

## POINTS FOR A PROGRESSIVE EUROPEAN AGENDA

This document tries to offer a contribution to the elaboration of a **new vision of Europe's future**, in a moment of profound crisis, **shared by the progressive "think tanks" of several countries**. An economic crisis that for its huge extent, and violence of its effects, is reshaping values and policies upon which for more than two decades, Europe's process of economic and financial integration, has been based in view of its political union: free trade, knocking down of barriers, regulation of open and concurrent markets, utilized as instruments to make strong and competitive our economies, a model of welfare capable to evolve and to accompany the most vulnerable ones and protect them from poverty and, above all, from the new risks of social exclusion, caused by a globalized economy where the greatest dangers lie in the fact of being excluded from education, knowledge and access to the media.

It is upon a **balance between competition and solidarity** that should be built a society of cohesion and comprehensiveness, capable to renew in the 21st century the dream of peace, that originated the visionary invention of the founding fathers of the European Union.

All that is today reconsidered, by the light of the global crisis, that imposes new strategies and new solutions that seem to sweep away some of the pillars of the European construction.

That said, **this crisis could transform itself in an extraordinary opportunity for Europe**, just because its wideness and depth unequivocally reveal how inadequate our national answers can be.

Even to the most sceptical countries, and to the most mistrustful citizens, Europe appears today as the one and only adequate dimension to face the global crises.

So from the crisis could come out a **stronger Europe**, just because **sustained by a broader people's consensus**. Provided that also the **progressive political forces**, such as Socialists, Democrats, Liberals and Environmentalists, might be able to **renew**

**themselves**, and surmount the traditional borders of the twentieth century's policies and ideologies in order to share a common project and face the challenges of the globalization.

The document indicates some **topics that should be the key-points of a common agenda for the next European Legislation:**

1. A single European point of view and a single voice of Eurozone in the world
2. European regulation and centralised European financial authority
3. The pillars for a new European growth
  - a. Climate policy from the European perspective
  - b. Scientific research in the European Union
4. The reform of the European budget: more resources to the new pillars for growth and competitiveness
5. European strategies to tackle the social impact of economic crisis
6. Europe responses to the challenges coming from the new American multilateralist approach
7. Stronger and more credible institutions to pursue the strategic agenda for growth and competitiveness.

## 1. A SINGLE EUROPEAN POINT OF VIEW AND A SINGLE VOICE OF EUROZONE IN THE WORLD

### *One common representative within all the International Organisations*

The serious crisis we are going through has once again revealed the distance that divides the potential role of Europe from the international scene, and the actual influence that Europe is able to exert.

Under many respects **Europe is a great global economic actor**. The Euro is the second most important international currency and the EU the greatest exporter, the major investor and the most important world trade. Not to mention Europe's importance as a financial centre and (together with the United States) as a primary source of regulations and standards that rule the international markets.

But Europe is also a "**fragmented power**", since its institutions and States members don't always agree on how to exploit and/or to protect at an international level such economic strength. As a result of all that, over the years, the actual ability of Europe to represent within the international scene its interests as a whole and of each single State member has strongly weakened.

During the last decade, for example, the configuration of the **International system of payments**, that has always been pivoting around the current American deficit and the symmetrical Chinese surplus, has led first to a situation of precariousness and then of serious crisis, whereby **Europe** has ended up playing a **role of "Residual Country"** into which all the unbalanced payments of other countries have been poured.

Also in the **international financial system** the weight of Europe is very significant, but its influence and ability into moulding the financial regulation system is yet very modest. During the negotiations that took place at the G20 meeting, in Washington last November, aiming at the definitions of the new rules that should secure a more efficient governance of the world economy, within the next few year, the European States have appeared in open order and with relative fragmentary proposals. Whereas it is obvious that if Europe were able to speak with **a single voice**, would have a **sufficient critical mass** not only to define common standards but also to transform them, when shared with the U.S.A. in global standards.

From the institutional point of view, it is very clear, that **Europe** (or the Euro zone) should have **one common representative within all the international organisations**, to begin from the Monetary International Fund and the World Bank.

One and only common representative would allow to reach a double target: (i) to increase Europe's weight in the international decisions (ii) to cause a greater

participation on behalf of the emerging countries, increasing automatically their weight in terms of votes within the same institutions.

The Monetary International Fund and the World Bank are governed by Boards where the U.S.A. hold the most conspicuous quotas that exceed the 17%. If Europe had only one voice with an equivalent weight, it would certainly have a decisional role in all the deliberations of the Board, but unfortunately up until now it hasn't been able to exploit such an opportunity.

The main reason of this fragmentary situation, being the fact that the **European States**, big or small, **haven't yet reached sufficient homogeneous interests**, in order to give up their own sovereignty, in terms of a common representative within the multilateral institutions, neither in the formal ones, nor in the informal ones such as G8 or G20.

At an international level there are however some **pressures for a change**.

First of all the changes within the distribution of the World economic power are rapidly reducing the roles that the European States, big or small, will be able to play on a global scenario. **In the future the world economy** will be probably based on a **multi-polar system** that will comprehend United States, Europe and the new emerging poles such as China and India. A successful role could be played by the European States, only through a strong, powerful and above all common voice.

Secondly, as above mentioned, a one and only representative could lead to a greater responsibility on behalf of the emerging countries, within the global governance and push towards a **reform of the international institutions**. Europe would benefit significantly of the progress, because in a multi-polar system without strong institutions and rules, would risk to pay, as it has already happened in these last years, for choices made by others.

Furthermore it must be said that if the EU wants to improve its influence on the international scene, it will be fundamental to speak with one and only voice, but that shall be done with an **efficient and decisive strategy** towards the new multi-polar context.

The field of the **international commercial relationships**, offers an emblematic case in this respect. In this area, the EU countries have a **common representative** (a European Commissioner) but in this last few years we can't speak of a valid unitary European strategy. In this case **a new global role for Europe**, means the ability to move towards a double direction:

On one side, in a multilateral ambit so as **to consolidate the rules and the processes**

**related to the WTO.** In order to avoid that the preferential agreements might generate ever growing distortions and obstacles, it is of the utmost importance that the WTO is provided with specific instruments. The ones available at the moment don't work and must be revised, modified and, if possible, reinforced. Hence the importance to favour, in the future, a positive final agreement of the Doha Round, that had been conceived in order to achieve that purpose.

The defence of a multilateral Commercial System will require at the same time, more **efficient strategies and policies of negotiation at a bilateral level**, that will represent the second important direction that the EU shall follow. In first place towards the BRIC, China and India in Asia and Brazil in Latin America, and at last Russia. However so as to avoid that such policies will transform themselves into accords with highly asymmetrical benefits, Europe shall learn, even in such a case, to speak with only one voice. In other words, **Europe shall proceed united in the negotiations**, at least in those of a greater strategic importance, in order to avoid that its partners might be able to exploit, as it has often happened in the past, the internal divisions within the EU to their advantage.

## **2. EUROPEAN REGULATION AND CENTRALISED EUROPEAN FINANCIAL AUTHORITY**

*Micro and macro prudential regulation and crisis management powers for large cross border banks should be centralised at European level.*

The financial crisis that is devastating financial markets has highlighted the **fragmentation and inadequacy of the present system of oversight on cross-border financial institutions**, which has been unable to recognise that grave imbalances that were building up and has been ineffective in dealing with them once they came into full light.

In the run up to the speculative bubble that was mounting in stock and housing prices worldwide, large **European cross-border banks built up enormous leverage** – typically above 30 per cent of capital, in some cases up to 50 or sixty, with no objections from national regulators nor college of supervisors that were supposed to watch over their soundness.

Many European banks were able to elude or circumvent common prudential rules by building up large investment banking activities in London and New York, governed by looser rules. Furthermore, **national regulators were blind to the deteriorating credit**

**and investment standards of their banks** in order to favour their expansion in Eastern European countries and elsewhere. Capital ratios based on risk weighted assets encouraged large scale risk mitigation strategies, favoured by large resort to risk insurance with credit default swaps and complacent ratings of complex structured products that neither banks nor regulators really understood. The numerous colleges of regulators charged with oversight of cross-border banks were **unaware of the systemic risks** building up as a result of excessive leverage and massive collective resort to risk mitigation strategies.

Once the **crisis struck**, it also became apparent that existing arrangements for **crisis management present fundamental weaknesses**, since the European Central Bank can provide liquidity support but cannot intervene to deal with insolvencies, which fall exclusively under national jurisdiction and the powers of national Treasuries. As the say goes, “**banks grow international but die national**”.

**National Treasuries**, however, are inherently **unable to take account of the international implications** of their interventions, and indeed have proven prone to beggar thy neighbour actions – as when the intervened unilaterally to guaranty their depositors without worrying about foreign depositors of their national banks, or they encouraged “their” banks to repatriate loans, notably from Eastern Europe, without realising that this action was aggravating the foreign currency problems of satellite countries in the euro area and the very conditions of their own banks. The rescue of Fortis has highlighted **the inadequacy of nation-based approaches** to the insolvency of a large international banks, eventually resulting in the split-up nationalisation of Fortis banking and insurance businesses, amongst bitter disputes opposing shareholders and governments involved.

Finally, the **regulatory system remains balkanised** as many relevant rules are not yet harmonised and even existing common rules are applied differently, owing to their divergent interpretation by national central banks and financial markets regulators.

This wholly unsatisfactory situation must be corrected **by three decisions**:

- i. The **supervision of large financial institutions** with systemic cross-border relevance must be transferred **to European institutions**; in order to do so, the regulatory Committees currently overseeing banks, insurance companies, pension funds and securities markets should be unified in single network of regulators, and be given full legal powers to issue implementing regulations throughout the Internal Markets.

- ii. The **ECB** must be given **full powers of oversight of the systemic implications** of the operations of these large cross-border banks, including powers to impose corrective action on banks that appear to threaten the collective stability. It must also be given full powers to provide
- iii. The **Ecofin Council should empower European Commission to manage solvency crises** of large cross-border banks with systemic significance – under appropriate surveillance by the EFC - and **the European Investment Bank to issue Union bonds** to provide the required resources for rescuing large cross-border European banks. It should also strengthen its balance of payments assistance credit lines in support of Union member states and other member states that de facto are part of the euro area – again, when needed by raising resources through Union bonds issue by the EIB.

### 3. THE PILLARS FOR A NEW EUROPEAN GROWTH

#### a. CLIMATE POLICY FROM THE EUROPEAN PERSPECTIVE

##### *Environment as a key factor to relaunch European growth*

Year 2008 has been important for the fight to climate change and for energy security. Actually it was set to be a crucial year. The integrated climate and energy package proposed by the European Commission had been finally approved in December by the European Council and the European Parliament. It established binding targets for greenhouse gas emissions reductions and for renewable energy sources to be reached unilaterally by the EU27 Member States by 2020. Not only, but in the case of a multilateral agreement on climate change the EU pledged to reduce its emissions even more, from 20% to 30% of its 1990 level. On the other side of the ocean the U.S. democratic candidate Obama was set to win the presidential election on the basis of a platform which had in the fight to climate change and in the increase of energy efficiency a crucial ingredient.

Toward the end of the year, however, **the financial crisis went off** and rapidly got transmitted to the rest of the economy, affecting production, incomes and jobs, hitting financial institutions, firms and households, putting under strong pressure governments caught in between the need to contain budget deficits and public debt and the need to help production and sustain consumption with subsidies and incentives.

In all this, with a falling oil price and emissions spontaneously declining because of the

economic slump, the **cause of the climate is risking to be forgotten amid more pressing emergencies**. The temptation is to put off the solution of the problem, as its consequences are perceived to be less dramatic in the very short term. This is more likely to be the case if the **fight to climate change is mostly perceived as a cost, whereas its potential benefits tend to be obscured in the debate**. The tension surrounding the issue that produced a historical decision like the approval of the European climate and energy package risks to be dispersed.

It is important not to let this happen and it is a crucial goal for progressives across Europe to contrast this possibility. There are good reasons for not giving up the determination Europe has shown in the field of climate and energy. **Whether or not energy security and climate change mitigation will be favoured by the economic crisis** depends upon the policy actions we will be able to undertake. It will depend by our will, and to some extent by our bravery. **Progressives can play a crucial role** in this respect.

The first reason why **we cannot afford to postpone the issue** to a more favourable future is that sooner or later the recession will end, whereas the climate problem will not. The **reduction of emissions recorded last and this year**, short of deliberate policy actions, is a **transitory phenomenon**. Among other things the oil price will be back on the rise and the pre-crisis conditions will be re-established if we do not seize this opportunity to change the situation when the time comes. It is up to progressives across Europe to be, before others, aware of this fact and to draw the attention of policy makers of this reality.

The second reason is that the **policy actions to fight climate change and increase energy security** – from diffusion of renewable energy sources to energy efficiency and saving options – are in principle able to **provide important co-benefits**: increased employment opportunities, reduction in local pollutant, restart of production activity, additional tax revenues, and the like. Therefore, providing incentives to this areas of the economy, or – equally important – to **target general incentives and subsidies to manufacturing** (cars, electric appliances, ...) to **saving on energy use and consumption**, is a strategy that is in principle able to provide **double dividends**: a more **friendly climate**, a more **secure energy supply**, but also an **incentive to get out of the economic recession by sustaining incomes and jobs**. European progressives have the duty to alert public opinions as well as governments on these significant opportunities. Obama's example is instructive in this respect.

Finally there is a third crucial reason why the strategy enshrined in the climate and energy package needs to be strengthened, let alone abandoned or weakened. **The international obligations do not go away with the economic downturn.** Our obligations under the Kyoto Protocol are there and cannot be avoided. Early action is the key to address them. The road to 2020 has been already set for the 27 European Member States. But Europe is just a small part of the global climate problem and it is clear that decisive actions need to be taken by the other big emitters.

The **global nature of the climate change problem calls for collective action** for its effective control. However, because the damages and the required efforts are unevenly distributed across world regions and time, **countries will have different incentives to voluntarily enter an international environmental agreement.** It is on the basis of these consideration that the EU has been criticized, both from outside and especially from within, for taking a strong and clear action to curb its GHG emissions ahead of other countries. The main contention has been that the impact on emissions of such unilateral decision is going to be negligible and costly at the same time. However, the **empirical evidence shows that other countries do not stay put as far as mitigation is concerned.** As a prominent example, individual U.S. States are taking decisive steps to curb the CO<sub>2</sub> emissions they generate. This has given rise to a legal clash with the federal government under the Bush administration to be solved by Obama. Moreover, several States are planning to set up a regional cap-and-trade system ahead of Obama's plan to introduce a federal such scheme. Even China is taking action to change its energy mix. According to the National Development and Reform Commission (NDRC) plans, China has targeted renewable energy to make up 15 percent of total energy consumption by 2020, compared with 7.5 percent in 2005.

An obvious question arises: **is a world-wide climate agreement necessary to reach the desired target?** Indeed, coordinated action is needed to enhance the effectiveness of the collective action and to minimize the risk of carbon leakage. Although the results of the EU climate package, and therefore its success, will ultimately have to be judged on several fronts, not only the emission reduction (energy security, technological leadership, increased co-benefits such as employment), **the anticipated action by Europe serves the important purpose of strongly conditioning the discretion of other countries with respect to a potential climate deal.** We primarily refer here to the U.S. which is going to find it harder to justify a soft position in terms of emission reduction effort (given that Obama has clearly stated the

willingness of the U.S. to enter a climate agreement). At the same time **the EU is also the precursor of important experiments in mitigation policies on a global scale:** the experience accumulated with the implementation of the EU-ETS is going to be precious for setting up the international trading scheme under the Kyoto Protocol, as well as cap-and-trade scheme in U.S., Japan, and Australia-New Zealand. This **important externality** produced by the EU policy **should be compensated with a leading role in the negotiation process** and with leadership in carbon trading and finance.

Indeed, in view of the **global conference scheduled in Copenhagen in December 2009** the EU considers now "imperative that we get the rest of the world on the same track", according to EU Environment Commissioner Stavros Dimas. The European Commission is set to call on the developed economies such as the United States and Australia to cut their emissions to an average of 30 per cent below 1990 levels by 2020. Indeed, "the Copenhagen agreement will have to be far more ambitious than the Kyoto Protocol," Dimas has said. But the EU also says developing powers such as China, India and Brazil, meanwhile, should pledge to slow down their emissions growth so that they put out between 15 and 30 per cent less greenhouse gas in 2020 than they would do if they pursue their current policies. To help them doing so, the commission draft calls on developed countries to pledge 30 billion euros (40 billion dollars) per year in new funding by 2020 divided equally between projects for supporting non-polluting energy generation, reducing deforestation and helping poor countries adapt to climate change by, for example, building flood defences and irrigation systems. This is going to **put a strain on the EU budget**. This is even more true as a **necessary condition to make the climate change mitigation policies sustainable in the long term is a vigorous innovation process, able to drastically reduce the cost of low carbon technologies**. Today the **cost differential between conventional electricity generation from fossil fuels and from renewable sources is still very high**, at least for technologies such as the photovoltaic. The same gap can be found confronting the cost of bio-fuels with the cost of traditional fuels. As a matter of fact, long-term efficiency and competitiveness will be highly dependent on 'new technologies'.

**The commission's proposals just described will clearly have to pass two tough political tests** if they want to have any chance of global acceptance. First, they will have to be approved by the EU's member states, who are currently reeling under the impact of the global financial crisis, and who have little appetite for expensive new

initiatives. And they will then have to win approval from world powers in Copenhagen - a negotiation which promises to be anything but simple. **It is an overarching duty for European progressives** and for the network of progressive movements to provide a crucial effort towards the realization of the above goals.

## **b. SCIENTIFIC RESEARCH IN THE EUROPEAN UNION**

### *A network of centres of excellence*

We all agree that **scientific research plays a pivotal role in the future of the EU**. Scientific research and technological know-how are at the core of all EU policies targeted at empowering citizens to compete in the global economy, preserving high standards of living, fighting the major environmental challenges and ensuring EU's global influence and leadership.

Nevertheless, both in terms of funds available and of implemented practices, the EU institutions, specifically the EU Commission, has **still a long way to go to ensure widespread scientific excellence**, as well as effective transfer to the real economy and to full advantage of the EU citizens.

We strongly believe that EU scientific research funding must be boosted and managed so to ensure each country's spending to rapidly achieve the Lisbon Agenda goals. **The general EU budget must be thoroughly reviewed so to ensure such objective.**

At the same time, we also believe that the **current practices in managing research funds must be deeply reviewed**, loosening the current focus on cross-national assignment, and rather focusing on the achievement of clearly measurable results and effectiveness of output (both in scientific and business terms). In this respect, during the process of assignment of funds, scientific review should also be assisted and supported by sound economical review, at least as far as funds targeted at applied science, technology transfer and technological developments are concerned.

**We support the current trend in creating centres of excellence in the EU.** In fact we strongly believe such trend should be further accelerated leveraging existing value in universities and centres of research, but also keeping in mind the historical tradition of such centres and putting a **strong emphasis also on reviving their prestige as attractors of talent**. Meanwhile additional funding must be put on **incentivizing mobility of professionals and talent** so to facilitate the formation of centres of excellence.

Finally, even if we believe that a sound framework of scientific production must rely on

a **network of centres of excellence, irrespective of geographical distribution**, it is also important to **support each member state in its capability of nurturing and developing talent at the early stage**. Therefore funding should also be directed at ensuring **high standards of scientific education at all levels**, from primary school to college. In the long run, only widespread scientific knowledge would be capable of feeding excellence and ensuring a full return of its output in the real life of the EU's citizens.

#### **4. THE REFORM OF THE EUROPEAN BUDGET**

*Some proposals on revenues and decisional process in order to give more space and resources to the new pillars for growth and competitiveness policies*

Given the new scenario, generated by the crisis, Europe needs a **new macroeconomic policy and new instruments**.

Being aware of that, we have entered a new phase in the European process, whereby new resources are going to be needed, and a **courageous new review of the budget**, seems to be unavoidable. We have to outline a general taxation policy in the Eurozone, in order to secure, at the same time, a stronger coherence and a better overall harmony and more flexibility in the event of a crisis.

Furthermore we have to develop the Eurogroup's role and that of its President, through the so called "**Enhanced Cooperation**", binding those who want to adhere to the Eurozone to accept all the political and institutional implications as well.

The first signals of a necessary budget's reform have been perceived during the Prodi Presidency of the European Committee in the period that goes from 1999 to 2004. Such demand was deriving from the **need to focus the attention and action of the EU on the Lisbon Strategy**: on an economic and sustainable growth, socially inclusive and respectful of the environment. The financial prospects had therefore to be increased, at the least for what concerned the three fundamental subjects: Competitiveness, Growth and Employment; Citizenship, Freedom, Security, Justice, Enlargement and External action of the Union. But no agreement has ever been reached. The only positive result of that period has been to **have opened a debate on the necessity to reform the budget** within the European Community.

The Community budget is a real political tool: putting into effect for the different common policies, by appropriating its available resources, **Europe substantially**

**asserts its own priorities.** Therefore it is indispensable to reform the present European financing system, both for what concerns the available resources as well as the use of such resources. The issue of the budget is therefore extremely urgent.

Our proposals for a budget up to the task of dealing with the expectations and the requirements of the Europeans, take in consideration on one hand **the issue of the public revenues**, and on the other **decision-making process**.

As far as the allotment of the resources, at the moment the Community budget is divided amongst the policies of Competitiveness and Cohesion (44,2% of the resources), Agriculture and Fishing (43%), Citizenship, Freedom and Security (1,2%), Foreign policy (5,7%), Administrative expenditures (5,9%). It is rather easy to deduce how much such allotment is **anachronistic** both as to the most urgent requirements of the moment, as well as to the Lisbon Protocol.

Fortunately, the negotiations on the budget's prospects above mentioned, if on one hand have reduced the available cash-flow, on the other they have introduced an important novelty: a clause for the **2009 budget's review**.

This is an **historical opportunity that we can not miss**, to dictate the future priorities and endow therefore the Union with the necessary resources, to perform in compliance with such political priorities.

First of all in order to reform the Community budget, two fundamental principles must be fulfilled: the **Proportionality**, that is to say to finance with the Community budget only the expenses that are indispensable, and the **Subsidiarity**, namely to outline at which level (European, National, Local) the Financial interventions are more useful. It's enough to remind, as for example the research and development, one of the fundamental asset of the European competitiveness on the World Trade is today financed for the 95% by the States Members and only for the 5% by the EU.

From the point of view of an augmentation of the resources we think that the principal source of financing of the EU, 1,15% of the GNP, is highly insufficient for the new Europe, and would like that through a joint effort of the States Member **the amount of the 1,3% could be reached**. Effort that we consider indispensable and absolutely urgent.

On the other hand the total amount of the resources should also be revised **moving funds from obsolete issues** (such as CAP) **to necessary new issues** for the European growth, in particular the so called Lisbon Process.

In our opinion in order to have a better understanding of the situation, the present

chapter of expenditure: “Competitiveness and Cohesion”, should be parted into two different chapters, the Cohesion (whose cost should not be altered) and the Competitiveness or the “Lisbon Priority”. Besides these expenses, should recover parts of the funds granted until now to Agriculture, a factor of growth for the EU, **a great importance should also be given to the Research and Development (R&D) and to the Environment** (strictly related to one another).

An issue to be thoughtfully investigated, should regard how **to find new resources** to increase the available funds.

What could be helpful, for example, would be to **remove all the ties of balance imposed by the treaties**. But to modify the treaties would engage such a complex and long procedure that at the moment is not even to be taken in consideration.

A possible solution would be instead to **issue European bonds** (Eurobonds), already foreseen in 1993 by the “Delors Plan”, by means of which it would be sufficient to reach an agreement amongst the three European Institutions: Committee, Cabinet and Parliament.

Furthermore instead of the VAT, that affects indifferently all revenues and taxpayers, **an European tax on the Pan-European firms and multinational companies** could be introduced without increasing the overall taxation pressure,. Hypothetically, it could also be introduced a sort of “**green tax**”, a tax on the defilement that should be paid by each State Member, accordingly to the amounts of carbon-dioxide produced, and such proceeds could be used **to finance the chapter of Research, Development and Environment**.

With regards to the **decisional process**, the most noteworthy aspects of the Budget’s revision, that is awaiting us, is based on the Flexibility, namely the **possibility to finance the various policies according to the real needs**, that the European Union will have to face.

We will have to extend as regards to the financial panel, the **yearly maturity into a multi-yearly one**, in order to give the budget a major flexibility, instead of being constrained by a too rigid time-schedule of the financial panel.

With more flexible margins, besides being able to transfer the unpaid sums to other policies, we can also create incentives for a more efficient, knowledgeable and advantageous fulfilment of the budget itself.

Such incentives will help to reinforce the attention not only during the negotiations, but throughout all the period of its putting into effect.

Another knot to untie, regards **the transparency and the simplification** in the decisional procedures that involve States Members, Committee, Parliament, European Cabinet and Court of Auditors.

It could be helpful, for example, to simplify a **wider decentralization** of the budget's execution, and a greater participation of local authorities within the preparation of the financial actions.

The Lisbon Treaty contains suggestions in line with the necessity of simplification.

The introduction of a **vote by a qualified majority**, only for a small, but relevant, part of the financial panel, in occasion of the annual negotiations, is obviously only the second best option as to the introduction of the qualified majority tout court, but it is all we can realistically foresee at the present time.

At last for a greater responsibility and a better management, the **financial prospects** should have the same duration of the Committee and Parliament's mandates, namely 5 years.

That would enable both the **Committee and the Parliament to be part of the whole budget's process**: Consultations, Debate, Proposals, Negotiations, Agreements and Implements.

## **5. EUROPEAN STRATEGIES TO TACKLE THE SOCIAL IMPACT OF ECONOMIC CRISIS**

### *New policies to preserve European social model*

The present **financial and economic crisis** is altering the basic conditions of public and private life and is putting pressure on all national and international institutions. The European union might be an appropriate ground to take relevant decisions, because it is an intermediate space between the global institutions, which are too weak to react to the crisis, and the national states, which are too small to have sufficient impact.

The most immediate test of the Union's cohesion and capacity of action is on economic and financial issues: those which are troubling the global economy. But **the responses to the present crisis will not be sufficient if they remain confined to the economics**; the crisis is deeply rooted in the characters of both the social and economic model: lack of appropriate regulations of national and international markets, short term accumulation and unstable conditions of growth; increasing inequalities in the distribution of wealth not corrected by fiscal and welfare policies; distortions and

weaknesses in the systems of social protection.

The lack of initiative and the scarce cohesion of the Union on these ground have contributed to **reduce the trust of European citizens in the 'common house'** and to motivate the negative reactions to the reform of European institutions, including to the approval of a common constitution which was conceived as the most solemn institutionalization of the European social model.

This assumption has a precise implication on the strategy of the European institutions. It runs against the de-coupling of economic and social spheres, which has been so far prevailing in the Union practice, whereby the Union may intervene in the former but the latter should remain within the discretion of national policy- makers.

Then the question arises on **how to overcome this 'divisive' approach**, so as to promote new forms of policy integration, and more specifically to frame common social policies in line with the present common challenges. The question is not rhetorical; a divergence between economic and social policies within Europe might put at stake a basic tenet of our model, namely that social cohesion and social welfare are compatible and indeed functional to sustainable growth and competitiveness.

The history of the Community indicates that the ways and means to pursue common objectives in social areas are manifold. There is no one best way. Direct ways such as directives and regulations or indirect ways, such as the interventions of the European Court of Justice, have produced significant achievements in different areas.

These brief remarks support the firm belief that **the pace of social Europe must be accelerated not through 'a single channel'** but by improving and better finalizing **all the instruments available** to the Union's institutions and to the various social and political actors. The reframing of these instruments should be guided by a unitary vision and by a new political commitment to strengthen the role of the Union in promoting common social and economic prosperity.

**All the instruments** which have been adopted so far **may be useful for this strategy**: from the traditional hard law to the various forms of soft law(guidelines, benchmarking, OMC), from the practice of social dialogue to the different types of transnational and European collective agreements, from the use of the European Funds to the ECJ jurisprudence. If the community institutions and the political leaders **take seriously the social objectives**, which are not less urgent than financial targets, particularly in the present crisis, they should accept some kind of binding commitment to this end and identify the procedures necessary to enforce it.

**A good balance between the techniques of hard and soft law** is decisive to reach satisfactory results, and here too there is room for considerable improvements of actual practices. It is possible to combine and use for the same target the two techniques, namely basic legal rules and qualitative objectives connected with follow up indicators and supportive action by the various actors concerned, public and private.

A clarification is needed about the **legal status of strike and of collective action in transnational labour disputes**, particularly in relation to the scope of economic freedoms.

The increasing mobility of enterprises and of their employees has stimulated transnational disputes and the use of collective action on a series of important areas: transfer and closures of enterprises, confronted with the exercise of economic freedoms.

One area of innovation which is being explored by the French presidency and by the Commission concerns the diffusion of transnational collective bargaining as a means of supporting workers mobility and of regulating its conditions. The **best form of intervention** seems to be a **light framework of regulation not a detailed set of prescriptions** which might be an obstacle to the development of this type of transnational bargaining, which has been so far spontaneous.

However **the social parties themselves are called to revise their strategies and their organization.**

Against this general background one must evaluate also the **role played by social rights** in the making of European labour law and industrial relations.

The major **obstacle** of fundamental social rights is of political origin, because it derives from the **impasse in the ratification of the Constitutional Treaty**. This impasse is a general sign of crisis of the European integration process. Limits are also present and visible in the ECJ jurisprudence concerning the interpretation of the various social rights. A **different attitude** is evident if we compare the ECJ decisions on **personal civil and social rights** and those concerning **collective rights**.

In the **first area** the court has always adopted and promoted **extensive and creative interpretations**. E.g. the equality principle has been used by the court to extend legal protection to all kinds of discriminatory practice, direct and indirect, to recognise the legality of positive discriminations, to promote equal treatment in favour of workers and of citizens who exercise the right to move in the various member countries. Freedom of movement, from being a simple economic right, has thus become the concrete

expression of a real union citizenship

The decisions of the ECJ have been **more reluctant** to adopt extensive interpretations and even **to give full recognition to collective social rights** such as those concerning collective bargaining and strike; **particularly** so when the court has been called to judge their relevance **vis a vis the economic freedom of the enterprise**.

A redress of this situation may come from the **recognition of a constitutional legal status to fundamental social rights**, including collective rights, because such a recognition would favour a **more balanced approach by the ECJ when deciding their impact on market freedoms**.

A more general implication may be derived. The difficulties and the asymmetries of the European social construction cannot be corrected by technical or procedural adjustment of the various instruments of integration. A true rethinking is needed not simple adjustments. **More than ever the economic and social policies should be combined and reinforce each other**.

The economic crisis may suggest shortcuts in this respect like favouring regime competition based on the reduction of labour costs and of social protections among the various European states (eastern and western). The pressure on employment conditions on the other hand is already provoking nationalistic reactions also by workers and unions in various countries (see the recent conflict between British and Italian in the UK). The European Union cannot remain neutral and inactive, if it want to honour its social and economic model which require common efforts in the light of social progress. **The need of public intervention** which is now advocated throughout the world even by the extreme supporters of the free market, **cannot be limited to supporting the financial system**.

Common measures are require in order to face the emergency situations which are multiplying in the **European labour markets**. An important instrument in this respect is the **European Globalization Adjustment Fund**, a good example of an integrated social and economic approach to crisis situations. The **European Social Fund** is another instrument which should be strengthened and better finalised to support the critical conditions of employment.

The diffusion of emergency situations should not obscure the need to **pursue long term objectives** in the areas where social policies have proved scarcely effective, beginning with the various active employment policies. The **promotion of the level and the quality of employment** is (still) a decisive goal for Europe and a condition for

future economic and social progress.

The new economic and competitive conditions might suggest a **rethinking of European policies** in an area where the existing initiatives have been particularly weak, namely the promotion of **basic labour standards**. Some common measures have been adopted in many countries in the field of unemployment benefits and of basic income. Their extension at the European level cannot be imposed by law. But it might be **promoted indirectly** in various ways: e.g. by supranational schemes and collaborative partnership among individual member states aimed at adopting convergent practices in these areas, which might be supported by the Union with appropriate incentives and temporary financing, possibly connected with commercial clauses.

The **social parties might contribute** to the same end, by signing transnational agreements where useful trade offs can be adopted of common interest, e.g. between flexibility and income or employment protection. The diffusion of these experiments might be the basis for **new initiatives of the European institutions and social parties directed to improve the coordination of these common standards** throughout Europe and possibly to open the way to a process of legal harmonisation supported by majority or unanimous consensus.

The promotion of some basic standards of this kind might be a **first step towards a common welfare** in other areas of acute personal and collective needs. It would be consistent with the constitutional value of fundamental social rights. Indeed it would promote and strengthen the common policies which are necessary to give full content to the legal and judicial sanction of the same rights.

The **need of a profound revision of social policy making** is widely recognised. In order to meet the challenge and to make change manageable some basic political (even more than institutional) conditions are necessary: more cohesion among national governments, which are still decisive actors in the international context, greater determination and investments by the major European leaders in the construction of common social policies. These conditions would also be important for promoting the search for a **comprehensive social pact among the European institutions and social parties: a pact on competitiveness, growth and employment** as that proposed by Delors in other difficult periods of the community and (only) advocated in the European documents.

It is far from clear which direction the 'political Europe' will take in the immediate future,

but neither nationalistic retrenchments nor weak and inertial decisions will suffice to avert the dire forecast mentioned at the beginning of this paper.

## **6. EUROPE RESPONSES TO THE CHALLENGES COMING FROM THE NEW AMERICAN MULTILATERALIST APPROACH**

### *A conceptual approach*

To assess the state of the European security one must take into consideration both the context of the mid-long period and the short one.

The former, i.e. **the past quarter of a century**, or the time of a generation, has consisted mainly of:

- a **phase of economic expansion** concerning a large part of the world, which has been mostly enhanced by the commercial exchanges, under the influence of the West, the USA in the first place, exercised both through its strength and its rules (or half-rules);
- a **trend towards a reduction of international conflicts**, with a consequent decreasing number of casualties, despite the growing fragmentation of violence and the entry of new actors, particularly non-state actors;
- a geo-strategic **withdrawal of the West** from the world, now particularly the one of the United States. This has followed the previous European retreat and has taken an accelerated pattern in the last decade, also visible through the widespread fall of the American image in the world;
- a state of **chronic weakness of the multilateral system** (with a few exceptions such as a number of peace-keeping missions, the start of the International Criminal Court and the Kyoto Protocol) to which the growing evidence of a multi-polar system has made a sort of pendant.

The **short term context** presents several features of which only two major ones are considered here for the sake of brevity:

- the **global financial and economic crisis**, of which, at the moment of writing, is not possible to define either the duration and the depth. Nor, for that matter, all of its consequences for international security can be assessed, be they in terms of internal instabilities, tensions amongst states and further decline of the multilateral system;

– the **change of the US government** (Administration and Congress), which happens to take place after the failed unilateral phase in the US foreign policy and during a major setback for the American business model. The change has the potential (at present only the potential) of establishing a new American global leadership in so far as it succeeds in helping the world out of the economic crisis and in contributing to a new international order.

It is hard to say, at the moment, whether and to which extent the short-term is bound to change or confirm the mid-long term context. It is with that in mind that now the possible **consequences on the relationships between the American and European progressive political forces** are being considered.

The differences between the two sides of the Atlantic have been emphasized by the changes in the short term, because the Americans are currently acting in a position of political majority and hence responsibility, but also under a very challenging test for the implementation of their projects, while the Europeans operate in a mix of different situations, from opposition to government, with power sharing in between. Relative weakness, uncertainty and limited margins of action are common features.

At the same time the **recipes most frequently considered, indeed adopted, in order to face the global recession**, seem today to have to resort, at least temporarily, to the **European models** of mixed public/private intervention, often developed in the past under the influence of the progressive forces.

Furthermore **Europe**, as suggested by Mario Monti, **represents, on a regional scale, a scheme of non-hegemonic system of exchanges, competitiveness and rules**, which has the potential of acting as **a model at the global scale**, while ways out of the current dramatic crisis are being searched. The subject is treated in other parts of this document, but it bears some relevance as regards to the issue of the European contribution to global security, now to be addressed here.

It bears relevance in so far as it stresses the **importance**, occasionally the **supremacy of the instruments and the capabilities of soft security** in comparison to those of *hard security*, that have been privileged during the two Bush administrations, especially the first one. *Soft security* includes political-diplomatic action/influence, economic assistance, post-conflict reconstruction, enhancing domestic rule of law (police and justice), increasing international security through reinforcement of the international rule of law. There are, of course, also requirements of *hard security*, such as military interventions against state or non-state terrorist enemies, or for purposes of

interposition in conflict situations. Such requirements deserve positive responses whether they are formulated by the Obama administration or international institutions, but, as said before, must not be regarded as a decisive meter of Europe's contribution to international security.

The Europeans are under the effect of three different types of pressure coming from the East, all of which must be taken into account while confronting the issue of common security, either *soft* or *hard*.

1) The **challenges of a multipolar world**, coming from Asia, particularly **China and India**. In addition to the traditional trade competition, there is now the need of finding common solutions, if possible of a multilateral nature, apt to prevent the crisis from degenerating into protectionism and nationalism. The consequences would be a dramatic return to poverty and possibly war, thus reversing the first of above mentioned mid-long period trends.

2) The **proximity with Russia**, a partner in trade, finance and energy supply. But also occasionally a difficult interlocutor, either because of the instable belt of states that divides us from it and because of the peculiarities of the Moscow regime, at the same time potentially democratic and fundamentally nostalgic of its past superpower role.

3) The no less **near "arch of crises"**, more or less corresponding to the so-called Wider Middle East. The area is full of conflicts in action, or just past, or potential, which have in common of being all very difficult to solve (possibly some are unsolvable) and of having an impact among the immigrants in the European countries that cannot be neglected.

Under the effect of these "pressures" from the East, Europe can't leave out of consideration some diversities in the geo-politic and economic interests, as regards to the American ones. They have been always there. But **the perception of the common interests and of the space for coherent and synergic (or at least not cacophonous) transatlantic action are more evident today**. In order to explore more deeply the common interests and exploit the space of a joint action, the European progressive forces should, to start with, elaborate amongst themselves some guiding-criteria to evaluate specific issues within the abundant lot just described and then derive from that policy lines to be adopted.

That will inevitably bring to the fore the fact that also the **European interests are not always homogeneous either**, as the current crisis has emphasized further. At the same time the consequences of an eventual breakdown of the European system seem

to have been perceived as no less serious, therefore the **prospect of a core of common positions remains conceivable, besides being very desirable.**

## **7. STRONGER AND MORE CREDIBLE INSTITUTIONS TO PURSUE THE STRATEGIC AGENDA FOR GROWTH AND COMPETITIVENESS.**

*Remove all obstacles to a complete ratification of the Treaty of Lisbon*

What happened to Europe, **after the rejection of the Treaty** and the presumed “Iron curtain” ensued from the gathering of Heads of State and Prime Ministers, on March the second, to launch a plan to support the Eastern Countries, that are the most affected by the today’s crisis?

Undoubtedly **serious problems rose, concerning the rules of the decisional process**, the future legs of this journey and the suitable model of the Union itself.

It is therefore opportune to examine briefly the event of the Constitutional Treaty, even though by now vanished, in order to take in consideration the *Status questionis* of the European integration.

The constitutional Treaty has been so far the result of a **compromise between the supporters of two different visions** of the European integration: **the inter-governmental vision** (that claims the autonomy of National States), and **the federalist vision** (that asserts the centrality of the Parliament and the Committee), a compromise nevertheless strongly unbalanced towards the first hypothesis.

The **nationalist “Soul”** has, as a matter of fact, **largely prevailed**, since the States members continue to be the source of the Sovereignty and they keep the right to secede to themselves. Regardless the “incipit”, the Treaty solemnly affirms that “is inspired by the will of the citizens and of the European States to construct a Common Future”.

As proved by the debate related to the confirmation of the Constitutional project, presented at the Convention, **there are several diverging lines** amongst the States Members, the political forces, the experts, and the European public opinion, such as the theory for example that opposes herein the major countries, to the minor ones, the greater States such as Germany, France, United Kingdom and Italy to the smaller ones like Spain and Poland, the six founding Countries and the more ancient members to the new entries, such as Atlantic Great Britain, worried about how to conciliate the Anglo sphere and the European Space with the Continental Powers, the pro-

Americans political Parties with those more inclined to emphasize the European autonomy as a Key-element of a multi-polar system, the democratic parliamentary ideologies, with Government-elites, etc. **The main conflict is nevertheless the one that opposes the two souls, apparently inseparable and indestructible, that constitute the Union.** The intergovernmental one, that sustains the autonomy of the States-Nation, and the federalist that instead sustains the centrality of the Parliament and Committee.

As **supporters of the second theory** we are persuaded that the European populations have a **clear interest to develop the today's over national organism into a true Federal-Union**, but that this target can be only gradually achieved, beginning with the **abolition of the unanimous vote** for the principal political decisions, and with the **transfer to an over national level of the Foreign and Defence policies.**

This institutional order, should contain the structures that compose a Federal State, which is to say, beside the Supreme European Court of Justice, a **Bicameral Parliament with one Chamber elected by all citizens of the Union**, and a **second Chamber composed by Representatives indicated by the States members**, and a **Government elected by the Parliament** and responsible vis-à-vis it, and provided of a democratic legitimating and of real decisional capacity as well.

The idea of a Federal European Union has very authoritative adversaries: on one hand all those who, like the Judge Grimm of the German Supreme Court, affirm that - since at the moment there are not in Europe neither a public opinion, nor a public space, nor a *demos* (the Strasbourg Assembly in fact is not yet a popular representative body) - democracy at its full therefore can be realized only within a National frame; on the other hand those who, like Weiler, think that an European Federal State is not desirable, because it could not avoid to reproduce and perpetuate the excluding attitude of the National States, betraying therefore the implicit promises in vision of an over national Europe.

We believe that such criticisms can be efficaciously belied providing to clarify, without a shadow of a doubt, that **the model of Political Union that we want to adopt, cannot and must not reproduce the historical model of the National construction of the actual Sovereign States.**

Such model is not viable, since today's Europe lacks its key-ingredients, namely the nationalization of the masses, on the basis of a strong and sole national identity, and an involvement of the elites in a project of political and military hegemony. And even if

it could be viable, it wouldn't be suitable on the basis of the lessons of history that have, so far, proved **how little compatible this model would be with the policy of peace and international co-operation.**

If the European traditional model of construction of a Nation is not reproducible, **also the American one, of the *melting pot*, can't be adopted**, even though it is far less distant from the project of the Union. The United States have been rightly defined the "First New Nation" (Lipset, 1963) since they have produced a constitutional political model that has been successful in shaping although amongst harsh pressures and scattered conflicts, a one and only Nation, through the integration of millions of immigrants, with social and cultural origins with very different characteristics.

**Within the European Union don't and cannot exist, one culture, one ethnic component and a sole leading language**, since any attempt in that direction would awaken ancient rivalries and because the **European particularity is "Unity within diversity"**. Nevertheless, from the American Federalism and other forms of Federalism, the Indian for example, can be drawn other important lessons as well, but **the European Union must follow its own way.**

**The model of the European Union must therefore be specific and new, both institutionally and culturally.** It must proceed gradually towards the Federal order, modifying the Parliament in a bicameral System, strengthening its role together with that of the Committee (whose members must be elected by the European Parliament) and progressively reorganizing the Council of Heads of State and Cabinet of Prime Ministers.

**But does the project (ensued from the Convention's works) go in this direction? Only in a very modest measure.** There are more shadows than lights, strong divergences amongst the States Members have so far prevented to realize the most relevant reforms, so that the sphere of what couldn't have been decided, was so big to cancel some of the potentially beneficial results of the innovations so far introduced. The **most relevant unsolved questions** are: 1) the remaining conflict of authority between the President of the Committee and the President of the European Cabinet, that has been even emphasized with the extension of the mandate of the latter; 2) the persistent unanimity, and therefore the power of veto of each single State member, the fundamental issues of foreign and security policies, in fact strongly coercing the autonomy and decisional unity in that matter, with the result of perpetuating the Union's impotence in this fundamental political area, and in other key-areas as well.

In short, of the two souls, **the national one** that, in the words of Valery Giscard

d'Estaing, continues to appear in the political life and doesn't want to cease to be the source of sovereignty **has prevailed** on the European that tends to the Unification. **The world "Federal", was even absent from the text and was replaced with the more vague term: *Communitaire*.**

The most evident proof of the difficulties that the process of construction of a political Union has meet, has been the missed anticipation of a final referendum to be taken simultaneously amongst all States Members (and that could have been linked together with the European Parliament's election of June 2004). This referendum could have helped the moulding of a European *demos* and partly bypass the present democratic deficit.

The **rejection of the Constitutional Treaty** in the French and Dutch referendums, even though has not prejudiced the normal functioning of the European Union and might have paradoxically helped the reinforced co-operations, has **revealed the profound divergences concerning its institutional architecture and its Political strategy, to begin with the reform of the European Social Model and its Foreign and Security policies.**

In order to escape from that dead end, it should have been formulated **a new Treaty**, that could have been revised and drastically simplified, a constitutional Treaty, **containing a declaration on the mission of the European Union, more adequate to the XXI Century.** A Treaty that could determined new rules, apt to improve the decisional process and solve the **two key-questions: 1) the extension of a vote by majority, 2) the surmounting of an Authority's dualism, by creating an Unitarian leadership** and defining precise stages of the construction process of the Political Union, such new proposal of a constitutional Treaty should have been courageously subjected to a simultaneous referendum that would have involved all the Union's citizens.

The answer of the Heads of State of the Countries Members has been the Lisbon Treaty, that resumes on a much smaller scale some innovations already contained in the Constitutional Treaty (simplification and rationalization of the rules, extension of the European mandate to the Premiers, creation of a unique figure such the European foreign Affaires Minister, and adoption of the method of the reinforced co-operation).

But **the Lisbon Treaty still doesn't solve the two key-questions** aforesaid and continues to ratify different time-schedules and modalities according to different States Members.

Also this Treaty, notwithstanding its caution or realism, got into a negative referendum,

the Irish consultation, utterly unpredictable since Ireland is probably the Country that has gained the most from the European integration.

Therefore, **the Union goes on towards an uncertain future**. But to contrast this negative perception of a: “slow advancement, almost still” **there is the efficacy of the Union’s policy on the matter of protection of competitiveness and free trade** (demonstrated by the successful verdicts concerning multinational companies such as Microsoft and General Electric), there is the **reality of the launch of the Euro** as a sole currency with all the federalist implications and there are the **various forms of collaboration** like the Anglo-Franco-German common Defence policy.

Nevertheless **these developments risk remaining isolated, unless they go together with a process of political construction**.

Furthermore **the European Union shall be a multicultural entity with a body of shared values** (democratic institutions, fundamental human rights, civil responsibilities, pacific coexistence with all the peoples of the earth and free competition) that should be the foundations of the common institutions, together with the respect towards all the diverse cultures, languages and traditions. According to this model, the **unity must be reached through the diversity**.

The struggle for Unity implies **the redefinition, and not the abolition of different identities**, both Europeans and immigrants from all parts of the world. The European citizens already share, and even in the future will always do multiple identities: townish, regional, national and overnational. The coexistence and superimposition of different identities in an individual personality it is not a simple process and the recognition of multiple cultural identities within a Single State can represent a destabilizing factor for a national unity, since it might alter the precarious balance between *ethnos* and *demos*.

For that reason **the European construction can be realized only if Europe will be able to develop and use to advantage, an identity and a soul of its own**.

This consideration enables us to show once again like the attribution of a particular institution to one of the three principles of integration and regulation might not necessarily be exclusive.

Debating on the European Union, as an example of over-national government, can’t avoid to considerate also the issues of community and identity as well.

But **a question of a common European identity does really exist?** and how does it relate with a process of economic integration, and participation on behalf of the citizens? Or a system orientated towards Federalism, an evolution of the public European debate that establishes that the roots of the culture are in the: “Unity trough

the diversity”?

The probability of such an evolution doesn't seem to be very high. What presumably will happen will be a new proposal of the Lisbon Treaty, with some modest modifications, so as to be able to summon the Irish citizens again for a new referendum.

In such a situation, what could pave the way towards a better integration, remains a **“reinforced co-operation” amongst the Countries that share the same view, that has already helped to create the Monetary Union.**

The “reinforced cooperation” is foreseen also by the Lisbon Treaty, though within well defined limitations, and is a route that can be covered by the States members also through inter-governative treaties, that can be then transformed into community agreements and be extended to other countries (obviously only in case the co-operation should be successful).

Nevertheless **the need to perfect the decisional processes, by increasing the vote of majority, remains an urgent necessity and an important modality for the political construction of Europe**, even though it might accentuate the worries of the smaller States and feed the criticism on the democratic deficit by raising the cost of the legitimation of the decisions.

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*Linda Lanzillotta, Paolo Guerrieri, Stefano Micossi, Marzio Galeotti, Sandro Gozi, Peter Kruger, Tiziano Treu, Cesare Merlini and Alberto Martinelli contributed to draw up the document.*

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