



PREMIER MINISTRE

Commissariat général à la stratégie et à la prospective

AN INTRODUCTION TO THE NATIONAL DEBATE



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What Project for Europe?

There has never been so much uncertainty concerning the future of European integration. Its difficulties in creating a shared prosperity and a socially progressive outlook, in generating incontestable added value against global competition and in fostering an ambition espoused by its citizens have depleted the energy of Europe. The Eurozone crisis and the divergence between countries have heightened the perception of Europe as an incomplete institutional framework that has failed to make its intentions clear in order to attain its objectives, and in which the decision-making process is too far removed from citizens. Nevertheless, the value of the Union remains, whether in terms of making its 500 million-strong consumer market a lever for growth and influence or of upholding the values of peace, democracy and economic and social progress.

In order for France to play a dynamic role in the European project and its ideal of shared prosperity, its ambitions must be made clear. Can the single market be reformulated? Within the eurozone, can there be parallel progress in budgetary responsibility and solidarity? Can risks and sovereignty be shared? Is political union desirable and on what basis? How should the debate on European borders be framed? To what lengths are we prepared to go for the stability and prosperity of our neighbours? In sum, what are the economic and political conditions required in order for France successfully to pursue an ambitious strategy of European renewal? These are some of the questions that we are required to address at this time.

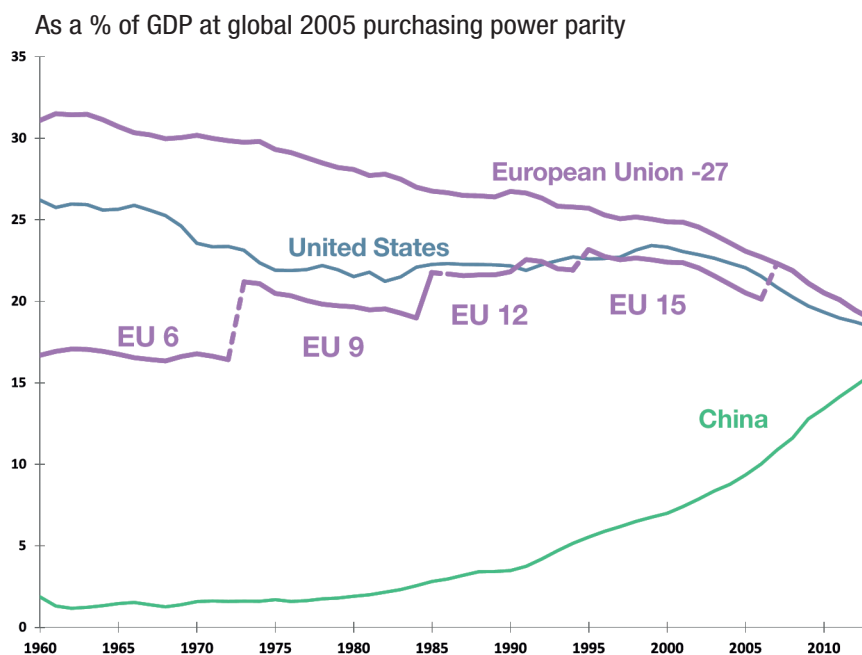
INTRODUCTION

Created to ensure peace and reconstruction following the Second World War, the European Union was built on the basis of deep economic integration, which it was hoped would provide increased economic efficiency, a convergence in living standards and, ultimately, greater political union. The apparatus was based on a degree of legal harmonisation and on flagship sector-specific policies, for example in the energy and agricultural sectors, then subsequently increasingly on macroeconomic coordination and monetary integration. The redistributive mechanisms between Member States and European regions remained limited, however, owing to the supplementary nature of the Union budget (principle of limiting of own resources to 1.23% of Community GNI).

This original form of integration, without precedent in the world, and sometimes presented as being intended to create a federation of Nation-States, enabled the social contracts and political cultures specific to each country to be accommodated (subsidiarity principle), whilst allowing for the accession of new members. This expansionary dynamic established the appeal of Europe with regard to its neighbouring regions, underpinning its strength at the global level (chart 1).

In the first decade of the 21st century, a number of factors combined to challenge this balance. The eurozone crisis attested to the far-reaching nature of the asymmetries that had developed internally, whilst highlighting the incomplete nature of its monetary structure. The failure of the Lisbon Strategy, which was intended to provide a roadmap for growth and employment within the context of globalisation, had become a certainty even prior to the crisis of 2008. Further, the Union appeared to an increasingly broad section of public opinion as engendering competition between differing social models. By the same token, the appeal for financial solidarity within the eurozone gave rise to reticence in certain spheres of public opinion within Northern European countries. Finally, at the institutional level, the Union encountered recurrent difficulties in meeting the dual challenges of expansion and monetary integration, with three treaty revisions (Amsterdam, Nice and Lisbon) resulting in an incomplete edifice.

CHART 1
TREND IN EU SHARE IN GLOBAL GDP 1960 -2013



Source: CEPII, CHELEM-GDP database.

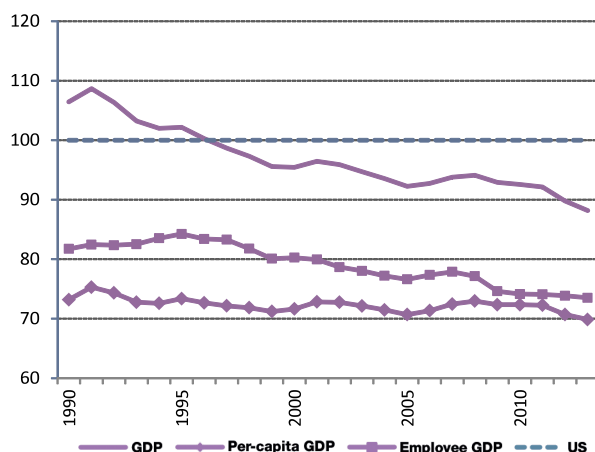
ASSESSMENTS

EUROPE FACED WITH THE CRISIS

Collective powerlessness to generate shared prosperity

In its time, the Single European Act of 1986 served as a fruitful lever for kick-starting growth, *through* the further deepening of the common market. Since then, within the context of globalisation of the economy, collective attempts at a coordinated strategy for competitiveness and prosperity have not been so successful. Economic performance as measured by GDP, per capita GDP, or per employee GDP, highlights the lag as compared to the United States (chart 2). The variance in per capita income compared with the US is certainly due in part to the effect of differing collective choices in terms of the number of hours worked annually, the sustainability of the development model¹, and the solidarity of the social security system². However, it is also the result of difficulty on the part of European countries to make innovation the driving force for growth and of certain counter-productive domino effects of the Euro in the excess-debt dynamics of the Southern countries and the polarisation of industry in favour of Northern countries.

CHART 2
EU-15 INCOME INDICATORS COMPARED WITH UNITED STATES, 1990-2013



Source: IMF data, Bruegel calculations.

Eurozone crisis: Divergence instead of convergence

The single currency project, discussed since the end of 1970s, was heralded as a means to achieve greater monetary stability and as an engine for growth (and even strength) through lower transaction costs, access by investors to the largest and most liquid financial markets, creation of the Euro as an international investment and reserve currency, and consolidation of the weight of Europe within international forums and organisations.

However, the creation in 1999 of the eurozone, on an excessively restrictive institutional basis, led to a series of unanticipated upheavals that have yet to be overcome. The sovereign debt crisis revealed the difficulties of a project that had been intended to boost convergence between economies, and exposed the divergence dynamics in play. The initial structural differences between countries, both consumer-side (age, preference for the current state of affairs or for risk) and production-side (sector specialisation, employment markets, industry, etc.) played a role in divergent investment and consumption dynamics.

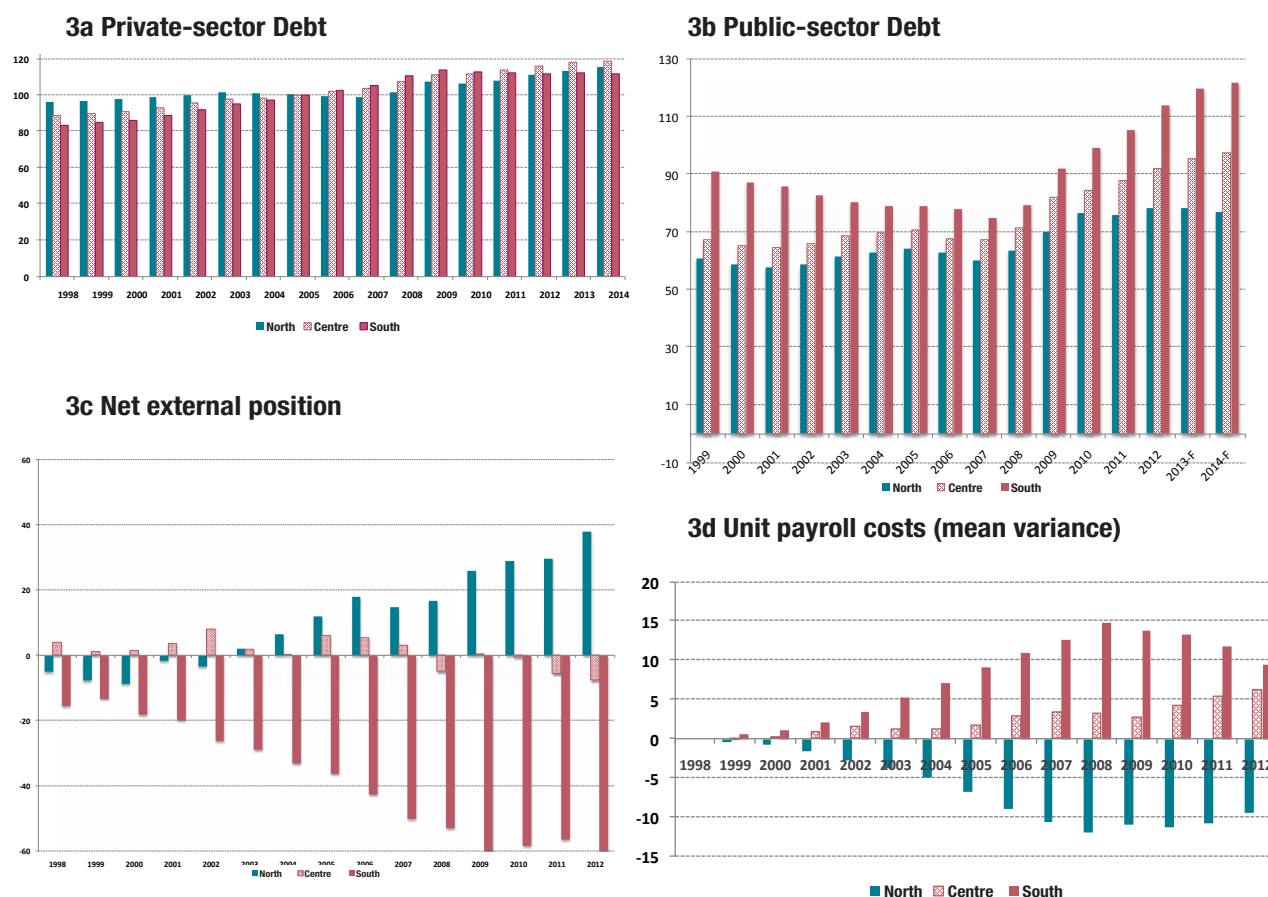
Since 2008, Europe has faced the financial crisis, followed by the eurozone crisis. It was less successful in managing the former than the United States: it took too long to deal with its banking problem: the extent of private sector indebtedness was underestimated and excessively harsh budgetary tightening was imposed too quickly on economies that were still recovering. Cyclical errors and structural difficulties fed into one another, such that five years after the crisis, the recovery dynamic is more faltering and weak than in the US (chart 4) and growth potential is significantly lower (chart 5) primarily as a result of a deterioration in the output-base of Southern Europe.

Almost four years since the beginning of the Greek crisis, labour cost differentials have begun to be reabsorbed, although external imbalances have not been totally corrected; above all, private, public and external debt levels continue to rise or have stabilised at high levels (chart 3). The internal rebalancing process within the eurozone is underway, but will prove long, difficult, and uncertain in its effects.

1. More inclusive indicators than GDP (adding well-being criteria to income levels), such as the *Inclusive Wealth Indicator* used by the United Nations, on the contrary indicate a wealth increase for France and Germany that exceeds the United States, which tends to demonstrate the existence on the continent of a more sustainable economic development model than in the US (see *Inclusive Wealth Report*, 2012).

2. Saez E. (2013) shows that the richest 1% have enjoyed 95% of the fruits of the economic recovery in the United States since 2009 (see "Striking it Richer: The Evolution of Top Incomes in the United States. Updated with 2011 estimates").

CHART 3
DEBT AND PAYROLL COSTS WITHIN THE EUROZONE, 1999-2012



Sources: Bruegel based on Eurostat database and CGSP based on AMECO database.

Aware of the key role played by the eurozone in the future of Europe, all Member States reacted vigorously to prevent it from blowing up. At the institutional level, a process of reform was begun. In particular, a mechanism for mutual assistance among states (the European Stability Mechanism) was set in place, enabling conditional financial assistance to be provided to countries in difficulty. A budgetary, macroeconomic and financial crisis prevention and alert system, (the European Semester), has given rise to the creation of a substantial body of legislation and to the conclusion of a new treaty between the EU-25, the result of which is the enhanced surveillance of national policy, and the beginnings of economic governance. Work is underway on a banking union that is intended to reduce the risks of derailment in the event of further attacks on the solidity of the eurozone and to unify the capital market (ensuring that businesses and households in the South enjoy the same financing conditions). However, these are being hampered by the lack of any consensus as to what constitutes a desirable

level of risk-sharing. Finally, the confirmation by the European Central Bank (ECB) with regard to its liability in respect of the integrity of the eurozone shows that shared tools may be used and has resulted in particular in the announcement of the programme entitled Outright Monetary Transactions (OMT).

■ Social consequences

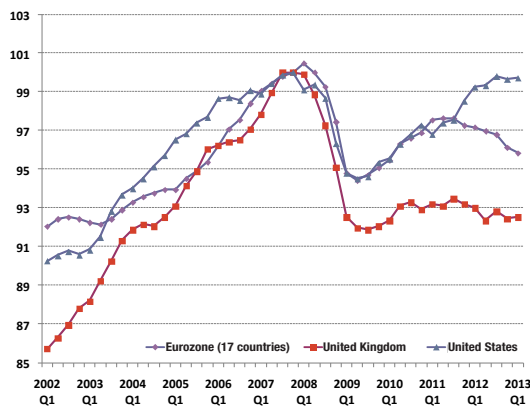
The requirement for budgetary consolidation³ was imperative for all countries. Whilst the pace for this may be debated, the need for it cannot. The simultaneous increase in unemployment benefit costs has led to countries in difficulty cutting their other social security spending (deterioration in preschool for young children in Romania, Spain and Ireland, difficulty in accessing healthcare in Greece), and education and vocational training – which are nonetheless crucial investments in the future. In many countries, the crisis has also led to a difficulty in concluding contracts or renewing collective agreements, resulting

in a substantial reduction in the cover afforded by such agreements to employees (in Portugal for example). It is also being found that the development of social policy in Central and Eastern European countries, in the manner contemplated in the previous decade, has come to a halt. In general, divergence has become even more marked in the crisis between the most generous and efficient social models, those of Scandinavian countries, and the less generous or less efficient models in place in Eastern and Southern Europe. Above and beyond the lasting impact on potential growth, the outlook for Europe can hardly be said to herald social progress.

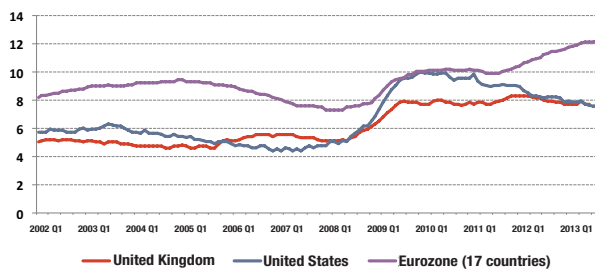
In the final analysis, Europe is no longer able to position itself as a source of shared prosperity.

**CHART 4
PER CAPITA GDP AND UNEMPLOYMENT RATE:
UNITED STATES, EUROZONE AND
UNITED KINGDOM, 2002-2013**

4a: Per capita GDP based on 2007Q4=100

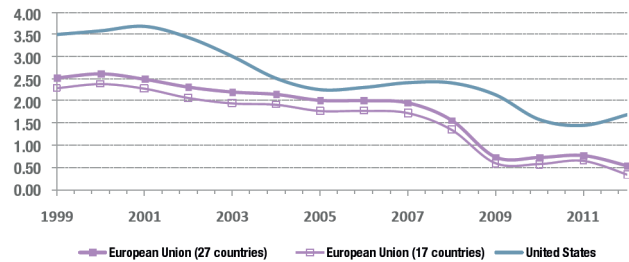


4 b: Unemployment rate



Sources: Eurostat, BEA, OECD, CGSP calculations.

**CHART 5
POTENTIAL GROWTH – EUROPEAN UNION,
EUROZONE AND UNITED STATES**



Source: Ameco, CGSP calculations.

DYSFUNCTION IN THE SINGLE MARKET AND COMMUNITY POLICY

The functioning of the single market, which remains the primary objective pursued by the European project, is still not satisfactory. On one hand, despite repeated attempts to address this at Commission level, the European area remains fragmented. The existence of a common currency shared by seventeen countries is not a unifying factor at the level of a European Union composed of twenty-eight countries; organisational and regulatory differences between countries (for example in the healthcare, energy supply and transport sectors) prevent the full benefit from being derived from the economy of scale of the large market of 500 million consumers.

On the other hand, the European market and competition policies are not necessarily perceived as drivers of progress by all stakeholders – due to the insufficient guarantees for consumers (particularly as regards digital trade), competition terms deemed disloyal by business and social partners (due in particular to inadequate control of recourse to posted workers) or stimulation of innovation and economic development. This means limitations on support by public opinion for further deepening, particularly in Western and Northern European countries, as was attested to by the Bolkestein Directive on services or by certain judgements by the European Union Court of Justice (“Viking”, “Laval” and “Rüffert”), perceived as affirming economic freedoms to the detriment of fundamental social rights, particularly trade union rights.

The most significant community policies, apart from that of competition, are those of cohesion (regional transfers), research and innovation and agriculture. Three key

3. Although deadlines have been set (until 2015), by the European Commission, 16 out of 28 countries have an excessive deficit, including France.

difficulties confront these policy areas - scope, adaptation to the imperatives of globalisation and efficacy. Spending under the Common Agricultural Policy (CAP), although declining, remains the largest budget item for the Union (29.1% in 2013 compared with 70% in 1985) whereas research and innovation accounts for less than 8%, behind cohesion expenditure. Despite reforms, the Common Agricultural Policy failed to strike the right balance in the long-term between farmers' income support which is increasingly falling, and which runs counter to the objectives of liberalisation at the global level, and a more sustainable orientation. The European Research Area remains sector-based in its organisation and resource pooling is still limited. Cohesion policies, centred around infrastructure investment, have suffered from having gone hand in hand with credit bubbles in Spain, Ireland and Portugal, rather than helping countries to boost their economic efficiency.

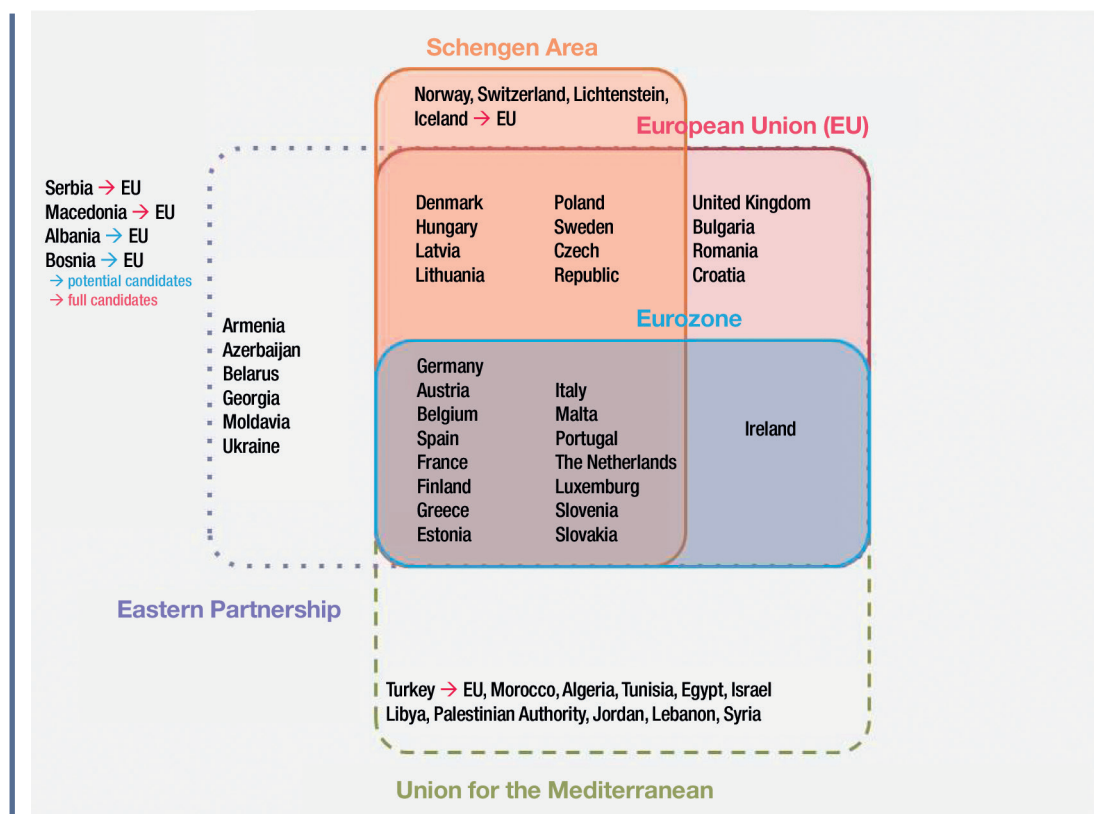
Agreement between European institutions and Member States on the principle of budgetary programming that is more strategic and which better targets the regions and citizens most in need (including young people, the unem-

ployed and Roma populations) becomes mired in the expression of national interests as soon as negotiations begin on eligibility and assessment criteria.

INSTITUTIONAL COMPLEXITY

Furthermore, the composition of the eurozone within the European Union heightens institutional complexity. The Europe of concentric circles, or the construction of a multi-speed Europe with a series of parallel objectives, is an idea that has existed since the outset of the European project, whether established in principle (with agreements between States prevailing over the shared political structure) or as a tangible road map towards a more federated Europe. *In reality*, it may in fact be observed that such a dynamic has already been in play for a long time (figure 1). This scenario has done little to improve the transparency of the European project, or the legitimacy of European institutions, in national public opinions. Furthermore, it gives rise to questions as to how the various European circles, specific or sector-based plans and the ambitions of the common project are interlinked.

FIGURE 1
A EUROPE OF CONCENTRIC CIRCLES – EU, EMU, SCHENGEN AREA



The key difficulty today resides in connecting the eurozone with the European Union, since management of the crisis is concealing the other dimensions of Europe. However, this difficulty also highlights the shortcomings of European governance. Indeed, this governance is based on the triptych of Council, Commission and Parliament, the structure of which at least partially espouses a federalist logic. In the eyes of citizens, governance of the whole and the distribution of competences nevertheless lacks transparency, thereby curtailing the democratic legitimacy of decisions. Inter-governmental management of the eurozone crisis has been a case in point.

These inevitably harsh findings may be interpreted in two ways - firstly that the build-up of difficulties is due to shortcomings in the European architecture, or secondly that it is owing to a lack of coherency between Member States who have, in economic and budgetary areas, signed up to shared ground rules, but have been unable to apply these either methodically or consistently.

PROSPECTIVE ASSESSMENT

Despite such findings, however, the value of the Union endures. Whether in providing European businesses with an economic environment comparable to that enjoyed by US businesses, or in upholding the values of peace, democracy and economic and social progress in a world undergoing profound transformation, the Union remains without a doubt an indispensable project.

In terms of the distribution of competences, a review of the way these were assigned based on the circumstances of fifty years ago and more would appear to be needed. Europe has in fact changed little in terms of the competences and the means that it has chosen to transfer over to the community in order to consolidate its added value and efficiency. New policies, be these in the area of competition and innovation or social cohesion, are in essence still administered and financed by Member States. The only exception to this rule has been environmental policy, which certainly receives limited community funding, but the Union is the key source of inspiration for law in this sphere (currently more than three-quarters of French environmental legislation is of Community origin). This example also tends to demonstrate that it is possible, without major institutional reform, for a new public good to be jointly administered.

What is essential for the Europe of the future is an identification of those public goods that are regional in nature, to focus on administration of these and to this end to have living, democratic and transparent institutions in place. Discussion must therefore be focussed on the definition and designation of these "European public goods" – i.e. those goods that will benefit European populations as a whole and not merely those of a given Member State – and on the means by which joint, equitable and incentivising financing for this may be assured⁴. The creation of a political community does not in fact necessarily mean convergence in the preferences of its members.

It is difficult to reach agreement on issues that involve country-specific political and social compromises (social security is a case in point in this regard), that find expression in incompatible positions. A shared process and scenario may certainly be envisaged but will necessarily be long-term in nature, given the pervasiveness of socio-

4. A Europe of public goods may accordingly constitute one formulation of the European project (see in this regard Jean-Paul Fitoussi, Eloi Laurent and Jacques Le Cacheux, 2012).

political invariance associated with the historical creation of each European nation state, which remains unique. It may therefore be pertinent to establish cooperative practices for public goods in respect of which positions remain somewhat murky. An example of this would be the environment, as was mentioned previously. But it is not the only new issue that could serve as a basis for common positions. The digital realm is also now a world of its own, which young people in all countries are taking up and which could serve as the basis for a collective singularity. Mobility, in these difficult times, could serve as a third focal point. Undoubtedly, there are more that could be thought of.

Here too, though, Europe cannot sit and wait for cooperative practices to spread of their own accord. Efficiency-seeking will involve greater concessions from the partners.

HOW CAN THE SINGLE MARKET BE RE-ESTABLISHED ON THE BASIS OF ESSENTIAL POLICIES?

Further deepening of the single market would, in fact, benefit from basing itself upon sector-specific policies that are vital for the future competitiveness of the Union. These strong, sector-specific initiatives in the fields of energy, the environment, digital technology, innovation and culture, could be used to re-establish the single market, that is currently at a standstill, thereby renewing what has historically been its driving force. With greater pooling (energy, research) or regulatory co-ordination and harmonisation (digital, industry, culture), the creation of value for network industries of a truly unified European market would benefit all participants.

As a shared competence under the Lisbon Treaty, *energy policy* has progressed under the impulse of climate change mitigation and signature of the climate-energy package in December 2008. It nevertheless has to contend with dysfunction associated with energy *mix* diversity, the decline in electricity generating capabilities making it difficult to meet peak demand and a CO₂ signal price that provides a poor incentive, resulting in an increase in greenhouse gases in certain countries owing to the use of coal (United Kingdom, Germany). Ultimately, the cost of electricity in Europe is relatively high, which is a drag on cost-competitiveness, even though environmental objectives are not fully attained. A reform of governance is therefore needed for the successful operation of the CO₂ or electricity markets and must clearly set out what the

objectives and priorities are (competitiveness *versus* climate change mitigation).

In the *digital world*, central positions are essentially held by non-European Internet players. These have become indispensable, capturing the lion's share of value and having the ability to influence the very way in which the Internet operates. Europe must not simply become a mere consumer area for digital services developed elsewhere *through* technologies, models and standards that it is not in control of; it must ensure that it strengthens its strategic autonomy in this field. It must ensure that the Internet operates as a public space that is open to all and respectful of the rights of each individual, as a lever for economic development, and as an instrument of political freedom and emancipation. This raises a number of questions: should we move towards a single digital area (technical, fiscal and regulatory harmonisation) placing a wider market at our disposal, or should we remain within Member State areas or those of major European regions, each with their own appeal? What impetus could be provided to European businesses to enter the activities of this sector, when they are currently almost totally absent from the line-up of players?

Although *research* is vitally important, it certainly cannot merely consist of sector-specific policies, since there are also horizontal dimensions involved, especially as regards links to higher education. In fact, although Member States have national research budgets that vary widely in terms of the financing provided, they often highlight subject priorities that are quite similar at the technological level (biotechnologies, information technologies, "green" technologies, nanotechnologies, etc.). In order to remedy the ensuing inefficiency risks and encourage intelligent specialisations (through the concept of *smart specialisation*), the European Union has endeavoured with some success to move in the direction of improved coordination of science and technology policies, pursued both at the level of each Member State and that of its corresponding region. Moving towards a greater degree of pooling of knowledge and budgetary resources in future sectors such as bio-economics would support the emergence of Europe in the midst of global competition, rather than competition between European players. Together with this, the Union, through the Bologna Process initiated in 1999 and the creation in 2010 of the European Higher Education Area (EHEA), has succeeded in harmonising national higher education systems (shared template for Degree -Master-Doctorate). This area fosters mobility within Europe; it could also support, in competition with the United States, which is by far the biggest host to

international students⁵, a strategy of cooperation among Member States (partnerships between establishments, “Campus Europe” operators, etc.) to attract students from emerging countries⁶.

Finally, France has a tradition of promoting *cultural diversity* in Europe. How should it adapt and develop this concept in view of the rapid emergence of new broadcast media and new art mediums⁷? Shouldn’t its extraordinary heritage, both tangible and intangible, also have a part to play in showcasing the territory for new economic activities, and at the same time, shouldn’t it be more accessible for all citizens since it constitutes shared capital?

On these various issues, Europe must certainly seek to promote effective investment decisions by providing a context with a reliable long-term outlook. Furthermore, France has a duty to inspire a genuine renaissance - and not just an economic one, a renaissance in which all countries and citizens feel engaged as stakeholders.

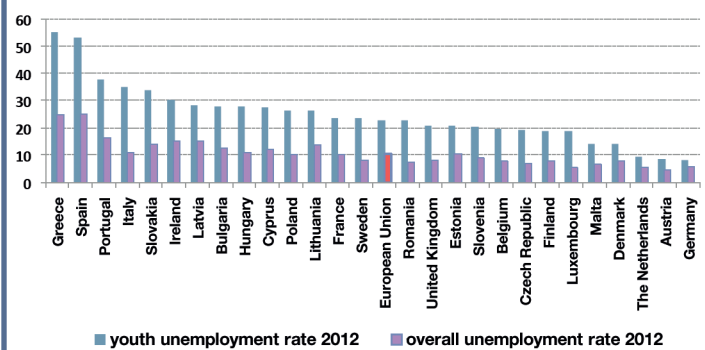
HOW HAS EUROPE BEEN HURT BY THE CRISIS AND WHAT IS THE OUTLOOK FOR GROWTH?

The internal imbalances inherited from the crisis will undoubtedly mark the next decade. That there has been a rebalancing of current account balances, which was vital, is certainly undeniable, but this is only partially the result of progress made in exports. In large measure, it was a result of the recession in internal demand suffered by Southern countries. Furthermore, efforts made to foster such rebalancing have had impacts that continue to be felt in the economic and social spheres: an example being the budgetary cuts that have reduced public investment and health and education expenditure, three key factors for long-term productivity and short-term well-being; or the productivity gains afforded by reducing employee numbers, resulting in mass unemployment that both lowers labour productivity in the long term and reduces the active population in the short-term through lack of incentive; lastly there are the deflationary effects of an excessively rigid wage policy, resulting in a drop in demand and further exacerbating the initial indebtedness issues.

The socio-economic situation of young Europeans is emblematic of this persistent difficulty. In the EU-27, there

are estimated to be 26 million unemployed, 5.7 million of whom are under 25 (i.e. a youth unemployment rate of 23%, see chart 6). The long-term social exclusion of these populations, owing to the exceptional duration of the crisis, risks resulting, at the economic level, in lost human capital and therefore lost potential growth, thereby infinitely increasing the burden placed on national social security systems.

**CHART 6
OVERALL AND UNDER 25’S UNEMPLOYMENT RATE IN THE EU-27**



Source: Eurostat, LFS.

The rise in mobility among young graduates from Southern and Eastern countries, in particular, heading to more economically dynamic countries such as Germany, is certainly a component factor in these societies adjusting to the effects of the crisis. However, were this mobility to result in long-term establishment in the host country, this risks further accentuating the phenomenon of concentration of economic activities and talent (agglomeration effects) in Central and Northern Europe.

Providing a guarantee to young people is the first step in resolving this structural difficulty. However, the eight billion currently earmarked for youth access to training or employment does not appear to constitute a European social response that is in keeping with current challenges⁸.

So how can this rebalancing be accelerated without counterproductive effects scuppering the exit from the crisis or reducing growth potential? Are temporary transfers needed? What about industrial initiatives? How can an outlook of shared prosperity be reinstated?

5. In 2011, 20% of foreign students were hosted by the United States, compared with 12% by the United Kingdom, 7.5% by France and 5.9% by Germany [Campus France, 2011].

6. India and China recommend following a complete course of study overseas. See also the increase in the number of students coming from Saudi Arabia, Vietnam and Nepal on the global student mobility market [Campus France, 2011].

7. Report by Sanchez-Schmidt of the European Parliament Commission for Education and Culture: *Unlocking the potential of cultural and creative industries*.

8. Harfi M. and Delpech Q. [2013], “A European Fund for Youth Employment. Proposal for an Initiative”, *Policy brief* No. 1, CGSP, June.

Europe as a transfer-union has long been ruled out by Germany and the community budget has been revised downwards. Therefore we must undoubtedly rethink certain mechanisms that provide an incentive to those countries prospering most under the Union to be more active in supporting its recovery. A European fiscal structure that would tax – as in any federal system – those who benefit the most from the economies of scale of the Union, in order to finance public goods and potentially redistribute agglomeration income to those regions lagging in development, is foreseeable in the medium term. Financial incentives for the investment by Northern countries in those of the South may also be envisaged. Within such a framework, all players would be encouraged to participate collectively in European economic construction. The structural benefits would be immediate.

The transfers of sovereignty that some of these scenarios involve do not facilitate agreements between States. The division of public opinion between the North and the South of Europe and the wide-spread loss of faith in European institutions in the North and in the national governments of the South⁹ make negotiations on future political integration more difficult than it was in the past, even though they are of an urgent nature.

SHOULD THE EURO BE TAKEN FURTHER?

Despite efforts already undertaken since 2008, the eurozone remains incomplete and there is currently no agreement as to what is needed in order to ensure its resilience. The vulnerabilities revealed in the 2010-2012 period have only partially been corrected and this situation means that the possibility of a return to financial tension cannot be ruled out, particularly in regards to sovereign debt. The risk remains, moreover, an obstacle to the adjustment process, particularly for reasons of political and social sustainability. The current crisis highlights a dual imperative: inclusion in the eurozone must be considered irreversible, since a break-up would result in extremely high costs for all of its members. In order for there to be any hope of this being effective, however, new surveillance and solidarity mechanisms must be set in place, in addition to decision-making mechanisms that are both faster and more democratic, which cannot merely be limited to inter-governmental administration or to purely monetary

administration by the European Central Bank. A number of debates are currently being held regarding courses of action that would rule out any possibility of a return of financial tensions or of a hiatus in the adjustment process, and to steer a course once more towards growth and cohesion.

The first concerns *eurozone budgetary strategy*. When it exited recession in 2009, Europe gave priority to budgetary adjustment, advancing as an argument the systemic risk posed by the Greek debt crisis. The deficit-reduction time-frame is short and the targets are difficult for heavily indebted countries to attain. The scope of consolidation has had a recessionary impact with a drag effect on the outlook for 2011-2013. As a result, there have been calls in the US and in international institutions for Europe to adjust the speed of its budgetary consolidation. Should the targets be revised and the time-frames shortened? Should we instead fear that budgetary tightening could harm the credibility of the Union and its members, taking them to unsustainable levels of indebtedness?

The second debate, which is correlated with the first, highlights the *need to equip the eurozone with its own stabilisation mechanism and even with its own solidarity fund* providing a means, beyond cyclical stabilisation, of undertaking more structural actions to kick-start investment and maintain income. What should be the scope and content of such a shared stabilisation mechanism (eurozone budget, specific cyclical support mechanism, borrowing facility with joint and several liability, etc.)? Should these conditional transfers encourage spending in productive investment or social investment and how might the two be combined? Should we contemplate an EMU unemployment insurance scheme, despite the variety of payment rules existing at the national level and the potential size of the transfers between Member States, as proposed by France and also by the European Commissioner for Employment and Social Affairs, the Hungarian Lazlo Andor¹⁰?

The third debate surrounds *deepening the social dimension of the EMU*. An agreement in principle exists in favour of a strategy intended to limit social divergence and set in place social alert indicators (poverty, long-term unemployment), which would lead to a *de facto* recognition of social standards and shared, binding usage of these. Although the extent of budgetary consolidation is leading to exceptional cutting or slowing of social spending, should we go

9. Merler S. and Vallée S., (2013) "Is there a path to political union?", in *Debunking some myths about Europeans' attitudes towards European integration*.

10. According to Lazlo Andor, by virtue of its design, EMU is characterised by systemic defects and a vulnerability to asymmetric shocks, that require its own budget-setting capability and the setting in place of automatic stabilisers, "Developing the social dimension of a deep and genuine Economic and Monetary Union", European Policy Center, 13 September 2013.

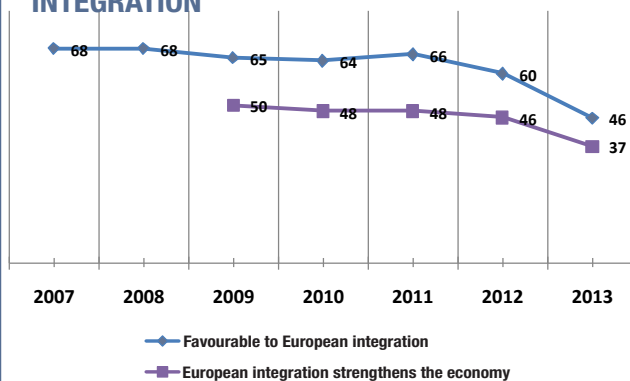
even further and set in place at the EMU level a “social investment pact”¹¹ with a budget-setting capability– for the development of childcare facilities, education and training, the professional activity of young people, women, seniors and the under-qualified – designed to facilitate an overall increase in employment levels and accordingly to modernise those social models that were most successful during the crisis? Should certain social spending (particularly that which is linked to childcare or education) be exempted from budget deficit reduction requirements (revising the rules of the stability and growth pact)?

The fourth debate concerns the *need to equip the eurozone with governance tools alongside the ECB*. The current situation is a half-way house between two systems. Is a Minister of Finance required or should power be vested in the Commission?

WHAT POLITICAL DIMENSIONS?

It is clear that the very idea of Europe is in crisis. Opinion polls reveal a high level of mistrust (chart 7). The Union is considered less now than before the crisis to provide political stability and economic prosperity: Support for the EU has declined from 60% to 45% within the five most densely populated Member States. This mistrust is tempered by a certain degree of realism: within the eurozone, support for monetary union remains high and the prospect of leaving the Euro is not an enticing one (63% of French respondents wish to keep the Euro, 69% of Greeks, 67% of Spanish, 64% of Italians and 66% of Germans, data from *PewResearch Center*).

**CHART 7
ADHERENCE OF PUBLIC OPINION TO EUROPEAN INTEGRATION**



Source: PewResearch Center.

Any new advance must be highly attentive to the democratic dimension. The European legislative and regulatory process is, for commendable reasons (prudent elaboration of a shared approach), too sophisticated and too far removed from citizens, which does not allow for the emergence of a genuine community through the convergence of positions. Furthermore, if re-establishing prosperity and growth involves new rules for solidarity between Member States, particularly within the eurozone, then the level of democratic legitimacy must be in keeping with the degree of sovereignty transferred to the European sphere.

Can the EU and the eurozone acquire a political dimension and can their governance reside more in democratic procedures of a federal nature?

Specifically, should democratic representation of the eurozone be envisaged (within the European parliament or through a shared Finance Commission composed of members of the national parliaments) or conversely should we return to inter-governmental functioning in which decisions are taken by States that are democratically elected but defend their own interests?

WHAT EXPANSION STRATEGY? WHAT POLICY WITH NEIGHBOURS?

Re-kindling ambition for Europe and establishing its position in the world also means defining its borders in order to set out an institutional framework. Europe has until now been constructed through concentric circles and successive accessions. Its absorption capacity appears to have reached its limits with the grouped accession of the Central and Eastern European countries. The absence of fundamental reform of the majority principle has resulted in a certain degree of political impotence (twenty-eight country agreements, even with a qualified majority, are difficult to reach), which limits the further deepening and integration of Europe. At the same time, divergence between social models and political cultures has built up, which also reduces the possibilities for agreement in priority areas or on the transfer of competences at the community level.

The expansion dynamic appears, from this standpoint, to have slowed markedly. Turkish accession constitutes a stumbling block on a number of fronts: demographic size which would grant it decisive weight in community decisions; internal divergence (between Kurdish Anatolia and the rest of the country); the burden of its

11. Vandenbroucke F., Hemerijck A. et Palier B. [2011], “The EU Needs a Social Investment Pact”, *OSE Paper Series*, Opinion paper No. 5, May.

agriculture, which would entail considerable financial transfers; its geographical position on the doorstep of unstable markets, and cultural disparity. Conversely, the dynamism of the Turkish economy and its current diversification could provide a similar boost to that of the last enlargement, allowing a reorientation of activities in Europe. Turkish accession would allow for a reformulation of financing priorities and a reform of the governance of European institutions, and would make cultural diversity a value of the Union. As for the Balkan countries, beyond Croatia, their accession is still thwarted by security issues and their dysfunctional institutional systems. The prospect of accession nevertheless remains the best guarantee of stability in the Western Balkans.

Within this context, the future enlargement capacity of the European Union is closely correlated with its institutional reforms and with the choices it makes regarding governance. Either it decides to prioritise cohesion internally and put off future accessions *sine die*. It would thereby avoid having to act as arbiter for the Union's centre of gravity, which would inevitably shift to the South, but in so doing, it would risk a shrinkage in its demographic and economic size and a reduction in its appeal for neighbouring countries (Mediterranean countries, Ukraine and Belarus). Or, it opts not to deepen its integration and allows fairly lax accession to the internal market thereby placing on the same footing Turkey, the Balkans and those Mediterranean countries with advanced status (Morocco and Tunisia), that are ultimately set to join the internal market. It would reap the benefits of a larger market, yet would forego the gains of integration, and its appeal would be limited. Otherwise, and this is without a doubt the better choice (from the viewpoint of the Union itself) and the most difficult, it deepens its internal integration, reforms its institutions to consolidate its decision-making capabilities, and integrates new members. It would then be in a position to exert the greatest influence over its periphery, with more profound prospects for cooperation and integration.

PRINCIPAL ALTERNATIVES

For the first time in half a century, uncertainty as to the future course of the European undertaking is trumping stability factors. France is obviously not able to take a decision regarding this course. But the country, which has been and which continues to be a major participant in building the community, cannot merely stand aside. Nevertheless, in order to play a decisive role in the choices to be implemented, it needs to be clear about its own ambitions and priorities, and about the concessions that it is prepared to make to its partners.

IS FRANCE PREPARED TO RE-ESTABLISH EUROPE?

Is it possible to re-establish the single market? Within the eurozone, is parallel progress on budgetary responsibility and solidarity to be desired? Can the sharing of risks go hand-in-hand with the sharing of sovereignty? Is political union desirable and on what basis? How might the issue of European borders be framed? To what lengths are we prepared to go in order to safeguard the stability and prosperity of neighbouring countries? In sum, what are the financial and political conditions required for France to successfully partake in an ambitious strategy for re-establishing Europe? These are some of the questions now arising for us.

French society has maintained a long-standing ambivalence regarding the European project. Non-ratification of the 2005 constitutional treaty revealed a deep-seated mistrust of the community project. The ambiguity and fluctuations that have characterised our relationship with European unification during the course of recent decades are a reflection of our internal debates, and also of the uneasiness of a country that has failed to build Europe in its image. Although it may seem difficult, is it possible to put this ambivalence behind us? And if so, is this to be desired?

This ambivalence is not without foundation. We have set out here why the recent turn taken by Europe could be disappointing for all who had hoped for economic renewal, prosperity and solidarity. And this is not limited exclusively to France. Germany, to cite but one example, has repeatedly held out the offer of a political union that it has not been able to define successfully.

At a deeper level, the European undertaking possesses the characteristics of an invention and is not without its contradictions. From the common market to the economic and monetary union, the European Union has defined itself as it goes along, without setting any destination for its project. This lack of a set destination was once its strength, but has become its weakness. On one hand, sector-specific integration projects have run into issues of decision-making legitimacy, raising the issue of democratisation of the institutions. On the other hand, the European political project only appears able to secure adhesion through concrete projects that have a bearing on the day-to-day life of citizens, as though legitimacy based on results were perpetually winning out over legitimacy based on process.

With adherence to the European project being undermined, is it in France's interest to put its historical ambivalence regarding its intentions behind it? Should it clarify its ambitions for Europe? Can it make these acceptable to both its European partners and its citizens? What are the geopolitical and economic options available to it? What institutional reforms do these options entail?

WHAT ECONOMIC FOUNDATION?

The European Union is currently being undermined by the breakdown of the single market and the fragility of monetary union. This situation raises a series of difficult questions for France.

Firstly, is it desirable to revive the single market and the common policies underpinning it, or conversely to pursue pragmatic co-operation, at the risk of losing the Union perspective? Reviving the single market to construct an integrated economic area entails the creation of European-wide regulations in certain sectors, such as energy or digital technologies, and therefore a certain degree of transfer of sovereignty. The same applies in the area of taxation: harmonised corporate taxation would prove a powerful factor for integration and for limiting tax competition, but would also result in a transfer of sovereignty in a highly symbolic field. A third example is higher education and learning: the creation of a European research area would be one of the best ways of enabling research to hold its own at the global level, but it would be disingenuous to claim that this could be achieved without far-reaching change to our own establishments.

Nevertheless, the breakdown currently taking place, gradually diminishing the power of the Commission without really handing back power to Member States, can only

result in a weakening of the collective. The current result is a system in which each State has a blocking vote, yet no party is genuinely able to exert any motive force.

Acceptance by French citizens of a deepening of the European internal market undoubtedly requires more pronounced forms of European solidarity, giving grounds to believe in an improvement in well-being for the collective. Yet solidarity, particularly within the eurozone, cannot be conceived of without responsibility. Regarding budgetary matters, partial debt pooling, which would make us better able to fend off speculative attacks on sovereign debt, requires an *ex ante* type of control of our budgetary decisions. But such control could only be acceptable if it came from an institution invested with a high degree of democratic legitimacy, which leads us back to the issue of the political institutions.

WHAT MODEL FOR THE FRANCO-GERMAN ENGINE?

France cannot answer all these questions single-handedly, and, should proposals to give a new lease of life to Europe come into being, these would of necessity be put forward by other partners, probably beginning with Germany. To state that the Franco-German bond is a vital driving force for Europe would be a truism. Nevertheless, this bond operates best, in the service of Europe, when balances between the two countries are respected, which has not been the case for a number of years. What matters therefore is not to cast doubt upon this engine, but rather to understand how France should position itself in relation to Germany to help improve the way it functions.

Two divergent approaches may be taken in this regard, and it is clear that neither of these will be fully applied in their entirety. However, presenting them in their pure but inapplicable state does enable us to place France's European strategy on a sliding scale.

In option one, France may be willing to play a *bridging role between the Northern and Southern poles of Europe*. Within this logic, such a policy is often accompanied by a desire to keep Central and Eastern European countries outside the inner core that is building Europe.

Such a strategy is currently in question owing to the difficulties in Southern Europe, the failure of the Union for the Mediterranean and, by contrast, the relative success of expansion to the East. However, should we definitively dismiss any desire to reorientate Europe towards its southern shores? Is this something our economic

make-up, our demographics and our history will permit? On the other hand, doesn't the rise of far-right parties in France make any ambitious Mediterranean policy unrealistic?

Option two consists in making France *an entirely separate Northern country*, by pursuing convergence with Germany and seeking unreservedly to meet budgetary, micro-economic and social criteria, for which Northern countries are lauded. This option could restore France's credibility in discussions on the construction of the Union. It could lead to an effective economic model that is oriented towards exports to emerging countries, the only engine for growth in the times ahead. It would inject new life into a European Union that has lost direction, by giving it a focus, and in time would enable us to take the plunge into Federalism, and finally to let go of the logic of European equilibrium between nations. Yet, doesn't this

option too rapidly dismiss a highly specific geography, the orientations of which would never be perfectly correlated with those of Germany? Would it be likely to promote a productive recovery that is as necessary economically as it is politically? Could the efforts that it would entail be accepted by a French population that is currently uneasy about what is perceived to be discipline from without? Finally, would it be possible to pursue this option in a sufficiently short time-frame for it to be felt by Europe, its citizens and its partners to be an effective solution that is beneficial to all?

It is tempting not to address all of these questions. But, not to do so would risk allowing the European edifice to disintegrate. In order to engage in a constructive dialogue in coming years, France must leave behind its ambivalence, resolve its own contradictions, and demonstrate initiative.



QUELLE FRANCE DANS 10 ANS?

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Commissariat général
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At the governmental seminar held on August 19, 2013, the Head of State wished to begin, without waiting, a widely-concerted process relying on joint efforts to elaborate a 10-year strategy for France.

The definition of such a strategy includes several objectives:

- Establish a path that permits the country to move forward with points of reference and indicators clearly identified.
- Engage in collective choices that regulate the major transitions.
- Adapt policies and instruments according to the objectives set.
- Initiate an extensive dialogue with everyone concerned.

At the end of the seminar, the Prime Minister entrusted the *Commissariat général à la stratégie et à la prospective (CGSP)* with the preparation of this project, identifying notably five major issues: the future of the production model, the reform of the social model, the sustainability of the growth model, the transformations occurring in the French society and the European project.

The CGSP report will be handed over to the Head of State and the Prime Minister at the end of 2013. In particular, this report will have the goals of:

- Clarifying a certain number of prospects for the next ten years through a prospective assessment based on the most common findings.
- Proposing among possible choices a limited number of national priorities.
- Setting concrete and quantitative objectives concerning these priorities in order to mobilise the relevant stakeholders and the society as a whole, beyond a single Parliament's term.

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Created by decree on April 22, 2013 the *Commissariat général à la stratégie et à la prospective (CGSP)* replaced the *Centre d'analyse stratégique*. A place of dialogue and discussion, the CGSP assists the government in determining the main directions for the future of the Nation and the medium and long term objectives for its economic, social, cultural and environmental development. It contributes, moreover, to the preparation of governmental reforms.



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