# A European Union "fit for purpose" in the global age

**Hydra, Greece, 17-18 October, 2008**

## Workshop report[1]

The question of "what type of EU" is "fit for purpose in the global age" is one of ever-increasing prescience and pertinence. It is the question that Policy Network, in partnership with the London School of Economics and the Hellenic European and foreign policy foundation ELIAMEP, is addressing in its eponymous project. In Hydra, this question was addressed in relation to issues of the broader political governance and legitimacy; socio-economic governance; and financial regulation.

This project is being conducted through a series of workshops that started in May 2008 and will culminate in two major international conferences in London and Brussels in spring 2009. It will also lead to the publication in 2009 of an edited compilation of essays and potential report on "Options for the EU's future".

### Session one: globalisation and enlargement as a test for EU governance

The aim of this session was to gauge what political challenges EU governance now faces in the context of increasing socio-economic, cultural and integrative diversity in order to question how the EU-27 can be imbued with more effective governance structures. A further focus of discussions was on the external threats faced by the EU; in particular, the interlinked processes of globalisation and liberalisation were evaluated in the context of effective governance mechanisms.

**Lenka Rovna**, a Charles University professor, opened the session with a discussion of different types of EU integration and the argument that differentiated integration was the solution to the EU's present diversity. The different European approaches to the global financial crisis and responses to the 2008 South Ossetia war demonstrate that the notion of a unitary European actor and voice remains a distant prospect. These events serve as a

[1] Quotation only with the permission of the authors concerned

reminder that the "glorious days" of the Constitution for Europe are no more; member state cooperation can now only be effective if differentiated integration replaces unified integration.

Rovna contended that the notion of differentiated integration was not a new one; she questioned how its application could be deemed as a threat to the so-called deepening and widening of the EU, when it is already in existence – EMU, the Schengen agreement and Pruem cooperation are all testament to the fact that there are various levels of member state integration within the EU. The argument was also made that an EU of 27 member states could hardly be expected to proceed smoothly along the path of European integration, when the procedural provisions for this were originally conceived for at most the EU-15. Indeed, big and smaller member states often talk different languages of European integration; this leads not only to tensions within the EU, but also to small MS feeling marginalised in decision-making.

Rovna further argued that the most effective way of conceiving a new form of European integration was through the prism of multiplicity: "multi-level governance" accounts for the multi-dimensional complexities of EU decision-making, ranging from the horizontally and vertically asymmetrical negotiating system, to the overlapping governing structures of governmental and non-governmental elites; multi-level networks account for the informal enmeshment of national bureaucracies; while, differentiated European identities are forged through programmes such as the Erasmus one, which allow for the creation of a European *demos* alongside national identities. As such, informal and multi-layered networks involving intersecting groups of MS leads to further integration.

**Olaf Cramme**, director of Policy Network, approached the theme of this session by questioning the sustainability of the implicit division of labour within the EU which sees the EU responsible for market liberalisation, while member states concomitantly concentrate on redistribution and welfare. Cramme argued that EU liberalisation has broad implications for all four freedoms – goods, services, capital and people – and should accordingly transcend all areas of the EU. Greater clarity is necessary in determining how liberalisation *directly* and *indirectly* affects redistribution and welfare, while the delivery of social policy may need to be directly linked to the liberalisation process.

There are four areas that require renewed focus and analysis. First, the somewhat regressive debate between the intergovernmentalist and supranationalist perspective of the EU needs to be overcome; it is presently deadlocked as there is no common understanding of the EU's functions. Intergovernmentalists assert that any sort of redistribution and direct welfare provision is a zero-sum game which requires a majoritarian mode of decision-making but that the EU's institutions do not possess the legitimacy for this to be realised. This ensures that redistribution and unanimity are at odds with each other. Supranationalists, meanwhile, argue that the creation of a new polity resembling current member states will allow this problem to be bypassed. In this context, how can the EU be endowed with new and greater policymaking and regulatory competences without risking overloading the EU and risking a decline of its effectiveness and popularity? Should the European Commission (EC) act as an "honest broker" between member states, or as a "driver" of the EU project? How can the EU be afforded greater political and popular legitimacy?

Second, the EU needs a stronger focus on the social and political realities of its contemporary time, instead of remaining stuck in an ontological debate about its future development. Political reactions to globalisation and liberalisation manifest themselves at the level of the nation-state; the rise of populist parties in national political systems is illustrative of this. There are few common denominators in anti-Europeanism but there are some common concerns that are prevalent across the EU: those citizens who feel most vulnerable to and most exposed by globalisation are turning against the EU because Europe is perceived as a driver of insecurity. There are also new cleavages between "winners" and "losers" from the rapid evolution of the global economy, as well as those created by the shifts in the cultural and ethnic profile of the European demographic. This has resulted in an increased risk of populism. Renaud Dehousse therefore argues that citizens' preferences need to be incorporated into EU policymaking, though not on the basis of European Parliament election results.

Third, a better understanding is needed of how globalisation and European integration interact. What sort of answer to globalisation is Europe supposed to afford both its member states and its citizens? Should the EU become an "agent" of or a "protector" from globalisation? Clearly, Europe should attempt to harness some form of normative dynamic in development of globalisation but so far the EU's approach to globalisation is typified by the nebulousness of the globalisation adjustment fund. Immigration is a key issue here; in tandem with liberalisation, open-border policies are often perceived as "negative change agents" in the globalised world.

Finally, Cramme argued that the concept of European solidarity needs to be renewed in response to globalisation and contemporary socio-economic realities. How can we construct a new narrative which creates space for innovative EU policies and not one which just tackles external challenges?

**Fritz Scharpf**, emeritus director of the Max Planck Institute for the Studies of Societies, questioned whether liberalisation weakens the problem-solving capacity and legitimacy of the multi-level European polity. He argued that globalisation is a challenge faced by both the EU institutions and member states, since enlargement has increased the EU's heterogeneity. Scharpf distinguished between different modes of EU policymaking: political and *non*-political; positive and negative; legitimate and illegitimate. He argued that though political policymaking is constrained by the necessity of consensus and agreement, it is legitimate, positive and functional. In this respect, forging policy agendas is difficult, while the EU's diversity makes a supranationalist settlement unrealistic.

However, the EU's *non*-political policymaking functions are negative and illegitimate. Bodies such as the European Central Bank (ECB) and the European Court of Justice (ECJ) possess a degree of structural independence and *non*-political autonomy that allows them to be reasonably effective agents of reform. But these reforms are often not legitimated by the member states they affect. A decision by the ECJ, for example, can only be politically corrected by the adoption and member state ratification of a new treaty amendment by the European Council, which makes it a different constitutional organ to national courts. The ECJ's power is channelled through "negative integration"; that is to say, it can strike down member state action, such as the elimination of national barriers to liberalisation.

Thus, the key political concerns – public services, for instance – of European citizens and their policy solutions should be restricted to the legitimate ambit of national governments, since consensus between MS is not always necessary or beneficial for citizens. Scharpf argued that this meant that though it had undoubtedly occurred in member states, liberalisation should not infringe on the "core" areas of citizen's political concerns. These are expressions of political self-determination because, given that most voters will punish governments for unpopular policy output, regardless of who is responsible for their conception, national governments have to defend themselves, even at the EU's expense.

Scharpf concluded with the assertion that the "European edifice" is crumbling; it is completely dependent on member states for its legitimacy, which means that it has to be innately cautious and "negative integration" has to be less forthright. There is a fundamental political asymmetry within the EU that impacts upon its policymaking functions. And areas of solidarity can only be found where it is consensually acceptable to do so.

**Roundtable discussion** revolved around two fundamental questions. The first was determining how notions of "deepening" and "widening" applied to liberalisation. The argument was made that when the EU fails or is, at best, ambiguous about how to address a problem of substance, it solves it with solutions of process. Thus, a change in European Council voting systems, or to talk about the procedural implications of furthering "liberalisation", is not going to alter decision-making on issues that touch on the real interests of citizens.

However, the EU's functionality was also questioned; it was argued that it was vital to have a European family in a global age, but that this was presently undermined by the failure to find unanimity through the EU's existing structures. Questions of "deepening" and "widening" liberalisation are secondary to structural issues: namely should the EU become a single-market centric organisation, or an explicitly political entity? At the moment the EU may have entrenched institutions, but it has no leadership to speak of. Indeed, the argument was made that if differentiated integration becomes the central approach of the EU toward liberalisation, it would undermine the creation of a political narrative not to mention intelligent policy mechanisms that can benefit all member states. But is it possible to resist the underlying increase in market liberalisation? Markets are already unified, so contradictory processes of economic integration are going to emerge regardless of any explicit political action.

Although structural and cohesion funds have fermented a centrifugal dynamic within the EU, it is clear that the EU lacks homogeneity; the onus of policymaking needs to be on a more pragmatic emphasis on the EU's ability to mitigate and benefit from global economic pulses. The notion of a European *demos* looks entirely nebulous in the context of the member states' moral, normative and institutional diversity. If the EU was more relaxed in its approach to opt-outs and allowing different speeds of political integration, it would be to its long-term advantage. A majoritarian imposition of one-speed integration seems to deny the EU of its fundamental essence.

Discussions then addressed a second question: namely whether concepts of European solidarity need to be renewed. The argument was made that there is a form of double alienation toward Europe: the alienation of national elites who perceive the EU as a "foreign oppressor in their polities"; and the alienation of both the low-skilled and the low-educated from the EU as a harbinger of industrial and manufacturing decline. This existential alienation, it was argued, was a key reason for the Dutch No Vote because it is tantamount to the dissipation of the nation-state. The populist perception that member states are relinquishing control of traditional state powers must be acknowledged.

This was countered by the contention that the EU is uniquely placed to be a powerbroker in the new multipolar world order. The prospect of this global leadership must be at the core of any re-conceptualisation of European solidarity. In any case, solidarity already exists in the EU: EMU is a very strong form of solidarity, which not only affords its members protection and benefits from the global economy, but also unifies Europe. Indeed, are the reasons for the rejection of the Treaty of Rome's social dimension still valid today? Could there be a change in the political constellations that would allow for the development of "positive integration"? This was tempered somewhat by the argument that it was necessary to accept how solidarity had also alienated many Europeans.

### Session two: financial capitalism and sustainable competitiveness

**George Pagoulatos**, professor at Athens Univerisity of Economics and Business, began with an assessment of the role the EU could play in regulating financial capitalism. Since light-touch financial capitalism has now been dealt a heavy blow in both real and conceptual terms. It was argued that the EU should now takeover the moral and political leadership in reforming the capitalist system. Yet, despite the EU's successful crisis management over the course of the 2008 banking crisis, the prospect of this leadership is somewhat undermined by EMU's ill-equipped institutional architecture. Designed in times of economic prosperity, EMU has successfully safeguarded Eurozone price but not financial stability.

Many believe that it is now necessary for the EU to develop its regulatory and supervisory capabilities in this crucial area. Financial supervision does not adequately account for the extent to which European financial markets are now integrated. Banks are truly transnational in scale: they are at once too big to let live and let die. The absence of an EU Treasury means that the onus is on national authorities to cope with cross-border financial crises – something which they often have neither the resources nor the political legitimacy to achieve. The reality of monetary, economic and financial integration must now be matched by parallel political and regulatory processes, with the necessity of a single, cross-sectoral financial supervisory body particularly pressing. There are, of course, issues of political feasibility here – but the silver-lining of the present crisis may be that a favourable environment emerges for publicly supported reform.

In response, **Iain Begg**, professorial research fellow at the LSE, gauged how the EU could avoid trade-offs between the competitiveness of the EU economy and the sustainability agenda. It was argued that sustainability and growth could be achieved through the same mechanisms. While sustainable development is a core treaty aim, favoured by all member states and embedded in every policy agenda, it does not in itself amount to anything tangible. The EU's "mega-strategies" – for instance: growth and jobs; energy security and efficiency; climate change; sustainable development; social protection and social inclusion – all equate to significant albeit *sub*-treaty reform on the issue of sustainability. Yet serious issues of coordination remain; supply-side, percolation and spill over coordination are still relevant but is OMC a credible enough instrument?

It is vital that the EU now thinks beyond traditional concepts of social justice. Beyond the revisionism of classical social justice, it is important to illuminate the importance of carbon, developmental, inter-generational and knowledge justice as well. There are also substantial governance challenges that need to hurdled: reconciling the different "mega-strategies" by, for example, synchronising their divergent timetables and diluting competition between them for political and policy attention; enhancing policy methodologies by engaging and enthusing civil society, and incorporating the EU budget as an instrument; and clarifying the *leitmotif* of the EU's next generation.

**Roundtable discussion** revolved around three areas. The first of these concerned the UK in general and the city of London in particular. The effects of the city on regulatory and supervisory reforms to the European financial system were questioned, given that it remains outside the Eurozone at present. The argument was made that, since members of the Eurozone had learnt from the British reaction to the banking debacle, it was vital that the UK be included in any financial stability provisions despite lacking membership of the EMU. The centrality of the Financial Services Authority (FSA) as a model for reform made this even more pressing.

The second area of discussion was how reform to the financial system could learn from the EU's 2003 competition reforms. Would the top-down decentralisation and federalisation of regulatory and supervisory institutions be applicable to the financial system? This was countered by the assertion that the most susceptible member states in the financial crisis were those in the most developed and internationalised sectors: other member states suffered the benefits of underdevelopment and a lack of exposure to the global economy.

The final point of debate was determining to what extent systemic regulatory reform measures could learn the lessons of the Lisbon strategy. One provision in this agenda was to name-and-shame those member states which did not fulfil their policy targets. The argument was that though the Lisbon strategy is internalised in member states, the notion of naming-and-shaming is a redundant one because it is of little consequence to those other than bureaucrats. Indeed, in the context of financial reforms, the naming-and-shaming approach is unworkable because it lacks a genuinely independent auditing body and presupposes the existence of EC competences that simply do not exist. Moreover, as with the Lisbon strategy, it is questionable whether the objectives of a reform package will be clear enough to allow naming-and-shaming. Would financial market regulation relate exclusively to the stability pact or would it have a normative dynamic to it? Would it be feasible, for instance, to expect a pan-European normative reaction to the bonus pay issue?

### Session three: governance of the Eurozone

**Gabriele Giudice**, a senior EU official, began this session with an assessment of the lessons of EMU's first decade, the challenges to the Eurozone in the present financial crisis and its medium-term goals. It was argued that the EMU has always been innately political; it is a symbol of the EU in the wider world. But the key question to be asked and answered is how the EMU project can be completed: the Eurozone cannot remain static.

While the chief achievements of the EMU have included price stability and low cost of borrowing, as well as the elimination of inter-area exchange rate volatility and the Euro's status as a global reserve currency, notable expectations have not been fulfilled: GDP growth is slow in some countries due to unsatisfactory productivity performance; banking and financial markets and regulators are still predominantly national; and public perception of the Euro is poor. Although the EMU bore the brunt of considerable external shocks in the banking crisis, it did allow for increased protection for its members from the global economy. Moreover, its structural framework remained intact and is now flexible enough to contain further shocks.

The medium-term goals for EMU must be to promote growth and employment; ensure efficient adjustment and stabilisation to the new realities of the global economy; ensure a smooth enlargement of the Eurozone; and manage the Eurozone's growing international stature. As well as enhancing integration, a three-pronged policy agenda seems feasible: a domestic agenda which deepens and broadens fiscal surveillance and integrated structural reforms into policy coordination; an external agenda which builds an international strategy which both develops common positions and consolidated global representation; and an effective governance agenda which reconciles the overlapping roles of DG ECOFIN, the Eurogroup and EC in the EMU, as well as interacts with other institutions and stakeholders.

**Carlos Mulas-Granados**, professor at the Complutense University in Madrid, then addressed the strengths and weaknesses of the Eurozone's economic governance in order to determine what reforms are needed in the future. The argument was made that the EMU's current economic governance structure had received relatively few reforms, save for the 2005 stability and growth pact and re-launch of the Lisbon strategy. One of the chief problems in this area is that the ECB only aims to minimise inflation, while there is also an absence of "political" dialogue in the ECB's independent and uncoordinated functions, as well as the inconveniences of one-size-fits-all targets and interest rates. This would be remedied, it was argued, through the inclusion of economic growth and unemployment as a policy objective, and the introduction of systemic inter-institutional dialogue between ECB-ECOFIN,

Meanwhile, the governance of the monetary, fiscal and economic policies also have a number of problems. The SGP cannot set a fiscal stance for the whole Eurozone; free-rider attitudes reign through a lack of coordination and asymmetry; and there is a lack of positive incentives to comply with rules and enforcement problems. Fiscal problems could be solved through the improved design of the SGP – for example, FFPP linked incentives, a rainy-day fund, greater EC powers – and the inclusion of such reforms in future Treaties. The coordination pillar could be improved with the creation of a supranational fiscal authority, a European Council for fiscal policy, and strengthening the role of the Eurogroup. The governance of economic reforms, it was argued, lacks coordination due to multiple agendas. There is a lack of ownership of and accountability for reform initiatives. The "Lisbonisation" of the treaties to include OMC and strengthening the role of the EC by giving it powers to enforce NRPs would offer an effective solution to these problems.

The most likely and efficient reform scenario, it was argued, was one of partial reform. This scenario, which presupposes the ratification of the Lisbon strategy, would reform the SGP with a greater role for the EC; refocus the Lisbon strategy with a "Mr Lisbon commissioner"; legally recognise the Eurogroup; and link FFPP with member state performance on Lisbon strategy targets.

It was noted in the **roundtable discussion** that a global financial crisis offers an excellent opportunity to gauge how the Euro is perceived in the wider world. In this instance, it was argued, the markets voted with their feet as the euro depreciated in value versus the dollar; the reasons for this are fundamentally political because investors had greater confidence in the political ability of the US government to resolve the crisis. In addition, there is the paradox that the national currencies subsumed by the Eurozone would have been severely injured by the financial crisis, but public support for EMU membership is considerably diminished.

The process and substance of reforms were then questioned. Given that if the Lisbon treaty is ratified there is a promise of a decade without further treaty changes, what reform packages can be introduced without the necessity of a new treaty? Are these so-called governance reforms not just an example of "institutional tinkering" that will not yield tangible results without wider reforms? Indeed, the idea of fines or "claw-backs" on structural fund spending is a non-starter: it is far-fetched, on the one hand, to expect member states to pay fines to the EC (though it was rightly noted that the ECJ imposes fines on member states in areas such as competition policy); and, on the other hand, the EC cannot stop structural fund spending in a particular member state as a sanction because it would incur a massive political crisis. Fiscal policy reform will remain stunted at the EU-level because it requires a form of political legitimacy that can only be afforded to the nation-state.

The argument was made that if separate European currencies still existed there would have been even greater turmoil. This prompted a debate about whether the coming years would see the possibility of UK accession to the EMU. The argument was made that sterling will becoming increasingly volatile with an enlarged fiscal deficit. Moreover, if structural reforms proved successful in forming supranational supervisory bodies and the EU increasingly spoke with one voice in international financial institutions, there might be an irresistible incentive for the UK to seek membership of the Eurozone. This was countered with the contention that the continued prevalence of a zero-sum "us" and "them" debate on Europe in the UK, combined with the fact that EMU membership is a commitment which precludes the notion of sheltering under the protection of the EU's umbrella for the duration of a financial storm, meant that the UK position on EMU membership was unlikely to change from one of governmental ambivalence and national seclusion.

### Session four: in search of socio-economic reform and innovation

**Nikos Koutsiaras**, senior research fellow at ELIAMEP, began this session by questioning whether the Lisbon strategy should be continued, abandoned or radically re-thought. The key assumption here is one of "business as usual" on the Lisbon strategy. The argument was made that the contribution of the re-launched Lisbon strategy to structural reform and, crucially, economic performance may have been insignificant. The more highly focused and simplified approach of the revised Lisbon strategy was soon compromised by new circumstances and political expediency; new priority areas for reform, the insertion of new coordinating processes and member state reporting obligations and frequent demands for a strengthened social dimension have all combined to such an extent that there is a risk that may end up, like its original predecessor, "being about everything and thus about nothing" as an official report has remarked.

Indeed, today's Lisbon strategy will probably not improve attempts made hitherto to stimulate market policy and constitutional reform, especially the reform of labour market policies and instruments. However, it can be argued that the effectiveness of the Lisbon agenda may now be based on its strategic dimension, since its normative and cognitive dimensions remain weak. Thus, the suggestion can be made that a system of financial incentives which aims to reward labour market reforms could become strategically significant; it may assist member states in alleviating domestic policy constraints on reform proposals, while it may also acquire public tolerance through an acceptable costs and gains distribution among labour market participants. Thus, the Lisbon strategy could end up removing inefficient and burdensome labour market policies and forge a path of efficient redistribution. Moreover, its symbolic importance should not be underestimated; the strategy amounts to a collective pan-European attempt to revitalise the European economy and reform our socio-economic models.

**Xavier Prats Monné** then assessed to what extent the EU's social role was presentational or substantive. The argument was made that the question the EU needs to answer is what it can offer in terms of "added value" in social policy, for this will imbue the EU as well as the EC with greater independence and legitimacy. There is a clear case for the EU's "social role": surveys consistently demonstrate attachment to social protection and the welfare state, on the one hand, and consider the legitimacy of the EU to be predicated on the preservation of this "model" and the values inherent in it, on the other. The central problem is the divergent perceptions of this support should be translated into policy. Yet, in the face of the real consequences of globalisation and technological development, there seem to be three broad and overlapping areas where the EU can show "added value": skills upgrading; labour market modernisation and integration of migrants; and social cohesion.

In this context, it was argued, there seem to be three aspects to the EU's "added value" in social policy. First, the EU must focus member states on the most pressing medium- and long-term policy issues and priorities, such as challenges that are emerging outside of the traditional scope and financial reach of national welfare provision. Second, strengthening the EU's sphere of influence in an increasingly interdependent and multipolar world where the EU can convince partners to act towards common employment and social policy goals. Third, the EU can strengthen the link and conditionality between EU policy priorities and financial instruments; that is to say, the EU must focus the resources of the ESF on those issues identified as mutually reinforcing pan-European policy priorities.

Clearly there are also political issues in forging a consensus on the EU's "social role" and "added value" therein. The policy priorities of the Lisbon strategy must be directly connected with the EU's spending priorities. There must also be an acceptance that progress on the front of European integration requires some form of differentiation: the challenge lies in formulating policies that are allow for meaningful results – whether tangible to certain member states, or to the benefit of the EU – for the EU27 that do not become a meaningless stalemate.

In **roundtable discussion** it was argued that it was important to focus on the political side of the implementation of the Lisbon strategy; the scope of policies should range from environmental issues, through to social protection and technological innovation. Yet, since the different interpretation by member states of the Lisbon agenda's priorities leads to political confrontation and inconsistent implementation of its central goals. As such, the argument was made that the Lisbon agenda would become more effective if it unified into a single, coherent and joined-up policy paradigm, while its implementation needs to connect behavioural change with spending priorities.

A key point of contention in the roundtable debate revolved around the issue of how to respond to globalisation through social policy formation. On the one hand, the argument was made that the social problems in the global economy were not linked to globalisation but to Europeanisation; Europe has become a regulatory entity which constraints the ability of its member states to independently respond to globalisation. How can these regulatory mechanisms be used to create greater solidarity and imbue Europe with a real sense of purpose on social policy? On the other hand, it was argued that globalisation has now formed a European labour market. Given that labour markets are now transnational and susceptible to global "shocks", to what extent do member states actually possess the powers to discern how labour markets should be modernised? Do we need to take a European perspective on social policy to such an extent that welfare provision is shared across member states, so some countries can provide services that others cannot?

A final point of discussion was that of differentiation. The argument was made that since liberalisation was a driver of economic innovation and that some member states are more developed than others, does it make sense to talk in terms of common challenges and approaches? Coupled with problems of legitimacy, member states are most likely to pursue those policies with the greatest redistributive effects on their interests. Indeed, in terms of increasing R&D investment across Europe, should Bulgaria be focus on this ahead of other more pressing development issues?

### Session five: EU politics and the market in the global age

**Mario Monti**, president of Bocconi University in Milan and former European commissioner, asked three questions which are vital to the role of the EU in a global age. First, he questioned whether Europe would remain the only place in the world where market principles prevail over political discretions. State aid control is now on the defensive: there is a real risk of a regressive response to increased adherence to the market by the EU institutions. A process of soft convergence, it was argued, is the most effective means of achieving integration. Second, it was questioned whether the drive toward structural reforms can survive the loss of credibility to the market economy. The lack of both regulation and normative values makes this loss of credibility indisputable. Is there now a role for greater government interventionism with positive benefits? Third, it was questioned whether it was futile to avoid addressing the "impossible" question of tax coordination. Globalisation, it was argued, is now threatened not by social or political processes by the internal implosion of the financial markets. In this respect, the issue of tax coordination should become a central tenet of a renewed version of European solidarity. The "losers" from globalisation could be compensated by the tax revenue.

The argument was made that the EU faced three headline challenges: limiting its ambitions – tax harmonisation failed when so termed, but once it was repackaged as a form of coordination (with the some policy implications as before) it became more popular and member states less obtrusive; the extent to which Europeanisation hinders national responses to globalisation needs to be addressed; and, finally, a pedagogical challenge – in the absence of tax coordination, market coordination may suffer, which would mean the scope for manoeuvre of domestic policy to support society's "losers" would be hindered by a loss of tax revenues because a lack of harmonised taxation undermines the single market.

**Anna Diamantopoulou**, the former European commissioner for employment and social affairs, argued that the EU had chosen the path of further integration in the post-financial crisis world. The discredited neo-liberal market economy now needs a new framework – a necessity upon which centrists are agreed. The long-term effects of the financial crisis will be felt in terms of poverty and unemployment in the real economy. The EU is a unique institution that must be sustained as a political entity in light of new global challenges; it now has the opportunity to build a new political narrative through the exercise of its leadership.

This narrative must be built around three factors. Security is the first of these factors. Investors and citizens must feel secure and a new regulatory framework must be built upon the principle of "never again". This new framework must also ensure that non-EU financial actors do not benefit from the collapse of European market interests. The second factor is one of smart and clean economic growth. By investing in its infrastructure, the EU can forge trans-European transport and environmental network which will not only be to member states' collective benefit but also attach both public and private sector money. The final factor is solidarity: redistribution must now become a regional, national and local process, while the SGP must only be weakened on the basis of long-term benefits.

In **roundtable discussion** it was argued that the EU now needs to be politicised. In the future, European parties should propose EC president candidates. But what will the impact of this be on the functions of the EU? The key structural weaknesses in the EU reside at the national level, for it is national politicians who often undermine the politicisation and functions of the EU. Yet, the overall politics of the EC would not gain from a partisan administration as its effectiveness lies in its neutrality.

On the issue of tax coordination, it was argued that this should form part of a package that would resolve the EU budgetary dispute. What are the prospects of a European corporation tax? What of the potential for a Europe-wide minimum income? The overall economic process seems to be directed towards deeper integration but how will national parliaments, let alone governments, react to the Europeanisation of taxation to sustain this integration? Yet, it was argued that in certain cases *de facto* coordination has already happened: the UK corporation tax is now widely replicated across the EU.

Addressing the question of the balance between markets and politics, the argument was made that nothing new has been learnt. This socio-economic consensus of the Lisbon strategy was a fair-weather one. A changing context now offers new market opportunities, such as “green” and “clean” technologies. Yet, in light of looming recession, the issue of how to compensate “losers” is increasingly influential. This is especially true in light of the minimal changes to the flexibility of European labour markets; the existence of serious structural impediments to the advancement of women and migrants, means that unemployment could generate a neo-liberal form of social exclusion. This new hotpot of markets and politics, it was argued, needs new policy reflexes and new regulatory instruments. The EU now has the opportunity to define the normative dimension of the new global economy but it must keep its own house in order, too.

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**If you have any comment or questions about this event or the research programme, please contact slatham@policy-network.net.**