Centre for International Governance Innovation

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Reform Complementarity and Policy Coordination in Europe

A View from Portugal

Jorge Braga de Macedo

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About the Global Economy Program

Addressing limitations in the ways nations tackle shared economic challenges, the Global Economy Program at CIGI strives to inform and guide policy debates through world-leading research and sustained stakeholder engagement.

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Acronyms and Abbreviations

5PR	Five Presidents' Report
ASEAN+3	Association of Southeast Asian Nations plus China, Japan and Korea
BE	Bloco de Esquerda (Left Bloc)
BRICS	Brazil, Russia, India, China and South Africa
CDS	Centro Democrático e Social (Democratic and Social Center Popular Party)
CMIM	Chiang Mai Initiative Multilateralization
COSAC	Conference of Parliamentary Committes for Union Affairs of Parliaments of the European Union
CPLP	Comunidade dos Países de Língua Portuguesa (Community of Portuguese-speaking Countries)
ECB	European Central Bank
EFFU	economic, financial and fiscal union
EFTA	European Free Trade Association
EMF	European Monetary Fund
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
ESPAS	European Strategy and Policy Analysis System
EU	European Union
G7	Group of Seven
G20	Group of Twenty
IMF	International Monetary Fund
MIP	Macroeconomic Imbalance Procedure
NATO	North Atlantic Treaty Organization
OECD	Organisation for Economic Co-operation and Development
PCP	Partido Comunista Português (Communist Party)
PS	Partido Socialista (Socialist Party)
PSD	Partido Social Democrata (Social Democratic Party)

Executive Summary

Over four decades, from the 1970s until the early 2000s, convergence in per capita incomes accompanied increased economic and political openness worldwide, suggesting a positive three-way interaction between indicators of globalization, good governance and relative development. There is also evidence that the quality of policy design and the speed of execution of structural reforms is part of good national governance. In that spirit, this paper looks at the implications of the financial crises of the last decade on international governance. Cases in point are the European Union (EU) and the euro zone, as well as the Group of Twenty (G20) and other instances of intergovernmental cooperation across continents. It claims that the European Union turning inward while Germany chairs the G20 would trump the United States appearing more skeptical than China, the previous chair, about the virtuous cycle of governance, globalization and development. Moreover, the complementarity of reforms within and between nations is crucial for both the European Union and the euro zone to continue having global political and economic salience. It suffices to say that inward-looking EU countries, no matter how large, would frustrate the social, democratic and security aspirations of their citizens, including those of the United Kingdom. Accordingly, the presidents of European institutions proposed strategies to address the euro-zone crisis in 2012 and 2015. Stage one of their report, *Completing Europe's Economic and Monetary Union* (often called the "Juncker report" since European Commission President Jean-Claude Juncker "held the pen")[1] ended with a white paper presented as a contribution to the sixtieth anniversary of the 1957 Rome Treaty, but it is no longer clear what stage two will be like. The perspective of Portugal, a mid-sized founding member intent on being a "good student" of regional integration, takes into account that, in spite of the successful completion of the adjustment program in 2014 and a "feel good" factor prevailing about the minority government in place since late 2015, economic prospects remain more uncertain than they would if structural reforms had been sustained.

1 This report is also referred to as the Five Presidents' Report (5PR) as it was written by Juncker in close cooperation with President of the Euro Summit Donald Tusk, President of the Eurogroup Jeroen Dijsselbloem, President of the European Central Bank (ECB) Mario Draghi and President of the European Parliament Martin Schulz. The full report is available at http://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf.

Introduction

Almost 10 years after the global financial crisis, cooperative responses to the global interdependence of national economies in the G20, now chaired by Germany (after China and Turkey), have not managed to dispel the prospect of secular stagnation, especially in a euro zone with vanishing core inflation. First seen as a consequence of the crisis in developed countries that would not spread to emerging markets, it became a global concern in 2016, when growth slowed — not just in the Group of Seven (G7) countries, but also in Brazil, Russia (a G7/Group of Eight member suspended in 2014), India, China and South Africa (BRICS). At the same time, even before the US presidential election, geopolitical threats were rising across the Eurasian land mass, the North Atlantic and the European Union itself, undermining the foundations of the security community created by the North Atlantic Treaty Organization (NATO) in the 1940s and reinforced in the 1990s. Then, a succession of unexpected political outcomes, such as the referendum on the United Kingdom exiting from the European Union, the outcome of the US election and the referendum against constitutional reform in Italy, exacerbated the fears of a return to the beggar-thy-neighbour policies of the 1930s. With the spread of protectionist policies beyond trade and finance, globalization seemed to retreat, even in the North Atlantic. The consequences of successive crises seen as originating from abroad have increased national insecurity in many EU countries, especially those closer to external borders. These threats notwithstanding, the social and democratic aspirations of EU citizens cannot come about if Europe itself retreats from values it championed long ago (Ghosh 2016; Emmott 2017; Stephens 2017).

This retreat may have already begun in 2015, when the two-stage road map proposed in the Juncker report delayed EU treaty changes until the European Commission submitted a white paper in mid-2017. Since the five presidents presented their report, however, the European Council has been dealing with a succession of unexpected outcomes and existential threats, such as the exit of Greece from the euro zone and the unravelling of the Schengen system of internal mobility when the policing of external borders is under stress. As a consequence, official proposals for improved international governance in response to external shocks imply a faster path toward economic, financial and fiscal union in the euro zone and better policy coordination in the G20. This path requires better policy design within and between countries, as well as faster execution of structural reforms. Higher policy quality would take into account the national complementarity of reforms and facilitate both the execution and the multilateral surveillance of reforms. Improved EU and euro-zone governance would help promote better policy coordination with other groups, from the G7/G20 to the BRICS and culture- or language-based groupings such as the Commonwealth, la Francophonie and the Community of Portuguese-speaking Countries (Comunidade dos Países de Língua Portuguesa or CPLP).

In spite of an improving euro-zone economic outlook, the progress of reforms during the first stage has been limited. Also, the white paper presented by the European Commission president ahead of schedule as a contribution to the forthcoming sixtieth anniversary summit (Juncker 2017) chose to list "carrying on" and "nothing but the single market" as scenarios for 2025. This would reverse the "ever closer union" promised in the Maastricht treaty signed in early 1992, during the first Portuguese presidency of the European Council! Equally troubling for the institutions guarding the treaties, among the five "reflection papers" announced to prepare stage two, the one on "harnessing globalization" has no bearing on the matrix of scenarios and policy headings presented in the white paper (ibid., 29; adapted in Table 2). The fear seems to have been that election results in the Netherlands, France and Germany could reinforce the reversion trend, ignoring that those in the four "cohesion countries" (successively Greece, Portugal, Spain and Ireland) illustrated the diversity of political and economic solutions within the euro zone. The Dutch result was reassuring, but there is no way of knowing whether the Franco-German balance emerging at year end will follow the maintained hypothesis of "unity with diversity," which has characterized the European community in the run-up to Maastricht (Bliss and Braga de Macedo 1990).

The rest of the paper is divided into three sections and a conclusion. The first section details the crises since 2008 and their consequences, emphasizing the interaction between internal and external challenges and responses. The second section discusses the complementarity of national policies, the experience of structural reforms and the perspectives for Horizon 2020, suggesting possible improvements in the quality of policy making and in the international coordination of policies. The third section brings in the way in which such crises impacted the idea of Europe expressed by the Portuguese Parliament shortly after the entry into force of the Maastricht treaty by making the case for "positive variable geometry." The fourth section compares policy coordination in Europe and Asia, notably the Chiang-Mai Initiative Multilateralization (CMIM). Such comparisons allow benchmarking with other regional and non-regional gatherings such as the BRICS, the Commonwealth, la Francophonie and the CPLP. The concluding section acknowledges that the salience of geopolitical threats in the neighbourhood, the refugee crisis, the negotiations with the United Kingdom that followed the July referendum and the outcome of the US presidential elections, successively postponed the discussion of steps to improving euro-zone governance at the European Council. The benefits of flexible integration as a way to combine the national, regional and global common good are noted in that connection, consistent with several of the white paper scenarios.

Crises and Consequences

The funding scare of early August 2007 was largely ignored, but the bankruptcy of Lehman Brothers on September 15, 2008, was immediately seen as the global version of the Wall Street crash of 1929; the comparison endures, in spite of many significant differences (Eichengreen 2015). There are excellent accounts of how it spread across the North Atlantic and beyond (for example, Irwin 2013; Bastasin 2015; Blustein 2016). Although the financial crisis triggered international governance innovation, such as upgrading the meetings of top G20 financial officials to the leaders' level, the responses in Europe were slowed by the complexity of the financial architecture of the single currency and the ambiguity of policy responses at the national, EU and euro-zone level. The severity of the crisis also changed the perceptions of economists, because they had ignored the risk of financial meltdown in the advanced countries of the Organisation for Economic Co-operation and Development (OECD). While the G20 quickly agreed on broader policy coordination, to be

Table 1: Economic, Financial and Fiscal Union

Economic	A new boost to convergence, jobs and growth → euro-zone system of competitiveness authorities → stronger macroeconomic imbalance procedure → stronger focus on employment and social performance → stronger coordination of economic policies Formalizing the convergence process	Reforms **and** incentives = Convergence Code
Financial	Completing the banking union Launching the Capital Markets Union	Risk sharing **and** risk reduction
Fiscal	Responsible budgetary policies as EMU's cornerstone A euro-zone fiscal stabilization function	Sound budget **and** fiscal capacity

Source: Juncker et al. (2015) and Buti (2017).

implemented by the International Monetary Fund (IMF), the threat of a sovereign default in the euro zone spread from Greece to Ireland, Portugal, Spain and Italy as European institutions attempted to agree on improved governance.

European Internal Responses

The European Council mandated its newly appointed permanent president, Herman Van Rompuy, to produce a report with the presidents of the European Commission, the ECB and the Eurogroup.[2] The reforms listed in the Four Presidents' Report were complex, but they made it possible for the ECB to announce the unorthodox policy known as "outright monetary transactions," which stopped the contagion (Bastasin 2015).

The road map for better governance continued with the new commission president (Juncker 2015) and the Juncker report, which also included the president of the European Parliament (Juncker et al. 2015; see also Trichet et al. 2014). The goal of the Juncker report is to complete economic, financial and political unions before 2025 through a "broad, transparent and inclusive process… which should begin without delay" (Juncker et al. 2015, 5) because citizens and markets need to see the euro zone "thrive" rather than "just survive" (ibid.). The road map in Annex 1 of the Juncker report detailed two stages. First, making the best possible use of existing treaties through "deepening by doing," namely through a more integrated European Semester and an Advisory European Fiscal Board (Annexes 2 and 3). The left column of Table 1 reproduces the measures to be taken during stage one toward "convergence, prosperity and social cohesion," "integrated finance for an integrated economy" and "an integrated framework for sound and integrated fiscal policies," so as to ensure economic, financial and fiscal union (EFFU).

The measures are listed in the Juncker report after the first section, "Nature of a Deep, Genuine and Fair Economic and Monetary Union," and before the fifth section, "Democratic Accountability, Legitimacy and Institutional Strengthening," which deals successively with: the role of the European and national Parliaments; "consolidating the external representation of the euro"; "integrating intergovernmental solutions within the EU legal framework"; providing a "central steer by the Eurogroup"; and creating a "euro area treasury."

All of these measures would improve governance in the euro zone without treaty change. However, as the right column of Table 1 above illustrates, the objective of the EFFU implies a balance that can only been achieved in stage two, which was to begin after the Commission presented the white paper in June 2017, but it has been replaced by the five scenarios summarized in Table 2.

After the result of the Brexit referendum, EFFU has become more pressing, but since the measures could not be agreed upon among the 27 members,

2 The report, *Towards a Genuine Economic and Monetary Union*, is referred to as the Four Presidents' Report because it was written in close cooperation with José Manuel Barroso, president of the European Commission; Jean-Claude Juncker, president of the Eurogroup; and Mario Draghi, president of the ECB.

Table 2: The Matrix of Five Scenarios and 16 Headings for EU27 in 2025

	Carrying On	Nothing but the Single Market	Those Who Want More Do More	Doing Less More Efficiently	Doing Much More Together
Single market	UP, including energy and digital	UP, for goods and capital	1	UP EU enforcement	2 + UP standards and enforcement
Standards		Standards still differ	1	DOWN, common standards	2 + UP standards and enforcement
Trade	Progressive agreements	NO free movement of people and services	1	EU exclusive	4
Euro zone	MILD progress	FLAT	1+ tax and social standards*	Consolidate stability and social policy	EFFU Union (5PR)*
EMU				DOWN EU employment and social policy	EFFU (5PR)*
Schengen	UP external borders management	NO EU migration/ asylum policy	1	UP border	4
Migration	UP common asylum system	Bilateral security arrangements	1	UP asylum	4
Security	UP security coordination	UP internal border controls	1	UP counter-terrorism	4
Foreign policy	UP one voice	Foreign policy issues more bilateral	1+ defence (military coordination and joint equipment)	One voice	4
Defence	UP defence cooperation	FLAT		European Defence Union*	4
EU budget	Reflect EU27 reform agenda	Refocused to single market functions	1 + additional budgets	Redesigned for new EU priorities	UP, backed by own resources*
Euro-zone budget					Operational euro-zone fiscal stabilization function
A4A	EU27 A4A	Limited	1+ UP A4A	DOWN on tasks to prioritize or give up	UP decision making and enforcement
EU decision making	Too complex	Easier to understand	UP for some	Easier, once in place	How accountable is European Union?
Capacity to deliver	May not always match expectations	Common concerns solved bilaterally	DOWN for EU	UP EU action when it has a role	

Source: Adapted from Juncker (2017, Annex p. 29), and press release (http://europa.eu/rapid/press-release_IP-17-385_en.htm).

Notes: The headings in each row are valued with respect to the five scenarios with colour (green for progress red for regression) and capitals (UP and DOWN); A4A = Agenda for Action; * topic of reflection paper announced on p. 26 of the white paper.

governance has actually worsened. In spite of the catchy title "Repair and Prepare" behind reports launched in early 2015 and late 2016, the latter with a preface by Jacques Delors expanding the task as "Rebalance, repair, consolidate, protect the achievements of the euro" (Enderlein, Fritz-Vannahme and Haas 2015; Enderlein et al. 2016; Enderlein and Haas 2016), there is, unfortunately, a pattern of procrastination, whereby reforms are ignored when the situation improves. The quest for the appropriate mix of reforms and incentives, risk sharing and risk reduction, and sound budget and fiscal capacity described in the right column of Table 1 appeared less relevant, thereby raising fresh doubts about the sustainability of Economic and Monetary Union (EMU) without better governance at the national and union level (Jones and Torres 2016; Bongardt and Torres 2017).

This may have led Marco Buti (2016) to suggest the need for a "grand bargain" composed of completely different policies (for example, migration plus defence plus euro zone) without losing the inner consistency within each policy block. Bridging differences in the reform of the euro zone, in turn, requires an economic logic to address transitions in the enforcement of fiscal rules at the national level, along with more private risk-sharing. This suggestion fits with the need to improve the complementarity of policies at the national and union levels, discussed in the section "Policy Coordination within and outside the European Union and the Euro Zone" and the emphasis on banking and capital market unions. The procrastination on the part of policy makers is followed by "bold measures facing the abyss" and "backtracking when situation improves." For Buti (2016), this reflects the relative weight of fiscal policy, monetary policy and structural reforms in normal and exceptional circumstances, as much as different national doctrines on the institutional design of the euro zone.

Markus Brunnermeier, Harold James and Jean-Pierre Landau (2016, 379) have emphasized shifting "Teutonic" and "Latin" perspectives in the Maastricht negotiations and in the management of crises, so that, in some cases, the "Rhine divide" is overcome, but not in others. In sum, national economic doctrines matter, but their relative weight changes in crisis circumstances — as it should — and, therefore, it may be excessive to reduce them to two.

For example, the list of issues gathered in Table 3 matches the differences in the economic columns, with the Latin perspective on the left and the Teutonic on the right. With respect to institutional perspectives, the differences reflect the same national doctrines, to a lesser degree. There is no clear difference between France and Germany in what pertains to the choice between secondary law and treaty changes or community versus intergovernmental frameworks, and even in the view of euro zone versus European Union. Indeed Brunnermeier, James and Landau (2016, 235–86) list a number of other doctrines, from the Italian to the Anglo-American, Russian and Chinese. With respect to the latter, it claims that "Eurasia" was not an effective "counterweight to American unipolarity," whereas American and Chinese policies "helped to encourage the European proclivity to play games of chicken."

Table 3: Different Economic and Institutional Views on Completing EMU

Economic		Institutional	
Solidarity	Discipline	National sovereignty	Political union
Short-term response	Long-term reform	Secondary law	Treaty changes
Discretion	Rules		
Demand (cyclical/macro)	Supply (potential, growth, structural reforms)	Community framework	Intergovernmental
Symmetric adjustment	Asymmetric adjustment	Euro zone	European Union

Source: Adapted from Buti (2016; 2017).

External Pressures

Globalization, governance and multilateral surveillance mechanisms, such as the G7 and G20, cannot be neglected when looking forward to the completed euro zone — let alone the Horizon 2020 — reforms. Yet, in the Juncker report, there are only two references to the world outside the European Union, both on the last couple of pages. First, the full-time presidency of the Eurogroup, "with the support of all EU institutions," is seen as potentially playing "an even greater role in representing the interest of the single currency, within the euro area and *beyond*" (Juncker et al. 2015, 18; italics added). Second, "in the international financial institutions, the EU and the euro area are still not represented as one. This fragmented voice means the EU is punching below its political and economic weight as each euro area Member State speaks individually. This is particularly true in the case of the *IMF*" (ibid., 17; italics added).

Unrelated to Juncker et al. (2015), the European Strategy and Policy Analysis System (ESPAS) produced another inter-institutional report (mandated by the European Commission, European Council, European Parliament and External Action Service). It identified global trends to 2030 under the disquieting subtitle, "Can the EU meet the challenges ahead?" Similar exercises by the European Commission over an even longer time horizon, titled *Global Europe 2050* (which identified three scenarios — "nobody cares," "EU under threat" and "European renaissance") are acknowledged without discussion (ESPAS 2015, 65, note 135).

The five global trends to 2030 include a richer and older population, and a more vulnerable process of globalization, led by the United States, China and the European Union. It is noted that the United States is less exposed to geopolitical risks at its borders than the two other players. A fragile multilateralism and a growing nexus between natural resources and climate change are also to be expected. In addition to "growth without debt," responding to the economic and technological revolution requires both the single market (including digital, energy, banking and capital services) and enhanced euro-zone governance. However, the political will to apply the policy prescriptions "comprehensively and strategically is still relatively weak" (ibid., 55).

If this is the case in a report focusing on external opportunities and threats, it is difficult to presume that political will could be stronger in the isolated union described in the Juncker report. The report should not have ignored global trends — because Europe has never been isolated and the so-called "fortress Europe" can be equated to a worst-case scenario. Indeed, developments over the last two years have shown that there is no "fortress Europe" whatsoever, in part because disagreements foster divergent national responses — to the point that the United Kingdom voted to leave the European Union.

Once again, this paper considers the perspective of small and medium-sized euro-zone countries that are open to international trade in goods, services and assets, as well as to multilateral surveillance of their policies. The benchmark for international interdependence provided by such countries may be more helpful than that of larger countries, as it should promote higher-quality cooperative responses instead of defensive or exploitative ones (Cooper 1968, 270). That said, awareness of the need to improve the quality of policy design and implementation is also derived from the recognition that the global financial crisis changed the perceptions of economists on both sides of the North Atlantic, and, therefore, acceptance of economic ideas.

The new perception of economists brought back "economic culture wars" about appropriate responses at the national and international level, including those recommended by the G7/G20 for implementation by the IMF. Differing perceptions on the crises were evident among G20 leaders from the beginning. They are illustrated by responses to the question Queen Elizabeth asked during her visit to the London School of Economics in November 2008: "If these things were so large, how come everyone missed them?" (Turner 2016, 241). Among the responses, two stand out. First, the letter to the Queen written by the British Academy implying that politicians believed bankers were engineers and adding that this view was

> abetted by financial and economic models that were good at predicting the short-term and small risks, but few were equipped to say what would happen when things went wrong as they have. People trusted the banks whose boards and senior executives were packed with globally recruited talent and their non-executive directors included

> those with proven track records in public life. Nobody wanted to believe that their judgment could be faulty or that they were unable competently to scrutinize the risks in the organizations that they managed. A generation of bankers and financiers deceived themselves and those who thought that they were the pace-making engineers of advanced economies.[3]

Shortly thereafter, then British Prime Minister Gordon Brown asked then President Luiz Inácio Lula da Silva about the implications of the crisis in Brazil. Unlike the Academy, he ruled out any implications of Brazil in what he called a "blue-eyed" crisis (Wheatley 2009). His retort, widely quoted in the media, seems to suggest that no one saw the global crisis coming because everyone who could have predicted it would have suppressed such a (blue-eyed) crisis. This often neglected "silo effect" (Tett 2015) is incorporated in the *Writing to Queens while Crises Proceed* project (launched in 2009 at the Lisbon Academy of Sciences), where the contrast between North and South perspectives is evident (Braga de Macedo 2015, 25, 120).

In the run-up to the June 2015 meeting of the European Council, the contributions of larger euro-zone countries ranged from very ambitious (from Italy, toned down in a February 2016 contribution by the Ministry of Economy and Finance[4]) to very timid (from France), perhaps so as not to isolate Germany on governance issues. Due to successive emergencies, however, the discussion of better euro-zone governance has been driven by the Commission's initiatives listed in the Juncker report under EFFU, including "the euro area's external representation, to better reflect its weight in the world economy" (Juncker et al. 2015). These initiatives were to be reviewed by June 2016, while the "legal, economic and political aspects of the more long-term measures contained in the report need to be further explored" as "the European Council will come back to those measures at the latest by the end of 2017." The perspective recognizes that aging Europe remains fearful of geopolitical threats in its neighbourhood, and of secular stagnation in developed countries. Without better EU and euro-zone governance, greater openness cannot fulfill the social and democratic aspirations of its citizens. The idea of Europe as a region open to globalization took hold after the fall of the Soviet Union. The 2008 financial crisis was, nevertheless, seen as an external shock that would not affect the resilient euro system, which would be spared from turbulence originating in the United States. Worse, the prospect of Japan-style prolonged stagnation in Europe was dismissed as Asian economies continued to expand. This began to change in 2015, when the financial crisis spread to emerging markets and geopolitical risks increased at the Southern and Eastern borders. This unfortunate trend is likely to continue, making it harder still to divorce the internal and external challenges in the way the Juncker and ESPAS reports have done.

Fortunately, the first section in Juncker (2017), titled "The Drivers of Europe's Future," does include a short section on "heightened threats and concerns about security and borders" (ibid., 11) after graphic evidence on "a changing place in an evolving world" and "a profoundly changed economy and society" (ibid., 8–10). The text highlights the falling share of world population and output, adding the decline of the share of the European Union's two major currencies, the euro and the pound, from 45 percent to 38 percent between 2015 and 2017 (almost matched by the dollar, which fell from 48 percent to 43 percent, while the yen and the yuan rose, from seven percent to 19 percent) (ibid., 8). The data on defence expenditure in 2012 and 2045 drawn from a UK report shows an almost exact reversal between the shares of NATO and Japan (60 percent) and the BRIC (40 percent), whereas the share of the three larger EU countries will fall from 11 percent to four percent, also due to Brexit (ibid., 9). Europe's achievements are: 59 percent of development aid comes from the European Union and Norway (followed by the United States and Canada with 27 percent); it is home to the most equal societies and 15 of the 25 most peaceful countries in the world; and it will be the oldest region in the world in 2030 with a median age of 45, compared to 40 in the United States and 21 in Africa (ibid., 10-11). The last part, titled "A Questioning of Trust and Legitimacy," reports figures from Eurobarometer, whereby 81 percent support the EU four freedoms, 66 percent see the European Union as a place of stability and 70 percent of residents support the euro (ibid., 12-13). Along the same lines, 27 illustrative snapshots of the five scenarios are presented, of which 10 were included in the press release and are reproduced in Box 1.

3 See http://feed-charity.org/user/image/besley-hennessy2009a.pdf.

4 See www.governo.it/sites/governo.it/files/ASharedPolicyStrategy_20160222.pdf.

Box 1: 10 Illustrative Snapshots of the Five Scenarios

Scenario 1: Carrying On (2 of the 5 snapshots)

- → Europeans can drive automated and connected cars but can encounter problems when crossing borders as some legal and technical obstacles persist.
- → Europeans mostly travel across borders without having to stop for checks. Reinforced security controls mean having to arrive at airports and train stations well in advance of departure.

Scenario 2: Nothing but the Single Market (2 of the 6 snapshots)

- → Crossing borders for business or tourism becomes difficult due to regular checks. Finding a job abroad is harder and the transfer of pension rights to another country is not guaranteed. Those falling ill abroad face expensive medical bills.
- → Europeans are reluctant to use connected cars due to the absence of EU-wide rules and technical standards.

Scenario 3: Those Who Want More Do More (2 of the 5 snapshots)

- → 15 member states set up a police and magistrates corps to tackle cross border criminal activities. Security information is immediately exchanged as national databases are fully interconnected.
- → Connected cars are used widely in 12 member states which have agreed to harmonize their liability rules and technical standards.

Scenario 4: Doing Less More Efficiently (2 of the 6 snapshots)

- → A European Telecoms Authority will have the power to free up frequencies for cross-border communication services, such as the ones used by connected cars. It will also protect the rights of mobile and Internet users wherever they are in the EU.
- → A new European Counter-terrorism Agency helps to deter and prevent serious attacks through a systematic tracking and flagging of suspects.

Scenario 5: Doing Much More Together (2 of the 5 snapshots)

- → Europeans who want to complain about a proposed EU-funded wind turbine project in their local area cannot reach the responsible authority as they are told to contact the competent European authorities.
- → Connected cars drive seamlessly across Europe as clear EU-wide rules exist. Drivers can rely on an EU agency to enforce the rules.

Source: Adapted from europa.eu/rapid/press-release_IP-17-385_en.htm.

Reform Complementarity, Now and toward 2020

Benefits of Policy Complementarity

Economists have long debated whether geography or institutions explain economic development, but detailed analyses of how institutions produce policies and interact with each other within and between nations confirm the claim that "institutions rule" (Rodrik, Subramanian and Trebbi 2004; Acemoglu and Robinson 2012). These analyses have been called "the politics of policies" (Inter-American Development Bank 2006) — this has been illustrated by Alex Cukierman and Mariano Tommasi (1998), who asked, "When Does It Take a Nixon to Go to China?"; on the Argentine currency crisis of 2001, Tommasi (2002) claims, "It is not the policy, it is the polity, stupid!" The politics become even more difficult when, due to globalization, governance responses can no longer be confined to the national level.

Recognizing that most pro-market reforms are mutually interdependent has the consequence that changing one without changing another is unlikely to lead to a well-balanced and functional system and the expected benefits may not materialize. In joint work with Joaquim Oliveira Martins and Bruno Rocha (2014), the author shows that the benefits of policy complementarity accrue to developing as well as developed countries. Herein, a matrix of policy complementarity provides examples and underscores the link between reforms and growth, as described in the following paragraphs. Thus, budget stabilization requires large enterprise restructuring in transition countries; banking sector liberalization requires protection of creditor rights/bankruptcy; fixed exchange rates may generate upward pressures in the relative price of non-tradables, which calls for a competition policy/regulatory framework; pension reform through longevity indexation only produces benefits if the labour market generates jobs and old workers are in good health; and increasing tuition fees require individual financing of tertiary education.

Policy coherence is often defined on the basis of non-contradictory effects of reforms or a preference for a broad reform approach. The notion of complementarity goes beyond that. When reforms are mutually reinforcing, a broader reform generates higher returns. Policy complementarity signals a benefit, but complicates policy evaluation because performance of one reform area may be closely related to progress in other policies. This links complementarities with second-best theory, namely the need to remove all distortions simultaneously through shock therapy or, better still, through a radical reform approach: as long as pairs of individual reforms are complementary, doing both reforms has a higher return than doing each separately. In such a system, optimizing can be achieved by increasing all reforms in parallel (but not necessarily in the same proportion), achieving at least half of the potential gains of an unrestricted optimization.

In practice, removing all distortions simultaneously is impossible because of imperfect knowledge, transaction costs and implementation constraints. There are also political economy arguments against very broad reform programs of the shock-therapy type. Sometimes large and uncompressible time is needed to change institutions, and there is a lack of political capital: political cycles are typically much shorter than the time needed to reap the benefits from reforms. Chile and Estonia are small countries that implemented bold and comprehensive reform programs, but most countries adopted gradual paths, producing mixed evidence of the impact of reforms on growth. There are examples from larger entities, but as pointed out above, the cross-country spillovers of shocks are determined by the responsiveness rather than by the size or even openness of the economies.

Flaws in the Lisbon Agenda and the Horizon 2020 Challenge

The Lisbon agenda, also known as the Lisbon strategy, was credited for creating close to 20 million new jobs before the financial and economic crisis hit, as mentioned in Braga de Macedo (2011, 134; updated below). When the economy slumped, the European Union acted to stabilize the financial system and adopted a recovery plan to boost demand and restore confidence. The plan delivered a major fiscal stimulus, with measures to keep people in work and public investment in infrastructure, innovation, new skills for the workforce, energy efficiency and clean technologies to meet the goals of the Lisbon strategy. In fact, more than one hundred indicators were associated with the process, making this instrument ineffective.

Wim Kok (2004) suggested that the European Commission should present to the European Council and the wider public annual updates on the 14 key Lisbon indicators in the format of league tables with rankings, praising good performance and castigating bad performance — naming, shaming and faming. The heads of state or government accepted the principle of "name and shame through league table" — with the exception of themselves. Instead of being evaluated, they appointed a special representative (known as Mr. or Ms. Lisbon) to induce peer pressure and benchmarking and to facilitate exchange of best practice, making better use of key indicators and better communicating the results in order to ratchet up the political consequences of non-delivery.

The structural indicators and targets show the interplay between structural and macroeconomic policy coordination in the knowledge society, the internal market, the business climate, the labour market and environmental sustainability. On the knowledge society, the objective is to increase Europe's attractiveness for researchers and scientists, make research and development a top priority and promote the use of information and communication technologies. On the internal market, the goal is to complete the internal market for the free movement of goods and capital, take urgent action to create a single market for services, improve the business climate, reduce the total administrative burden, improve the quality of legislation, facilitate the rapid start-up of new enterprises and create an environment more supportive to businesses. On the labour market, there should be rapid delivery on the recommendations of the European Employment Taskforce, the development of strategies for lifelong learning and active aging, the underpinning of partnerships for growth and employment. In turn, environmental sustainability would mean growth of eco-innovations, leadership in eco-industry and policies that lead to sustained improvements in productivity through eco-efficiency. Unfortunately, instead of enhancing the complementarity between euro-zone governance and a single market enhanced by the knowledge society, the Lisbon agenda was shelved after the failure of Lehman Brothers.

Instead of setting the strategy for the next five years, fixing a small number of headline objectives and defining the corresponding policy actions to be pursued at the EU and member state level in partnership, as planned, the spring 2010 European Council meeting faced an existential threat to the single currency. The European Union, nevertheless, recognized that, in order to reach its objectives for 2020, it had to act decisively in the G20 and international forums. Relabelled Horizon 2020, this strategy was supposed to produce a full recovery, and help speed up the move toward a greener, more sustainable and more innovative economy. This did not happen, and peer pressure subsided to the point that neither the community method nor the open method of coordination were capable of sustaining structural reforms — let alone augmenting their complementarity. Rather than simply blaming "lack of political will," perverse interactions between national and regional preferences must be acknowledged. In fact, these interactions also have an impact on the interaction between regional and global preferences on the "common good." The role of economic ideas has also been increasingly acknowledged, and is evident in the five scenarios of the white paper presented on March 1, 2017.

Global and Regional Common Good

While the so-called comprehensive, interdependent, self-reinforcing series of reforms never came into being, the complementarities between global and regional common good continued to reflect a recurrent European debate about whether multiple-speed convergence toward union objectives is possible and desirable. One extreme position in the European debate draws on the view of a unified constitutional state, where the common good is defined with minimal room for contractual arrangements at the local level. The other extreme position allows for variable geometry whenever common institutions are undesirable. From the beginning, the European Community attempted to transcend the rigid intergovernmental nature of the OECD or of the G7/G20 (where the contractual agreements include rotating presidencies without permanent secretariats) in the direction of supranational institutions such as the European Commission or the ECB. But the convergence stopped far short of establishing community-wide democratic legitimacy, not least because the ECB and the Eurogroup have diverse memberships, and the latter was not even recognized as an institution until the entry into force of the Lisbon treaty, more than one year after the collapse of Lehman Brothers.

The United Kingdom before the exit referendum did not see better euro-zone governance as complementary to a broader and deeper single market, and this slowed the progress of the financial union as much as Germany's insistence on the need to retain national fiscal backstops.

In any event, the institutional framework has become more and more complex since a union with three pillars was created at Maastricht, combining the community method with contractual arrangements. The complexity was such that even the alleged benefits of flexibility were lost and this is why the draft European constitution approved in 2003 by the Convention on the Future of Europe abolished the three pillars and favoured schemes of enhanced cooperation, which were reinforced in the 2007 Lisbon treaty and became applicable to defence. The implementation of the EU-NATO joint declaration began in late 2016 with the Bratislava declaration, which states the March 2017 celebrations of the sixtieth anniversary of the Rome treaties "will be used to round off the process launched in Bratislava, and set out orientations for our common future together."[5]

Francesco Giavazzi et al. (1995) presented the case for flexible integration, contrasting depth of integration with flexibility. For any given number of member states, there is a trade-off between the freedom to enter into contractual agreements, which include some members and exclude others, and the ultimate requirement of "one person, one vote," which would be associated with a new state emerging from the integration of all members. The two dimensions of the trade-off are economic efficiency and executive performance, on the one hand, and legal status and legislative activity, on the other. Reinforced cooperation balances union and national policies and could be applied to euro-zone governance, but this is one of the points raised by the planned UK referendum on leaving the European Union. Another reason why the intended trade-off has not worked is certainly the large number and diversity of new member states.

André Sapir (2015), who is also one of the authors of Giavazzi et al. (1995), focuses on the need to reduce the heterogeneity in labour market outcomes and in fiscal policies to permit the creation of new common mechanisms. Once again, the Eurogroup, whose role was only recognized on the eve of the euro-zone crisis, continues to be severely limited in its ability to commit EU institutions. Its president chairs the board of the European Stability Mechanism (ESM) — a risk-sharing institution that already performs some of the roles of a European Monetary Fund (EMF) and shows that a fiscal union is not a necessary condition for risk sharing, but such a fund is postponed to stage two in the Juncker report, although "reinforcing the steer of the Euro group" should happen before spring 2017.

Barry Eichengreen and Charles Wyplosz (2016) understand resistance to pooling responsibility for provision of public goods such as fiscal coinsurance and a well-regulated banking system — even if they could be provided more cheaply at the European level. They appeal to the economic theory of clubs and to evidence of undersupply of public goods in US localities where the population is heterogeneous, so that each group is reluctant to pay additional taxes for fear that they will pay for public goods "valued by other groups but not by itself."

To repeat, since the 2008 crisis, the European Council has often been confronted with urgent matters that required governance innovation and led to stop-gap measures instead. As debates on Brexit follow those on Grexit and the threats to the Schengen process seem insurmountable even in Germany, the need to make policy blocks such as migration and defence complementary to the reform of the euro zone turns into an existential challenge, even for those outside of it and indeed of the European Union itself. In this respect, Portugal's adjustment is "neither as bad as in the basket cases, nor as 'good' as in Ireland" (O'Rourke 2015, 448).

The Portuguese Idea of Europe, before and after the 2008 Crisis

From the European Free Trade Association to the Euro Zone

Most small and medium-sized European economies have prospered most when they manage to be open to trade in goods, services and assets with each other and the rest of the world. As such, they have been at the forefront of globalization since the 1960s, when international economic interdependence spread within the North Atlantic security community

5 See www.consilium.europa.eu/en/policies/future-eu/bratislava-declaration-and-roadmap/.

and even beyond as the OECD expanded to include Mexico, Korea and central European countries. Through the European Free Trade Association (EFTA), Portugal participated in the process from the beginning — but without mutual political responsiveness until the 1970s, when a bloodless military coup (known as the "Carnation Revolution") received support from European partners. However, the economy soon became less sensitive to trading partners because the 1976 Constitution made the widespread nationalizations decided by the Revolutionary Council in 1975 "irreversible conquests of the working classes." Moreover, the two major political parties in favour of joining the European Common Market (the Socialist Party [Partido Socialista or PS] and the Social Democratic Party [Partido Social Democrata or PSD]) did not manage to agree on amending the economic constitution, so as to reverse the nationalizations, until the end of the Cold War, five years after accession. At the time, both parties were led by economists, but the PS soon replaced Victor Constancio, who became a central banker, while Cavaco Silva's PSD governed until Antonio Guterres, an engineer, won the 1995 elections.

Macroeconomic policy was also ambiguous: the domestic currency joined the European Monetary System grid in April 1992, but successive Portuguese governments failed to reform budgetary procedures and open the economy; growth faltered and sizable macroeconomic imbalances showed that the economy generated "insufficient saving relative to investment and government spending" (Dornbusch 1980, 23). This can be illustrated by cumulating these aggregates as a percentage of national output and comparing them to inflation and growth: Richard Baldwin and Giavazzi (2015) express the four variables relative to the euro-zone average over the period 2000–2007. Going one step further, the variables can be arranged to express the difference between private savings and private investment, on the one hand, and the relative variation in nominal income growth, on the other. If the sum of the twin macroeconomic imbalances is positive, private savings are larger than private investment, to the tune of 44 percent of national income in the case of Germany and 13 percent in the case of Italy. All four have a deficiency of private savings (about 50 percent in Spain, 40 percent in Portugal and 30 percent in Greece and Ireland). However, the cumulative external deficit of Portugal and Greece (about 70 percent of output) piles up on the cumulative budget deficit (30 percent and 40 percent, respectively) whereas a cumulative budget surplus is recorded in Spain and even more so in Ireland. With respect to nominal income growth, it is strongly positive in Spain, Greece and Ireland (where cumulative excess inflation is close to 10 percent and excess growth around 10 percent, 20 percent and 30 percent, respectively), zero in Portugal (with six percent inflation and negative six percent growth) and –10 percent in Germany.

What had been a gradual regime change toward stability and convertibility in the 1990s turned into what can be called a "euro hold up" combined with an "interest rate free ride." Imbalances and slow growth were ignored until the PS minority government finally requested a bailout from the European Commission, the ECB and the IMF in April 2011, and a very demanding Memorandum of Understanding was accepted by the PSD and the Democratic and Social Center Popular Party (Centro Democrático e Social or CDS) but not by the Communist Party (Partido Comunista Português or PCP) and the Left Bloc (Bloco de Esquerda or BE). During the adjustment process, however, the economy managed to reverse the external deficit, improve competitiveness and attract foreign investment, becoming more open to trade with European partners and the rest of the world. From 2011 to 2015, the Strategic Council for Open Economy, chaired by the prime minister and supported by the Agency for Foreign Trade and Investment, debated reforms pertaining to four major "doing business indicators" (getting credit, obtaining licences, paying taxes, trading abroad) in partnership with business associations and reflecting a "whole of government" view (Braga de Macedo 2015, 117).

Portugal did not relent on euro-zone governance reform either. In the closing address at the State of the Union conference convened by the European University Institute on May 8, 2015, the leader of the PSD, then Prime Minister Pedro Passos Coelho (2015), pointed the way toward "a EZ architecture we can trust." The approach is consistent with three other initiatives. A document was distributed to the General Affairs Council on March 28, titled "The Missing Piece in the Economic and Monetary Union Puzzle: Economic Policy Coordination" (Maçães 2015). A seminar on Governance and Policies for Prosperity in Europe was held at the Ministry of Finance on April 10, to discuss issues relating to "Which governance architecture?," "What institutions?" and "What future for politics in Europe?" A conference on Growth and Reform in Europe in the Wake of Economic Crisis was held at Banco de Portugal on May 9, dealing with "National institutional architecture reform and crisis management" (Sapir 2015) and "Winners and losers in reform processes" (Frieden 2015).

Contrary to the quest for better euro-zone governance, the domestic reform momentum subsided after the October 4 general elections. The coalition led by the PSD obtained more votes than the PS, but António Costa, a lawyer, obtained the separate support of the BE and the PCP for a minority government, sworn in two months later as President Cavaco Silva's second mandate was ending. The new prime minister vowed to reverse course on structural reforms, defined as "drivers of impoverishment." Even before evidence on the implementation of the national reform program and the stability program, the newly elected president of the republic, an academic and former PSD leader like his predecessor, actively helped the government maintain the reputation for financial stability. The experience since December 2015 is original on other grounds as well: a PS minority government elected on a pro-European platform has managed to receive systematic parliamentary support from two anti-euro-zone parties who rarely manage to agree with each other on specifics. The experiment, known as contraption (*geringonça*), reversed a number of privatization measures in urban transport and aviation — which were seen as "pro-austerity" because they had been resisted by the radical trade union, the General Confederation of Portuguese Workers (Confederação Geral dos Trabalhadores Portugueses). In addition, attacks on the effectiveness of banking supervision by the Bank of Portugal in connection with the resolution applied to Banco Espírito Santo and Banco Internacional do Funchal were followed by a haphazard handling of the largest bank, state-owned Caixa Geral de Depósitos, so that the government's competence was questioned. The significant worsening in the banking sector was blamed on the previous government and the eventuality of another debt crisis in the euro zone has been persistently denied, but international creditors, financial markets and rating agencies agree that the combination of low growth, a fragile banking sector and large public debt has already lasted longer than expected (Wise 2017). Olivier Blanchard and Pedro Portugal (2017) agree that the recovery remains fragile because of low growth and high public and private debt, but the claim that it can be strengthened because output remains further below potential than estimated. Current account balance at potential output returning to pre-euro levels confirms the widespread impression that Portuguese economic performance is unremarkable, indeed "a bit boring" (O'Rourke 2015, 448).

Multiple Allegiances and Partnerships

The Portuguese idea of Europe reflects a history of multiple allegiances, which often appear to determine the nation's identity over and above the will of its people. In other words, multiple allegiances are a destiny — or fate — rather than a choice. This alleged fate supports a recurrent ambiguity between a sense of belonging to Europe and a sense of greater proximity to Africa and Latin America. When this ambiguity generates a positive response, the Portuguese are capable of combining their allegiance to Europe with their allegiance to other cultures, especially those where the Portuguese language is also spoken — so-called Lusophonia (*Monocle* 2012, 258; 2017). On the contrary, there are times when competing allegiances lead to defensive responses and ambiguous stances. Like the donkey of Buridan, who died because it did not know whether it was thirstier or hungrier, the Portuguese can falter under the weight of their destiny. Instead of combining their European and Lusophone status, they may wonder whether they are more European or more Lusophone, thus feeling collectively incapable of fully achieving either. Instances of both societal attitudes can be found over the history of Portugal since the English alliance of the late 1300s and the maritime expansion in the early 1400s. The resistance to the Napoleonic invasions led the Crown to Brazil, whose independence was recognized when a constitutional monarchy was declared in the 1820s. Cycles of identity and ambiguity continue to this day. The scramble for Africa in the 1880s ended with a British ultimatum. The monarchy fell in 1910 and led a period of great instability, until a military coup opened the way for a constitutional dictatorship in the late 1920s. Portugal became a founding member of NATO in 1949, shared in the movements of European economic cooperation induced by the Marshall Plan, and was a founding member of the EFTA and the OECD. A period of ambiguity followed, because the inability to relinquish political control over five African territories, Macau and Timor, did not prevent trade, investment and migration from being directed to Europe. As mentioned, the military coup did not end ambiguity until the 1990s.

Aside from putting a greater emphasis on Europe's openness to the Atlantic and beyond, the Portuguese idea of Europe was predicated on the solidarity expected in connection with the single market. This solidarity was evident in the additional structural funds agreed to at the Hanover European Summit in 1988 as an adjustment mechanism for Greece, Ireland, Portugal and Spain, which would become eligible for development assistance under the Cohesion Fund created at Maastricht in 1991. Although the eastern enlargement of the European Union greatly increased the number of recipient countries, Portugal did not change its idea of Europe until the epicentre of the world financial crisis reached its west coast and, in particular, the euro-zone "stressed countries," the four cohesion countries plus Cyprus, Italy and Slovenia. The effect of the 2008 crisis on developing countries was blurred by the seeming decoupling of emerging markets from the North Atlantic. Also, contagion from Greece and even Ireland was not expected by the Iberian governments, although, like Greece, Portugal presented macroeconomic imbalances and, like Ireland, Spain experienced a real estate bubble.

The new law on parliamentary review and evaluation of European affairs called for by the entry into force of the Maastricht treaty in late 1993 having obtained unanimous approval on April 21, 1994, a resolution was tabled, consistent with the thirteenth declaration to the treaty. It stressed that the partnership between government and Parliament should complement the Conference of Parliamentary Committees for Union Affairs of Parliaments of the European Union (known as COSAC, its acronym in French) of all national parliaments and the European Parliament. Accordingly, law no. 20/94 of June 15, 1994, stimulated the analysis and debate of the main issues to be addressed in the Amsterdam treaty. The objective was to comprehend Portugal's idea of Europe in a way that could guide the negotiating stance of Portuguese delegations in all institutions dealing with the revision of the treaty.

Since elections were to be held in late 1995, the partnership was in the interest of the PSD and the PS. Parliamentary debate on these matters started while preparing for the tenth COSAC. Indeed, resolution no. 21/95, of April 8, 1994, was voted at the plenary session by a consensus broader than the treaty itself because the CDS voted in favour. Also, in the vote on February 7, 1995, the Committee for European Affairs was unanimous on five of the six articles, although the PCP voted against as a matter of policy (Braga de Macedo 1995). The review process, deepened and widened by law no. 43/2006 of August 25, 1995, maintained the double partnership with the national government and COSAC. Since then, however, the Foreign Affairs Committee, as well as the Budget and Finance Committees, overshadowed European Affairs in parliamentary procedures. The relevance of the latter follows from the specificities of the euro zone — which greatly complicate the functioning of the European Union (Kreilinger 2016; Verhelst 2014).

Given scenarios three to five of the white paper, it should be emphasized that the 1995 resolution favoured positive variable geometry in connection with the single currency and the free movement of people. With respect to both, Portugal and Spain were closer to the core than founding members (such as Italy) or countries with a better reputation for convergence (such as Ireland).

Moreover, ELO, a business association representing African-oriented Portuguese firms, as well as those interested in more business with Brazil, lobbied to include an economic dimension in the CPLP from the beginning, and led gradually to a broader awareness of the potential of nine Portuguese-speaking countries and their areas of regional integration, chiefly the European Union, together with Lusophone communities across the globe (Araújo and de Figueiredo 2014; Barroso 2015). Speaking of "global" Lusophonia suggests that the culture-based organization must learn to communicate in English — so that its views become relevant to some of its G20 observers, such as Japan or Turkey, and to the world at large.

Under pressure to export, the business community has also begun to look at the opportunities offered by combining the Portuguese-speaking and the European markets. Although the severe adjustment imposed by the European Union and the IMF as creditor institutions was completed in mid-2014, its social costs will not be recovered unless the greater openness and competitiveness of the national economy in knowledge-intensive activities is anchored in the reform of public administration. Improved business environments and better governance should sustain economic recovery across the Portuguese-speaking and European markets.

Evident from the multiple allegiances of its citizens, the Portuguese idea of Europe goes beyond economics. Like the CPLP, it includes finance, defence, science and technology, as well as culture. This vision differs from other national visions, in particular in terms of the salience of neighbourhoods, although the globalization of Europe is now shared across the membership. According to Richard Rose (2013, 137), "European states are now embedded in an irregular polyhedron with many sides. Each side represents a different policy concern of the states involved." Portugal's side, bound to be determined by its membership in the CPLP, must overcome a European foreign policy "with too many voices" (ibid.). In this regard, Ken Clarke (2016, 360) likens Portugal to Greece because he does not recognize Portugal as a "good student," whereas George Papaconstantinou (2016) argues that Greece also tried to make the grade.

Economic policy coordination must be emphasized, together with calls on member states to recognize that cross-border coordination creates positive spillover effects and that, in the case of structural reform, a valid constituency exists beyond their borders. Hence the idea that economic policies and structural reforms with significant spillover or coordination "dividend" or, more generally, which promote greater policy convergence, benefit from adequate incentives from fiscal guidance at the EU level. As euro-zone rules require governments to meet targets for public sector deficits that give special credit for efforts to make reforms to the underlying structure of their economies, they implicitly recognize the benefits of reform complementarity.

For example, the Juncker report recommends that efforts to create a single market in digital services be recognized in euro-zone rules. In assessing these proposals, the benefits of policy complementarity should be made explicit, because they sustain a particular policy course and make policy reversals less likely, as explained in the following section.

Policy Coordination within and outside the European Union and the Euro Zone

Notwithstanding flaws in past and current reform strategies, including the methods of coordination used in the Lisbon agenda, the European Union remains the most ambitious attempt to promote rules of good conduct among its members — thus helping provide lessons for other processes of regional integration. While there are examples in Africa and South America, it is in Asia that the logic of economic cooperation has proceeded most among sovereign states with tense political relations, in contrast with the mutual political responsiveness assumed among NATO and even OECD members. Moreover, three of the five BRICS are in the Eurasian land mass.

Indeed, cases inspired by European integration reveal the importance of groupings that do not duplicate existing multilateral institutions but rather supplement them. For example, the Association of Southeast Asian Nations plus China, Japan and Korea (known as ASEAN+3) Macroeconomic Research Office began in 1997 as informal meetings of finance ministers or central bank governors in response to the Asian financial crisis. It became an international organization in late 2014, serving as the regional macroeconomic surveillance unit of the CMIM. The purpose of this grouping, backed by swap agreements between members, is to monitor and analyze regional economies and to contribute to early detection of risks, swift implementation of remedial actions and effective decision making of the CMIM. Yet, like the reinforced cooperation schemes in the European Union, equivalent procedures have not been used among ASEAN+3 countries. Moreover, G20 economic reviews and policy dialogue are supported by the IMF, through the Mutual Assessment Process. While these CMIM and G20 procedures may reflect some minimal peer pressure, peer reviews are entirely absent from the BRICS, and only South Africa, the most recent member, is bound by the African Peer Review Mechanism (Braga de Macedo 2015, 124).

The absence of a peer review culture outside of the European Union and the OECD is also troubling because globalization has become more polarized, multilateralism more fragile and the nexus between natural resources, energy and climate change more threatening. The required cooperative responses to interdependence of the security community have, therefore, become more challenging worldwide. This applies to the G20 and to the "economic G3" identified in the ESPAS report, but the potential for China, the European Union and the United States to be better coordinated has not been realized yet, in part because the three have multi-level governance structures. The United States has a federal structure and China a unified government, but only the former has well-functioning markets for goods, services, capital and labour. On the contrary, operating a single market in goods and services in China requires some form of subsidiarity, given not only its sheer geographical and human size, but also the limited financial development associated with its income per capita. In this regard, the debt ceiling for local governments introduced at the end of August 2015 should complement measures for the capital and foreign exchange markets in a way that can be understood by domestic and foreign investors, thus contributing to long-run economic sustainability. Once again, without complementarity, structural reforms can backfire, as they have in EU countries, both large and small. Another danger of only focusing on very large units such as the so-called economic G3 comes from their weight in multilateral institutions, such as the IMF.

Although such institutions are rarely complementary, even when the shareholders are largely the same, they play a crucial role in spreading the results of alternative policy paths among their member states. The wide acceptance observed suggests that national policy makers stabilized, liberalized and privatized the economy in part because they saw other policy makers do the same. In other words, the quality of policy is even more important when international comparisons are required because of what a recent IMF blog calls the elusive quest for international policy cooperation. Blanchard, Atish Ghosh and Mahvash Qureshi (2015) note that most instances of international cooperation are due to fear and this feature of international relations was already present in Cooper's (1968) analysis when he grounded economic interdependence on the existence of the North Atlantic security community. Asia's interdependence has proceeded apace, to the point that just before the crises it traded more with the United States and European Union than they traded with each other, but financial flows are far more limited (Braga de Macedo 2015, 115).

Trying to make other dimensions of the single market, such as energy, education, digital, unemployment and social security, become operational by combining the community method with intergovernmental cooperation is consistent with the suggestions in Kok (2004). The surveillance and enforcement mechanism set up in December 2011 as part of the so-called "six-pack" legislation, reinforced economic governance in the European Union/euro zone, called the Macroeconomic Imbalance Procedure (MIP).

The MIP has a preventive and a corrective arm. The latter is made operational by the Excessive Imbalance Procedure, which can eventually lead to sanctions, such as interest-bearing deposits or fines, imposed by reverse qualified majority voting so that states cannot form a blocking majority as easily as in the past. The MIP's Alert Mechanism Report, based on a large scoreboard of indicators, is a filter to identify countries and issues for which an "in-depth review" is deemed necessary. The outcome of these reviews forms the basis for further steps under the MIP, whereby a graduated approach is followed reflecting the gravity of imbalances. Nevertheless, the interplay between flexibility, or resilience, partnership and convergence, as well as the interplay between external and domestic imbalances has become stronger. Moreover, the banking union is incomplete without single deposit insurance and there is no capital market union. Because of the absence of a single market for corporate control (Giovannini et al. 2015), even when technology is available in the European Union, bringing to market often has to be done in the United States since initial public offerings do not seem possible in Europe.

In this regard, a striking recognition of the need to keep the European Union open to the rest of the world comes from the macroeconomic rebalancing that has taken place since the euro-zone crisis: countries with external deficits have moved to a balanced position so that the euro zone now runs a significant current account surplus and "from an aggregate point of view, internal imbalances have been replaced with external imbalances." (European Commission 2015, 5, together with Juncker 2015 and the Juncker report mention the analytical note presented at the informal euro-zone summit in February 2015). The story is familiar: diverging competitiveness trajectories and imperfect financial integration led to a gradual build-up of imbalances, which ended in a sudden stop so that it seems the single currency delivered suboptimal results through boom and bust. Improving national policies by reinforcing budgetary rules and economic coordination, implementing structural reforms and closely aligning wage levels with productivity has also not managed to promote investment or create employment.

The task of completing the single market will complement that of regaining competitiveness via deflationary adjustment if it creates room for fiscal intervention to foster convergence. This complementarity implies acknowledging that the current euro-zone macroeconomic position is undesirable at the global level, as well as internally. In effect, orienting that fiscal intervention toward further deepening the single market and delivering European public goods could curtail the need for future fiscal intervention. That is again the call made in the Juncker report for "growth without debt," although it requires increasing the quality and effectiveness of public policies instead of the continued resort to piecemeal approaches, with limited execution. Cases in point are joint investment programs of the European Commission, as well as the bailouts to euro-zone members under stress.

In other words, the prerequisites for complementary reforms at the euro-zone level would be met if the resources were drawn from economic sectors with a strong transnational dimension and that have gained most from the single currency. This is the case of several areas of interaction of the single market and the knowledge society, including the simple, standardized and transparent securitization proposed in 2015 by the Commission. Such small steps toward positive convergence should reinforce the irreversibility of the euro. For example, depoliticizing the ESM would bring it more in line with a true EMF (Coelho 2015; Ministry of Economy and Finance 2016). Once again, the Eurogroup could still apply full conditionality to lending, but it could dampen political arguments between creditors and debtors as well as fractures along national lines if there were a permanent chair that would interact with the ECB.

Conclusion

The ESPAS report describes geopolitical risks in the European Union and China as being more severe than for the United States, predicting "important impacts on national security especially in Europe, with possible destabilizing effects" (ESPAS 2015, 46). It observes that "the global humanitarian system shows signs of reaching a breaking point. According to political developments, new waves of migrants to Europe should be expected. Jihadist terror groups and Al Qaeda have not been suppressed; of the over 2000 European foreign fighters in Syria, many may return, with direct and serious security implications.... Climate change, war, famine and state failure...may increase the internal political pressure on the European Union to try to fix its frontiers more definitively regarding immigration flows, both legal and illegal" (ibid., 69).

In addition to these geopolitical risks, the economic outlook within the European Union itself remains subdued and a growing euro-zone surplus is expected under secular stagnation (Teulings and Baldwin 2014). Among the responses to the economic and technological revolution listed in the Juncker report, progress in the single market in areas such as digital and energy are certainly part of a complementary reform of euro-zone governance. This also means that if progress is not achieved on the banking union and the capital market union, policy reversals cannot be excluded at the national and union levels. This is, once again, where the Grexit and Brexit prevented progress on better euro-zone/EU governance, even before the worsening of the refugee crisis.

In the Eurobarometer surveys regularly published by the European Commission,[6] the constant net support for the euro at around 40 percent over the last 10 years contrasts with a net trust in EU institutions, which declined from 30 percent to zero during the same period. The comprehensive progress toward reducing budgetary imbalances and the resilience of the banking sector, with credit supply easing and credit demand improving, should be noted. However, the strong divergence between the euro zone and the United States on changes in GDP per capita and the unemployment rate since 2011 was augmented by the striking divergence within the euro zone between the seven "stressed countries" mentioned above (Cyprus, Greece, Ireland, Italy, Portugal, Slovenia and Spain) and the rest (Smets 2015). This divergence is reflected in the trust measures of the two categories of countries revealed by the same surveys, declining especially among euro-zone debtor nations and unskilled, less-educated respondents (Frieden 2015).

Presentations of the first panel at the Ministry of Finance seminar mentioned above underlined the advantage of reforms without treaty changes such as those advanced in Giancarlo Corsetti et al. (2015). This was also the approach presented in the Juncker report, whereby "the Commission

6 Available at: ec.europa.eu/public_opinion/index_en.htm.

will present a White Paper in spring 2017 assessing progress made in Stage 1 and outlining the next steps needed, including measures of a legal nature to complete EMU in Stage 2" (Juncker et al. 2015, 5), at the latest by 2025, and the "European Council is invited to endorse these proposals at the earliest occasion" (ibid., 18).

However, during successive European Council meetings, Grexit and Brexit overtook calls for better international policy coordination, whereas in September, yet another road map for the security and defence dimensions was approved in Bratislava (note 5 above). According to the ESPAS report, political will is needed to tackle "a more vulnerable process of globalization with a fragile multilateralism and a growing nexus between natural resources, energy and climate change" (ESPAS 2015, 55). Since political will is issue dependent and the various policy blocks are not brought together in the white paper, a "grand bargain" has not emerged and implementation of stage one measures in the Juncker report has suffered. Since the salience of humanitarian and security issues at the southern and eastern borders fits the worst-case scenario (called "Europe under threat") of the *Global Europe 2050* report, stage two of the Juncker report must aim for the Renaissance scenario, since the "nobody cares" alternative has already become counterfactual. After the French presidential election, consistency between migration, defence and euro-zone reforms became more likely between France and Germany, while the threat of a disorderly Brexit also increased. Equally significant for a country like Portugal is the issue of whether the agreement between the two major players will be acceptable in the rest of the euro zone, and the union at large

The Portuguese experience before and after the crisis demonstrates that its idea of Europe changed in 20 years because the European Union changed more than Portugal. The rejection of the coalition government led by the PSD did manage to minimize the transition between governments relative to Spain or Ireland, at the cost of a reversion in structural reforms. The perspective of a mid-sized founding member intent on being a "good student" of regional integration, should take into account that, in spite of the successful completion of the adjustment program in 2014 and a "feel good" factor prevailing about the minority government in place since late 2015, economic prospects remain more uncertain than they would be if structural reforms had been sustained. That said, if the 1995 resolution on the European Union were to be tabled again, it should muster the same support.

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Postscript

On May 31, 2017, shortly after the paper was finalized, a reflection paper on the deepening of EMU was presented.[7] In his speech, Valdis Dombrovskis, the European Commission's vice-president for the Euro and Social Dialogue, dealt with EFFU as presented in Table 1 and the last column of Table 2.[8] Pierre Moscovici, commissioner for Economic and Financial Affairs, Taxation and Customs, addressed the issues of governance and accountability, especially relating to the last five rows of Table 2.[9] He began with a "political" appraisal in French, taking stock of the presidential election, zeroing in on scenario 5 of the white paper and concluding: "The euro is already a symbol of unity and a guarantee of stability for Europeans. We now need to make it a vehicle for shared prosperity...the journey we started at Maastricht towards a genuine economic and monetary union, with strong institutions and democratic accountability. We have put forward...a strong framework for Member States, the European Parliament and all other actors to take forward this crucial debate. We are looking forward to engaging with them."

7 See https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union_en.

8 See http://europa.eu/rapid/press-release_SPEECH-17-1478_en.htm.

9 See http://europa.eu/rapid/press-release_SPEECH-17-1479_en.htm.

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