1. Presentation

We are facing a key moment in historical terms, where we are playing "to be or not to be" with this valuable European integration project that emerged in the fifties of the last century, and which has advanced following the method masterfully designed by Jean Monnet. We owe it to these men who thought big to do our bit so that this great idea is not buried by uncertainties, short-sightedness and various sorts of selfishness.

In recent years there has been a loss of public support for the integration process, a disenchantment. It is likely that the values and objectives that prompted the project in the fifties, such as the search for peace and reconciliation or shared prosperity around a common market, do not mobilize Europeans today. At the beginning of the 21st Century, with the consolidation of an extension to the East that somehow temporarily reinvigorated the validity of the founding ideals, citizen support for integration is now at an all-time low, even in the traditionally most pro-European States, as is Spain's case. Additionally, in recent years, the response of institutions to the economic and financial crisis has caused disappointment and has greatly tarnished the image of a Union accustomed to legitimizing itself through its results.

The European integration project is right now in crisis. However, we should remember that Europe has always advanced through the impulse of crises, which have also delivered a stimulus uniting leadership and political will. So it is worth pausing a moment to remember the difficulties experienced in the past and put the current position in its historical context.

The crises in Europe during its construction and development are due to different causes, but all have a common denominator and final effect. The common denominator is that they often seriously affect common policies in construction. Member States, not yet integrated into the common policy, lack a supranational instrument to combat them. This gives rise to an "every man for himself", and in some cases, a lack of disciplined behaviour. Member States have learned, by dint of serious setbacks, that crises are only overcome with a step forward, towards a united Europe, led by a strong political will and leadership. Thus, the final effect has almost always been a clear desire for "more Europe". This "more Europe" has sounded loudly in times of strong political leadership, and more confusingly when there has been a lack of great leaders.

The first great crisis coincided with a devastated Europe after World War II. From that trauma comes the decision to create a Common Market as a first step towards the goal of a united Europe. This great project was supported by six countries, while others rejected integration due to their reluctance to transfer sovereignty. In short, the crisis regarding Europe's future was decided in favour of "more Europe", with six countries that expressed strong leadership and a strong political will.

We can recall a subsequent crisis, but with a similar internal structure. In the Treaty of Rome it was planned within twelve years to create a Customs Union, with a Common Market. But Member States didn't play ball, employing administrative sleight of hand so as not to submit to the jurisdiction of the rest in a transparent common market. The approach and solution to this major crisis required, in the 80s, the strength of authority of the Commission President, Jacques Delors, in his White Paper on the completion of the Internal Market and the signing of the Single European Act. There would have been no solution without a decisive impulse of leadership and political will towards "more Europe".

The financial crisis that the world and Europe are suffering at present has different causes from the above, but similar features to those described above are repeated in it. In the Maastricht Treaty, Europe launched the creation of an Economic and Monetary Union (EMU), in which economic and budgetary rules were established. The idea was for this important common policy to unite countries with a heterogeneous economic development and level, but during the process of construction of the new common policy, the financial crisis put paid to the project. The crisis did not affect a united European economic government, but rather certain Member States that failed on their part to keep to the level of the criteria to be allowed entry into the EMU. The wreck of the national economies infected the whole Union. Surely with a complete Economic and Monetary Union, with a supranational economic government, good behaviour and community solidarity would have averted disaster in the Eurozone. It is hard to fight a crisis that affects a common policy in construction, on the basis of the scarce forces, resources, and the political and economic measures, which are not always successful, of the Member States. As on previous occasions, the way out is to perfect the internal market and complete Economic and Monetary Union, i.e. to take a step forward. This requires leadership and political will; it requires "more Europe". In short, when we recall the previous crises, there is nothing new under the sun.

And this will be so, until the political union is complete and the European Union is no longer a fragile and vulnerable building under construction, exposed to any external aggression. The Union was created to obtain the resistance of the strong. The road to final political union will be difficult whatever the nature may be of the crisis that we suffer, because the weakness comes from that assaults falling on an unfinished integration process, halfway between the nation states that comprise it and the discipline and shielding that they aspire to through unity. Going forward with small steps has the advantage of prudence and the disadvantage of vulnerability, until the processes of unity are completed. Europe is not failing. It is being constructed in a stormy environment. But the process needs more than ever, in order to survive and consolidate, political will and leadership. Without them, the technical solutions appear to be inadequate.

From the University Institute for European Studies (*Instituto Universitario de Estudios Europeos*) we continue to believe that we need more Europe. For us, Europe is the solution and not the problem, the best alternative in order for Europeans to play a significant role on the global stage, projecting our principles and values and defending our interests. However, for this approach to be effective and not merely a declaration of principles, we must turn good intentions into action. Therefore, we want to make our contribution to a debate that is fundamental to the future of both Europe and our country.

This contribution focuses not only on the economic, but also the political, aspects, firstly, because we think that the crisis facing the European Union today is not just an economic and financial crisis, but also a political and institutional crisis; and secondly, because we believe that there can be no further economic integration (tax and banking) without parallel advances in political integration, toward a greater federalization both of powers and of procedures.

However, we wish to note that we do not address in this paper other important issues for the future of the Union, such as its representation in international organizations and possible consolidation as a global actor. Nor do we debate other technical issues of importance, such as the means and instruments to achieve the objectives we seek (use of enhanced cooperation and other flexibility mechanisms to facilitate progress in the integration process, system of Treaty reform, etc.).

Therefore, with the aim of making proposals that could allow Europe to find a promising future, we present this discussion paper.

2. Diagnosis. How did we get here? What weaknesses have we to overcome?

2.1. The shortcomings of the economic and monetary union

The EMU was designed asymmetrically, because while countries lost two economic policy instruments, namely monetary policy and the exchange rate, the Member States retained the other policies. It is true that, to go some way towards alleviating this situation, the Maastricht Treaty established budgetary discipline criteria. These criteria, which were developed within the Stability and Growth Pact (SGP), were not applied properly. Nor was the Broad Economic Policy (BEP), which the countries should have abided by, although this was not binding, fulfilled by all Member States. For its part, the National Reform Programmes (NRPs), which should have included those reforms necessary to achieve the objectives set out in the Lisbon Strategy, were also not put into practice by all countries.

In summary, the instruments of economic governance which the EU had available to it prior to the crisis were the SGP, the BEP and NRPs. The 2008 financial crisis revealed two facts: first, that the three economic governance instruments existing up to that time were insufficient to deal with it; and second, that the misapplication of them favoured the strong macroeconomic imbalances that occurred in some of the countries of the Union and that were accentuated with the arrival of the crisis.

The EU responded by adopting new instruments of economic governance in the 2010-2012 period. Such instruments had several goals: to strengthen macroeconomic and budgetary supervision, to establish mechanisms of financial aid and to reform the EU financial system to make it more efficient. For the best *ex ante* coordination of economic policies of the Member States the European Semester was implemented.

The new economic governance instruments represent a significant advance. However, banking union is not yet completed (which affects the segmentation of financial markets because, in practice, we cannot at present say that monetary union in the Eurozone countries is functioning). Neither has there been any significant progress on tax harmonization (which greatly impairs the fiscal union), and conventional and unconventional measures introduced by the ECB so far have not achieved the transfer of monetary policy to the real economy.

Financial institutions may be able to obtain liquidity from the ECB on favourable terms as to interest rate and term, but this does not mean that companies, especially small and medium businesses, can access credit from financial institutions on affordable terms. The interest rate differentials for loans obtained by firms, especially SMEs, are very high from one country to another; and even within the same country the differential between what large companies and SMEs have to pay is notable. It seems that the interest rates charged by the ECB play a less important role that the risk premium of the various countries. Therefore, firms in countries where the risk premium is higher are forced to pay higher rates of interest to obtain finance. The conclusion is that the monetary policy decisions taken by the ECB affect countries in different ways.