

A fresh start for the European Union

Con ciò sia cosa che li nomi seguitino le nominate cose, sì come è scritto: «Nomina sunt consequentia rerum» (Dante, Vita Nuova, XIII, 4)

Since it is known that names derive from the things named, as it is written: 'Nomina sunt consequentia rerum: Names are consequent on things.' (Dante, The new life, XIII, 4)

[Select priorities first]

The European elections showed a widespread and still unanswered demand for change. The choice is ours. We can turn a blind eye and let this demand turn sour, fuelling anti-European, even xenophobic sentiment. Or we can address the underlying needs. Transform the simmering tensions across Europe into positive energy.

We have a unique opportunity to do so. The election to the European Parliament, the constitution of the new Commission, the designation of the new President of the European Council mark the beginning of a new political cycle. We can turn it into a fresh start for Europe.

Nothing could be worse than roll out with an inter-institutional wrangle over the top European jobs. This would be utterly incomprehensible to European public and irresponsible in the light of the huge challenges ahead.

We suggest starting from the opposite end: outlining the priorities for Europe in the years to come. Once we define those priorities, the names will follow suit. They will stem, so to speak, from the job description. The top-posts shall be assigned to those personalities that better personify and interpret the new European climate.

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[First priority: Growth and employment]

The economic vision of the European Union must change. The present political juncture calls for a profound change in the discourse that defines the EU policy agenda. Time has come to re-think, with a fresh mind, the

most effective policy strategy to restore growth, create jobs and promote cohesion. This is also the best way to improve fiscal sustainability.

The recovery remains weak and uneven, with risks of even more divergence across Member States. Fiscal consolidation is still challenging in spite of the unprecedented efforts, because of subdued growth and very low inflation. We are at a crossroad between accepting a dangerous long period of fragile growth with high unemployment and boosting macroeconomic prospects. A European policy response is alarmingly urgent.

We have to act on many fronts. Structural reforms need to be spurred, the benefits of the Single Market have to be exploited further, actions at EU level are required in a variety of areas, including employment, energy and the digital agenda. We need to create the right conditions that will generate innovations and strengthen our competitiveness.

Several lines of actions can be envisaged.

First, make growth and competitiveness an overarching priority for all European policies. We need to better focus the revised EU 2020 strategy on growth and job creation, giving it real teeth, beyond soft coordination tools. The full potential of the internal market also needs to be exploited, including in the field of services and energy. We should move towards a real Single Market for electronic communications and on-line services. Improve the quality of EU legislation, reducing EU regulatory burden. Promote open and fair trade and strategic partnerships with major economies. More generally, the implications for growth should be factored-in in all legislative proposals and discussions.

Second, encourage national structural reforms. Structural reforms are the cornerstone of the new vision underpinning the policy agenda. Reforms and the innovation they spur are the major driver of growth, especially if the reform effort is wide-ranging at national level and is simultaneous with analogous efforts in other countries. Benefits from reforms in terms of growth and jobs, however, take time to materialize, especially in absence of a supportive macroeconomic environment with buoyant aggregate demand. The European economic framework should back reforms agendas in Member States and strengthen incentives for reforms

Food for thought

The Fiscal Compact enshrines the need for fiscal discipline in the long run at the constitutional level, while the Stability and Growth Pact provides for some margins of flexibility in the short run¹. So far, those provisions have been interpreted in a restrictive fashion and used mainly to accommodate extreme recessions. The renewed focus on structural reforms and related investment entails the need to assess whether any change is needed in the understanding regarding the implementation of such flexibility provisions (if not in the provisions themselves). This would provide adequate incentives and support for the reform process, also in the view of reaching EU2020 targets.

Third, put real economy on the front burner. An effective European response to the economic and financial crisis has to take into account the importance of real economy and of strong manufacturing and services sectors. Fostering industrial competitiveness is key, since Europe's industry, including SMEs as the real back-bone of the European economy, is a major driver for growth, output, jobs, innovation and export. A framework should be built that factors in the overarching goal of an industrial renaissance in all policies impacting European competitiveness.

Fourth, financing growth. A dramatic fall in both private and public investment has occurred in the past years, against the background of overall macroeconomic uncertainty, fiscal consolidation, stricter regulations on financial institutions and market fragmentation. To raise potential growth of the EU as a whole, this trend must be reversed, with an array of initiatives aimed at *financing* growth including in areas like energy and the digital agenda where stronger are the benefits of a European approach. The single market for energy – which is key for growth and energy security – needs to be accompanied by Europe-wide investments on interconnections and transmission grids. The Single Market for electronic communications and on-line services – which is crucial for boosting competitiveness and efficiency – needs investments in infrastructure, long term projects such as cloud computing and digital skills.

Improved financing conditions will boost investment thus complementing and reinforcing the impact of reforms. Stronger investments will consolidate

1 For example: a) article 2.3 of Regulation 1467/97 stipulates that the Commission, while preparing a report under Article 126TFUE (excessive deficit procedure) shall take account all relevant factors as indicated in that Article, in so far as they significantly affect the assessment of compliance with the deficit and debt criteria by the Member State concerned; b) article 5.1 of Regulation 1466/97 stipulates that the implementation of “major structural reforms, which have direct long-term positive budgetary effects, including by raising potential sustainable growth, and herefore a verifiable impact on the long-term sustainability of public finances” should be taken into consideration in allowing a Member State to temporary deviate from the medium-term budgetary objective (structural budget balance).

recovery and fiscal sustainability putting the EU on a more robust growth path.

Food for thought

An array of direct initiatives aimed at financing growth can be envisaged, including: a more friendly regulatory framework for long-term investment; development of new financial instruments and markets to stimulate private investment, also leveraging EU funds through EIB and promotional banks; mobilizing resources to increase public investment. Improved financing conditions will boost investment thus complementing and reinforcing the impact of reforms.

Some interesting ideas have been floated in recent years that also deserve thorough examination. Among those, the idea of creating a European Investment Fund; making a more significant use of “project bonds” leveraged through the EU budget or a further increase of the EIB’s paid-in capital by around 10 billion euros.

Fifth, continue work on deepening the European Monetary Union.

Further work is needed on some of the most innovative suggestions of the Report of the four Presidents “Towards a genuine Economic and Monetary Union“ endorsed by the EU Leaders in December 2012. The progress achieved in coordinating budget decisions will represent the basis for advancing the objective of a capacity to absorb external shocks and enhance the resilience of the Euro area. In this respect, some serious thinking should be done on the way and means to introduce automatic stabilizers within the framework of EMU.

Food for thought

Macroeconomic policy coordination – including through an effective and comprehensive use of the new macroeconomic imbalances procedure – should help stimulate necessary while socially just reforms across member states and ensure that a balanced contribution to Europe’s growth comes from both deficit and surplus countries, as part of a coherent, coordinated and fairly shared effort.

Most economists stress the importance of automatic stabilizers to guarantee the EMU stability. A European unemployment insurance scheme could serve this purpose dampening fluctuations in real GDP and reducing the social impact of severe economic crisis. The goal should be helping EMU address severe asymmetric shocks rather than creating permanent financial transfer mechanisms.

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[Second priority: changing European discourse]

The second main priority is changing European discourse. Five years of crisis, with a political debate almost exclusively focused on financial

austerity, have exacted a heavy toll on the EU. We need to rebuild trust among member State, bridge the gap European citizens perceive between themselves and the EU institutions, remind what Europe is all about. This requires a broader outreach, stretching well beyond economy.

First, we need to give a better sense that the EU institutional setup is at the service of European citizens' needs. This implies, among others, addressing the fundamental challenge of strengthening the efficiency and the democratic legitimacy of the EU decision-making process.

A broad discussion on the future of European governance is in order. But EU institutions can already adopt some practical arrangements to improve their capacity to deliver. In this respect, the possibility of creating clusters of Commissioners, one for each European priority, should be seriously taken into consideration, as well as the redesigning of Council configurations.

Second, we need to bring European discourse out of the post-financial-crisis doldrums. Highlighting that EU integration is not only about finance and fiscal policy. A renewed attention to human rights and fundamental freedom is key to set the new tone, knowing that they represent the capstone of the European construction and the defining element of our shared identity. The process of accession of the EU to the European Convention for the Protection of Human Rights should therefore be encouraged, as well as the cration of a framework for monitoring the respect of fundamental rights within the EU.

Third, we need to promote a more proactive role of the EU and more integrated policies in the fields where they have a clear added value. Immigration and asylum is clearly one of those fields, in the light of recent experiences. We need to improve and strengthen the integrated management of the external borders, with the idea of creating a European system of Border Control Guards; strengthen the Schengen *acquis*; develop new rules on mutual recognition of asylum decisions; promote genuine solidarity at European level. In one word, we need to promote an authentic Common European Migration Policy.

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[Third priority: External action]

The third main priority is reinforcing the EU role in the world.

The Ukrainian crisis has demonstrated both the potential of Europe as a key player in the international arena and the need for greater EU leadership. EU external action shall be reinforced across the board, but three areas in particular appear to be crucial.

First, Europe shall be more ambitious in addressing regional and global challenges, with a special focus on its immediate neighborhood and in particular on the Mediterranean and the Middle East.

Second, the **enlargement policy** shall remain a strategic priority and a fundamental tool to promote peace, democracy and security. Therefore the EU shall further accession negotiations with the Western Balkan countries, reinvigorate the ongoing negotiation process with Turkey and foster **macro-regional strategies**, aimed at creating a healthy regional environment and cooperation across the continent.

Third, we need to preserve and develop the EU-US partnership. This will require keeping high-level contacts on all major political and regional issues, continuing dialogue on energy security issues and encouraging progress towards a **Transatlantic Trade and Investment Partnership**.

[The profile stems from the tasks]

The job description for the EU top jobs stems from this outline. Italy will support leaders that share our views on the future of Europe and are determined to foster the above priorities.

To do so, the President of the Commission needs to be bold and inventive; determined to move things forward; ready to defend the Commission's prerogatives but also to look the Heads of State into the eyes. He has to nurture an increased capacity to interact with national political systems and Parliaments; demand compliance with the EU rules but also be able to think out of the box; be inventive, and explore new paths, taking the long view about the EU policies' impact. In other word, the next President of the European Commission must be a catalyst for change: "That's the way things have been done so far" is not an answer we can take. "That's a fresh start for Europe", is what we want to hear.