productive obligations. Different financing forms can be considered for such a mechanism –including revenues from the FTT– leading to an own-resources system, as this would make the mechanism most effective in financial and in political terms. Participating Member States should also ensure that their own automatic stabilisation capacity as such is functioning properly.

This instrument should be focused on short-term countercyclical support and avoid net fiscal transfers between countries over the whole economic cycle, for instance through clawback mechanisms. Its use should be limited to exceptional circumstances, in which despite originally sound budgetary policy positions in the member countries concerned, automatic stabilisers do not prove sufficient to address a major economic shock.

A critical condition to develop this capacity is to improve the coordination of tax policies between the Eurozone Member States in order to eliminate downward tax competition which erodes national tax bases and reduces the overall tax collecting capacity of the Eurozone and of the EU. Member countries should agree on a Common Consolidated Corporate Tax Base (CCCTB) and on minimum tax rates as a basis for a common set of rules and practices in the field of taxation. Furthermore, tax rulings should be regulated so that the net tax rate could not fall under a given threshold, after applying the rulings.

Negotiations on the implementation of a Financial Transaction Tax are still on-going, with the group of Member States participating in the enhanced cooperation process now being effectively reduced to ten. In October 2015, the Council reached agreement on automatic exchange of information on tax rulings. The Commission undertook a public consultation on re-launching the Common Consolidated Corporate Tax Base[5] and committed to present a proposal during 2016. In January 2016, the Commission presented an Anti-Tax Avoidance Package[6] which puts forward measures that can be implemented through national law and improved cooperation among countries even before a CCCTB is enacted.

The instrument would complement the role of the Banking Union (still to be completed by a deposit guarantee mechanism), of the European Stability Mechanism and of the ECB, while also restoring the credibility of the "no bailout" clause. The more effective its capacity will be in the early stages of an economic shock, the less likely these other sources of financial support would be needed as the economic situation would be prevented from deteriorating early on.

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[4] Cf.: http://ec.europa.eu/taxation_customs/taxation/company_tax/anti_tax_avoidance/index_en.htm

[5] Cf.: http://ec.europa.eu/taxation_customs/taxation/company_tax/common_tax_base/index_en.htm

[6] Cf.: http://ec.europa.eu/taxation_customs/taxation/company_tax/anti_tax_avoidance/index_en.htm

A new scheme to boost structural convergence

Given the degree of divergence between Eurozone countries, a new scheme should be developed within the frame of the EU budget to boost structural convergence and potential growth by supporting a combination of targeted reforms and investments. This should also contribute to address the Eurozone periphery's social emergency. A very small embryo of such a scheme has in fact already been created in the form of the € 6 billion Youth Employment Initiative, helping to finance the Youth Guarantee's implementation in regions with high youth unemployment rates. This positive practice should be reinforced as well as broadened to other key areas, such as re-training plans for long-term unemployed, the modernisation of public administrations, or the improvement of national innovation systems. The experience with the YEI shows that such instruments need to be more flexible in order to be effective. This scheme should therefore be able to finance even basic public expenditure which every advanced economy vitally needs, for instance teachers' salaries or basic medical supplies.

The dedicated budget line for the **Youth Employment Initiative** only received funding in 2014-15, meaning that from 2016 onwards, new financial resources for the implementation of the Youth Guarantee need to be drawn from existing allocations of the European Social Fund (2014-20) and from national budgets. Additional financing for the Youth Employment Initiative will be one of the major topics for the mid-term review of the EU's Multi-Annual Financial Framework.

In November 2015, the Commission proposed redirecting some € 120 millions of technical assistance resources under the structural funds into a new **Structural Reform Support Program** which could be implemented by the Commission in a more flexible way, responding to current political priorities. The legislative proposal is being examined by the European Parliament and Council.

Conclusion

The key to understand the outstanding reform needs for the Eurozone is to grasp the combined role of both cyclical and structural policy in achieving sustained prosperity and stability over time across the whole of the Eurozone, and to do so within a sustained dynamic of structural convergence. The EMU will neither emerge well from this crisis nor properly manage future shocks by relying essentially on a narrow agenda of structural reforms within fiscal constraints. Reforms are needed, but in a broad way –they must drive such structural convergence, as much as they must drive competitiveness. They should also be stimulated by financial incentives to support reforms in countries that are properly engaging to make them happen.

They have to be accompanied and supported by more effective cyclical policy management. The Eurozone must be endowed with some form of asymmetric shock absorber as a last resort, in order to secure ultimate stability and to build up utmost confidence in its resilience. However, this must happen without creating permanent transfer mechanisms between Member States and while securing the good functioning of national automatic stabilisers as the standard way to address asymmetric shocks.

Furthermore, the EMU needs to improve its common macroeconomic steering capacity over the longer run. This is particularly important in the field of investment and with regard to macroeconomic imbalances, which must address destabilising deficits and surpluses among Member States with equal force. Good macroeconomic policy should also include a proper understanding and use of the area's aggregate fiscal stance, in order to ensure proper demand management over economic cycles.

Economic cohesion, convergence and competitiveness cannot be achieved without a strong social dimension. The achievement of social progress within and among Euro member states through a well-organised process of structural convergence must become a guiding policy principle of the future EMU, including a decisive reduction of inequalities. This will make it more robust economically and politically. Common social standards and a common consolidated corporate tax base to prevent a social and a fiscal race-to-the-bottom between Eurozone and EU countries are fundamental in this respect. This must go hand-in-hand with deeper social dialogue on Eurozone issues.

Such stronger and re-balanced economic governance will need to be gradually built on a comprehensive fiscal capacity, financed by own resources and able to borrow, and on solid democratic legitimacy and control at European and at national levels. A new approach to debt management aiming at long-term sustainability should become part of this new configuration.

Beyond this internal set of challenges, the Eurozone also needs to address the overall global challenges, in order to manage its transition to a new growth model and to build a sound and stable international currency. As a currency zone within European Union, EMU must play its part in influencing global and geo-strategic balances, which requires a unified external representation in the key international institutions and fora.

While EMU reforms are necessary now, the political context does not allow for a complete and speedy implementation within the short run across the whole range of necessary changes. In certain areas, it is essential to formulate and uphold a high level of ambition, while accepting to move ahead gradually. In this respect, the possibilities provided by the existing Treaties to act within a clear Community framework should be exploited to the full, including a number of options to address needs of differentiated integration at EMU level, while remaining open to non-euro countries. Simplified and ordinary treaty change procedures shall be put at the end of the cycle of EMU reform.

The European Council must draw the full lessons from a crisis which is not yet resolved and which even endangered the very survival of the Eurozone, leaving a heavy economic, social and political legacy behind it. The future of EMU now requires a new sense of political vision and commitment, which the forthcoming joint Presidents' report should inspire.

Inequality in Europe: unequal trends

Michael Dauderstädt

Inequality in Europe has many dimensions and a long history. People or countries differ in many and diverse ways (power, income, wealth, life expectancy, among many others) and show accordingly diverse forms of inequality. Politics often distinguish between equal opportunities, equal performance and equal results. This essay focuses mainly on income inequality. Inequality has three main dimensions in Europe: within Member States, between Member States and in the European Union (EU) as a whole. But even if we focus strictly on income inequality, caution is required, since income and prosperity, their development and distribution, point to many problems and pitfalls that also appear in Europe's development, especially from an international point of view. Firstly, a differentiation should be made between the dimensions taken into consideration (market or disposable income based on purchasing power or on the exchange rate) and the units compared (countries, regions, households, productive resources).

Indicators

The Gross Domestic Product (GDP) will be the most important indicator in this research. Nonetheless, an international comparison should take into account the effect of the exchange rate and inflation. Accordingly, when comparing real incomes, a measurement using purchasing power parities (PPP) makes more sense than a comparison at exchange rates. The income per head in PPP is usually higher in poorer countries than the one measured in exchange rates, since many things are cheaper there. The cost of rent and services is usually lower in poorer countries (due to lower wages), while prices of tradable goods don't show such a difference. In the context of a catch-up process, when the development level of a poorer country comes closer to that of the richer ones, a real revaluation usually takes place, mostly combined with a nominal currency appreciation and a higher inflation rate, thus tending to reduce the difference between the purchasing power and the exchange rate.

However, the GDP per head expresses only a part of reality. It neglects non market-related costs and benefits (leisure, environment, housework, informal sector, access to public goods). In this sense, the large distance between the German (European) and the US (American) GDP per head is largely attributable to more hours worked per head, while the added value/hour (hourly productivity) is not that different between the USA and Germany or France.

The other flaw of GDP per head lies in the fact that it disregards distribution, which can be calculated with inequality indicators such as the Gini coefficient, the quintile share ratio (S80/20) or the wage share for the functional distribution in order to get a more complete picture. The Gini coefficient is a value between 0 and 1 (sometimes also normalised at 0 and 100). 0 corresponds to a fully equitable distribution and 1 (or 100) to a situation in which the whole population income would go to one single person and nothing to the rest. The quintile share ratio indicates the income ratio of the richest fifth to the poorest fifth of the population. Regardless of inequality, there is the poverty rate, which indicates the percentage of population which earns less than 60 per cent of the median income. In order to take into account the effect of public redistribution, we should consider not only the distribution of the market income but also the one of disposable income (after tax and transfers) and the social expenditure ratio.

Development of inequality between countries

The area of the present Member States of the European Union (EU) has gone through a rather varied history of inequality in the past. The EU was quite homogeneous at the moment of its foundation as the EEC of the Six, with the exception of Southern Italy. The first enlargement incorporated only Ireland as a poor country, which in 1999 had already developed and become the second richest country in the EU, even though this spectacular catch-up process really only started about 20 years after its accession. Its income per head has overcome the EU average by far and belongs today to the leading group of the EU. Only the southward enlargement (Greece in 1981 and Spain and Portugal in 1986) seriously brought up the problem of regional inequality on the agenda. While Greece fell behind relatively to the EU average in the first years, Portugal and Spain were able to catch up after their accession. In the "EFTA enlargement" in 1995, the three countries that joined were relatively rich anyhow.

Inequality grew dramatically with the eastward enlargement, especially in the second round in 2007, when Bulgaria and Romania, two large and poor countries became Member States. Croatia (accession in 2013) already ranged at the level of the countries of the first eastward enlargement round regarding income per head. In 2013, the EU-28 average GDP per head amounted to €23,200 (and in the Euro area to €25,400). But in the poorest EU Member State, Bulgaria, the income per head reached only €3,800 per year; in the richest (Luxembourg) €62,400, that is, over sixteen times higher. Income in most new Member States in Central and Eastern Europe (CEE) lies below €10,000; in the Mediterranean periphery, between €14,000 and €20,000; in the Scandinavian countries, UK, Ireland, Germany, Austria and the Netherlands, over €30,000.

Inequality turns out to be lower when income is not compared in a common currency but in purchasing power parities (PPP). The purchasing power of a Euro is clearly higher in all poor countries than in the rich EU countries or in the EU average. This purchasing power comparison becomes especially interesting from the point of view of harmonising living conditions. Measuring income per head in purchasing power parities, reduces these differences. In Bulgaria, for example, it means that income rises up to €12,000. The income ratio between Bulgaria and Luxembourg "improves" to five.

But these considerable differences largely change, since some countries grow faster than others. In **Chart 1**, countries are classified from left to right according to their income per head in the year 2000. It clearly shows how growth rates are very different in the last years. The growth trend was higher in the poor countries, showing a degree of beta-convergence[1] within the EU. Nevertheless, the extremely weak growth in the middle, composed by Greece, Spain, Portugal, Cyprus and Italy, calls for attention.

The dispersion in the real income per head has increased from 2000 to 2007 and then again slightly decreased. This means that the sigma-convergence happens only to a certain extent. Indeed, the ratio of income per head between the richest and the poorest Member States (Luxembourg and Bulgaria respectively) has improved from almost 9 to approximately 7.5 (cf. in depth Dauderstädt 2014).[2]

For a closer analysis, we can focus on three groups of countries in the chart and see the differences between their growth processes in the entire 2000-2014 period, as well as in both the 2000-2008 and the 2008-2014 phases, since the financial market crisis and the great recession have led to very different development levels in each case:

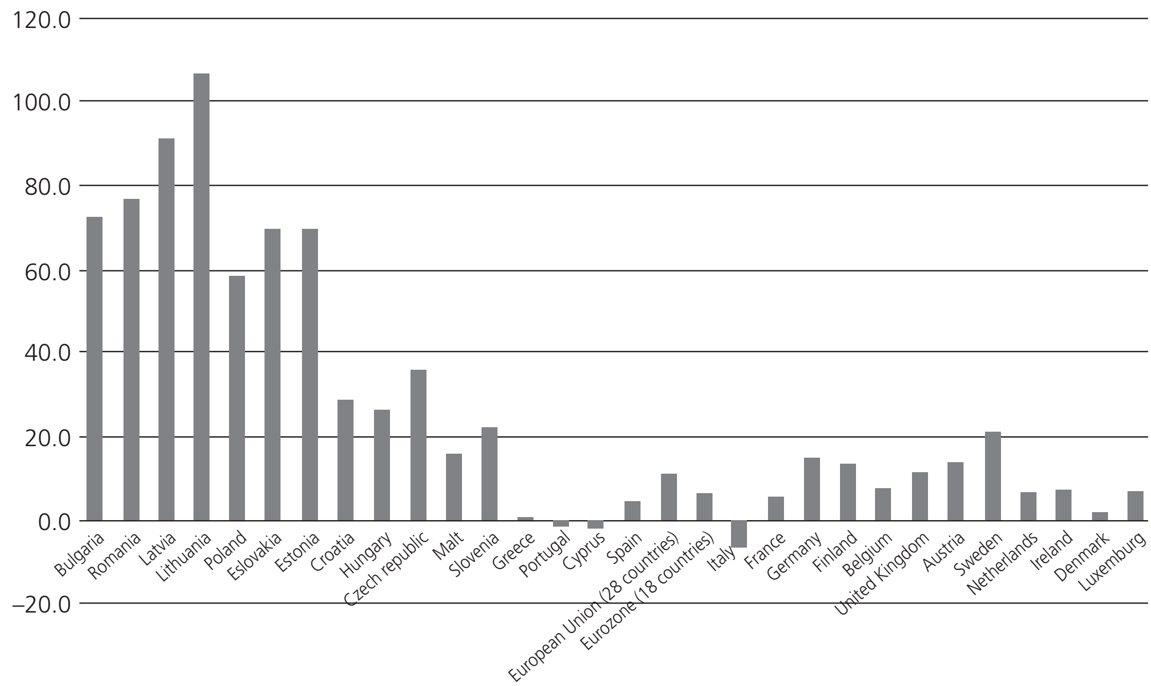
– The richer North-West: the twelve countries that were already rich in 2000 (with an income per head of over €20,000 in the year 2000). The founding members of the EU/EEC and the countries of the 1972 and 1995 enlargements belong to this group.
– The poorer southern periphery: the three countries of the southward enlargement (with an income per head of over €13,000 in the year 2000).
– The poorer East: the thirteen countries of the last three enlargements (countries with an income per head under €13,000 in the year 2000), almost all located in Central and Eastern Europe (CEE). From the income point of view, Cyprus and Slovenia could also belong to the second group.

Until the 2008 crisis, growth rates especially in Eastern Europe, but also in the Mediterranean countries reflected catch-up processes that had reduced inequality between countries as their growth rates were higher than those in the richer North-Western EU. From 2008 on, the field splits: While the countries affected by the crisis in Southern Europe seriously fall behind because of the public debt panic and the austerity policies, the catch-up process in the West continues. Italy and Ireland are two special cases:

– Italy's growth is particularly weak, which rather puts it in the group of Mediterranean countries affected by the debt crisis, although it didn't need a financial rescue with the corresponding conditionality. But it shows high budget deficits, a correspondingly high public debt, and price and structural competitiveness problems.

[1] A difference is made between beta- and sigma-convergence. Beta-convergence happens within a group (i.e., EU) when those of its units with the lowest starting level grow faster than those with the highest starting level. Sigma-convergence happens when the dispersion (standard deviation) within the group decreases (cf. Dauderstädt, 2014).

[2] Dauderstädt Michael: *Konvergenz in der Krise. Europas gefährdete Integration*. Bonn: FES, 2014.



Source: Eurostat; author's calculations.

Chart 1. Growth rates of income per head between 2000 and 2013 in percentage.

– Ireland was the catch-up star in the 1990-2007 period, and rose from being one of the poorest countries of the old EU to being the second richest one (measured in GDP per head). To this end, it followed a growth model based on foreign investments, tax concessions and export surplus. After 2000, Ireland retreated slowly from this successful model (at the expense of other countries, which lost value added and tax revenues to Ireland due to transfer pricing and other activities of multinational corporations), and experienced a real estate boom with a pronounced increase of private debt. When this new model imploded in the financial market crisis and the Irish State bailed out its banks, thus greatly increasing its debt, the result was a deep recession. But Ireland was able to return to the previous growth model. Between 2008 and 2014, its GDP grew by 3.8 % despite one setback by over 5 % between 2008 and 2009, that is, faster than the average of the rich north-western countries.

Table 1. Development of real GDP 2000-2014

	Change		
Areas	**2000-2014**	**2000-2008**	**2008-2014**
Richer North and West	16.1 %	14.5 %	1.4 %
Poorer southern periphery	13.7 %	26.8 %	-10.3 %
Poorer new Member States	52.4 %	43.8 %	6.0 %

Sources: Eurostat; author's calculations.

What are the causes of these different growth performances? The convergence behaviour (that is, the diminishing inequality between countries) basically corresponds to the assumptions of the traditional growth theory, which supposes that poorer countries (can) reach a higher growth because they still have a low productivity level due to their small capital stock (relative to GDP). From the same theoretical model, we could infer that developed economies show lower productivity growth due to their modern and high capital endowment.

But history has proved this model to be accurate only in exceptional cases. Globally, poorer countries (especially in Africa and Latin America) have for a long time been growing more slowly than the richer North. The Eastern tiger economies (first Japan, then Korea, Taiwan, Singapore and Hong Kong) were exceptions, followed later by China and some Southern Asian countries (Malaysia, Thailand). Catch-up processes in the EU have also been weak for a long time. Accordingly, Greece and Ireland fell relatively behind right after their accession.

Along with many country-specific factors, which can be analysed as varieties of capitalism (cf. Hall 2015)[3] (different economic policies, industrial relationships, education and innovation systems), the consequences of the European and global market integration should also be held responsible for the different development of the EU Southern and Eastern periphery. The industry of the Southern periphery specialised in production with low and middle level technologies and correspondingly low wages. With the opening of Eastern Europe, China's integration in the world economy and the further opening of Europe towards other global suppliers, these countries have lost their competitive advantages (cf. Dauderstädt 2016).[4] Central and Eastern Europe could, on the contrary, gain quite a bit of ground thanks to low wages still in place, as well as a relatively well trained workforce. Another advantage was its geographical proximity to the German market, too distant in principle for the Southern periphery. The German manufacturing industry also changed the structure of its supply chains and production networks from the South to the East and internationally.

The euro was important for this evolution but not decisive. Some euro countries also belong to the group of Member States that are rapidly growing. Membership in the Eurozone certainly complicated the management of the crisis in the South, where no strategically clever solution was found for the conflict between goals like budget consolidation, real depreciation and growth (cf. Dauderstädt *op. cit.*). All in all, growth in the Eurozone was weak due mainly to the restrictive fiscal policy.

In summary, it could be said that inequality between EU countries has decreased since 2000, thanks to a faster growth of the poorer Member States from Eastern Europe compared to that of the richer North Western EU countries. The development in the South is more problematic and has, as a perverse effect, the closing of the income gap between these countries and the poorer East, while it's opening again in relation to the richer North. All these observations don't take into account the inequality in the income distribution within the countries though, a topic we will approach in the next chapter.

The development of inequality within the countries

Income distribution within the countries can be described from different points of view and with various indicators:

- The wage share.
- Regional disparity (dispersion).

[3] Hall Peter A.: Spielarten des Kapitalismus und Eurokrise. In: *WSI-Mitteilungen* 4/2015, 245-5.
[4] Dauderstädt Michael: *Wachstumsstrategien für Südeuropa*. Bonn: FES, 2016.

Table 2. The development of distribution indicators (average)

	1999/2000	2005	2007	2009	2012	2014
Wage share (in %)	56.7	55.6	54.9	57.2	56.2	55.9
Gini (in %)		30.6	30.6	30.5	30.6	30.9
S80/S20		5	5	5	5.1	5.2

Sources: Wage share: AMECO; Gini and S80/S20: Eurostat; author's calculations.

- The Gini coefficient, the classical indicator of income distribution. It varies from 0 for equal distribution to 100 for complete inequality.
- The S80/S20 ratio of the richest against the poorest income quintile (no data before 2005 for EU-27/28).

Table 2 shows a growth in the average inequality within EU countries. Actually, the wage share recovery in 2009 is a consequence of the crisis, which led to a profit fall in some countries (i.e. Germany), while wages remained relatively stable. The Member States' average changed little for the Gini and the quintile share ratio between 2005 and 2012, but finally clearly rose (the newest data available correspond to 2014).

Amongst the European regions, the differences are even larger than those of the average income per head in the Member States. The richest region (at the NUTS-2 level[5]) is the City of London, with an income per head (in PPP) of over €80,000, compared to 7,200 in the Romanian border region Northeast. This is because regional income differences within Member States are high and very often increasing, since the economic activity tends to concentrate in growth centres, often in the capital city. In Great Britain, the ratio between the poorest (Wales) and the richest region is approximately 1:5, similar to that of the total EU ratio.

For the EU as a whole, regional inequality has increased with a temporary reduction during the recession (cf. also Chart 3). In each Member State, the growth of regional inequality was even higher. In the 22 countries of the EU-28 that are still subdivided in NUTS2 regions (all but the six small states Luxembourg, Malta, Cyprus, Estonia, Latvia and Lithuania), the dispersion (standard deviation) grew an average of 106 % between 2000 and 2011; regional inequality rose a great deal in the new Member States of the CEE (over 300 % in the front runner, Romania).

The personal income distribution shows a different result if we take data for a longer period of time (as of around 1985) and from another source (OECD). In many EU countries, the Gini coefficient has clearly increased. **Table 3** presents an overview. It's worth pointing out the strong growth of inequality in the Scandinavian countries, Finland, Sweden and Denmark, but also in Germany. Among the countries listed by the OECD, the only country with a diminishing inequality is Greece (this could have changed after 2012, though).

If we choose the S80/S20 ratio as a measure, in 2004 it was below four in Sweden, Finland, the Netherlands and Belgium, but also in Slovenia, Slovakia or the Czech Republic; over six in Latvia, Lithuania, Estonia, Portugal, Greece, Spain, Bulgaria and Romania, which presented the highest inequality level with a rate of 7.2. in 2014, the second highest inequality corresponded to Spain with a 6.8. The EU inequality average grew slightly between 2005

[5] NUTS (Nomenclature for Territorial Units for Statistics) is the EU classification for the regions; NUTS 1 corresponds to large regions like the German federal states; NUTS 2 are smaller basic regions for regional policy measures.

Table 3. Development of the Gini coefficient in selected EU countries

Country	Gini in the base year		Gini the latest available year		Change in %
Belgium	1983	0.257	2011	0.264	2.7
Denmark	1985	0.221	2012	0.251	13.6
Germany	1985	0.251	2012	0.291	15.9
Finland	1987	0.209	2013	0.262	25.4
France	1984	0.3	2012	0.306	2.0
Greece	1986	0.352	2012	0.338	-4.0
Italy	1984	0.291	2012	0.325	11.7
Luxemburg	1986	0.247	2012	0.299	21.1
Netherlands	1985	0.272	2013	0.278	2.2
Sweden	1983	0.198	2012	0.274	38.4
Czech Republic	1992	0.232	2012	0.251	8.2
Hungary	1991	0.273	2013	0.288	5.5
United Kingdom	1985	0.309	2011	0.344	11.3

Source: OECD; author's calculations.

and 2014, as measured by the quintile share ratio S80/S20, but this growth took place after 2008. In the countries with a positive development (upper part of Table 4), there was an improvement until 2008, while those countries whose inequality increased, went through it especially after 2008 (with the exception of Germany, whose inequality grew until 2008 due to the "agenda" policy). Otherwise, the growth phase until the crisis showed a decreasing inequality in total, which tended to increase afterwards.

The highest growth (by 1.3) appeared in Spain and Germany; corresponding, in Germany, to an increase of 34.2 %; in Spain, of 23.6 % compared to the values in 2005 (Germany: from 3.8 to 5.1; Spain: from 5.5 to 6.8). If we measure the percentage growth since 2005, Germany becomes the EU front runner, even if many countries have a higher inequality level. The strongest raises appear in the Scandinavian countries as well as in the crisis countries Greece and Cyprus (since 2008). Poland shows the most successful reduction of inequality. **Table 4** presents a detailed overview.

Remark: no 2005 data available for the latest accession countries Bulgaria, Romania and Croatia.

All inequality values studied up to now refer to disposable income, that is, after tax and transfers (as household income normally converted to equivalised income[6]). The inequality amongst the "pure" market income is clearly higher. Income distribution is affected by social expenditure and the system of taxes and fees which finances said expenditure. The following **Table 5** shows the income distribution based on OECD data –measured with the Gini coefficient– before and after the redistribution due to tax and transfers. Countries are arranged in ascending order according to their level of inequality after the redistribution. The distribution of the market income (before the redistribution) is clearly more uneven than the distribution of the disposable income (after the redistribution).

[6] It implies an emphasis on the people in the household, in order to calculate the effect on prosperity of shared flats and expensive consumer goods like cars, fridges, washing machines, etc.

Table 4. Development of inequality (S80/S20) 2005-2014

Country	Level			Difference			Change in %
	2005	2008	2014	2014-2005	2005-2008	2008-2014	2014-2005
Poland	6.6	5.1	4.9	-1.7	-1.5	-0.2	-25.8
United Kingdom	5.9	5.6	5.1	-0.8	-0.3	-0.5	-13.6
Lithuania	6.9	6.1	6.1	-0.8	-0.8	0	-11.6
Portugal	7	6.1	6.2	-0.8	-0.9	0.1	-11.4
Ireland	5	4.4	4.7	-0.3	-0.6	0.3	-6.0
Czech Republic	3.7	3.4	3.5	-0.2	-0.3	0.1	-5.4
Belgium	4	4.1	3.8	-0.2	0.1	-0.3	-5.0
Netherland	4	4	3.8	-0.2	0	-0.2	-5.0
Latvia	6.7	7.3	6.5	-0.2	0.6	-0.8	-3.0
Finland	3.6	3.8	3.6	0	0.2	-0.2	0.0
Slovakia	3.9	3.4	3.9	0	-0.5	0.5	0.0
Malta	3.9	4.3	4	0.1	0.4	-0.3	2.6
Hungary	4	3.6	4.2	0.2	-0.4	0.6	5.0
Italy	5.6	5.2	5.8	0.2	-0.4	0.6	3.6
Austria	3.8	4.2	4.1	0.3	0.4	-0.1	7.9
France	4	4.4	4.3	0.3	0.4	-0.1	7.5
Slovenia	3.4	3.4	3.7	0.3	0	0.3	8.8
Luxemburg	3.9	4.1	4.4	0.5	0.2	0.3	12.8
Denmark	3.5	3.6	4.1	0.6	0.1	0.5	17.1
Estonia	5.9	5	6.5	0.6	-0.9	1.5	10.2
Sweden	3.3	3.5	3.9	0.6	0.2	0.4	18.2
Greece	5.8	5.9	6.5	0.7	0.1	0.6	12.1
Cyrpus	4.3	4.3	5.4	1.1	0	1.1	25.6
Gernany	3.8	4.8	5.1	1.3	1	0.3	34.2
Spain	5.5	5.6	6.8	1.3	0.1	1.2	23.6
Croatia	:	:	5.1				
Bulgaria	:	6.5	6.8			0.3	
Romania	:	7	7.2			0.2	

Source: Eurostat; author's calculations.
Remark: no 2005 data available for the latest accession countries Bulgaria, Romania and Croatia.

In almost every EU Member State, this improvement in the Gini coefficient is higher than the OECD average, which points to a higher redistribution degree in the EU. It must be said that some Member States are less redistributive than others, as clearly shown in the last column, which indicates the difference between both Gini coefficients. They also include the countries in the Southern periphery (Spain, Portugal, Italy; there isn't enough data about Greece).

The share of social benefits in the GDP is an indicator of the state's efforts to correct market results. We don't see any convergence in the EU social protection ratios (cf. **Table 6**). Romania and the other new Member States, which have the lowest rate, are catching up a little but only

Table 5. Modification of income distribution through redistribution.

	Gini disposable income	Gini market income	Difference
Slovenia	0.2296	0.3723	0.14
Denmark	0.2433	0.3744	0.13
Czech Republic	0.2532	0.3804	0.13
Slovakia	0.2534	0.3628	0.11
Belgium	0.2563	0.4081	0.15
Finland	0.2584	0.4031	0.14
Sweden	0.2588	0.3680	0.11
Austria	0.2607	0.4062	0.15
Hungary	0.2791		
Ireland	0.2892		
Luxemburg	0.2915	0.4363	0.14
France	0.2920	0.4310	0.14
Netherland	0.2972	0.3908	0.09
Germany	0.3000	0.4197	0.12
Estonia	0.3056	0.3889	0.08
Greece	0.3067		
Poland	0.3097	0.4348	0.13
Spain	0.3130	0.4052	0.09
Italy	0.3342	0.4647	0.13
United Kingdom	0.3446	0.4559	0.11
Portugal	0.3467	0.4581	0.11
OCDE-29	0.3041	0.4073	0.10

Source: OECD (2011).

a few overcome the 20 %-mark and only rarely (with the exception of Slovenia). On the other hand, there are some welfare states (i.e. Scandinavia) whose high rate continues to grow. The high growth in the austerity countries Greece, Spain, Portugal and Ireland is conspicuous (the rate between 2000 and 2011 has more than doubled!).

Poverty remains in close relationship with inequality. In the EU, the poverty rate is defined as the population share that has less than 60 % of the median income at its disposal. As shown in **Table 7**, poverty rates in the EU present a high dispersion. While the rate lies mostly under 20 % in the rich countries, it grows in Bulgaria and Romania up to over 40 %. The dispersion has receded since 2005, but the ratio decrease between the highest and the lowest rate is mainly due to the relatively strong decline of the poverty rate in Bulgaria, from over 60 % to under 50 %.

Poverty rates closely correlate to social protection expenditure. Bulgaria and Romania belong to the group of Member States with the lowest share of social expenditure in the GDP (clearly under 20 %), while richer countries spend around 30 % of the GDP in social protection. Notwithstanding, this indicator should be

Table 6. Development of the social protection ratio 2000-2011

	2000	2002	2004	2006	2007	2008	2009	2010	2011
Standard deviation	5.5	5.8	6.1	6.0	5.9	5.6	5.7	5.6	6.0
Minimun	13.0	12.7	12.8	12.1	11.3	12.7	16.9	17.6	15.1
Maximun	29.9	31.3	31.6	31.2	30.9	31.3	34.7	34.3	34.2
Max/min	2.3	2.5	2.5	2.6	2.7	2.5	2.1	1.9	2.3

Source: Eurostat and author's calculations.

treated with caution. A lower share can also stem from lower social needs (lower unemployment or a more convenient demographical structure of the population). In this sense, the social protection ratio, that is, the share of social expenditure in the GDP, strongly increased in the huge 2009 recession to subsequently descend again (cf. **Table 6**).

Within the Member States, inequality has grown mainly in the last twenty years. It could most clearly be observed in the new Member States: they had equitable income distributions before the political change which became clearly unequal during their transformation towards the market economy. Nevertheless, the societies of some CEE countries are still the least unequal. Some countries were able to slow down this process and slightly reverse it. Still, inequality is even higher if we take market income into consideration, since the tax system and the welfare state redistribute income so that inequality of disposable income stays much lower. The most important redistribution mechanism is the pension system, which causes the size of redistribution to stay lower in countries with funded pensions (i.e. the Netherlands) (where pensions are regarded as market income).

Market income inequality rises mainly through globalisation, technological progress and the weakening of trade unions. Both a decreasing wage share and a higher wage gap (strongly and disproportionally increasing incomes for top managers and bankers) intensify inequality. The growing importance of wealth (in relation with the GDP) and its increasing concentration are other important causes (Piketty 2013). The increasing inequality of the disposable income is caused by the 'reforms' in the tax system and the welfare state. Top tax rates and the taxation of wealth and inheritance were lowered in many countries, while pensions and other transfer incomes were reduced or not adapted to the development of prices and income.

The development of Europe-wide inequality

The to-date existing inequality data doesn't say much about the EU as a whole, because the

Table 7. Development of the poverty rate 2005-2014

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Maximun	46.3	61.3	60.7	44.8	46.2	49.2	49.1	49.3	48	40,2
Minimun	9.6	12.3	12.1	8.7	9.0	9.4	9.3	9.3	9.0	7,4
Max/min	4.8	5.0	5.0	5.2	5.2	5.2	5.3	5.3	5.3	5,4
Standard deviation	8.8	10.3	10.2	7.8	8.1	8.3	8.3	8.4	8.1	7,0

Source: Eurostat and author's calculations.

internal distribution is relatively unimportant for the income distribution in the whole European economic area. Its development is dominated by the income differences between countries, and their development by the diverse growth rates of the corresponding national economies.

In order to gain an image of the real inequality in the EU, the development of income distribution between and within states needs to be connected. A good tool could be the quintile share ratio (S80/S20), since Eurostat, the Statistical Office of the EU, calculates the income per head of every population quintile in every Member State in Euros and PPP. Nevertheless, the 5.2 indicated by the EU as mean value for the EU-28 (2014; see **Table 2**), is calculated by a wrong method and thus severely underestimates the real inequality in the EU. Eurostat calculates this quintile share ratio precisely as the average (weighted by population) of all national S80/S20 values. This approach assumes that the richest (or the poorest) EU-quintile (about 100 million people) is composed by the richest (or the poorest) quintiles of all Member States. In fact, the poorest 100 million mainly live in CEE, especially in Romania and Bulgaria, where not only a fifth but closer to four fifths of the population belong to the poorest EU-quintile (see **Tables 8** and **9**).

Table 8. The poorest (light grey) and richest (dark grey) EU-quintiles (in €).

2013	Income per capita in €				
Member State	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**
Bulgaria	1123	2129	2942	3960	7389
Romania	727	1450	2071	2828	4759
Latvia	1902	3386	4696	6648	12017
Lithuania	1953	3398	4676	6419	11785
Poland	2380	3923	5184	6782	11602
Estonia	2859	4847	6595	9100	15824
Hungary	2271	3585	4542	5724	9511
Slovakia	3415	5506	**6765**	8409	12231
Czech Republic	4503	6406	7708	9544	15308
Portugal	3425	6177	8222	11095	20568
Greece	2873	5716	8212	10846	18846
Malta	5998	9099	12045	15371	24664
Spain	4986	9765	13590	18472	31358
Slovenia	6020	9476	11865	14536	21616
Italy	6167	11558	15737	20590	35264
Cyprus	8113	12117	15874	21233	39754
Germany	9324	15176	19607	25355	42890
France	10905	16618	21039	26675	48604
Belgium	10662	16520	21511	27121	40548
United Kingdom	8982	14078	18691	24934	41573
Austria	10642	17519	22128	27803	43723
Finland	12704	18590	23376	29248	45581
Netherland	11342	16929	20882	**25859**	40606
Sweden	12832	20860	26425	32387	47861
Ireland	9633	14916	19893	27511	50416
Denmark	12518	21343	26910	33360	53015
Luxemburg	16239	24987	33147	43275	74516

Source: Eurostat and author's calculations.
Remark: both underlined quintiles are included in the corresponding EU-quintile only in proportion.

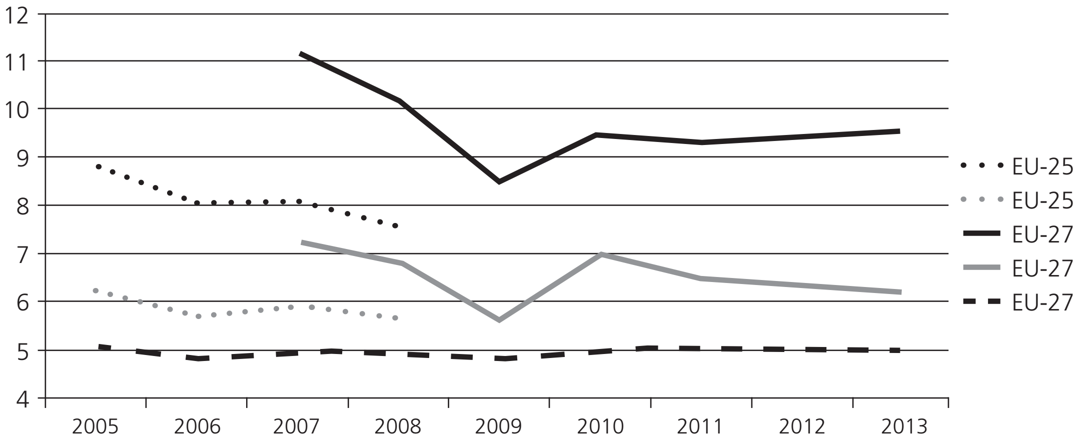
Table 9. The poorest (light grey) and richest (dark grey) EU-quintiles (in PPP)

2013	Income per capita in PPP				
Member State	**Q1**	**Q2**	**Q3**	**Q4**	**Q5**
Bulgaria	2292	4345	6003	8081	15081
Romania	1346	2685	3834	5237	8813
Latvia	2671	4756	6596	9337	16877
Lithuania	3075	5350	7364	10109	18559
Poland	4265	7031	9291	12154	20792
Estonia	3661	6206	8445	11652	20262
Hungary	3804	6006	7608	9588	15932
Slovakia	4921	7933	9748	12117	17624
Czech Republic	6555	9325	11220	13893	22282
Portugal	4213	7598	10113	13647	25299
Greece	3221	6409	9206	12159	21128
Malta	7271	11029	14600	18631	29896
Spain	5333	10444	14534	19756	33538
Slovenia	7244	11403	14278	17493	26012
Italy	5976	11200	15249	19951	34170
Cyprus	8876	13257	17367	23231	43495
Germany	9114	14835	19166	24785	41926
France	9932	15134	19162	24295	44266
Belgium	9622	14910	19414	**24478**	36595
United Kingdom	7838	12285	16310	21757	36276
Austria	9927	16342	20642	25936	40786
Finland	10320	15101	18989	23760	37028
Netherland	10209	15238	18796	23276	36549
Sweden	9750	15851	20080	24610	36368
Ireland	9633	14916	19893	27511	50416
Denmark	**8980**	15310	19304	23931	38031
Luxemburg	13376	20583	27304	35647	61380

Source: Eurostat and author's calculations. Remark: both underlined quintiles are included in the corresponding EU-quintile only in proportion.

Tables 8 and **9** show the combination of the inequality within and between countries. In the rows, we can see the national quintile share ratios that result from dividing the income in the richest quintile (Q5) by the income in the poorest quintile (Q1). The gap between the richest and the poorest quintile in the EU as a whole is huge. At exchange rates, the ratio of the Romanian Q1 to the Luxembourger Q5 is €727 to €74,516, which means more than a hundred times higher and even forty-five times higher in purchasing power parities! It must be said that this valuation doesn't take into account the distribution within the quintile either.

To correct this wrong Eurostat approach, by arranging national quintiles by income per head and subsequently adding as many national quintiles to the richest EU-quintile from the top and to the poorest quintile from the bottom (as in Tables 8 and 9), until we had 100 million



Source: Dauderstädt/Keltek, 2014.

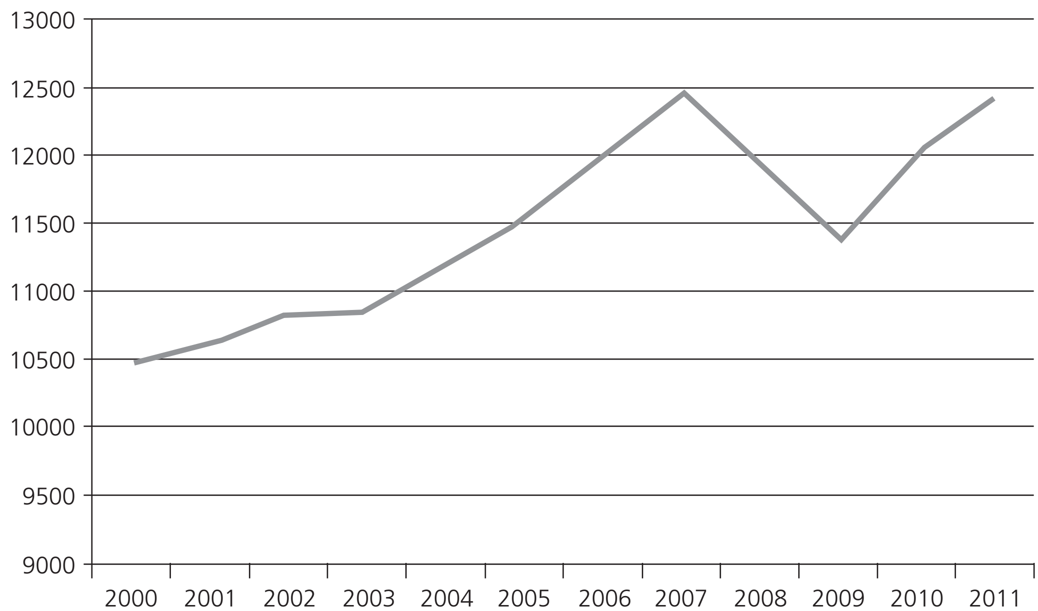
Chart 2. Development of inequality in the EU.

people altogether, we obtain more realistic and clearly higher values, as shown in **Chart 2**. The values measured in purchasing power parities also remain under those calculated in Euros (according to the exchange rates). The value for the EU-27 was 9.5 in 2013, 6.2 in purchasing power parities. The corresponding values for other large countries are 4.9 for India, 7.3 for Russia, 8.4 for the USA and 9.6 for China.[7] At least in relation to exchange rates, the EU economic area is characterised by higher income disparities than the corresponding national economies. In the course of time, we observe a significant decrease of inequality until 2009 that shortly increases during the recession to finish up in a stagnant development (see **Chart 2**).

Aside from comparing people, households or groups Europe-wide as we do when comparing quintiles, we can study regions as well. It must be said that income differences within regions are usually higher that within income quintiles; by definition, those are composed by similar people or households inside specific income levels. In order to keep the number of regions manageable, we'll concentrate only on the EU NUTS2 regions. As already mentioned, the dispersion of the regional income per head has increased between 2000 and 2012 (cf. **Chart 3**). The dispersion decreased only in the period 2008-09 due to the crisis.

It's also possible to build the poorest and the richest quintile by using regions, by classifying the NUTS-2 areas according to their income per head and taking again as many regions from the poorest or the richest respectively as necessary to reach approximately 100 million inhabitants. This results in a regional S80/S20 ratio of almost 4 in the year 2000 and 2.8 in 2011. Here again, the catching-up development in the CEE leads to a reduction of inequality. Nevertheless, regional inequality has increased in total, since –as opposed to the study of quintiles– the increase in inequality between regions within countries is

7 According to the UN Human Development Report (http://hdr.undp.org/sites/default/files/reports/14/hdr2013_en_complete.pdf).



Source: Eurostat and author's calculations.

Chart 3. Development of the dispersion (standard deviation) of the regional income per head (in €).

higher than the decrease in the inequality between countries.

If the Europe-wide inequality were measured by forming the EU quintiles with approximately 100 million people each through different ways and subsequently calculating the ratio between the income of the richest and the poorest quintile, we would obtain other S80/S20 values, depending on the approach.

1. If we added up complete countries (or parts of them) so as to form the EU quintiles, we wouldn't take into account the inequality within each one of those countries.
2. If we added up regions so as to form the EU quintiles, we wouldn't take into account the inequality within each region.
3. If we added up the poorest and the richest quintiles of every country, in the same way the official Eurostat value does, we wouldn't take into account the inequality between countries.
4. Our approach (**Tables 8** and **9; Chart 2**) takes both dimensions into consideration (1 and 3).

The following **Table 10** shows an overview of the different approaches and their resulting values and modifications. In the 1st and the 4th approach, values are shown in purchasing power parities (PPP) and exchange rates (€).

The Europe-wide inequality has decreased in all approaches except in the official (methodically wrong) Eurostat value, in which the growing internal inequality of the states controls the trend because catch-up processes are not taken into account.

Table 10. The different dimensions of the Europe-wide inequality (quintile share ratio)

Level	Indicator (S80/S20)	Earliest	Year	Last	Year
1.	Neglecting inequality within countries	2.6 (PPP) 5.4 (€)	2005	2.0 (PPP) 3.7 (€)	2014
2.	Neglecting inequality within regions	4 (PPP)	2000	2.8 (PPP)	2011
3.	Neglecting inequality between countries (Eurostat value)	5 (PPP)	2005	5.2 (PPP)	2014
4.	Considering both inequalities	7 (PPP) 11 (€)	2007	6.2 (PPP) 9.6 (€)	2013

Policy against inequality

In view of these findings, any policy for more equality in Europe faces various challenges: while Central and Eastern Europe should continue to grow "just like that", growth needs to be stimulated anew in Southern Europe. The most significant dangers threaten the states from inside through the deterioration of the regional, personal and functional income distribution.

Before diminishing inequality between the states, the poorest EU Member States need, first and foremost, to show a high and stable growth. Since Ireland's accession in the 70s, the EU has been creating a regional and structural policy to this aim, which adds up to approximately 40 % of the EU budget which, however, measures less than 1 % of the EU GDP. The effects of this policy are controversial. Usually, poor regions have scarcely caught up inside their countries. Within the EU as a whole, regions in poor countries have taken advantage of their catch-up growth though. The Italian *Mezzogiorno* or Eastern Germany are a testimony to the limited effectiveness of massive European and national programmes. The Irish model (cf. above) can't be used as an example for the whole European periphery, since the dimensions needed to this extent, that is, foreign direct investments per inhabitant and profits transferred to avoid taxes, are completely unrealistic.

Instability in the supply of capital has proven to be the most significant risk for the catch-up process, as seen in the financial crisis as well as globally before in the Asian crisis. On the domestic side, it's possible to take preventive measures in the framework of a clever financial market policy that imposes limits to speculative investments and indebtedness in foreign currencies. High current account deficits should give way to restricting the credit expansion, examining the wage development and to taking measures to increase the structural competitiveness through better training and innovation. Inversely, surplus countries should reinforce their domestic demand. The EU should entrust the periphery's supply of capital less to the markets and politically manage flows, i.e. through investment programmes. Europe needs a visionary industrial policy (Aiginger 2015).[8] The EU should develop towards a transfer union with a greater emphasis on the EU budget and with an European insurance against unemployment.

Southern Europe must change its economic policy priorities: more employment, innovation and a modernisation of the productive structure instead of budget consolidation (Dauderstädt 2016). The Euro area must steer its savings towards its own welfare increasing projects and,

[8] Aiginger Karl: Industriepolitik als Motor einer Qualitätsstrategie mit gesellschaftlicher Perspektive. In: *WSI-Mitteilungen* 7/2015, 507-15.

moreover, make maximal use of its fiscal policy margins for manoeuvre (Truger 2014).[9] It must be said that the main blunder, the wrong reaction to the sovereign debt panic in 2010, is almost impossible to correct. It is particularly worrisome that inequality inside the society also increases in the course of the austerity policy which harms growth.

In order to combat the growth of inequality within the EU states, a counter strategy should both contemplate the distribution of market income and improve the effectiveness and efficiency of redistribution. Mostly labour market, social and tax policies need to be redesigned (Atkinson 2015).[10]

In order to improve the distribution of market income, the labour market regulations need to be improved so as to reduce the share of low-paid activities. Statutory minimum wages could contribute to it. The rights of the trade unions, weakened over decades, should be reinforced again. A more aggressive policy towards full employment would raise the de facto market power of employees. Competition policy must control the sectors with high monopoly rents. The globalisation and the technological progress, both of which give impulse to inequality, are not forces of nature, but politically controlled and controllable. In this respect, the state must place greater value on distribution goals.

The redistribution of market income can clearly be improved without letting growth and employment suffer (Ostry *et al.* 2014).[11,12] To this end, the tax policy must again charge more on high incomes and wealth, and concentrate less on regressive taxes on consumption. Such a policy needs a European, even a global flanking through measures against tax avoidance and evasion. Social policy can focus more precisely on helping poor people and households. As for now, its effects are often small or counterproductive, since policies are misguided. For instance, taxable subsidies (i.e. for children and families) are less regressive than tax deductible allowances which privilege recipients with a higher income. Social investments in education and health raise productivity and employment.

[9] Truger Achim: *Austerity cyclical adjustment and the remaining leeway for expansionary fiscal policies in the Euro area*. IMK Working Paper 140, 2014.

[10] Atkinson Richard: *Inequality. What can be done?* Cambridge/London: Harvard University Press; 2015.

[11] Table 5 above also shows that the effectiveness of redistribution between countries presents significant differences, pointing thus to potentials for improvement.

[12] Ostry Jonathan, *et al*. *Redistribution, Inequality and Growth*. IMF Discussion Note Washington; 2015.

Refugees: Europe sits on its hands in response to the tragedy

Estrella Galán and Paloma Favieres

Introduction

If the 60 million refugees scattered around the world today were gathered together under the umbrella of a single state, it would be the world's twenty-fourth largest in terms of population with only slightly fewer citizens than Italy. An incredible 60 million human beings have become nameless "pariahs": men, women, children and seniors who have been reduced to mere statistics. These are people who have lost everything they might have once had. Everything, that is, but their dignity.

A number of such a magnitude –60 million!– does not materialise overnight. The humanitarian crisis we are now witnessing at the gates of Europe is nothing new and, even more tragically, was entirely foreseeable. Human rights organisations have been pointing out the severity of the situation to anyone who would listen for some time. The intensification of a number of conflicts over the past few years, particularly those in Middle Eastern and African countries such as Syria, Iraq, Afghanistan, Sudan, Somalia, Eritrea, Nigeria, Mali and the Central African Republic, as well as European indifference regarding these problems, has made the personal situations of many in these countries so untenable that hundreds of thousands now find themselves in need a place in which to remake their lives.

The alarming rise in the number of people in need of refuge is the result of uncountable violations of human rights, invasions, conflicts emerging from animosities that have simmered for decades, the actions of political powers more interested in protecting their interests than avoiding massacres, the displacement of entire communities due to multinational corporations' exploitation of natural resources and the subsequent environmental contamination of entire regions and governments that persecute their countries' social and religious minorities or give free reign to paramilitary factions to do so, permit violence against women and seek to stifle the voices of those who question or speak out against such practices.

The reality that as many as 60 million human beings could be forced to flee their homes under such circumstances in the twenty-first century is shocking and shameful. We must never forget that these people did not go willingly, that they did not set out in search of better economic opportunities but in the hope of saving their lives and reaching a destination where they could live in peace. No one chooses to be a refugee.

A European problem?

While no one can deny that an increasing number of refugees have been pouring into Europe recently, their arrival by no means constitutes a challenge we are unable to assume or, has previously mentioned, an unforeseeable event.

The prevailing perceptions that Europe is under more pressure than any other part of the world to accept these people and furthermore lacks the resources to do so are both patently false. To gain a truer picture of the situation, however, we must examine it from a broader perspective.

The reality is that only 10 % of today's refugees ever make it to what is referred to as "First World" countries. The rest either become displaced persons within their native countries or go no farther than impoverished neighbouring states that are socio-politically speaking quite similar to their own.

Syria is an especially cogent example. More than 6,000 people are fleeing this war-ridden country every day. Since the conflict irrupted more than five years ago, over 250,000 people have been killed, 12,500 of which have been minors. The number of internally displaced persons in Syria has surpassed 13.5 million.

Armed conflict has a devastating impact on children. According to United Nations Children's Fund (UNICEF), over 5.5 million children in Syria are living in extreme poverty.

Of the more than 4.2 million Syrians who have left their country as refugees, most are now in neighbouring states: 2.6 million are currently living in Turkey, 1.1 million in Lebanon and another 637,000 in Jordan.

To piece together a clearer picture of the dimensions of the situation, we must draw a few parallels. For the EU to have a refugee population comparable to that of Lebanon, for example, it would have to take in 135 million refugees. The European Commission, however, has recently made a proposal to accept 180,000, a number that represents a mere 0.036 % of the EU's current population of 500 million.

Closed borders, violated rights

While old Europe is beating its chest with one hand and condemning the dramatic conditions under which the Syrian people are suffering, with the other it is clinging to policies focused on sealing its borders that deprive refugees of a legal and safe means of entry.

At the same moment that European leaders are haggling over the number of refugees they are willing to accept and delaying the implementation of needed measures, they are racing to reach agreements on the construction and reinforcement of border fences. The approximately 260 kilometres of cement and barbed wire border barriers that have been erected over the past few years stand as the most visible symbol of Europe's spectacular lack of institutional solidarity and crisis of values. Up to seven border fences have been built or reinforced in the EU in places such as Bulgaria, Greece, Hungary, Calais, Ceuta and Melilla for the express purpose of blocking the flow of refugees and migrants.

This exercise has demonstrated that rather than lowering the number of refugees trying to make their way to Europe, greater investments in fences and controls are only provoking ever-higher levels of danger, death, pain and human suffering. What else has been made patently clear is a lack of will to provide a safe, legal means of arriving so that refugees would not be forced to seek ever more dangerous routes.

We must keep in mind that for the refugees, every new border fence the EU builds supposes a search for an alternative, inevitably longer and more perilous route. Likewise, every time a Member State denies a visa to a person seeking refuge in a safe country, it creates yet another client for mafias that engage in human trafficking, as these people see the voyage as the only way to save their lives and those of their families.

Nevertheless, no one wants to face up to the severity of the situation. Unfortunately, we are seeing how borders have become spaces in which human rights are systemically violated with total impunity on a daily basis and the value of a refugee's life is considered nil compared to that of people living safely within the boundaries of closely guarded frontiers.

More than 25,000 people have lost their lives in the Mediterranean over the past fifteen years. There have been over four hundred deaths in what is now referred to as the largest common grave on the planet since the beginning of this year alone.

Furthermore, the most tragic aspect of these deaths is that not a single one of them was the result of chance, an accident or a natural catastrophe such as a tsunami or seaquake. It is time to reflect and take stock of the perverse policies that are being implemented here in Europe – measures that are forcing refugees to risk their lives in sea voyages undertaken in perilous circumstances. For the lack of safe alternatives for reaching Europe, refugees are being forced to place their welfare in the hands of soulless traffickers who regard human tragedy and misfortune as nothing more than an opportunity to line their pockets. We must ask ourselves what level of responsibility for this drama is actually attributable to the inhumane border control policies presently being implemented.

The right to asylum should and must be recognised, above all other considerations, as an essential protection mechanism within a system conceived to guarantee human rights. Nevertheless, in the EU, particularly the context of the current "refugee crisis", this concept is being sweep under the rug and an overwhelming priority placed on migrant flow management.

Since 1999, the EU has developed a series of legal instruments conceived to underpin a future Common European Asylum System (CEAS) intended to harmonise national legislation concerning asylum procedures, reception conditions and aspects of international protection. Nonetheless, there remain differences between the asylum systems of EU Member States that result in refugees being treated differently according to the country in which they apply for asylum.

One aspect of current Spanish asylum policy that is seriously compromising human rights has been the sanctioning of "border rejections" effected by means of an amendment to the first paragraph of the Tenth Additional Provision of Organic Law 4/2000 regarding the rights and freedoms of foreign nationals living in Spain and their integration contained in the first final provision of the Organic Law on Public Security. This provision, which impedes the identification of persons requiring international protection and their access to asylum procedures, violates the non-refoulement principle by which no state is allowed to expel or return a person to a country in which his or her life may be threatened.

The image that shook consciences

Whilst governments have continued to take a passive and indifferent stance on the humanitarian crisis, average citizens have followed the exodus in all its pathos via television news images.

But of the thousands of images they have daily been exposed to on the topic, it was a photo of a small child that has shaken people's consciences the most. The morning in early September that little Aylan Kurdi made the headline news, Europe's collective heart was wrenched. The photo of the three-year-old's body washed up on a beach in Turkey, nattily dressed in short pants, a red t-shirt and brand-new shoes as though he might have been on his way to his first day of school, made us realise how much he was like our own children and those of our neighbours.

That photo of Aylan summed up the drama being lived out by people forced to seek asylum out of a fear for their very lives. It also exposed how the failure to implement adequate and fair visa policies can drive entire families to accept potentially deadly solutions to their problems.

Aylan's family had come from Kobane, a city in northern Syria located in a zone that had fallen under IS control. The family had applied to Canada for asylum, where the father had relatives. When Canadian authorities rejected their application in July, Aylan's parents were impelled to seek a riskier, more dangerous alternative –paying traffickers one thousand dollars for room on one of the "death boats" that offer transit to Greece. It was not death that the Kurdis sought on the high seas but rather the peace and the opportunity to rebuild their lives that had thus far remained beyond their reach.

Twelve people died on that failed journey to the island of Kos. Six of them were children between the ages of nine months and eleven years. Aylan and his five-year-old brother were amongst them. Their thirty-five-year-old mother perished as well.

Aylan is only one of the more than thousand children who lost their lives trying to reach the coast of Europe during 2015. According to UNICEF and International Organization for Migration (IOM) statistics, almost 30 % of the refugees who have died off the Mediterranean coast of Europe have been children. Of the one million people who have made the crossing since January of this year, more 20 % have been minors.

As the heart-rending image of Aylan was relayed around the world, it caused a profound transformation in collective consciousness. Average citizens demanded that governments provide an effective response to the refugee crisis. Many political leaders changed their tack on the issue and aligned their discourses to the demand Germany had been making for months regarding the implementation of a proportional system of refugee quotas.

Thanks to the dramatic photo of Aylan, many people rushed to bring blankets and food to railway stations in cities such as Munich where refugees were arriving in droves. Social networks buzzed with hashtags such as #LaHumanidadLlegoALaOrilla, #YoSoyRefugiado and most especially #WelcomeRefugees, which became a trending topic on Twitter in Spain.

Institutional response was immediate. Spanish Minister of Foreign Affairs and Cooperation José Manuel García Margallo went so far as to declare that "No decent person, especially if he or she is a parent, could fail to be moved", and one began to perceive a shift in political discourse. Nevertheless, when a proposal was made at a July 2015 European Council meeting to relocate 60,000 asylum seekers (40,000 from Member States and an additional 20,000 from third countries) in the EU, of which Spain was expected to accept 5,837, the Spanish government immediately made a bid to lower its quota to 2,749 to be admitted over the following two years: 1,300 to be relocated from Greece and Italy and 1,449 to be resettled from Turkey and Lebanon.

With the summer over, the crisis taking on ever-greater proportions and Greece and Italy having requested assistance, in September the European Commission proposed the relocation of an additional 120,000 people. The Spanish government reacted in a much different manner to this second proposal, accepting the Commission's proposal without quibbling and aligning itself with other countries that acknowledged the importance of assisting refugees. We and other civil society organisations concerned about this issue applaud this shift in political stance as well as the Spanish parliament's subsequent approval of significant funding for the reception and integration of refugees in the 2016 national budget. The unprecedented amount of €200 million euros allotted for this purpose represents a human rights landmark for our country and government, which prior to this gesture had never made anything but a minimal political commitment to refugee relief.

After Aylan, Paris and Cologne: a new setback for refugees

This wave of solidarity was unfortunately followed by events that have been used to unjustly criminalise refugees.

The terrible attacks perpetrated in Paris and the incidents that occurred in Cologne have had a severe impact on the most vulnerable and put a damper on hopes for a sustained public outpouring of solidarity. That refugees could be increasingly regarded with suspicion and attempts be made to unjustifiably link refugees to terrorism is becoming a very troubling possibility.

Those who seek to establish relationships between refugees and terrorism are cynically twisting reality. It should never be forgotten that refugees have been frontline victims of terrorism in their countries of origin and that it is precisely the horrors of terrorism they are attempting escape. It also seems sufficiently clear that many of the terrorist groups in question have at different points in time enjoyed the external support of Western and petroleum producing countries amongst others. Another fact that should not be ignored is that 82 % of jihadist terrorist attacks carried out are occurring in countries with Muslim majorities such as Afghanistan, Nigeria, Lebanon, Mali and Yemen.

Measures that would restrict the entry of refugees announced by certain countries in the wake of these attacks are unacceptable and contrary to international law. It appears that if some that have been seeking to evade their obligation to receive refugees for months on end have failed to provide a valid motive for their positions, they now have what appears to them to be the perfect excuse to close their borders and refuse to fulfil their international obligations. Their manipulation of the facts is intolerable. Political and social leaders and the media must act responsibly and avoid sending out messages that might provoke racist and xenophobic attitudes towards migrants and refugees.

Slow to roll out the welcome mat...

Member States are implementing the agreements reached following the adoption of the European Commission's relocation proposal in a passive, uncoordinated and irresponsible manner.

Despite the fact that the welfare and lives of thousands of human beings are hanging in the balance, Member States are shamelessly dragging their feet as though there were no particular or pressing need to assume their obligations and commitments concerning refugee relocation in an expedient and timely manner.

As previously noted in this chapter, we should never forget that the right to asylum is an inalienable right inscribed in the Geneva Convention and the New York Protocol, key legal instruments that define the rights of refugees and the legal obligations of states in regard to people seeking asylum. EU Member States should never make the mistake of construing the reception of refugees as a charitable gesture on their part; as signatories to the above-mentioned treaties, they have an obligation to assist and accept the refugees now fleeing to Europe.

Of the 180,000 refugees included in the European Commission's proposal for relocation and resettlement in Member States, only 583 have been placed to date: 18 have been relocated to Spain and 779 have been resettled elsewhere in Europe. No one in the resettlement category has yet to be accepted by Spain.

Meanwhile, between one summit meeting and the next at which the only agreements reached concern the construction of new border fences, refugees have been left to fend for themselves in the freezing cold of a European winter.

The passivity of Member States has revealed the lack of the political will and commitment needed to resolve this desperate situation. Whilst the conditions under which thousands of people are living are becoming more and more unsustainable every day, European governments do nothing but sit on their hands, bicker amongst themselves and implement ad hoc solutions. We are sadly witnessing how the EU as a whole is delaying the implementation of measures critically needed to deal with this humanitarian crisis.

The relocation progress is has gotten off to such a slow start that many refugees have decided to fend for themselves. Thousands have been moving on their own from Greece and Italy towards other European countries under highly dangerous conditions.

Although alarming positions have been adopted by certain Member States such as Hungary, which is not acting in accord with international and European treaties in respect to asylum issues, the EU has refrained from imposing sanctions.

This type of attitude indicates the degree to which the foundational values of the EU and respect for human rights are in serious peril.

... and swift to avoid actual relocation and settlement

All of the solutions currently being bandied about are focused on brushing what is misguidedly being referred to as a refugee crisis as far as possible from our borders.

The idea of enticing Turkey to act a buffer zone and assuming responsibility for doing whatever it takes to reduce the flow of refugees streaming towards Europe is a prime example of this line of thinking. This plan, by which Turkey would receive 3 billion euros to cover the costs of its efforts and visa exemptions would be granted for Turkish citizens wishing to travel to the EU, flies in the face of reports issued by international organisations denouncing the utter lack of guarantees regarding compliance and Turkey's poor track record on human rights.

In its rush to identify the "secure countries" essential to this strategy, the EU is introducing an entirely new level of risk into an already complicated equation: many of the countries on its list do not respect human rights.

We are now being told of the need to help finance refugee relief efforts in countries bordering or close to Syria such as Jordan, Lebanon and Libya that up to the present have been providing basic support for 86 % of the regional refugee population with limited assistance. The underlying strategy never openly expressed in this discourse is nevertheless clear: helping these countries bear the burden of maintaining these refugees is one way of avoiding that they will try to make their way to Europe.

Asylum in Europe and Spain –the figures are painful

More than one million desperate people crossed the Mediterranean during 2015 in search of a safe place to rebuild their lives. According to Eurostat, more than 800,000 asylum applications were filed in the EU last year. Of the people named in these documents, approximately 215,000 (almost one third) are minors.

Spain's commitment to refugees has always been somewhat tepid. Of the mere 195,000 people who filed applications in Spain between 1984 and the present, less than 50 % have received asylum. By way of comparison, Germany received more applications in the space of a single year even before the outset of the refugee crisis, registering 220,000 requests for 2014 alone.

The unofficial figure for asylum applications presented in Spain during 2015 stands at approximately 16,000.

The European Union's response to jihadist terrorism and the Syrian conflict

Enrique Ayala

The European Union (EU), which had already suffered brutal terrorist attacks in Madrid (2004) and London (2005), was the target of jihadist fanaticism once again in 2015. The year began with attacks carried out between January 7 and 9 in Paris on the offices of the satirical magazine *Charlie Hebdo* and a Jewish supermarket in which 17 civilians and three of the perpetrators died. The two men who assaulted the offices of the magazine had links with Al Qaeda (AQ) in the Arabian Peninsula and those involved in the attack on the supermarket had ties to the Islamic State (IS). Slightly more than a month later, on February 14, an IS sympathiser attacked a cultural centre and a synagogue in Copenhagen, wounding five people and killing another two before dying in a shootout with police. Islamic radicals carried out a number of other attacks in France in the name of jihad during 2015 with varying degrees of success. On February 3, three policemen guarding a synagogue in Nice were injured in an armed attack. On June 26, an Islamic fanatic decapitated the manager of an Air Products plant in San Quentin Fallavier, a town near Lyon. In another incident that took place on August 21, a heavily armed man was prevented by passengers from committing a massacre on a Thalys train in Pas de Calais. In spite of the strong security measures implemented following the January attacks, several others were carried out simultaneously on November 13 in Paris and Saint Denis in which at least six armed attacks and three explosions left 351 wounded and 130 dead in addition to nine of the perpetrators –all of whom were affiliated with IS– who either blew themselves up or were killed by police. The story has continued unabated in 2016. On March 22 another attack related to the events in Paris was perpetrated in Brussels in which various explosions in airport facilities and a metro station claimed the lives of at least 31 people in addition to those two attackers, who were on this occasion as well, IS followers.

Nevertheless, Europe did not have the dubious honour of being the sole, or even the hardest-hit, target of such attacks in 2015, even though the majority of the victims of attacks carried out in certain other places such as Tunis were European. Although not exhaustive, the following list amply illustrates this point: Boko Haram perpetrated various attacks in Nigeria and neighbouring states between January and July that left 300 dead; on March 7 the militant group Al-Mourabitoun killed five people in Bamako, Mali; a March 18 attack on the Bardo Museum in Tunis claimed 25 lives; an April 2 Al-Shabaab attack on the campus of the University of Garissa in Kenya caused 147 deaths; attacks perpetrated on June 26 resulted in numerous fatalities in Sousse, Tunis (39), Kuwait (25) and Lego, Somalia (50); 90 died on October 11 in Ankara, Turkey; a Russian Metrojet plane carrying 224 was shot down on October 31; and another attack in San Bernardino, California on December 2 claimed 14 lives. To this gristly list one must add the innumerable attacks carried out in war zones within countries such as Iraq, Syria, Afghanistan, Pakistan and Yemen. The carnage continued throughout the first three months of 2016 with attacks in Pathankot, India on January 2; Libya January 7; Istanbul on January 12 and March 19, Jakarta on January 14, Burkina Faso on January 15, the Sinai in Egypt on January 21; Somalia on January 15 and 22; Nigeria on January 30; Ankara on February 17 and March 13; and Ivory Coast on March 13.

According to IHS Jane's Terrorism and Insurgency Centre, more than 18,000 attacks that collectively left approximately 30,000 people dead and more than 36,000 wounded were perpetrated in 2015. Of the total recorded, IS was responsible for 3,300 (50 % more than in 2014) and the Al-Nusra Front, AQ's affiliate in Syria, responsible for 550. The majority of these attacks were carried out in Syria (5,500) and Iraq (3,800) and in many cases were suicide missions. A number so staggeringly high makes it difficult to pay attention to few beyond our personal radius of experience. What we are, in fact, witnessing is an insidious, underground war in which the targets are always easy victims and in the majority of instances civilians; a war that has engulfed the entire world from Nigeria to Indonesia, against which it is very difficult to protect oneself: the low-intensity war of the twenty-first century.

The attacks that are occurring in Europe are being carried out by small groups of people and occasionally by isolated individuals who act with a certain degree of autonomy but under the general auspices of nerve centres such as AQ – and, at this particular moment, most especially IS. They are usually second- or third-generation European Muslims (all of the authors of attacks perpetrated in the EU in 2015 had been born in Europe) who grew up in marginalised neighbourhoods and dabbled in petty crime before being radicalised by contacts they came across via the Internet, in certain mosques or while serving prison terms. Not all of them have been religious fanatics; some have been motivated by resentment and hate. Some have lived or fought in a Middle Eastern country where they underwent a deeper radicalisation and received training. Those who have fought for IS in Syria and Iraq are particularly dangerous.

Conscious of the threat they suppose to European citizens, the institutions of the EU and the governments of its Member States (MS) are implementing (albeit in varying degrees) political, economic, law enforcement, intelligence and military measures intended to neutralise their effectiveness both on EU territory and wherever else that jihadism emerges, be it the Middle East, North Africa or the Sahel. This is a challenge of colossal dimensions in which Europe has much, including its freedoms, at stake, since the fear of fresh attacks has led, for instance, to the cancellation of public festivities such as the New Year's celebrations in Paris, Brussels and Munich. Maintaining unity between Member States and a strong determination to remedy both the causes and consequences of terrorism whilst preserving the values on which our societies are based is the only guarantee of a positive outcome for the scenario we now face.

Anti-terrorism measures: security versus freedom

Open societies such as those in Europe which protect personal privacy and a wide range of freedoms (including the freedom to cross borders within the Schengen Area unhindered), may appear to be more vulnerable to the infiltration of small groups or individuals capable of committing deadly attacks. We must nevertheless resist the urge to blow this seeming weakness out of proportion or equate the high level of personal liberty we enjoy with a loss of security. Doing so could lead us to recklessly restrict the former in order to enhance the latter. Such an error would not only undermine democratic political principles; given that the majority of terrorist attacks take place in countries whose populations are subjected to high levels of government control such as Egypt and Indonesia, it would also constitute a blind acceptance of a false correlation.

The attacks committed in Europe before, during and after 2015 –especially in cities under a high state of alert such as Paris in November and in Brussels in March– indicate that although we can lower the risk of such events occurring, it is extremely difficult to reduce the threshold of risk to zero. The probability of future attacks remains high and EUROPOL, the European agency charged with preventing and fighting terrorism, has issued warnings to this effect. The possibility that terrorists could gain access to chemical or radioactive weapons is another serious concern. The level of awareness regarding the threat of terrorism varies from one EU country to another. The perception of risk is lower in Member States that are geographically further from the instability of the Mediterranean area or have small Muslim populations, although attacks in Denmark have demonstrated that the possibility of such a thing happening cannot be entirely ruled out. Meanwhile, preoccupation in those in which the deadliest attacks have occurred has resulted in the implementation of specific measures –some of them controversial– intended to heighten security.

The best example of the latter is the reaction of the current French president and his administration to the November attacks in Paris, which in some respects echoed that of George Bush to the 11 September attacks in the United States. Three days after the tragedy in Paris, French President François Hollande qualified the attacks as "an act of war" perpetrated by a "terrorist army" and proceeded to mobilise all means his disposal to strike back, within and beyond the borders of France. Hollande began by announcing the creation of 5,000 new positions in the national police force and Gendarmerie and the recruitment of an additional 2,000 intelligence agents, but also called upon the National Assembly to declare a three-month state of emergency and amend the constitution to allow the state to revoke the citizenship of dual citizens. In January, he proposed a bill that expanded police powers to include the arrest of individuals returning from zones of armed conflict and searches and identity checks to be conducted without prior judicial warrant. A draft bill backed by the government granted intelligence services greater powers to intercept communications and extended the national state of emergency an additional three months. Finally, on February 10, the National Assembly approved the proposed constitutional amendment.

These extreme measures, adopted amidst the general state of shock that has shaken France in the wake of the last attacks, affect the privacy and the legal security of French citizens. For this reason, they have been rejected by a wide spectrum of political figures, including members of the ruling Socialist Party (PS). French Minister of Justice Christiane Taubira resigned on January 27 in protest of the plan to revoke the citizenship of people suspected of engaging in illicit activities, which if applied to individuals born in France could render them stateless. When the constitutional amendment was put to a vote in the National Assembly, 83 of the 384 members affiliated with the PS voted against it and another 36 abstained, a clear demonstration of the division of opinion between French Social Democrats regarding a measure designed to limit individual liberties and that when all is said and done, represents an indirect victory for the terrorists.

The European Council responded by seeking to establish the level of coordination between MSs needed to meet the challenge, although, as is often the case, the effective implementation of its decisions has been painfully slow. At an informal meeting held in Brussels on February 12, EU heads of state and government approved a statement that laid out three blocks of guidelines for actions to be taken during the succeeding months. The first of these, under the heading "Ensuring the security of citizens", included the creation of a European passenger name registry (PNR), heightened cooperation between the law enforcement, intelligence agencies and judicial authorities of Member States through EUROPOL and EUROJUST to include common data bases and border controls within the Schengen Area, measures to prevent money laundering, the financing of terrorism and the illicit trafficking of firearms and the preparation of a Directive on cyber-security. The second section, "Preventing radicalisation and safeguarding values" called for actions of a more political nature such as the development of communication strategies for promoting tolerance and fundamental freedoms, the launch of initiatives focused on education and social integration designed to address the factors contributing to radicalisation and the removal of internet content promoting terrorism. The final section, "Cooperating with our international partners", stressed the need to address crises and conflicts in the EU's Southern Neighbourhood, engage countries in this zone to a greater extent on security issues and counter-terrorism initiatives, stimulate a dialogue with among cultures and civilisations and work to coordinate these efforts within the framework of the United Nations and other regional initiatives.

The European Agenda on Security 2015-2020 presented by the Commission on April 28 laid out the main actions envisaged by European Council on security and proposed the creation of an European Counter Terrorism Centre intended to strengthen EUROPOL's capacity to respond to this issue. The Council on Justice and Home Affairs is taking action on (although perhaps not as quickly as it should) the implementation of the measures approved. At its November 21 meeting it addressed not only the question of reinforcing controls along the external borders of the Schengen Area and the need to improve judicial cooperation, but also the urgency of finalising the PNR directive. Finally, on December 10, the European Parliament's Committee on Civil Liberties, Justice and Home

Affairs, which had expressed its opposition to the PNR on the basis that it undermined a previous Directive on the protection of data, approved an agreement on principle on this issue –contingent on a number of stringent restrictions– and the EU Parliament voted in favour of the measure on April 14.

Many of the measures being adopted at both the national and the EU level are provoking concern among citizens from various strata of society who are fearful that the individual liberty so highly prized in any democratic society is being traded away in the name of security. In their opinion, measures adopted that could lead to the slightest erosion of citizens' rights must meet three conditions: be absolutely necessary to guarantee public security, demonstrate beyond any doubt their effectiveness and be limited in terms of time frames and scope to what the situation at hand truly requires. It is doubtful, for example, that the PNR fulfils these criteria, especially in terms of effectiveness. The fact is that almost every individual who has travelled to a zone of conflict and returned to the EU has been identified and monitored without the existence of the PNR. Furthermore, none of attacks perpetrated in Europe can be attributed to a lack of control of air travel.

Other measures adopted in some Member States such as those allowing the revocation of passports or other national identity documents in order to prevent citizens from travelling to zones of conflict on the basis of mere suspicions and in the absence of a judicial sentence or resolution are contrary to the spirit and letter of European rule of law. Restricting freedom of movement within the Schengen Area on the basis of the probability at attacks may be carried out would be playing into the hands of the terrorists, even though current interest in moving in this direction has been triggered by a desire to hinder the flow of refugees. The adequate exchange of information through the Schengen Information System (SIS) is the best way to counter any possible boon that freedom of movement between MSs might offer terrorists. Finally, the suppression or blocking of illicit Internet sites that seek to incite violence or provide instructions for fabricating arms or carrying out a terrorist attack are already contemplated in the legislation of most European countries. We must act with extreme caution regarding other web sites that disseminate more or less radical Islamic thought to ensure we do not end up attacking the liberty of expression we seek so earnestly to defend. Surveillance of communications via the Internet (which is also contemplated in many existing laws that deal with terrorism) must be limited to cases in which there is a firm suspicion of wrongdoing. If it is done on a more general basis, we run the risk that measures permitting this option will meet the same fate as the Data Retention Directive of 2006 on the storage of telephone conversations and other forms of electronic communication, which was declared invalid by the European Court of Justice in 2014 for violating fundamental rights.

European authorities are aware that the only effective way to prevent jihadist attacks is to build up extensive, efficient intelligence networks for gathering and processing information generated by and within radical Islamist circles, websites, mosques, prisons, and predominantly Muslim neighbourhoods, in order to timely detect spurious activities such as preparations for an attack, the formation of terrorist cells, the acquisition of weapons and the development of terrorist infrastructure. It is also clear that key suspects, especially if they have returned to Europe from zones of conflict, must be carefully monitored. Intelligence services and security forces throughout Europe are being given the additional human and material resources required to do this job. The numerous instances in which attacks have been prevented or avoided in countries such as Germany, Spain and Great Britain attest to the efficacy of this approach.

On the other hand, the enhanced level of cooperation and information sharing between the intelligence services and security forces of Member States on terrorist movements and activities that European institutions have repeatedly called for is still far from being a reality due to the occasional reluctance of these services to act with complete transparency. Although the recently reinforced EUROPOL and newly created European Counter Terrorism Centre will help to fill the current gap, it would also make sense to go a step further and consider developing an EU intelligence service. It is also essential to exchange information with Arab and Muslim countries with which we maintain fluid relations, even if only on a bilateral basis, sharing afterwards the information received with other Member States, as well as with other non-EU countries whose cooperation may be desirable such as the United States.

Measures approved by the European Council in February 2015 to address the deeper causes of radicalisation such as the social, cultural and economic marginalisation of a significant percentage of Muslim young people living in European countries –which have yet to be acted upon– must be developed and implemented as soon as possible as the success of such initiatives will be the best long-term antidote for the threat of terrorism in Europe. Greater efforts must be made to further integration and improve living conditions in Muslim communities. Educational campaigns that counter radical propaganda with democratic values have to be implemented in schools and social networks, and moderate Muslim religious and political leaders should be politically and financially supported.

Finally, it is essential to avoid and neutralise outbreaks of Islamophobia sparked by terrorist attacks and mass migration flows, both of which are being capitalised upon by political parties and extremist movements such as Pegida in Germany, the National Front in France, the Party for Freedom in the Netherlands and other extreme-right or proto-fascist European parties that have emerged or thriven as a result of the economic and social crisis in which Europe remains immersed. Left unchecked, such fear and hate campaigns could cause social fractures within the EU, which it must be remembered is home to more than 20 million Muslims.

The fight against jihadism beyond our borders

Although essential, internal security measures are not sufficient to prevent terrorism. It is necessary to combat jihadism where it emerges and develops. Whether carried out under the direct orders of jihadist factions elsewhere or simply inspired by these groups, attacks perpetrated on EU territory have been a reflection of what is happening in Arab and Muslim countries hit by this plague. Should the EU passively allow radicalisation to thrive in its neighbourhood, the pressure within its borders will continue to build and the security of European citizens will be seriously threatened.

Jihadism is spreading throughout a vast swathe of the Muslim world that stretches from Western Africa (Nigeria) and the Sahel (Mali, Niger) to Central Asia (Afghanistan) and even the Far East (Indonesia, The Philippines) and includes various points in between in North Africa

(Libya), the Middle East (Iraq and Syria), the Arabian Peninsula (Yemen) and the Horn of Africa (Somalia). It gained force amongst the Mujahedin who fought against Soviet troops in Afghanistan in 1980s and was propagated under the leadership of AQ until 2014, at which point IS became a more dominant force in the wake of its territorial conquests. Jihadism rests upon a rigorous interpretation of Islam aligned with Salafist doctrine, especially the Wahhabism sponsored by Saudi Arabia. Its unchecked advance threatens to destabilise any country with a Muslim majority and, by extension, the rest of the world. Europe has the obligation to help the governments of countries affected by this threat –which it is doing in Mali and Iraq– not only to lower the risk of terrorism but also to stem other consequences of instability such as human and drug trafficking and threats to its energy supply, not to mention humanitarian motives.

Unfortunately, as in the case of so many matters related to foreign affairs and security, the EU has not been able to achieve the consensus required to develop a consolidated common position on this issue. As Member States tend to act individually or within the framework of other organisations or ad hoc groups, community actions in these areas are usually fragmentary or of a very limited scope. Whereas European countries have individually participated in the NATO mission in Afghanistan for the past 12 years, the EU, in contrast, has does nothing other than maintain an auxiliary police-training mission (EUPOL) there since 2007. European initiatives to combat jihadism in Africa have also been modest and few. No action, for example, has been taken in Nigeria, where in the northern part of the country Boko Haram, which has openly declared its loyalty to IS, is operating with impunity and threatening to destabilise neighbouring countries such as Cameroon and Chad. In Somalia, a failed state in which various jihadist groups are currently active (the most important of which, Al-Shabaab, has also carried out attacks in Ethiopia, Uganda and Kenya), the EU has maintained a limited mission devoted to the training of Somali armed forces since 2014 (EUTM Somalia) that previously (since April 2010) had been based in Uganda for security reasons.

In the Sahel, which is probably the zone in the greatest danger of destabilisation and an area in which various jihadist groups such as AQ in the Islamic Maghreb, Ansar Dine and Al-Mourabitoun are known to be active, the EU has maintained a small operation devoted to the training of members of the Malian armed forces (EUTM) since February 2013 and two small missions supporting security forces in Niger (EUCAP Sahel Niger) since July 2012 and Mali (EUCAP Sahel Mali) since April 2014, which have made a minimal contribution towards the prevention of further development of jihadist groups in these countries. The real responsibility for helping countries in this zone (Mauritania, Mali, Burkina Faso, Niger and Chad) combat jihadism has been assumed by France, which launched, and is maintaining, Operation Barkhane on its own.

Europe's greatest preoccupation in Africa at present is Libya, which following a revolution carried out with the military assistance of European countries that ousted the dictator Kaddafi has fallen into a state of chaos attributable in part to a lack of an adequate EU reconstruction policy for that country. IS controls a 200-kilometre stretch of the coast of Libya through affiliate groups in that country that is thought to be considered by IS as an alternative main base for operations should the group eventually be pushed out of Syria and Iraq. The EU launched a small border control support mission in Libya

(EUBAM) in May 2013, which due to the deterioration of the political situation in the country has been reduced to a small corps currently operating from Tunis. Different options are now being studied, including military intervention, but all appear unfeasible due to the lack of a single, valid interlocutor, a perplexing situation that cannot be resolved whilst the country has two separate and antagonistic governments and parliaments. In spite of a UN Security Council-endorsed agreement reached in Srijat, Morocco in December by which a presidential council will name the members of a unity government, further progress is currently blocked by the rejection of the deal on the part of the parliament situated in Tobruk. The European Council has repeatedly discussed the situation in this country situated a mere 350 kilometres from Malta, which has proved to be a never-ending source of problems for the EU. Libya is currently the base for much of the mass illegal migration towards Europe. The fact that the country's current oil exports to Europe have slumped to a fifth of their former level is another cause of preoccupation. The Council is looking to promote the formation of a government of national unity with the will and desire to support the fight against jihadism in the country.

Support for the armed and security forces of countries in which jihadist groups operate needs to be part of a broader strategy that includes political and economic measures that contribute to their stability, prosperity and democratisation, assistance in developing anti-radicalisation educational and cultural programmes and improving the effectiveness of their means of preventing and control extremism, and a greater level of intelligence sharing. Policies that support dictators such as Abdelfatah Al-Sisi in Egypt should be reviewed given that such regimes sow the seeds of deeper radicalisation. Initiatives such as the Union for the Mediterranean and the European Neighbourhood Policy should also be updated in the light for their ineffectiveness in terms of promoting stability, progress and security in Northern African countries. EU strategies for the Sahel (September 2011) and the Horn of Africa (November 2011) should likewise be revised to focus more on the fight against jihadism, which is now the principal threat to both these regions and Europe.

IS in the Middle East: the war in Syria

The most important jihadist group at this moment is IS, whose centre of gravity covers a large portion of the Middle East that includes about a third of Syria's territory with Raqqa as it capital and a quarter of Iraq that includes Mosul and Fallujah, where it has imposed a brutal dictatorship. It is estimated that IS could have as many as 35,000 fighters under its command, 4,000 of which could have come from Europe. Meanwhile, the Al-Nusra Front (ANF), a branch of AQ active in Syria that has a force of anywhere between 5,000 and 10,000 in that country, controls part of the provinces of Hasaka and Idlib. Although armed confrontations between the ANF and IS led to a rupture between IS and AQ in 2014, the groups have nevertheless occasionally collaborated.

IS, which emerged in Iraq in the wake of the US invasion, entered Syria in 2013 amidst the chaos of a civil war that has raged since March 2011 between the regime of Bachar al-Assad and the various armed opposition groups that launched a revolt in the wake of the Arab Spring. To date, the war has claimed between 300,000 and 400,000 lives and caused the displacement of 11 million people, 5 million of whom have fled to other countries and, of that number, one million have found their way to Europe. The country's main political opposition groups have formed the National Coalition for Syrian Revolutionary and Opposition Forces, whose principal component is the Syrian National Council. Its most important military organisation is the Free Syrian Army, which although disorganised and debilitated, partially controls the southern Syrian provinces of Daraa and Quneitra. Another armed rebel faction, the Army of Conquest, controls a large part of the northern province of Idlib. In total, there are almost one hundred groups and factions active throughout the country, many of which embrace Salafist ideology but are not aligned with either AQ or IS.

Turkey provides the majority of these groups with arms and money, as does Saudi Arabia, Qatar, The United Arab Emirates, and Kuwait, the greatest assistance going to Islamic factions. All of these countries with Sunni majorities are eager to see the government of Assad, who belongs to the Alawite branch of Shiite Islam, overthrown. Nevertheless, the Assad regime enjoys the support of Iran and the Hezbollah militias of Lebanon. In other words, the conflict in Syria constitutes a proxy war between Sunnis and Shiites as well as a struggle between Iran and Saudi Arabia for hegemony in the Middle East, a state of affairs that makes the fight against IS (which is, as least officially, the common enemy of all involved) infinitely more difficult.

From the outset of the Syrian civil war, the United States and European countries have aligned themselves with Saudi Arabia and Turkey and taken the position that Bachar al-Assad should step down, although they have chosen not to intervene directly and limited their scope of action to political and material support for opposition factions. They have, however, taken a more militant stance towards IS. In October 2014, the US Central Command launched Operation Inherent Resolve, a military campaign against the IS in Syria and Iraq that has involved a coalition of more than 60 countries, amongst them several European states whose contributions have ranged from missions focused on training Iraqi military units and the supply of arms to Kurdish militants to bombing raids. Belgian, Danish, Dutch, French and British forces have participated in bombing missions carried out over Iraqi territory with the permission of the Iraqi government. Although the Syrian government has not given permission to any country other than Russia to engage in a military intervention on its territory, France, Great Britain and Holland have carried out airstrikes there. As a result of these actions and a more efficient performance on the part of the Iraqi and Syrian armed forces, and Kurdish militias, the jihadists have lost 40 % of the territory they once controlled in Iraq (including Ramadi) and 20 % of their territory in Syria (including Palmyra). Nevertheless, more progress will be difficult to achieve without further extensive land operations difficult to carry out until the civil war has been resolved. Although NATO is conducting AWACS surveillance missions with over Syria, the EU has no direct role in these operations.

In September 2015, Russia, Assad's principal foreign ally, launched a mission in Syria that ostensibly targeted IS but for all practical purposes was conducted to shore up the troubled regime. Moscow, which had been calling for a larger international coalition against IS to specifically include Al Assad and Iran for some time, was accused by the U.S. and the EU of shoring up the Assad regime and bombing opposition groups other than IS and the ANF, the two groups that the UN and all the parties involved in the Syrian theatre of operations officially considered to be propagating jihadist terrorism. Nevertheless, in the context of the mosaic that is Syria today, determining which of the many factions fighting in the field can be qualified as "opposition groups" and should therefore be included in peace talks has been an extremely tricky issue. Groups that are a part of the Islamic Front such as Jaysh al-Islam or of the Army of Conquest such as Ahrar ash-Sham, have collaborated closely with and even fought shoulder-to-shoulder with the ANF, which has been a leading force within the Army of Conquest. There is division over how these groups, which embrace Salafist or Wahhabist ideology, should be regarded; Saudi Arabia, Qatar and Turkey support them but Russia considers them terrorists, as, of course, does Assad, who views any faction fighting against his regime, regardless of its ideology, a terrorist organisation.

Another point of contention is the Kurds who control Rojava, a de facto autonomous region that stretches across much of northern Syria and includes three-quarters of Syria's border with Turkey and is represented by the Democratic Union Party (PYD). Its defence force consists of People's Protection Units (YPG), which have fought successfully against IS but have also skirmished with other Islamic opposition groups and never militarily confronted the Assad regime. Due to their collaboration with the PKK (the Kurdish political party in Turkey), Ankara considers the YPG (and by extension the PYD) terrorist groups. Whereas Turkish artillery have repeatedly shelled YPG positions, Washington has given the Kurds extensive logistical support that has included the construction of an air base airfield built on Kurdish territory. Here we have nothing less than a situation in which two NATO allies, the United States and Turkey, are respectively acting in favour and against the same group. Another contradiction is the current US policy of simultaneously providing support to the Kurds and Islamic opposition groups such as the Islamic Front –enemies that routinely attack each other. These examples provide a basic idea of the muddled way in which foreign intervention in Syria is being carried out.

Despite the fact that IS cannot be dealt with effectively until the Syrian war has been brought to an end, the EU has not assumed a leading role in political initiatives undertaken to resolve the conflict between the Syrian government and the opposition. In June 2012, UN Joint Special Envoy for Syria Kofi Annan convoked a meeting of an especially invited "action group" in Geneva since referred to as "Geneva I", which was attended by the Secretaries-General of the United Nations and the League of Arab States, the Foreign Ministers of China, France, Russia, United Kingdom, United States, Turkey, Iraq (Chair of the Summit of the League of Arab States), Kuwait (Chair of the Council of Foreign Ministers of the League of Arab States) and Qatar (Chair of the Arab Follow-up Committee on Syria of the League of Arab States), and the European Union High Representative for Foreign and Security Policy. After this meeting, Annan released a communiqué that laid out a road map for a peace process in Syria in which one of key steps was to be "the establishment of a transitional governing body that could include members of the present government and the opposition and should be formed on the basis of mutual consent", a message that unfortunately fell on deaf ears. Syrian government and representatives of some of the opposition groups (none of them jihadist) participated in the Geneva II conference organised a year and a half later (January and February 2014). On this occasion, opposition groups negotiated under the leadership of the Syrian National Coalition, which acted without the participation of its principal organisation, the Syrian National Council, as the Council refused to take part in that or any other negotiation that included Assad. This conference, which was attended by representatives of the UN, the EU, the Arab League and the Organisation of Islamic Cooperation and 40 countries (amongst them 11 EU Member States) but excluded Iran, did not produce any substantial positive results due to the impossibility of resolving the issue as to whether or not Bachar al-Assad would remain in power.

The war of everyone against each other continued in Syria, and with it an ever-mounting death toll than included victims of starvation in places like Madaya and massive displacements of refugees. At a meeting of the International Syria Support Group (ISSG) held in Vienna on November 14, 2015 that was co-chaired by the U.S. and Russia and in which 17 countries including Germany, France, Italy, Great Britain, the United Nations, the Arab League and the EU participated, an agreement was struck to work towards a political transition in Syria on the basis of the Geneva Communiqué, implement a ceasefire between government and opposition troops and initiate negotiations between the two sides in January. All parties present also agreed that IS and the Al-Nusra Front (ANF) must be defeated. The United States and Russia, however, expressed divided views regarding the role to be played by Bashar al-Assad going forward. US Secretary of State John Kerry stated that peace would not be possible while Assad remained in power, whereas Russian Foreign Affairs Minister Sergey Lavrov held that IS, not Assad, was the enemy.

European countries and the U.S. began to tone down their insistence that Assad must step down in the light of evidence that without a clear, consensual alternative waiting in the wings, his brusque removal could plunge Syria into a state of chaos similar to that in Libya. An even stronger motive for their change of heart on this point was the priority they placed on defeating IS. The challenge now was to convince the governments of Sunni countries such as Turkey to accept the provisional maintenance of the present Syrian government for the sole purpose of eliminating the threat of IS with assurances that once that goal was accomplished a democratic transition would take place in stages to be agreed upon in fulfilment of the Geneva communiqué of 2012.

On November 18, the UN Security Council (UNSC) unanimously adopted resolution 2254, endorsed the Vienna Communiqué and requested that the Secretary-General convene negotiations to be followed by the drafting of a new Syrian constitution and the organisation of free elections in that country by July 2017. The sticking point was determining which opposition groups should be involved in this process. Whilst Special Envoy Staffan de Mistura worked hard to convince the 34 groups that constituted a newly created High Negotiations Committee (HNC) to meet together in Geneva, the Kurds were eliminated from the process by means of a veto on the part of Turkey. The Geneva III talks finally got underway (by an indirect procedure) on March 1, but cancelled two days later due to a major offensive launched by Syrian government troops supported by Russian airstrikes against rebel strongholds north of Aleppo along the Turkish border.

When it met again on February 11 and 12, the International Syria Support Group agreed to the implementation of a nationwide ceasefire within seven days to facilitate the provision of humanitarian aid to besieged areas and further negotiations on political transition to be held in Geneva. However, due to heavy fighting in the area around Aleppo and the Turkish shelling of YPG positions near the city of Azaz, the February 19 was not met. In the wake of this debacle, US President Barak Obama and Russian President Vladimir Putin thrashed out a definitive ceasefire agreement excluding IS and the ANF that was subsequently accepted by all parties implicated in the conflict and entered into force on midnight on the night of February 26. Apart from isolated incidents between Syrian government troops and groups belonging to the HNC, this ceasefire was reasonably respected for the several days during which humanitarian aid was delivered to 384,000 people in 12 of the 18 besieged zones of the country. This paved the way for the beginning of a second round of Geneva III talks on March 14, which unfortunately ended on Wednesday the 24 without any progress having been achieved. Russia's March 14 announcement of a partial withdrawal of its troops from Syria should provide impetus for further negotiations slated to take place on April 9-10 despite the Syrian government's desire to postpone the next round until legislative elections in the zones it controls scheduled for April 13 have concluded. Reaching an agreement will be difficult given the broad spectrum of positions and interests of the parties involved. Nevertheless, this must be accomplished so that all may concentrate their efforts on defeating the various jihadist groups active throughout the country (first and foremost IS) that constitute a common enemy and the most serious threat to collective security.

The limitations of the Common Foreign and Security Policy

The Common Foreign and Security Policy (CFSP) of the EU has demonstrated its weaknesses once more in Syria and in the fight against jihadism beyond our borders in general. Europe is the first and foremost part of the world affected by the Syrian war beyond the Middle East. It is the target of IS-sponsored terrorism and is staggering under the burden of massive waves of refugees fleeing the conflict. Furthermore, based on past experience, it is very likely that Europe will be obliged to pay the lion's share of the cost of reconstruction. Nevertheless, it is playing a secondary role in the resolution of this conflict from a political as well as a military perspective. Once again, it has been the U.S. and Russia that have negotiated and decided how things shall be either because the EU lacks a common voice to represent it or has that voice but prefers not to use it whilst Member States act individually as each one sees fit and consequently end up being irrelevant to the process. Although the High Representative for Foreign Affairs and Security Policy will present a global strategy for EU foreign affairs and security to the European Council in June 2016, no real progress towards this end will be achieved without the firm will of Member States to act collectively on the international stage.

The CFSP, as it stands today, is not making an effective contribution to European security and the fight against jihadism. Despite the fact that this is a situation that affects all parties equally, Member States are intervening militarily in Iraq and Syria individually, coordinating their actions either on a bilateral basis or through US channels, without a joint plan or a proper rationalisation or distribution of tasks. The establishment of a permanent EU command structure such as an EU Operational Headquarters could at least permit the coordination of actions being carried out simultaneously by various MSs in the same theatre of operations and optimise the efficiency of each one's contributions. Without critically needed advances such as the assumption of a common defence policy and military strategy, the implementation of Permanent Structured Cooperation, the reinforcement of the European Defence Agency and shared capabilities, and the creation of a European force structure, the CFSP will always fall short of meeting the requisites it must fulfil to be a military instrument of the EU. And without such an instrument, it will be difficult for the EU to play a decisive role in the resolution of conflicts that affect it. The reality is that the only real muscle the EU can use on the international stage at present is its chequebook.

Europe is gradually beginning to act on the evidence that we cannot eternally rely on others to resolve our problems. On January 21, the European Parliament approved a resolution to the effect that the activation of the mutual defence clause contained in Article 42.7 of the Treaty of the European Union in response to petition on the part of France provides grounds for creating a strong and sustainable European Defence Union. The resolution states that the only way Europe will ever be equipped and prepared to take on the serious threats and challenges to its internal and external security that it now faces is to develop its own security and defence capabilities. Amongst the various actions it asserts must now be taken is the activation of a European Operational Headquarters. We hope that this resolution passed by the only European institution elected by direct universal suffrage will serve as a catalyst for progress towards the objective of a common defence capable of dealing effectively with threats to the security of European citizens, the most serious at this moment being the menace of jihadism.

Global climate and energy governance: the Paris Climate Summit

Ana Belén Sánchez and Vicente Palacio

From Copenhagen to Paris: 180-degree turns in US and Chinese policy

A cascade of events took place in the United States in 2009, the effects of which would not become manifest until seven years later in 2015. The first was the election of Barack Obama, who long before taking office had made clear his determination to radically change the direction of environmental and energy policy in the U.S., a country second only to China in terms of responsibility for CO2 emissions. Global governance in this sphere was not only an opportunity but also a critical objective of Obama's new road map for the country. In his 2010 State of the Union address, the president underlined his conviction that "the nation that leads the clean energy economy will be the nation that leads the global economy". His proposal, which envisaged making the climate agenda the keystone not only of the country's energy policy but its economic and national security policies as well, represented a radical shift from the petroleum-centred economics and geopolitics embraced by former president George W. Bush and neoconservatives and a path towards eventual economic convergence. It was a decision laden with ramifications for economics, geopolitics and global governance consistent with Obama's declared intention to reframe security in terms of common prosperity.

Nevertheless, the shift towards an energy transition aligned with environmental stewardship would be long in coming. Progress towards global agreements on limiting greenhouse gas emissions and the promotion of renewable energies was painfully slow due the lack of North American leadership. In June 2009, during Obama's first term in office, the Democrat-controlled U.S. House of Representatives passed the American Clean Energy and Security Act (also known as the Waxman-Markey Bill), which contemplated the creation of a cap and trade scheme designed to reduce the country's emissions by about 80 % by 2050. The targets this bill set out were similar to those established by the European Union at that time. Although justifiably criticised as being inadequate by environmentalists, the Waxman-Markey Bill nevertheless constituted a strong signal of US commitment at the UN Climate Change Conference held in Copenhagen in December 2009. Action on climate change, however, ran afoul of Republican attempts to polarise the issue driven by both tactical motives and reasons of principle. Climate change deniers, science sceptics and opportunists built a wall of objections in an effort to block legislation in favour of clean energy and energy savings. Despite this resistance, Obama managed to establish new standards for vehicle fuel efficiency and extract a commitment from the US automotive industry to promote electric cars. The fight against climate change, which was a key element of Obama's campaign platform during his run for a second term in 2012, has become an increasingly important point of his agenda.

Amongst the milestones in this shift in US energy policy, three achieved in 2015 are particularly notable. The first was the announcement of the Clean Power Plan in August 2015, which constituted a decisive step towards reducing carbon pollution generated by fossil fuel-fired electrical power plants and whose target of reducing emissions by 32 % by 2030 positioned the United States squarely in the international fight against climate change. Aside from their good intentions, the establishment of these new reasonable standards and emissions targets set by individual states led to the closure of a number of fossil fuel-fired electric plants. The country's coal and natural gas sectors were swift to qualify the plan as being too costly and lament the loss of jobs it supposed –a line repeatedly touted by Republicans, who nevertheless failed to propose an alternative plan. In a demonstration of the system of checks and balances that characterises US politics and governance, the US Supreme Court issued a stay order that momentarily paralysed the implementation of the Environmental Protection Agency's Clean Energy Plan, ruling that it could possibly violate the competences of affected states such as Wyoming and West Virginia. Nevertheless, it is probable that the Supreme Court will eventually allow implementation to proceed after a long process of deliberation that is expected to last well beyond the presidential elections of November 2016. The second milestone was Obama's rejection of TransCanada's application to build the Keystone XL pipeline, an environmentally controversial project intended to provide a continuous crude oil transportation system between Canada and the Gulf of Mexico. This decision, which was of enormous symbolic importance, supposed a definitive crossing of the energy Rubicon. The third milestone of 2015 was the UN Climate Conference held in Paris in December 2015 (COP21), to which we will return at the end of this chapter, at which US, European and Chinese leadership paved the way for an agreement between 197 countries to limit greenhouse gas emissions and build resilience against the effects of climate change, breaking the deadlock in which the Copenhagen talks had been mired. The United States made a commitment in line with the Climate Action Plan to reduce its greenhouse gas emissions by between 26 % and 28 % below 2005 levels. What made an agreement possible this time around? Paradoxically, it was not only the agreement's virtues but also its weakness (a large margin of flexibility and lack of sanctions and binding targets) that brought all parties on board. Paramount to its success, however, was a radical change in the energy policy pursued by China.

In a departure from the failed Kyoto Protocol of 1997, which sought to impose emissions reductions exclusively on developed countries, the agreement struck in Paris marked emerging economies' assumption of co-responsibility for the problem. This change of events facilitated a "down-top" process by which individual states, whether large or small, established their own targets and time lines within the context of a global agreement. The relative success of the Paris talks would not have been possible without the leadership of the planet's two greatest emitters –the United States (responsible for approximately 15 % of world emissions) and China (responsible for 25 %). It should be noted that US per capita emissions stand at 16.4 tonnes– double the figure for China and more than double the figure for the EU. The world was fortunate in this case: without a cooperative attitude on the part of China, no agreement would have been reached. The seeds of the understanding that China must step up and act were sown in Copenhagen. A mere six months later, during his state visit to the United States in September 2015, Chinese President Xi Jinping announced that China would provide US$ 3.1 billion in climate financing for developing countries, far more than its projected contribution to the South-South Climate Cooperation Fund. Going forward, China could well reposition itself in this sphere of governance and finance low-carbon projects through the G-20 or new international financial institutions such as the Asian Infrastructure Investment Bank (AIIB) –launched with a subscribed capital of US$ 50 billion– or the New Development Bank established by BRICS states and use its financial muscle to promote various objectives articulated in the Paris agreement such as the emission of green bonds.

Against this impressive backdrop one might be tempted to conclude that Obama's gestures in regard to climate change and clean energy fall short of the mark. Nevertheless, it should be recognised that in spite of expectations to the contrary, he managed to push through the most ambitious standards ever established in these areas in the United States –an achievement that will have international as well as domestic repercussions. One may feel grateful that apart from a few Senate briefings during which a number of Republicans expressed their total opposition, the US Congress did not play a formal role in the drafting of the Paris agreement. Given that the emissions reduction objectives are politically rather than legally binding, the agreement should not meet with serious interference as long as the White House continues to back progress in this direction. The green agenda has been a big issue in 2016 Democratic primary campaigns and, more importantly, in the minds of the majority of US voters. Republicans, on the other hand, as in the two other most recent presidential campaigns, have maintained low profiles regarding this topic. In any case, the momentum would indicate that no major reversal is on the horizon. On the one hand, backtracking on this issue would have a negative impact on the US economy. On the other, the clean energies agenda and the fight against climate change offer the US opportunities to demonstrate leadership in other related areas. These include, as we have seen, industrial environmental standards and financing for green technologies in developing countries whether in concert with China or the European Union or through the World Bank (WB), the European Investment Bank (EIB), the Inter-American Development Bank (IDB) or the AIIB in Asia. The ball is now in the court of the next president and the 115th United States Congress.

Environment in the European Union

Having reviewed the reasons for policy changes in the United States and China –the two great actors in global governance related to climate and energy– we will now turn to actions taken by the EU throughout 2015 leading up to the Climate Conference in Paris.

The European Environmental Agency report *The European environment – state and outlook 2015* provides an excellent overview of the status quo of environmental issues in the European Union. According to the conclusions of this report, although EU countries have made progress in areas such as water and air quality and waste reduction, we are collectively still far from achieving the target Member States agreed upon for 2050: living within the ecological limits of the planet.

Production and consumption patterns in the EU are still unsustainable and energy-intensive and more than 50 % of the energy the Union consumes comes from fossil fuels. Our use of water and prime materials is also unacceptably high. The EU's ecological footprint has grown progressively since 1995 in terms of land, water and raw material usage, as well as tropospheric precursor and greenhouse gas emissions, factors that raise the environmental pressure it exerts outside the collective boundaries of its Member States. The hard fact is that the area needed to meet the EU's present resource demand is twice as large as it actual geographic extension.

A number of problems require urgent attention. Whilst climate change supposes a threat to the lives and economic welfare of the majority of European citizens, it also affects millions of people living in poor countries beyond our borders who due to the profoundly unfair way in which climate change is unfolding stand to suffer its consequences the most even though they generate a much lower volume of greenhouse gases than their counterparts in wealthier parts of the world. Although per capita EU greenhouse gas emissions have declined by 19 % since 1990, the Union is nevertheless responsible for 15 % of the world's total emissions. According to this report, the environmental policies presently being implemented will probably not be sufficient to meet the challenges we now face. For example, under the present circumstances, the EU will not be able to meet the approved objective of reducing its emissions by between 80 and 95 % by 2050.

The loss of biodiversity in the EU has reached alarming proportions. The conservation status of 60 % of the continent's protected species and 77 % of its habitats is considered unfavourable. Europe is far from reaching the goal of halting the loss of its biodiversity by 2020. Our seas and oceans are in an especially precarious state: the deterioration of ocean beds, the acidification of seawater and pollution are only a few of the problems threatening our marine biodiversity. Furthermore, 91 % of assessed stocks in the Mediterranean are being overfished. The degradation of European natural capital attributable to our consumption habits –which are highly dependent on the consumption of energy and natural resources– is a consequence of the unsustainability of key drivers of our economy such as agriculture, fishing, transport, industry, tourism and urban expansion. Atmospheric and acoustic pollution are causing severe health problems, particularly in urban areas. Fine particles contributed to the premature deaths of approximately 430,000 EU citizens in 2011. It is estimated that during the same year exposure to noise pollution led to the premature deaths of 10,000 Europeans from heart attacks and strokes. It has been estimated that the aggregated cost of damages caused by European industrial facilities for the period 2008–2012 totalled at least €329 billion. One half of these costs are directly attributable to the pollution generated by a minuscule 1 % of the facilities that reported releases to air during this period and 90 % of the costs to a mere 14 %, the majority of which were coal- and lignite-fuelled electrical power plants. Lastly, the increasing number of chemical substances present in consumer products is being linked to higher incidences of endocrine illnesses and disorders.

EU environmental policy 2015

It is within this context of environment issues in need of immediate attention that the Juncker Commission got underway. Several weeks before the close of 2014, the Commission undertook an action unparalleled in the history of the EU: it announced the withdrawal of a pending legislative proposal on two packages of measures to which the prior Commission had not only devoted much energy but had also considered its flagship initiatives regarding environmental issues –its Circular Economy and Clean Air Packages. The incoming team argued that the EU must focus its efforts on "what truly matters to for citizens –jobs, growth and investment", a position that revived a false dichotomy between growth and environmental protection and misguided ideas that environmental stewardship was a luxury that Europe could ill afford in times of crisis, environmental policies put a financial strain on the system and supposed an undue burden for the private sector and, as a threat to growth, should therefore be avoided. Juncker's declaration annulled, in a single stroke, the work of decades and a longstanding consensus that environmental protection measures, efforts to fight climate change, and the responsible and efficient use of natural resources were positive in terms of competitiveness, growth and job creation.

The new Commission decided to focus its environmental policy on a new strategic energy union designed to reduce the EU's dependence on Russian imports, a posture that provoked criticism from environmentalist NGOs and a number of MEPs. Juncker's new team withdrew more than 80 measures proposed by their predecessors, including an 80 % recycling target for packaging materials by 2030, a ban on landfilling all recyclable and biodegradable waste by 2025 and the "aspirational" goal of reducing waste by 30 % by 2025. The previous commission had also proposed that Member States limit their emissions of a number of key air pollutants: sulphur dioxide, nitrogen dioxide, carbon dioxide, particulate matter and tropospheric ozone precursors –the last of which is a particular problem in Spain according to the European Environmental Agency. The commission had previously estimated that air quality measures alone would prevent as many as 58,000 premature deaths in Europe per year and avoid between €40 and €140 billon in reduced damage costs related to air quality issues. The cost of these measures was estimated to be €4 billion (European Commission, 2013).

The withdrawal of these measures had been requested by an umbrella organisation for European business federations called BusinessEurope, which had argued they were too ambitious and that their implementation would undermine European competitiveness. In the wake of pressure brought to bear by a number of Member States, several business sectors and environmental organisations, a European Circular Economy package (albeit less ambitious than the one originally proposed) was finally adopted at the end of 2015 (European Commission, 2015). This plan calls for:

- The recycling of 65 % of municipal waste by 2030.
- The recycling of 75 % of packaging waste by 2030.
- A binding landfill target to reduce landfill to a maximum of 10 % of all waste by 2030.
- Additional measures that promote green product design, a comprehensive strategy for plastics intended to lower waste in general and marine litter in particular, the symbiotic use of industrial by-products and harmonised calculation methods for recycling rates throughout the EU.

As in the case of other issues, no new legislative packet related to air quality has been adopted to date.

The new EU energy strategy

The Juncker Commission centred the greater part of its environmental policy efforts on the framework for climate and energy for the period 2020-2030 approved by the European Council in November 2014.

In February 2015, the new Commission announced a new EU framework strategy for energy, the goal of which was "to give EU consumers –households and businesses– secure, sustainable, competitive and affordable energy". This strategy, which seeks to remove barriers that impede the free flow of energy supplies throughout the European Union, contains measures that promote the centralisation of energy management.

The Energy Union strategy has five mutually reinforcing and closely related dimensions:

- Energy security.
- A fully integrated internal energy market.
- Energy efficiency.
- Decarbonising the economy.
- Research, innovation and competitiveness.

A few months later, in June 2015, the Transport, Telecommunications and Energy Council reaffirmed the Council's plans for transforming the EU's energy strategy, especially its emphasis on achieving the minimum target of 10 % electricity interconnection for Member States that have not yet attained a minimal level of integration in the internal energy market. Spain, for example, currently ranks among the EU's most laggard states in this regard with an interconnection rate if only 3 %. Other actions supported by the TTE Council included the implementation of new technologies, measures intended to improve energy efficiency, infrastructure projects related to the supply of gas and electricity and the promotion of renewable energies.

The EU Energy Union Strategy fits into a new geostrategic objective of relying less on Russia, which traditionally has been the Union's chief supplier of gas. The necessity of taking this route was made clear by moves on the part of Russia in 2006 to suspend supplies to certain EU Member States. It is to remediate this problem that the EU energy strategy contemplates investing millions of euros to guarantee uninterrupted supply throughout its territory. It is estimated that €100 billion per year will be invested in energy efficiency alone. A budget of €5.3 billion has been allocated for trans-European energy infrastructure to be created between 2014 and 2020, which is to be financed by means of user tariffs. These include 108 electricity, 77 gas, 7 oil and 3 smart grid "projects of common interest" (European Commission, 2015), some of which are mega-infrastructures supporting gas connections between countries:

the "MidCat" pipeline between Algeria and Catalonia, another with Azerbaijan, the Euro-Asia Interconnector linking Greek and Israeli power grids with Europe, the NSN link between Norway and Great Britain and a similar connection between Spain and France that cuts through the Pyrenees.

The strategy's critics have labelled it as nothing but a rehash of an old familiar story: once again public funds are being used to facilitate and ensure the profitability of large energy companies to the end that Europeans are more dependent than ever on fossils fuels –a highly polluting, finite source of energy with a volatile market value that must be purchased from countries whose governments do not earn top grades when it comes to transparency. They also note that public investment on such a massive scale has never been devoted renewable energies, which, in contrast, require natural resources that are not only in abundant in Europe but inexhaustible and, to date, completely free as well. It must be kept in mind that the EU imports 53 % of the energy it uses. It relies on imports for 90 % of the oil, 66 % of the gas natural and 42 % of the coal it consumes. EU energy imports cost approximately €400 billion in 2013.

European climate change policy, the Paris agreement and COP21

2015 was the year of the fight against climate change in Europe. As previously mentioned, the twenty-first Conference of the Parties (COP21) of the United Nations Framework Convention on Climate Change (UNFCCC) met in December 2015. The most important outcome of this meeting was the approval of the Paris Agreement, which has been adopted by 197 countries party to the Convention.

By means of this agreement, member countries collectively pledge to drastically reduce their greenhouse emissions so as to maintain any rise in the average global temperature that occurs during this century well within the target of 2 degrees Celsius above pre-industrial levels and to furthermore make every possible effort to limit such increase to 1.5 degrees Celsius. Nevertheless, the agreement does not specify precise levels to be achieved or a set schedule for this reduction. It was agreed in Paris that each country would present a national climate change plan detailing its priority actions on this issue and a schedule for measures it intends to implement. Furthermore, all countries must communicate long-term decarbonisation plans by 2020. Prior to the drafting of the EU strategy, the Commission will conduct an in-depth analysis of the economic and social transformations that it will suppose to facilitate a debate on the topic in the European Parliament, Council and with stakeholders. To ensure that global objectives established in the Paris Agreement are achieved, the Conference of the Convention will periodically review national plans submitted, identify measures that must be taken to improve countries' performances and make recommendations regarding the amplification of the scope of their ambitions. Each country's progress will be documented and tracked. In the case that the overall goal of containing the rise of global temperature within the bounds agreed upon is not being met, additional measures will be developed as needed.

The European Union had formally approved its Intended Nationally Determined Contribution (INDC) several months earlier in March 2015. This commitment reiterated targets established in the climate and energy framework packet approved in October 2014 (Conclusions of the European Council 23-24 October 2014). The EU commitment included a 40 % joint Member State reduction in greenhouse gases by 2030 compared to 1990 but did not establish quotas on a country-by-country basis. The INDC document noted that the EU commitment, like all its earlier climate change policies, had been guided by the need to avoid a 2-degree Celsius rise in average global temperature and recommendations contained in the reports issued by the International Panel on Climate Change (IPCC). The EU thus positioned itself in line with what was expected of developed countries: a reduction of its emissions by 80-95 % by 2050 compared to 1990, a commitment that will entail the decarbonisation of the European economy.

Therefore, the Paris Agreement reached in December 2015 does not suppose, at least for the moment, any pressure to move forward on this issue that was not previously contemplated in EU climate policy. This is because, in the first instance, the EU had already established a two-degree Celsius cap on the rise in average global temperature over pre-industrial levels called for in the Paris Agreement. Secondly, EU policy coincides with the Paris Agreement in that objectives are voluntarily and internally to be set by individual states or groups of states; it contains no obligatory quotas as called for under the Kyoto Protocol. Thirdly, neither document stipulates that the ambition of individual countries must be pegged to their individual levels of responsibility or capacity.

Due to the method agreed upon, it is difficult to assess whether the European effort will be sufficient to meet the target set or not. The few attempts that have been made to compare climate change commitments to date rank Europe amongst the less ambitious if the emissions it has generated since the beginning of the industrial revolution and its capacity based on per capita GDP are factored into the equation. According to the calculations of Climate Action Tracker, a coalition of independent scientific organisations, the European Union's INDC merits a "medium" rating –somewhat below that given to countries such as Costa Rica, Ethiopia, Morocco, Brazil and China.

A number of NGOs and civil society organisations have noted that the EU could do better in light of its responsibility and capacity. According to several studies, if existing policies continue to be followed, the EU will be able to reduce its emissions by 32 % by 2030. This prognostication indicates that pushing the target a bit farther to 40 % by that date would not represent a significant challenge. The Commission presented the European Council's draft Decision on the adoption of the Paris Agreement in March 2016. The Agreement will be open for ratification and signature on 22 April. It is important to keep in mind that the Paris Agreement obligates signers to periodically make formal commitments to raise the level of their ambitions on this issue. Therefore, the window of opportunity for Europe to demonstrate a greater level of responsibility and determination regarding the problem of climate change remains open. As in the past, deeper commitment will depend on the pressure of public opinion.

The EU has assumed international leadership on environmental issues in the past, especially in terms of the fight against climate change. In the months leading up to COP21, it did much to convince other developed and emerging countries to strengthen their commitment to do more in this area. Nevertheless, its leadership role has been gradually eroding, touching a metaphorical bottom with the entry of the new Commission. As a result, the EU has lost its former position as a leader in investment in environmental technologies. Countries such as China have been the top producers of renewable energy technology for some time now. Austerity measures have had a highly negative impact on all green services and industries including the renewable energy sector. Spain, to give only one example, has suffered the loss of approximately half of the jobs that its renewable energy sector once supported.

This state of affairs is significant in light of the other two commitments contained in the 2030 Climate and Energy Framework package. The first is that 27 % of the EU's energy consumption is to be covered by renewable energy production by 2030. In regard to this goal, the Commission has made clear that measures supporting renewal energy adopted by Member States "need to be well designed and proportionate to avoid market distortions". The second is increasing energy efficiency by 27 %. As the Commission had already stated in 2014 that the EU was on track to improve efficiency by 18-19 % with measures then in place (the 2020 target being 20 %), it recommended setting a 30 % target for 2030. In the end, however, the final target established for 2030 was whittled down to 27 %.

Recommendations

– Strengthen EU legislation and provide the funding necessary to ensure that the targets established in the latest environmental policy are achieved and that all citizens of the EU live well within the planet's ecological limits by 2050. Short- and medium-term lines of action required to meet this target include:
  - Reinstating the air quality targets proposed by the previous Commission. Support for the implementation of the plans outlined by the former Commission regarding sustainable mobility, public transportation upgrades and the promotion of non-motorised transport such as bicycles as well as the protocols it established for the restriction of traffic, closing of schools and suspension of other services during periods of peak pollution –all of which have demonstrated their effectiveness– must be reaffirmed.
  - Ensuring the success of the 2020 Strategy for Biodiversity by means of sanctions for non-compliance, increased funding for the development of "green infrastructure" designed to restore degraded ecosystems and enhanced support for ecological agriculture currently contemplated in the Common Agriculture Policy (PAC).
  - Building on the framework provided by the Paris Agreement, the EU should develop a road map for achieving an 80-95 % reduction in emissions by 2050 that includes binding emissions pledges on the part of Member States. Such a plan should establish specific measures to be implemented by energy, transport, industrial, agricultural, construction and other applicable sectors and provide impetus for action on the part of cities –which are responsible for 70 % of the greenhouse gases currently being generated around the globe. The EU should likewise ensure compliance with 2020 renewable energy targets and establish targets for 2030 that put the EU on track to achieve the goal of 100 % renewable energy consumption by 2030. To ensure that communities that are currently highly reliant on coal and other polluting energy sources are not negatively impacted by this strategy, plans should be developed to foster the growth of green jobs and guarantee an equitable transition to

sustainable socio-economic alternatives in these regions.
- Ensuring the fulfilment of 2020 and 2030 targets for energy efficiency. Energy efficiency plans for both private and public sector facilities (schools, public sports centres, office buildings, etc.) should be backed by technical support centres and financing for energy audits.

– Rethinking the current EU energy strategy with an eye to reducing support for gas and oil and promoting the greater use of renewable energies.
– Creating lines of financing that target public green investment at the national level as well as that provided through the European Investment bank (EIB). Accounting rules on public debt and deficit need to be reviewed and modified so that public investments in green projects are not necessarily counted as deficits in national accounts. Climate change funding should not be limited solely to that earmarked for development cooperation projects, and Europe must provide its share of the USD 100 billion earmarked for developing countries established in the Paris Agreement proportionate to its responsibility and capacity.
– Reinforcing the work being done by civil society organisations, interest groups and small- and medium-size enterprises involved in the production and use of renewable energies, the promotion of energy efficiency, the reduction of industrial pollution and the improvement of air quality in recognition of the key role they are playing in the achievement of medium- and long-term environmental goals in Europe.

Brexit: the last chance for Europe and the United Kingdom?

Juan Moscoso del Prado Hernández

"Europe is not a physical continent, Europe is an idea".
Salvador de Madariaga

"Brexit: the potential […] departure of the United Kingdom from the European Union".
Oxford Dictionaries

The agreement reached at the European Council on 18 and 19 February 2016 satisfied nobody. From a pro-European perspective, the agreement symbolises the fragility of the basic principles of the European Union and the willingness of current leaders to apply them selectively, depending on their national interests. In this case, what has been referred to as "British blackmail" precipitated a choice between the lesser of two evils: the Council agreement rather than Brexit.

The problem with the agreement is that it transforms what has thus far been an exception into a rule, because one Member State, despite having always demanded special treatment in the form of opt-outs from certain policies, has turned its back on article 1 of the treaty, which has defined the core philosophy of the European project since its foundations, namely ever closer union. Moreover, it does so formally, not only in the conclusions of the Council but in a guarantee to include this point the next time the treaties are reformed. In addition to setting a dangerous precedent, this also jeopardises the future functioning of the EU and ensures its fragmented operation, turning the thus far exceptional "à la carte Single Market" into the norm. The idea of Europe has been badly damaged by its leaders' acceptance of the constitutional consolidation of a two- or even multi-speed Europe.

The agreement also challenges one of the EU's fundamental freedoms, namely the free movement of people. It is frustrating to see an agreement that seeks to restrict a fundamental European freedom, setting a precedent which is very likely to be copied by other Member States. The agreement reached by the European Council fails to preserve the nature of the EU or strengthen its freedoms and principles in the highly sensitive area of the right to freedom of movement for workers, arguably one of the most vulnerable groups of EU citizens. Moreover, in spite of its symbolic gesture against fundamental European freedoms, the agreement is excessively technical and, as it stands, will in all likelihood have little practical effect on the results of the referendum. From a British perspective, it makes little difference because the perception of what EU membership entails and means vastly outweighs the contents of the agreement. The result of the referendum will not depend on whether negotiations in Brussels are perceived as a success or failure. The only possible strategy –responding to the proponents of Brexit with clear arguments setting out the advantages of remaining in the EU– has failed to materialise and perhaps it is already too late.

Timeline and events

Although David Cameron formally proposed it in a speech on 23 January 2013, a referendum on membership of the EU was not part of Prime Minister David Cameron's initial agenda, particularly during his first term in government, in coalition with the pro-European Liberal Democrats. However, Cameron's weakness with respect to the Eurosceptic wing of the Conservative Party led him to conclude that the only way to manage his relationship with that branch of the party was to call a referendum. Even so, his initial statement was vague: "it is time for the British people to have their say […] it is time to settle this European question in British politics […] when that choice comes, you will have an important choice to make about our country's destiny." This calculated ambiguity was seen as a public admission of the weakness of his leadership. Cameron sought to use the referendum to put the issue to bed, at least for a considerable period of time (as was the case with the other referendum on Scottish independence), to prevent future divisions in the heart of the Conservative Party, and to bolster its position against the threat posed by UKIP. The strategy is at once risky and irresponsible, since neither of the options addresses the underlying problem: if the Remain camp triumphs, it is hard to imagine the Eurosceptic ranks being pacified; if the Leave camp wins, there will be tragic consequences for both the UK (economically and politically, with the potential to reopen the Scottish question) and for the EU, which already has enough problems without having to deal with Brexit.

Cameron promised the referendum in spite of the fact that his Liberal Democrat coalition partners were against such a move, and in the knowledge that making this promise constituted a public recognition of the weakness of his leadership. We will never know if his announcement of a referendum in 2013 was made from a position of confidence or at least in the coy expectation that the need to form a second coalition government would protect him from having to keep his word. However, the unexpected victory of the Conservatives with an absolute majority in the 2015 election imposed the scenario of the referendum and the very real chance of Brexit. In his initial pledge, Cameron had set the date of the referendum as 2017. However, this failed to take into account the fact that in 2017 the UK would hold the rotating presidency of the EU, and that it would also coincide with elections in Germany and France, forcing him to bring the date for the poll forward to 2016, together with the bulk of the renegotiation process.

David Cameron's letter in 2015

On 10 November 2015, the British prime minister sent a letter to the presidents of the European Council and the European Commission, and to the heads of state and heads of government of the Member States, setting out the four main areas or "buckets" of Britain's demands. The president of the European Council, Donald Tusk responded in a letter dated 2 February, addressed to the heads of state and government of the Member States. The letter contains an annex with details of the proposed Council decision in response to the issues raised by the British prime minister, which went on to form the basis of the agreement reached in Brussels on 18 and 19 February 2016. The day before the Council, the Spanish Ministry of Foreign Affairs and Cooperation appeared before the Congress of Deputies' Foreign Affairs Commission (the Mixed Commission for the EU had yet to be formed by the new government) to provide advance notice of the content of the issues to be discussed at the European Council.

The UK's relationship with Europe

For the majority of the British public, the country's relationship with Europe, or "the Continent", is based more on culture and history than politics or trade. The EU is not one of the main concerns in opinion polls, although the political relationship with the rest of Europe has always been extremely complicated. The conflict goes back to the nature of the EU and the UK, with roots in geopolitics and certain attitudes in the aftermath of the Second World War (e.g., an isolationist attitude towards the Continent, strong ties with the Commonwealth, a false sense of economic superiority and a belief in the ability to go it alone as a result of having suffered less destruction in the war), in addition to the birth of European integration and the role played by the governments of the time and their historical leaders such as Winston Churchill and General de Gaulle.

Every British government has expressed, in one way or another, its limited enthusiasm for the European project. From the outset, the UK was not among the founding members of the project for European integration, and, since its belated incorporation in 1973, has acted as a brake on progress towards or discussion of further integration. Clear examples can be found in the rebate demanded and obtained by Margaret Thatcher in the budget struggle of the 1980s, exemption from Schengen and the decision to stay out of the euro. The UK has also opposed the development of the EU's limited social dimension; in 1992, it was exempted from the Social Chapter of the Maastricht Treaty (although Tony Blair subsequently relinquished this opt-out in 1997) and, in 2007, the effects of the EU Charter of Fundamental Rights on the UK were limited by the inclusion of protocol 30 in the Treaty of Lisbon. And it has been reluctant to participate in the area of freedom, security and justice. Yet for all this, the United Kingdom is not the only member of the EU in which Euroscepticism plays a significant role in national politics, and regardless of the result of the referendum on 23 June 2016, the damage done to the European project may prove to be irreversible.

The consequences of Brexit

In the run-up to the European Council in February 2015, a number of studies and reports were published on the consequences of Brexit both for the UK and for the rest of the EU. The basic position of British Eurosceptics is based on three ideas (Dixon 2015):[1]

– UK membership of the EU is counter-productive.
– There is no possibility of reforming the EU.
– There are magnificent prospects outside the EU.

In contrast, those who wish to remain in the EU contest these claims. In highly simplified terms, the UK represents less than 1 % of the world's population and its economy accounts for less than 3 % of global GDP. The EU is a practical way of ensuring the future prosperity and security of its citizens in a world dominated by powerful groups of nations and individual countries, a situation that requires European states to work together in areas such as trade, defence and foreign affairs. Moreover, the deep social and cultural integration of British society with the rest of Europe is indisputable and is stronger among younger generations.

Advocates of remaining in the EU argue the need for the reform of specific EU policies, such as the Common Agricultural Policy (CAP) and structural and cohesion policies, the regulation of certain economic activities, and, above all, the EU's social dimension. However, this critical perspective is more than compatible with continued membership on account of the net benefits. The Single Market (500 million consumers) represents 3.1 million direct jobs and 1.1 million indirect jobs in the UK, a total of 4.2 million. The UK contribution to the EU budget is just 0.5 % of GDP, which is clearly easily sustainable. According to the most recent survey by the Confederation of British Industry, 78 % of the country's SMEs are in favour of staying in.

It is hard to predict the consequences for trade in British goods and services if the country votes to leave the EU. The UK is part of the world's largest trade bloc, equivalent to 20 % of global GDP, and this is reflected in the negotiations with giants such as the United States, China and Japan. The UK would clearly be in a position of weakness vis-à-vis all these countries, and also with respect to the EU, which would continue to be larger than any other trade bloc on the planet. In terms of foreign policy and security, the United States, the UK's historic ally, has expressed its desire to see the country remain a strong member of a strong EU. The possibility of Brexit is generating considerable uncertainty, since nobody knows exactly what it would mean. Although Norway is part of the Single Market without being a member of the EU, to do so it must passively adopt European regulations while having no say in their definition. Would such an arrangement work for the UK? Probably not, although there are other alternatives.

Pro-Europeans versus Eurosceptics

One thing that sets the UK's pro-Europeans apart from their Continental counterparts is their acceptance of the need to reform the EU and the direction such reform would take. In the best case scenario, the British proposals could form part of the larger reform project to be undertaken by the EU in the future, ruling out, however, the full participation of the UK across the range of EU policies. At present, for example, it is simply unthinkable that the UK would

[1] Dixon, Hugo: *The in/out question*. Amazon: Kindle Singles, 2015.

reopen the debate about joining the euro. The priorities for British pro-Europeans are the completion of the Single Market to strengthen productivity in different economic sectors and to promote European competitiveness, the creation of the Capital Markets Union, the conclusion of trade negotiations with the United States (TTIP), China and Japan, the reduction of excess regulation and red tape, and the strengthening of foreign policy and shared security. Other priorities include the reform and partial repatriation of regional policy (structural funds and CAP reform) to make it more streamlined and greener, and a desire to slim down EU institutions and government, all of which combine with continuing mistrust of the European social dimension.

British pro-Europeans and Eurosceptics share a number of goals, some of which differ starkly from the aspirations of their counterparts on the Continent or even certain objectives that have already been achieved. Thus, anything related to political union and the progressive strengthening of the democratic legitimacy of EU institutions is to be contested. Similarly, anything that might weaken or dilute the community's intergovernmental decision-making process is criticised and opposed, even by British pro-Europeans, a good example being the transfer of power to allow the European Parliament to elect the president of the European Commission. Both attitudes aim to preserve the powers of the European Council and strengthen the role of national parliaments (and not exactly in the way set out in the Lisbon Treaty).

In short, pro-European sentiments in the UK do not map directly onto equivalent views on the Continent. Debates and reflections take place in an extremely different environment, one that is highly pragmatic and almost exclusively focused on the economic dimension of the EU and its role in the world, without room for political union. British pro-EU sentiment leads to clear contradictions: on the one hand, it is against opt-outs, yet its failure to back progress in political union, a key factor in the debate regarding "ever closer union", makes it impossible to avoid having recourse to new opt-outs in the future, in spite of their unpopularity among British supporters of the EU.

Immigration

EU immigrants contribute to the UK's economic and cultural wealth, as is also true of immigrants from many non-EU countries. The debate often overlooks the other side of freedom of movement in the EU: approximately 1 million British citizens living in Spain, 330,000 in France, 330,000 in Ireland and 65,000 in Cyprus, according to 2015 figures. The level of activity, occupation, entrepreneurship and education among this group is higher than the average for the British population as a whole, while they place less burden on the welfare state and the benefits system (although there are clear differences between immigrants from France, Italy and Spain, and those who come from eastern Europe).

Reforming the EU, the Eurozone and the pound

One of the main arguments used by British Eurosceptics is that the crisis affecting the euro makes the EU less attractive for a UK that is attached to the pound. Similarly, the possibility of the Eurozone countries making progress toward political union, electing a finance minister, harmonising their tax systems and adopting a unified position with respect to major international organisations, such as the International Monetary Fund and the World Bank, is without a doubt the worst nightmare for Eurosceptics, who fear the extent to which such circumstances would weaken the UK. As such, it is understandable that a UK that has abandoned any intention of forming part of the euro wants to see guarantees to ensure that such an outcome does not weaken its position in terms of the operation of the Single Market. However, it is also clear that the Eurozone countries wish to move forward without the UK and other non-Eurozone members such as Denmark and Sweden standing in the way, a concern that was not sufficiently voiced in the run-up to the European Council in February 2016.

The UK could be a strong ally of the Eurozone when it comes to resolving the most important economic problems that affect the European economy as a whole, related to the stagnation of productivity and the loss of competitiveness. The modernisation of the European economy in all its dimensions (industrial, services, finance and trade) must be done with the participation of the UK, which has much to contribute.

The European Council in February 2016

Economic governance of the euro

The UK demanded protection from the consequences of progress towards both the economic and political integration of the Eurozone. In specific terms, it requested guarantees that future laws and regulations will not create disadvantages for countries that are not part of the euro, by introducing a mechanism to allow any country to halt Eurozone regulations by arguing that these also affect non-Eurozone countries, and reopening discussion of these regulations in the European Council if necessary. The aim of this measure is none other than to protect the City of London from regulations that could challenge its leadership as the financial centre of the EU.

This issue, which the UK had argued was non-negotiable but which was at one point regarded as impossible, was one of the main achievements secured by David Cameron in his negotiations. It will now suffice for one non-euro country to raise its concerns regarding new legislation for the Eurozone to force a debate among EU leaders. A majority of leaders agreed to this request, since in practice neither the UK nor any other Member State will have the power of an absolute veto. This change is also set to be included in the treaties when they are next reformed, guaranteeing that the reservations of a single country regarding a decision can also be brought to the Court of Justice, as requested by David Cameron.

While it seems reasonable that progressive economic and fiscal integration –political, when all is said and done– should offer guarantees to prevent legislative effects on Member States that have a legal opt-out from the euro (Mangas 2016),[2] the agreement goes much further, since the planned treaty change will modify secondary legislation by allowing recourse to the Court of Justice to settle these disputes. It should also be noted that, in exchange for the principle of non-interference in the affairs of non-Eurozone Member States, members of the Eurozone obtain an undertaking that non-euro countries will facilitate and not block economic and monetary union. It is also clearly stated that, except for the UK and Denmark, all states that do not yet form part of the euro are required to make progress

[2] Mangas, Araceli: "Brexit: Europa al rescate de Reino Unido". *El País* 22.02.2016.

towards adopting it. The same procedure for the suspension of decision-making or legislation and dialogue has also been put in place for banking union to allow non-participating states to raise reasoned opposition to the adoption of legislation by the Council if they believe they are affected by it.

Competitiveness and regulation (red tape)

This has arguably been the simplest part of the agreement, even though in symbolic terms it was highly significant for the UK, where the tabloids delight in the myths of bureaucratic obstacles in Brussels and anecdotes about the level of detail that can occasionally be reached by community regulations, such as the prohibition of abnormally curved bananas, the controversy surrounding olive oil bottles and the temperature to be withstood by kitchen gloves. The commitment to strengthen the internal market and adapt it to the changing environment is clearly a positive step for everyone, alongside measures to improve growth, competitiveness and employment. This will be complemented by the commitment of EU institutions and Member States to improve regulations, reduce administrative costs for businesses and even repeal unnecessary legislation, with progress assessed on an annual basis. In principle, the agreement makes it possible to reduce the administrative burden, implementing a procedure for regulatory simplification without the need for treaty change.

Anything that contributes to improving the competitiveness of the European economy and helps it move away from the threat of long-term stagnation is reasonable. The issue is just how far the process should go in terms of legislative restraint, non-exhaustiveness and the repeal of legislation (Mangas *op. cit.*). As Mangas argues, the European Parliament has not taken a position on the agreement, and it will not be easy to convince the legislative power that it should reduce the rate of its regulatory activity in areas such as the protection of consumers, workers, health and the environment, where European citizens require increased and fuller involvement of European institutions (which, it goes without saying, must also be brought closer to the people and made more democratically accountable).

Sovereignty

David Cameron sought to ensure that the UK will be excluded from the statement in the treaty that EU membership entails the commitment of all Member States to "ever closer union among the peoples of Europe". The conclusions of the European Council on 18 and 19 February 2016 leave no room for doubt or interpretation as to whether he achieved this. Section C (Sovereignty) of Annex I clearly states that "references to ever closer union do not apply to the United Kingdom". Cameron also managed to achieve something else that goes beyond the declarative significance of the conclusions of a Council, with EU leaders agreeing that this new status will be substantially incorporated into the treaties when they are next revised. This means that each has permanently accepted the constitutional foundation of a two- or multi-speed Europe.

For the majority of political and legal analysts, this part of the agreement (alongside the reference to the free movement of citizens) is without doubt the most critical. The British rejection of the commitment to "ever closer union" –present in the treaties since 1958, when it was included in the preamble, and since 2010 as article 1 of the Treaty on European Union– transforms the nature of the EU. It would have been better if it had been possible to avoid this transformation, as removing this phrase from the treaties would require a review of primary legislation (which is impossible), while declaring in the conclusions of a European Council that this ambition no longer applies to the UK constitutes a weakness from any point of view (Mangas *op. cit.*). As Mangas notes, this phrase has been the object of continued criticism among British public opinion, even though it does not in itself have the power to lead to political union, bypassing the consent of its national parliaments.

The sovereignty section of the agreement also affects the application of the control of the principles of subsidiarity and proportionality. The conclusions of the European Council stress that the principle of subsidiarity must be applied "as closely as possible to the citizen", considering whether action at the EU level produces "clear benefits" for citizens compared to what could be achieved at the national level. The agreement also gives national parliaments more powers over the application of this principle, as well as the principle of proportionality, strengthening their capacity to influence decisions adopted by EU institutions. From now on, parliaments will be able to issue reasoned opinions when they believe draft laws do not meet the principle of subsidiarity within 12 weeks from transmission of the draft. If the rejection represents more than 55 % of votes assigned to national parliaments (estimated at 16 parliaments), the Council Presidency will include the item on the Council agenda for debate. Following this debate, the representatives of the Member States on the Council will discontinue the proposal, unless it is amended to "accommodate" the reasoned opinions.

This modification of the main control mechanism for subsidiarity threatens EU legality by allowing the Council to paralyse a legislative process in the heart of the Commission until it is modified, converting a warning procedure (the so-called yellow card) into an absolute veto (red card). This clearly introduces legal distortions by altering the delicate and highly consolidated balance of European institutions on a key point such as the Commission's right to legislative initiative (Mangas *op. cit.*), since it must find other ways of overcoming the veto (such as withdrawing its proposal).

Freedom of movement, immigration and benefits

In his initial statement, David Cameron demanded that the UK be allowed to deny social benefits (specifically tax credits) to any EU immigrant, in addition to the possibility of refusing the payment of child benefits for children of EU immigrants living in their country of origin. As originally set out by Cameron, these demands directly challenge the principle of equality among workers in the EU. Nonetheless, he has managed to achieve a complicated and ingenious commitment in the form of the so-called "emergency brake", whose application can be requested from the Commission by any Member State that believes benefits paid to EU immigrants are causing an excessive burden on their social services. The European Commission had already admitted this mechanism before the negotiations began, meaning the debate in the run-up to and during the Council was not about the emergency brake in itself but rather about how long it would last if applied. Cameron originally requested a period of 13 years; however, the Visegrád group (the Czech Republic, Hungary, Poland and Slovakia) presented the Council with a counterproposal of five years.

Following the usual bargaining, the Member States settled on a period of seven years, which left Britain more than satisfied.

In spite of the specificity of British benefit payments, which are practically exclusive to the UK, other countries such as Germany, Austria and the Netherlands have also been requesting measures to control both the spending generated by immigrant workers and the flow of workers itself. The agreed formula seeks to fully respect the right to freedom of movement, a fundamental freedom of the EU, whose reform in the treaties is simply unthinkable (article 45 of the Treaty on the Functioning of the European Union). However, doing so has required an interpretation of the case law of the Court of Justice (cases Dano and Alimanovic). Here we should recall that article 21.1 of the Treaty on European Union subjects the right of EU citizens to freely reside in any other Member State to the “limitations and conditions” established in Directive 2004/38, which requires them to have a job or sufficient resources and full medical insurance. As such, it is in line with EU law for a Member State to restrict the provisions offered to EU immigrants while they are looking for employment during the first five years of their residence, and if they do not have genuine ties to the country (Mangas *op. cit.*). The UK has also had to drop its plans to deport immigrants if they do not represent a burden and do not affect public order, safety or health. Nor can the country unilaterally set a period of time for looking for work, as Cameron had intended, since this would require treaty change. In general terms, in spite of its shades of grey, the agreement makes it clear that restrictive measures such as those demanded by the British Eurosceptics cannot be applied unilaterally.

Cameron was less successful with his demands regarding child benefits paid in respect of children who are not resident in the UK. Before the start of the Council, he had already had to accept that child benefits should, at most, be indexed to the value of payments in the country where the children are resident. For current immigrants, indexing with respect to the real value, purchasing power or standard of living in their country of origin will begin in 2020, a date that has been interpreted as an act of generosity by the UK. Under this agreement, the British Exchequer will scarcely reduce spending on child benefits and, given the complications of implementing the new provision and the bureaucracy involved in its management, it may ultimately serve to increase costs from current levels. The agreement also establishes that the procedure will not apply to pensions. For other types of work-related movement, such as professional activities, in the event of exceptionally large and prolonged inflows, there is an alert and guarantee mechanism with restrictions on payments for the first four years of residence to be gradually authorised by the Council.

In short, an agreement whose objective is to prevent EU immigrants in the UK from immediately accessing certain social benefits on the same terms as British citizens affects the fundamental values of the European project, regardless of how well it is made to fit the law. Both the underlying aim and the debate in the run-up to the agreement were a direct attack on the principles of the free movement of people and non-discrimination, and this debate looks set to continue at least until the referendum on 23 June 2016. The Council, and prior to this the Commission, proved incapable of arguing that these demands are based on unjustified prejudices since there is no exceptional migration crisis in Britain that justifies them. Unemployment in the UK is 5 % and the net balance of contributions and income from this group to the exchequer is positive. Indeed, as mentioned, it may even be the case that some of the measures to deliver "savings" will actually serve to increase total costs.

The Spanish position

Following the European Council, it was noted that the Spanish government did not participate in any of the bilateral meetings that took place, some 28 according to the media. Nor at any point did the country show a clear commitment to defend the rights of Spanish residents in the UK (up to 800,000, according to some estimates) or seek to extract any commitment from the UK in return for the concessions made in the agreement. The fact that the Popular Party government, which has not hesitated to make populist use of the issue of Gibraltar to distract attention from domestic issues, has not even mentioned the need for the UK to meet the commitments it has signed and to respect EU legislation on Gibraltar and other issues has attracted considerable attention in EU circles, taking even British diplomats by surprise.

Even if the Spanish government, like the majority of the country, does not want the UK to leave the EU, not only an account of the damaging effects a Brexit would have for both, but also because of the closeness of and level of affection between the two countries, the government's strategy has been disappointing. Spain seems determined to insist the whole agreement is an interpretive act of primary and secondary EU legislation, when in fact it was equivalent to a review of the treaties, and has appeared apathetic and shown an absolute unwillingness to act, as if Spain was a guest or observer at Council meetings.

The referendum on 23 June

Following the European Council in February and David Cameron's triumphant return to the British Isles, there has been a deluge of opinion polls, while Tory leaders and other major political figures in the UK have taken up their position in the Leave or Remain camps. The views of the UK's main opinion leaders and business figures –not to mention the City– will be crucial, not only on account of their statements regarding the referendum but also in terms of what happens and is decided before 23 June on other fundamental matters related to Europe, such as the refugee crisis and the Eurozone.

The Eurosceptic arguments fail to recognise the agreement for what it is: a generous offer that has required considerable effort and that will become a reality after the referendum, an agreement that has been much to the chagrin of the majority of continental Old Europe. Similarly, it is hard to know whether Cameron's decision to lead the Remain campaign is good or bad when it comes to keeping the UK in the EU, after the damage caused to the substance, although perhaps not the form, of the European project. Europe and the UK have given each other another chance, although it may be the last. Even if he does not deserve it, we must place our trust in Cameron to win the referendum.

Recommendations

Recommendations

European Affairs Council of the Fundación Alternativas*

1. **Institutional and competence reforms**
   - The best way of limiting the effect of national seesawing in the EU is to move forward with its political deepening in the federal sense, starting with restoring the European people as the source of the EU's legitimacy, as the Constitution drafted by the Convention stated, unlike the Treaty of Lisbon, which identifies the States as the sole bearers of that legitimacy.
   - To the same end, political union should be completed through measures such as increasing the EU's exclusive and shared competences to the detriment of the supporting competences, the extension of qualified majority voting and the ordinary legislative procedure and greater "communitarisation" of the Commission (implementing after the 2019 elections the article from the Treaty that provides for a College of Commissioners comprising a number of members equal to two thirds of the Member States) and of the European Parliament (amending the legislation to create a European "constituency" that elects at least 10 % of MEPs).
   - In order for all that to be possible, the role of the European political parties has to increase and improve, so they can become major players that, without forgetting national political changes, have the capacity to act beyond them, primarily serving the community interest.
   - It is necessary to institutionalise the Eurogroup, providing it with a permanent president under the political control of the European Parliament. In other words, a true Eurozone government.

The European Affair Council of the Fundación Alternativas is composed as follows: Diego López Garrido (Director), Nicolás Sartorius, Juan Moscoso, Carlos Carnero, Vicente Palacio, Manuel de la Rocha Vázquez, José Candela, Jesús Ruiz-Huerta, Enrique Ayala, Carlos Closa, José Manuel Albares, José Luis Escario, María Muñiz, Emilio Ontiveros, María Joao Rodrígues, Francisco Aldecoa, Soledad Gallego, Irune Aguirrezábal, Josep Borrell, Doménec Ruiz and Xavier Vidal-Folch. Permanent guests at meetings of the Council are Michale Ehrke, Delegate to Spain of the Friedrich-Ebert-Stiftung, and María Pallares, programme coordinator, also of the Friedrich-Ebert-Stiftung.

– The ESM has to become the basis of a Eurozone Treasury. The Eurozone should be equipped with the capacity to issue centralised debt, as well as with tax harmonisation, particularly as far as corporation tax and capital taxation are concerned. The Financial Transaction Tax has to be introduced as an independent source of revenue for the Union. All financial transactions with tax havens must be prohibited.

2. Economic policy for investment and against inequality

– Monetary policy has to be focused on getting credit to the real economy and, to be precise, to the productive economy, taking into account that the effects of productive investment on economic growth and, therefore, on the demand for money, tend to offset or outweigh the inflationary effects of the initial expansion of money supply. This basic criterion of linking monetary policy to the real economy and of prioritising its relationship with the productive economy can be managed both through the selection of the recipients of European Central Bank credit operations and by means of differentiating the base interest rates applied according to the link with productive investments, or not, of the targets of the monetary operations.
– Under no circumstances should fiscal consolidation become an obstacle to economic recovery. Fiscal policy has to drop inflexible and monolithic austerity as the core of economic policy and shift the focus to the promotion of investment for growth and jobs. It is necessary to do better than the inadequate and, as yet, unimplemented Juncker Plan and move on to an investment plan equivalent to not less than 2 % of European GDP. Technological investment and social investment (welfare work, education and vocational training) have to be stepped up, focusing action on convergence among the Eurozone Member States. It is necessary to create a social dimension in the European Union, establishing a minimum monthly wage and a universal basic income, with a harmonisation of pensions in the Union, in proportion to each country's average income level.

3. Refugees. Priority measures:

– Establish a new Union competence regarding the right to asylum with adequate funding and resources. We support the European Parliament proposal of creating a centralised system for asylum claims in Europe, with quotas for each country.

– Cancel the EU agreement with Turkey, which is contrary to international laws on asylum, with the Union taking over the management of refugee flows.
– Turkey is not a safe country for these people, as organisations such as Amnesty International or UNHCR have documented.
– Shift the focus of the European Union's migration policies, which are currently centred on border control and security, developing a new policy that prioritises people and human rights, in line with the founding principles of the European Union.
– Start an effective search and rescue operation in the Mediterranean with a clear humanitarian mandate and which has the necessary means and scope, in accordance with the duty to provide assistance.
– Establish legal and safe channels (granting of humanitarian visas, permanent resettlement programmes, facilitating asylum applications at embassies and consulates, removal of obstacles such as the transit visit required in Spain for people who come from countries in conflict, and so on) so that refugees are not forced to use increasingly dangerous routes, putting their lives at risk.
– Address the causes that trigger forced displacement from a comprehensive viewpoint, taking action in the countries of origin and transit.

4. The EU in the face of jihadi terrorism

– It is necessary to implement fully and as soon as possible the counterterrorist measures agreed by the European Council on 12 February 2015 and contained in the European Agenda on Security 2015-2020 presented by the Commission, including those concerning the prevention of radicalisation and upholding values.
– It is essential that the intelligence services and security forces of the Member States cooperate closely and share without reservation all the information on terrorist threats in their possession, for which reason the European Counter Terrorism Centre must be enhanced, turning it into a European security body to counter terrorism. The creation of a European Intelligence Service that can cooperate with the national services and complement them throughout Union territory must also be considered.
– Terrorism has to be combated wherever it arises and develops. The EU must promote the stability and security of its near and distant neighbourhood, especially in the regions of the Sahel, the Horn of Africa and North Africa, with political and economic action and by lending assistance to legitimate governments to combat jihadism through the use of security forces and –when necessary– military means.

- In the Middle East, the EU must help the Arab and Muslim countries –with military means if necessary, not including the presence of European troops on the ground– to neutralise jihadi groups and, in particular, to eject the Islamic State from the zones of Syria and Iraq under its control. Putting a stop to the civil war in Syria first is essential to the success of this action and the Union must become resolutely involved in finding a negotiated and lasting solution.
- The jihadi threat and the war in Syria make it more necessary and urgent than ever to build a robust and permanent Common Foreign and Security Policy that allows the EU to carry the weight it needs on the international stage to tackle these problems, as well as to develop a common European defence that can guarantee the security of European citizens in the future, in cooperation with other allies and organisations.

5. Global climate governance

It is necessary to reinforce EU legislation and provide the required funding to ensure compliance with the latest framework programme for the environment: to get every EU citizen living well within the planet's ecological limits by 2050. The courses of action in the short and medium term should be:

- Air quality: the EU should recover the goals to improve air quality proposed by the previous European Commission.
- Compliance with the 2020 Biodiversity Strategy has to be ensured.
- Within the framework of the Paris Agreement, the EU must to agree on an emissions reduction road map that is binding on all the Member States, defining how the long-term emissions reduction goal of 80 to 90 % by 2050 will be achieved. In this vein, the EU must ensure compliance with the 2020 goals in renewable energy and agree on national goals for 2030 that are sufficiently ambitious to achieve the development of an energy system close to 100 % renewable by 2030.
- Compliance with the 2020 and 2030 goals in energy efficiency must be ensured.
- The Energy Union strategy has to be reconsidered, reducing reliance on the use of gas and oil and reinforcing the use of the Union's own renewable energy sources.
- Specific funding lines favouring green investment have to be opened up, both in national public funds and through the European Investment Bank (EIB).

Biographies

José Manuel Albares. Career diplomat. He has served as Spanish Consul in Colombia and member of the Permanent Delegation of Spain to the OECD in Paris, during which time he filled the position of Vice-Chairman of the organisation's Development Assistance Committee (DAC). José Manuel Albares has also held the positions of Acting Director General for Africa and Deputy Director for Sub-Saharan Africa at the Spanish Ministry of Foreign Affairs and Cooperation and Director of the Department for Cooperation with Sub-Saharan Africa in the AECID. Ha has coordinated the electoral program of the Socialist Party (PSOE) on foreign affairs in the last Spanish general elections. He is the author of various studies on foreign policy and external action, as well as numerous press articles on these topics. He has been visiting professor at the l'Institut d'Études Politiques in Paris (Sciences-Po) and has led and participated in several summer courses at the Complutense and Menéndez Pelayo Universities. He holds a Bachelor of Laws and a Diploma in Business Studies from the University of Deusto. He holds as well a diploma of National Defence Course (CESEDEN).

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Michael Ehrke, born 1950 in Hameln, Germany, studied social and political sciences in Hannover, Germany and in México D.F. He worked as a researcher at the Centro de Investigación y Docencia Econòmicas (CIDE) and the Centro de Estudios Educativos (CEE) in México, as well as at the Institute for Latin American Studies in Hamburg, Germany and at the Research Institute of the Friedrich Ebert Foundation in Bonn. He directed the offices of the Friedrich Ebert Foundation in Tokyo, Budapest, Belgrade and Madrid.

Paloma Favieres has been coordinator of the state legal service of the Spanish Commission for Refugee Aid (CEAR) since 2012. A counsellor of the Illustrious Bar Association of Madrid since 1990, she is an expert counsel in Human Rights, Migration and Asylum. She specialises in legal advice to applicants for international protection and refugees in the territory and at border posts, as well as in litigation before the Spanish and, when necessary, European courts.

- Representative of the organisation in the European Council on Refugees and Exiles network (ECRE)
- Member of the Legal Committee of the Forum for the integration of immigrants in Spain.
- Representative of the organisation in the Council for the Elimination of Racial Discrimination or Ethnic (Ministry of Health, Social Services and Equality).
- Writer of the CEAR Annual Report on the situation of refugees in Spain.

Jonás Fernández Álvarez is a MEP in the Progressive Alliance of Socialists and Democrats. He is member of the Committee on Economic and Monetary Affairs and the Subcommittee on Security and Defence. In addition, he is a member of the parliamentary delegations with Russia, NATO and Latin America. Jonás Fernández Álvarez holds an Executive MBA from IESE Business School (2010-12), a M.A. in Economics and Finance from CEMFI-Bank of Spain (2002-04) and a undergraduate degree in Economics from the University of Oviedo (1997-2001). He has completed his training with a program of Advanced Econometrics at the London School of Economics and Political Science (2006). Professionally, Jonás joined as an analyst in economics and international politics in the consultancy firm Solchaga Recio & Asociados in 2005, chaired by former Spanish finance Minister Carlos Solchaga. Three years later he was promoted to the company´s board and later on, appointed as Chief Economist in 2014. Jonás has combined his work activity with teaching at the Universidad Carlos III (2007-10) and various entrepreneurial activities. In addition, he is a regular op-ed contributor to the main Spanish newspapers (*El País*, *Cinco Días*, *La Nueva España*, etc.). Politically, Jonás Fernández was Secretary General of the Socialist Youth in Oviedo (1998-2000) and served on the executive board of the Socialist Youth in Asturias (2000-01). During the college years he was also a member of the Senate of the Universidad de Oviedo as a student representative. More recently, he has participated in the design of the electoral programs in the 2008 and 2011 legislative elections, and was a policy advisor of PSOE (2004-05). Moreover, he is an associate in various national and international foundations. Jonás is also a participant of the Political Leadership Program of the Aspen Institute, chaired by Javier Solana, former EU Higher Representative.

Estrella Galán is a third sector professional, anthropologist and social worker, an expert in Management of Social Organizations, Human Rights, Asylum, Migration and social intervention with disadvantaged groups. She is a regular contributor to the radio program *La Ventana*, Cadena SER and other media. An author and contributor to numerous articles, studies, reports and publications on Asylum and Migration, she is General Secretary of the Spanish Committee for Refugee Aid (CEAR), where she has worked since 1999.

Maria João Rodrigues, currently member of the European Parliament, S&D Group Vice-President in charge of Economic and Social Policies, was Minister of Employment in Portugal and has been a policy maker working in several posts in the European Institutions since 2000, notably in the leading teams at EU Presidency. The main outcomes she has been working for are: the EU Strategy for growth and jobs, the Lisbon Strategy followed by the EU2020 Strategy, the EU agenda for globalization and the strategic partnerships with the USA, China, Russia, India and Brazil for a new growth model, the development of several policy areas: employment, education, innovation, research, regional and industrial policies, some special EU initiatives, such as the new Erasmus for mobility or New Skills for New Jobs, the responses to the eurozone crisis, the final negotiation of the Lisbon Treaty. In academic terms, she was professor of European economic policies in the European Studies Institute-Université Libre de Bruxelles and in the Lisbon University Institute. She was also the chair of the European Commission Advisory Board for socio-economic sciences. She is author of more than one hundred publications, notably the books *The new knowledge economy in Europe – A strategy for international competitiveness and social cohesion*, Edward Elgar: Cheltenham, UK and Northampton, MA, 2002, *European policies for a knowledge economy*, Edward Elgar: Cheltenham, UK and Northampton, MA, 2003, Europe, Globalization and the Lisbon Agenda, Edward Elgar: Cheltenham, UK and Northampton, MA, 2009; *Europe is still possible*, Xlibris-Penguin Group, UK and USA, 2013 or *Eurozone crisis and the transformation of the EU governance*, edited with Eleni Xiarchogiannopoulou , 2014.

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Juan Moscoso del Prado Hernández has been a Member of Parliament (MP) –*Congreso de los Diputados* in Spain– between 2004 and 2016. As MP he was spokesman of the Economy and Competitiveness Committee between 2014 and 2016, and before, Spokesman of the European Union Committee between 2006 and 2014, also, member of the Foreign Affairs Committee and Deputy Chair of the Spanish Delegation to the IPU Assembly. Previously, Juan has been member of the Federal Executive Committee of the Socialist Party of Spain (PSOE) between 2012 and 2014 as Secretary for Europe ("shadow minister"). Also, between 2009 and 2012 he chaired the Spanish delegation to the Council of Europe Parliamentary Assembly. In 2011 he was the PSOE candidate for major of Pamplona. Juan holds a PhD in Economic Sciences from the Universidad Autónoma de Madrid (Spain), a Master in Economic Sciences from the College of Europe, Bruges (Belgium), and a Bachelor in Economics from Kent University (UK).

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Juan has published 350 articles about politics, economy and international relations in media and specialised magazines. On April 2014 he published his latest book, *Being now a progressive* (Deusto), and before, *Entrepreneurship in Spain, a scarce resource?*, (Instituto de Estudios Económicos 2008). Lecturer, speaker, panellist, professor, in all kind of forum (universities, graduate schools, think-tanks, foundations), participant in 200 conferences and seminars in 61 different countries. Trustee and board member of several relevant Foundations and Think Tanks, he studied high school in Pamplona and at the United States. Juan speaks fluent French and English.

Vicente Palacio is director of the Fundacioìn Alternativa's Observatory of Spanish Foreign Policy and professor at the School of International Relations of the Instituto de Empresa. He has directed and coordinated research for the Socialist Group in the Spanish Parliament and the Ministry of Foreign Affairs and Cooperation of Spain. Palacio has been associate professor of International Relations at Syracuse University and a Visiting Fellow and Visiting Researcher at Harvard University's Department of Government. He is author of dozens of analyses and articles for the specialised press on the subjects of Spanish and EU foreign policy, transatlantic relations and EU-Latin American relations. His latest book is *After Obama. The United States in No Man's Land* (Catarata, 2016). He is a frequent contributor to the journal *El País*.

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Carlos Trias is member of the European Economic and Social Committee representing consumers from January 2009, and from April 2013 to October 2015 President of Consultative Commission on Industrial Change. From December 2007 he is also Manager of Asociación General de Consumidores (ASGECO) and Manager of Unión de Cooperativas de Consumidores y Usuarios de España (UNCCUE), representative of these entities in Consumers International, and ACI Consumers Europe.

Antonio Villafranca is Research Coordinator and Head of the European Programme at the Italian Institute for International Political Studies (ISPI-Milan). He teaches European Policies at the Bocconi University and at the IULM University in Milan. At ISPI, he has been in charge of research projects funded by the European Commission and, in network with the London School of Economics, he is currently coordinating a project providing analyses and advice on international trade and trade-related issues to the European Parliament. He is also non-resident senior fellow at the Chongyang Institute for Financial Studies (RDCY, Renmin University, Beijing). He is an economist by training and graduated at the University of Palermo. He got a Master Degree and specialized in Economics and International Relations (PhD level) at Catholic University of Milan, where he was awarded the prestigious "Premio Gemelli". In 2011, he took part in the "International Visitor Leadership Program" of the US State Department. He has extensively published (articles and volumes) on EU policies and European economic governance with Italian and international publishers (e.g. *Global governance and the role of the EU*, edited with Carlo Secchi and published by Edward Elgar, London 2011).

Adrian Zelaia Ulibarri is currently delegate in the Consultative Commission on Industrial Change/European Economic and Social Committee (from 2010 to 2015 and from 2016 to 2020) and Executive President of EKAI Center since 2009. He developed most of his professional carrier at MONDRAGON Corporación Cooperativa (MCC), where he served as General Secretary (1999/2010), Head of the Legal Affairs Department (1989/2000), Presidency's Secretary (1988/1989) and Marketing Director of Caja Laboral Popular (1985/1987). He also worked as President of Mondragón Unibertsitatea-University of Mondragón (1996/2000). Before joining the business sector, he was lecturer at the Universidad de Deusto and the Universidad Nacional de Educación a Distancia (1985/1989). He is PhD in "Capital in co-operatives" from the Universidad de Deusto (Bilbao) and has a degree in Law and Business, also from Universidad de Deusto (Bilbao). He also published several books, the more recent being: *Basque economy. Structural challenges* and *Basque economy on the path to democracy*, both published in 2016.

Acronyms

AECID: *Agencia Española de Cooperación Internacional para el Desarrollo* (Spanish Agency for International Development Cooperation)
AfD: *Alternative für Deutschland* (Alternative for Germany)
AFI: *Analistas Financieros Internacionales* (International Financial Analysts)
AGS: Annual Growth Survey
AIIB: Asian Infrastructure Investment Bank
ALDE: Alliance of Liberals and Democrats for Europe
ANF: Al-Nusra Front
APP: Asset Purchase Programme
AQ: Al Qaeda
ASGECO: *Asociación General de Consumidores* (General Consumer Association)
AWACS: Airborne Warning and Control System
BANESTO: *Banco Español de Crédito* (Spanish Credit Bank)
BRICS: Brazil, Russia, India, China and South Africa
BUDG: Committee on Budgets of the European Parliament
C02: Carbon dioxide
CAP: Common Agricultural Policy
CCCTB: Common Consolidated Corporate Tax Base
CEAR: *Comisión Española de Ayuda al Refugiado* (Spanish Commission for Refugees)
CEDI: *Centro de Estudos para o Desenvolvimento Internacional* (Research Centre for International Development)
CEE: Central and Eastern Europe
CEE: *Centro de Estudios Educativos* (Centre for Educational Studies)
CEMFI: *Centro de Estudios Monetarios y Financieros* (Center for Monetary and Financial Studies)
CES: *Consejo Económico y Social* (Economical and Social Council of Spain)
CESEDEN: *Centro Superior de Estudios de la Defensa Nacional* (in English, Spanish Centre for National Defence Studies)
CFSP: Common Foreign and Security Policy
CIDE: *Centro de Investigación y Docencia Económicas* (Center for Research and Teaching in Economics)
CONT: Committee on Budgetary Control of the European Parliament
COP 21: 2015 United Nations Climate Change Conference
CSR: Country-specific recommendation
DAC: Development Assistance Committee
ECB: European Central Bank
ECOFIN: Economic and Financial Affairs Council
ECON: Committee on Economic and Monetary Affairs
EDIS: European Deposit Insurance Scheme
EEC: European Economic Community
EFSI: European Fund for Strategic Investment
EFTA: European Free Trade Association
EIB: European Investment Bank
EMPL: European Parliament Committee on Employment and Social Affairs
EMU: European Monetary Union
EPP: European People's Party
EPSCO: Employment, Social Policy Health and Consumer Affairs Council
ESCB: European System of Central Banks
ESM: European Stability Mechanism
ESMA: European Securities and Markets Authority
EU: European Union
EUBAM: European Union Border Assistance Mission
EUCAP: European Union Civilian Mission
EUPOL: European Union Police Mission
EUTM: European Union Training Mission
FES: *Friedrich-Ebert-Stiftung* (Friedrich Ebert Foundation)
FIDESZ: *Fiatal Demokraták Szövetsége* (Alliance of Young Democrats)
FPÖ: *Freiheitliche Partei Österreichs* (Freedom Party of Austria)

G20: Group of Twenty (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States –along with the European Union)

GDP: Gross domestic product

HNC: High Negotiations Committee

IDB: Inter-American Development Bank

IED: *Instituto de Estudos para o Desenvolvimento* (Research Institute for Development)

IG: Integrated guidelines

ILO: International Labour Organisation

IMCO: Committee on the Internal Market and Consumer Protection of the European Parliament

IMF: International Monetary Fund

INDC: Intended nationally determined contribution

IOM: International Organization for Migration

IPCC: Intergovernmental Panel on Climate Change

IS: Islamic State

ISPI: Institute for International Political Studies

ISSG: International Syria Support Group

IULM: *Libera Università di Lingue e Comunicazione* (University Institute for Modern Languages)

LSNS: *L'udová strana – Naše Slovensko* (The People's Party Our Slovakia)

LTRO: Long Term Refinancing Operations

M.A.: Master of Arts

MBA: Master in Business Administration

MEP: Member of the European Parliament

MP: Member of Parliament

MS: Member States

NATO: North Atlantic Treaty Organization

NGO: Non-governmental organization

NSN: North Sea Network

NUTS: Nomenclature of Territorial Units for Statistics

OECD: Organisation for Economic Co-operation

PASOK: *Panellínio Sosialistikó Kínima* (Socialdemocratic Left of Greece) ˇ

PES: Party of European Socialists

PhD or Ph.D: *Philosophiæ doctor* (Doctor of Philosophy)

PiS: *Prawo i Sprawiedliwošc* (Law and Justice Party)

PKK: *Partiya Karkerên Kurdistan* (Kurdistan Workers' Party)

PNR: European Passenger Name Record

PPP: Purchasing Power Parities

PSOE: *Partido Socialista Obrero Español* (Spanish Socialist Workers' Party)

PYD: Democratic Union Party

RDCY: Renmin University of China

REGI: Committee on Regional Development of the European Parliament

RWTH: *Rheinisch-Westfälische Technische Hochschule* (Rheinish-Westphalian Technical High School)

S&D: Progressive Alliance of Socialists and Democrats

SGP: Stability and Growth Pact

SIP: Social Imbalances Procedure

SIS: Schengen Information System

SMER: *Smersociálna demokracia, Smer-SD* (Social Democratic Party of Slovakia)

SPD: *Sozialdemokratische Partei Deutschlands* (Socialdemocratic Party Germany)

TFEU: Treaty on the Functioning of the European Union

TLTRO: Targeted Longer-Term Refinancing Operations

TTIP: Transatlantic Trade and Investment Partnership

UK: United Kingdom

UKIP: United Kingdom Independence Party

UN: United Nations

UNCCUE: *Unión Nacional de Cooperativas Consumidores y Usuarios de España* (Consumers and Users Cooperatives' National Union)

UNFCCC: United Nations Framework Convention on Climate Change

UNICEF: United Nations Children's Fund

UNSC: United Nations Security Council

USA or U.S.: United States of America

USD: United States dollar

WB: World Bank

YEI: Youth Employment Initiative

YPG: People's Protection Units

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This year's Report on the State of the European Union (2015-16) examines the delicate political situation currently faced by the EU, a complex combination of events that has revealed its underlying weakness as a supranational organisation with historic ambitions. After a 20th century that was largely propitious for a European Community that rose from the ashes of the two World Wars, the start of the 21st century has been marked by an air of frustration and pessimism. Moreover, it is those who were most strongly in favour of the European project and most firmly convinced of the importance, benefits and direction of the EU whose ideals have been hardest hit by the crisis. Yet they are also best equipped to keep fighting to preserve the values of the world's most democratic continent.

The contributions to this report examine the reasons why these values, fundamentally based on the welfare state and the rule of law, have been and continue to be severely affected by the critical situation facing the EU in 2016.

There can be no doubt that the EU has reached a crossroads, a moment of unprecedented political challenge. What we are facing is more than an economic crisis, or a refugee or security crisis. These are merely the effects, albeit extremely serious ones. What makes them critical is the EU's failure to provide a credible response. Such a response is not beyond the realms of possibility.

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