

CHALLENGE EUROPE

Challenges and new beginnings: Priorities for the EU's new leadership

September 2014



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EUROPEAN POLICY CENTRE

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Foreword

There has been a lot of attention on the current transition of power taking place in Brussels. For the first time in European Union history, the new President of the European Commission will take up his post after being nominated as 'Spitzenkandidat' of the party group which gained the highest share of votes in the EP elections. The new President of the European Council and new High Representative have been selected; the (controversial) structure of the new Commission has been announced, together with the list of Commissioner-designates; and the new Members of the European Parliament, elected in May, have started working, now scrutinising the potential new Commissioners in their hearings.

There is no better moment to take stock of the 'state of the Union' and to look ahead into the next European political cycle (2014-2019), focusing not on personalities but on content: what challenges do we face and what should the EU focus on in the coming years?

Europe's experience of recent years has been one of multiple and inter-related crises, triggered by the global financial crisis, including financial/banking, public debt, euro, economic, social, and political crises. In addition, we now face uncertainty over the continued membership of the United Kingdom and an external crisis, with potentially large impact on the EU, especially in those countries with high energy dependency.

These crises, and the difficulties in addressing them, have heightened the legitimacy deficit that has been affecting the European Union for the last decades and has given new life to Eurosceptic and populist movements. The fundamentals of the European project, such as the free movement of EU citizens, are starting to be challenged even by mainstream European parties, while the debate on repatriation of powers and the balance between Member States' and EU competences is growing.

Thus, it is clear that in the next five years this new political leadership will be faced with a multitude of challenges. The list of immediate priorities is long: fostering growth, creating jobs, overcoming internal fragmentation, establishing an Energy Union, dealing with problematic neighbours, finding a way forward on the UK issue and completing the missing elements of EMU governance. Europe also needs to find ways to overcome its legitimacy deficit and come up with a shared vision for Europe's future.

This issue of Challenge Europe aims to contribute to this debate about the future of European integration in view of the next political cycle, the challenges it faces and the possible solutions, considering also their implication for the way the institutions organise their work. This is done through a series of articles authored by distinguished contributors, almost all of whom are or have been involved in high-level EU policymaking and policy analysis, either at the European or the Member State level.

The first article of this volume addresses the state of the Union at the start of the new political mandate, followed by an analysis of the three meta-challenges faced by the EU: stagnation, fragmentation and legitimacy. The following articles deal with these challenges across a large

breadth of policy areas, from EU and euro governance to differentiated integration, growth, solidarity, climate change, EU foreign policy, migration and the freedom of movement of persons, leadership, and populism.

I would like to thank the authors for accepting our invitation and putting their ideas on paper and the EPC staff, for helping prepare this publication, in particular Paul Ivan as coordinator of the process. I believe that this volume is an important contribution to the current policy debate, providing analysis combined with concrete recommendations. We hope this publication will not only be useful, relevant and timely, but that it will be a starting point for further debate.

Fabian Zuleeg is Chief Executive of the European Policy Centre.

State of the Union and key challenges for Europe's future¹

Janis A. Emmanouilidis and Paul Ivan

In the last five years deep cracks have appeared in the European project. The 'euro-area crisis' triggered by a severe global financial and economic crisis has put European integration to a major test, more profound than ever before. The experience of recent years has revealed and exacerbated significant deficiencies in the European Union's (EU) economic and political construction. At time it has cast doubt on fundamentals of the European project and raised questions about whether Europe will be able to deal effectively not only with the immediate crisis, but also with the many other serious socio-economic, politico-institutional, societal and global challenges that Europe is and will be confronted with. At the start of a new institutional-political cycle (2014-2019) and while the crisis situation has for a number of reasons improved significantly since the summer of 2012, at least in systemic terms, the Union's new leadership and Member States will now have to take strategic decisions about the future of European integration.

'State of the Union' – improvements in systemic terms but no room for complacency

In 2010, at the beginning of the EU's last political cycle and two years after the collapse of Lehman Brothers, Europe became the centre of the biggest financial and economic crisis since the Great Depression. What began as a government debt crisis in one of the smallest economies on its periphery, representing only 2% of the EU's combined economic output, soon exposed the fundamental deficits of a monetary union without an equally strong economic and political dimension. As the Greek crisis escalated, many European leaders wanted to believe its problems were unique, but the markets followed their own logic and the crisis quickly spread to other EU countries. As the dominos began to fall, it became obvious that the E(M)U lacked the necessary institutional structures, procedures, rules, and instruments to prevent such a crisis from beginning, spreading and worsening. And then the unthinkable became a very thinkable reality: one or more countries could leave the euro; the euro zone could implode; or even that the EU could disintegrate.

To make matters worse, Europe faced not just one but a number of highly complex crises, which together produced a crisis of confidence, undermining the trust of markets, citizens and global partners in the future of the euro and the EU itself: Europe faced a *banking crisis* in a highly interwoven European financial system which included illiquid or even insolvent financial institutions burdened by high levels of public and private debt; a *public debt crisis* prohibiting or endangering the access of over-indebted countries to capital markets; a *private debt crisis* putting additional strains on the banking sector in many Member States; a *competitiveness crisis* illustrated by current account deficits in Europe's periphery at the outset of the crisis and by a limited ability to adapt individual European economies to the challenges of a more competitive global environment; a *growth and investment crisis* involving structurally low levels of GDP growth and a lack of public and private investment and the negative effects of a persistent credit crunch; an *institutional crisis* characterised by the rising significance of national governments in EU policy-making, while responsibilities

have been shifted to the Union without a parallel delegation of actual powers and resources to Brussels; a *social crisis* caused by deep, long-lasting recessions and very high levels of structural long-term unemployment in a number of Member States and by more fundamental and unresolved demographic challenges, with ageing societies and shrinking populations across the EU; and last but not least, a *political crisis* characterised by high levels of volatility and instability and the rise of populist, anti-establishment, anti-EU/euro, and anti-immigration parties and movements.

In this unprecedented situation, there was no textbook that European and national decision-makers could turn to for advice and guidance on how to react to these complex and interwoven crises. Responses have been often slow, insufficient and sometimes ill-advised, and the results sometimes meagre and disappointing.

At the same time, many things that seemed impossible some years earlier have happened since the outbreak of the crisis, including huge bailout programmes, two multi-hundred billion euro rescue mechanisms (EFSF; ESM), unprecedented fiscal consolidation efforts in deficit countries, a strengthening of EMU governance, the signing of an intergovernmental fiscal treaty, unprecedented action by the European Central Bank (ECB) to support sovereign debt markets and provide liquidity lifelines to banking systems; and the creation of a (limited) banking union with a Single Supervisory Mechanism (SSM) and a Single Resolution Mechanism.

But despite all these efforts, the EU and its members struggled for a long time to get ahead of the curve and persuade the markets and citizens that they were capable of meeting the multifaceted challenges posed by the crisis. At times, it seemed that the 'crisis snowball' might spiral out of control and trigger an avalanche with the potential to bury the euro or even the European project underneath it.

Today, the situation still remains volatile, but fears of the worst-case scenario becoming reality have receded for two main reasons: the ECB's promise to do 'whatever it takes' to guarantee the euro's stability and the significantly lower risk of country leaving the common currency. This has boosted confidence and significantly reduced the danger of a euro meltdown.

Although the situation has improved in systemic terms, this is not reflected in the day-to-day reality in many Member States. The crisis is by no means over and there is no room for complacency neither at European nor at national level, given the continuing fragility of the economic, fiscal, social, and political situation: economic growth remains elusive and (youth) unemployment (exceptionally) high; the European banking system and financial markets are still highly fragmented; in a number of countries government debt levels remain exceptionally high; the social and political situation in many Member States is tense and the rise of populist forces on both the left and right of the political spectrum has raised concerns about the state of democracy in Europe.

All this is happening while the world and the neighbourhood around us is in the midst of major transformations, and the EU and its members are under pressure to respond to fundamental changes 'out there'. History is very much in the making as proven by

developments such as the continuous rise of China but also more tragically, by the turmoil in the Middle East or the war in Ukraine and the stand-off with Russia.

It is impossible to predict what the future global order will look like. Despite different patterns of relative rise or decline, all major international players expose a considerable degree of domestic fragility. On balance we are witnessing a shift towards a less 'Western world'. The ability of the 'West' to influence international affairs is being put to test as its societies grow older and its share of world population and economic might is expected to further shrink. Under these conditions, Europeans have to face the challenges related to increasing global economic competition by individually and collectively preparing themselves for the transition of Europe's economy.

In the new global landscape, Europe is no longer a centre of gravity in international political and economic affairs, as global developments are increasingly shaped in other parts of the world while the 'old continent' is mainly preoccupied with itself. As a consequence, there are severe doubts as to whether the EU and its members will be able to manage the process of growing global interdependencies and connectivity. Globalisation is and will continue to be the most significant factor shaping international politics and Europeans find themselves once again at a crossroads while things could move in two very opposite directions: Europe could either face creeping decline, gradual marginalisation and in the worst case even global irrelevance or co-determine the future rules of global governance. While the distribution of power detracts from Europe's clout on the global stage, the EU remains a pivotal international actor whose combined economic, financial and political resources can make a positive difference to international cooperation, if mobilised for the pursuit of clearly defined goals. Whether Europe will be willing and able to act strategically to advance its values and interests in a changing world remains unclear and will very much depend on developments at home.

Three key challenges – fragmentation, stagnation, legitimacy

Given the current state of the Union and the changing external environment, it is still not clear whether the 'iron law' of European integration history will prove itself again; i.e. whether the EU will, once again, emerge stronger and more mature from the crisis, as it has in the past. But one thing seems rather certain: if Europeans want to exploit their combined potential, they have to collectively and individually address three interlinked key challenges: stagnation, fragmentation and legitimacy.

1. Stagnation

The first key challenge the EU and its members will face in the years to come is economic and institutional-political stagnation. Europe's feeble recovery seems to have ground to a halt and the EU is close to entering its third recession since the 'great crisis' started in 2008. Continuous economic stagnation would lead inevitably to growing pressures on the middle classes and to widespread perceptions of increasing social injustice both within and between Member States. After years of low growth or even recession, the main challenge facing European leaders in the coming five years will be to return the troubled European economies

to sustainable growth and to increase employment rates, productivity, competitiveness, and the overall level of prosperity in Europe.

However, the Union is not 'only' facing economic stagnation but also the danger of institutional-political stagnation. Collective efforts to overcome the Union's remaining structural shortfalls have lost momentum since late 2012, with the decreasing threat of a euro meltdown limiting governments' readiness to take bold(er) decisions. To be clear, the EU is still advancing, as shown by the recent agreement on the next leg of the banking union, the Single Resolution Mechanism. But there is a loss of ambition and growing complacency as reform fatigue has spread. 'Consolidation' has become the order of the day as immediate crisis threats and markets pressures have receded; 'doing less, but doing it better' at European level has become the predominant mantra in Brussels and in most national capitals. The question is whether this will suffice in the years to come.

2. Fragmentation

The second key challenge the EU and its members will face is that of fragmentation – in its different shapes: fragmentation between the EU and its citizens due to an increased uncertainty about the future added value of European integration and a growing feeling among citizens that they are directly affected by decisions taken in 'Brussels' which they cannot effectively influence; economic fragmentation between Member States due to a lack of competitiveness of certain EU economies and the lack of mechanisms between weaker and stronger countries to cushion economic and social shocks that hit some harder than others; political fragmentation characterised by a higher level of distrust between Member States and even national societies due a (re-)surfacing of national stereotypes, nationalism, chauvinism and resentments, and an ever-louder, over-simplistic and harmful blame game between Member States because of differing interpretations of the root causes, nature and complexity of the crisis, disagreements over the 'crisis recipe' as well as conflicting visions regarding the overall future of European integration; and, last but not least, social fragmentation within individual EU countries due to an increasing divide between the 'haves' and 'have-less' leading to widespread perceptions of social injustice resulting in indignation, despair, and anger.

The different sources and dimensions of fragmentation threaten to undermine the ability of the Union to develop, adopt and implement adequate policy solutions, which no country – irrespective of its size – can cope with alone. As a consequence, the EU and its members run the risk of struggling to meet citizen's expectations in terms of delivery, which in return undermines the Union's legitimacy.

3. Legitimacy

Finally, the EU is challenged by a loss of legitimacy of the European project in the eyes of citizens for a number of reasons. In more fundamental terms, the EU and its members are struggling with an increased loss of trust in traditional political elites and their ability to master the complex challenges of today's world. Although the resulting challenge to traditional

models of political representation is a wider phenomenon, it has particularly drastic consequences for the EU, which is still perceived as an elitist project and thus is brought into question more quickly and fundamentally than traditional political entities. This effect is fostered by the circumstance that national politicians often blame 'Brussels' for some of their own failings ('scapegoating') and are reluctant to give the Union credit for its successes.

The loss of trust in traditional parties also leads to a more dispersed political scene, with new movements and parties entering the political sphere, which has the potential to undermine the ability of the EU and its members to deliver adequate policy results ('output legitimacy'). The success of 'anti-forces' – anti-EU, anti-euro, anti-migration, anti-establishment – demonstrated most visibly in the 2014 European Parliament elections, is putting mainstream parties under severe pressure, which risks further complicating the search for compromises between Member States. At the same time, the success of 'anti-forces' on both the left and right side of the political spectrum increases the pressure on 'pro-EU forces' in the Member States and in the European Parliament to form coalitions and find adequate policy responses.

Finally, there is a widespread notion that the Union has in recent years become more inter-governmental and dominated by the views and interests of particular Member States, which undermines the legitimacy of EU decision-making. The Union's governance structures are not being perceived as being able to balance national interests so that all EU countries feel they profit from decisions taken in Brussels/Strasbourg. Since the Lisbon Treaty entered into force and over the course of the crisis, the powers and political weight of the heads of state and government have increased at the expense of the European Commission and European Parliament. This has boosted inter-governmentalism in the EU, at times undermining or even circumventing the traditional 'community method' through the introduction of a number of inter-governmental treaties/agreements outside the EU treaty framework. Today's Union is also characterised by what might be called 'unbalanced inter-governmentalism': a new balance of power between Member States, with Germany playing a much more dominant role than in the past.

Addressing internal and external challenges – a summary of contributions

So, what can and should the EU and its members do to effectively address the challenges of stagnation, fragmentation and legitimacy? What are the possible solutions that should be pursued to put the continent in the best possible position not only to confront the many risks and uncertainties it faces, but also to exploit and make the best use of all of Europe's potential? In the present volume a number of distinguished authors address key issues and challenges and identify recommendations on how to address them in the years to come.

In the first article of this volume, *Herman Van Rompuy* argues that in a time of sweeping worldwide changes, Europe risks losing the competition race. He argues that the EU needs to focus on innovation, to turn ideas into real business and to develop digital technologies by addressing the problems regarding intellectual property, copyrights, market fragmentation, consumer protection, investment in infrastructure, venture capital for start-ups, and digital skills. Europe also needs to focus not only on reducing production costs,

though that should be done for example regarding energy costs, but also on focusing on quality in all its shapes and guises: novelty, reliability, image, design, experience, durability.

Writing about the growth challenge for Europe and the EMU, **George Pagoulatos** contends that in the short term what is needed is a policy mix that first assists fiscal consolidation, economic adjustment and productivity-enhancing structural reforms in the economically weaker countries and that second, provides for an urgent countercyclical stimulus funded for example by the European Investment Bank (EIB) and assisted by the EU budget and the ECB. This would help to close the investment gap in the euro zone and to restore growth prospects. Pagoulatos argues that it would also be essential to install a fully-fledged banking union to enhance credit conditions. In the long term, he calls for the enactment of the recommendations outlined in the four Presidents report "Towards a Genuine Economic and Monetary Union" and the Commission's "Blueprint for a Deep and Genuine Economic and Monetary Union". He also calls for more steps being done toward a better growth strategy including the completion of the single market in services, the enhancement of energy efficiency and autonomy (via an energy union), the strengthening of EU industrial policy, and better public finances.

Writing about euro governance, **Daniela Schwarzer** affirms that the main challenge for the EU will be to return the troubled European economies to sustainable private sector-led growth and to fight unemployment. She also addresses the multiple lines of fragmentation the EU is faced with, between the euro area and non-euro area Member States, the one inside the monetary union between the North and the South, the fragmentation within societies, and also the fragmentation of financial markets. A final challenge identified concerns the reduced input and output legitimacy, with countries facing narrower policy options in times of crisis, which in turn has given rise to eurosceptics. Schwarzer argues that a robust economic recovery is necessary to help Europe tackle all these challenges and to help reduce the sovereign debt burden. Any promising path to economic recovery will have to combine measures that ensure accessible and cheap credit, structural reforms that release growth potential both in deficit and surplus countries, investment in education and mobility, and finally a better macroeconomic policy mix. In the long run, the author argues, it is unlikely that economic prosperity can be achieved without improving the decision-making mechanisms of the euro area.

László Andor maintains that restoring the capacity to achieve balanced growth and socio-economic convergence in Europe is a key condition for the EU to overcome the crisis and to regain output legitimacy. To achieve this, a predictable and rules-based mechanism of countercyclical fiscal transfers would be needed in the context of which EMU countries would share part of the costs of a short-term unemployment insurance (either via a basic European unemployment insurance scheme or through the reinsurance of national unemployment insurance schemes). Through such a scheme, it should be possible to create a European safety net for the welfare safety nets of individual Member States and to prevent short-term crises from unleashing longer-lasting divergence within the monetary union.

Paweł Swieboda argues that the post-crisis solidarity and cohesion agenda in the EU must focus on restarting the convergence process. The basic objective will be to restore the level-

playing field in the Union by completing the EMU with a robust fiscal pillar and elements of a "transfer union". On the one side, increasing investment to raise aggregate demand is the most pressing task. The other side of the bargain has to do with improving macroeconomic performance, increasing competitiveness and completing structural reforms in the vulnerable countries, for example through labour market reforms, improvements of the institutional and financial infrastructure or the sophistication of business models, altogether combining the objectives of fiscal consolidation with those of growth and equity.

In his article about the Single Market and Competitiveness, **Malcolm Harbour** calls on the new European Commission to pursue even more effective implementation and "better regulation" rather than new initiatives. He argues that President Juncker's team should tackle the continued problem of ineffective application and weak enforcement of key single market measures by Member States, introducing a "fast track" method for compliance monitoring. He also calls for improvements regarding the digital single market, the Services Directive, full implementation of the Consumer Rights Directive, a mutual evaluation and full appraisal of the Mutual Recognition Directive, and a consistent implementation of the Public Procurement rules agreed in 2014.

Jo Leinen argues in his article on the climate challenge that the EU needs to change the way it manages the energy resources it imports and reduce energy consumption. He calls for a rethink of business models and a move towards a circular economy where resources are reused and recycled. He proposes measures which could include a "product passport" which lists product materials and their origins, a mix of 'push and pull' measures to introduce legislative benchmark standards and to provide investment perspectives for the business sector, recyclable product designs, investment in technology and innovation, and better consumer information. He also argues that to mitigate climate change, renewable energies need to be expanded, energy efficiency and security needs to be ensured, and grid and storage capacities need to be enhanced.

Rosa Balfour, while mentioning that the European Union falls short of expectations to become a fully-fledged global actor, presents two options for EU foreign policy: a 'do less but better' option and a more ambitious one, of international engagement as a means for EU renewal. She holds that the next EU leadership will have to address energetically and with foresight relations with the EU's neighbours (including Russia and Turkey). This will require consolidating the EU's crisis management structures, dealing with energy matters (internally and externally), and will impose some long overdue thinking on European defence, both in terms of its industry and its existential purpose. Rosa Balfour argues that EU Member States cannot afford not to cooperate more closely on foreign policy, notwithstanding their lack of an appetite to do so. The choice is between levels of ambition. Feeding into that ambition a compelling narrative about a new form of international multilevel engagement, while also resting on the roots of peace-building, could become a source of renewal for Europe as a whole.

Cecilia Malmström calls for addressing migration with appropriate care, a key element of this being the respect for the rights of workers. While flexible labour migration policies which allow European economies to address real shortages are essential, they should not be used

to instigate unfair wage competition. A sustainable EU migration policy should also enable integration and labour market participation of all migrants. She argues that the EU needs to face the fact that people will not stop seeking refuge in Europe and should be adequately prepared. Measures include search and rescue at sea, enhanced cooperation with third countries, fight against migrant smuggling networks, and emergency support for the countries facing greater pressures. The EU should also consider the possible use of humanitarian visas and continue to engage with countries of origin and transit.

In his article on the freedom of movement of persons, **Radoslaw Sikorski** tackles some of the myths regarding the free movement of workers inside the EU, arguing that it has a limited scope (only 3% of EU citizens) and is an integral part of the single market that spurs economic growth and brings huge benefits to the EU economy. He argues that the possibility of finding employment is the main reason for why people move, not the misuse of social benefits. Sikorski calls for the elimination of abuses of the social welfare system but not by excluding migrants. The article defends the idea that the economic challenges which Europe faces can only be addressed by collective responses on the basis of the freedom of movement, which should actually be strengthened, not weakened. The freedom of movement is essential for the EU to be able to retain (or even strengthen) its global competitiveness.

Maria João Rodrigues deals with the issue of leadership at the EU level and argues that Europe is in need of new leadership to recreate a stronger European unity. She emphasises the gains in democratic legitimacy brought by the new procedure to elect the President of the European Commission and also stresses that candidates for the Commission should be evaluated in the national context in terms of their ability to address challenges at the EU level and their adaptive qualities regarding top Commission priorities. The process should also transcend the national level and involve more European selection input, including the Presidents of the Commission, the European Council and the Parliament. Member States should carefully consider their Commission candidates and assess their merits on the basis of proven competences and political outcomes.

Writing about populism in the EU, **Heather Grabbe** asserts that populist parties are thriving, partially due to deep concerns such as economic pain, disillusionment with politics, scepticism toward the representative value of European democracy and insecurities regarding national identities and the durability of European social contracts. She stresses that the increased political power of these parties could change the balance of power between EU institutions, lead to negative spill-over effects into national politics and endanger the EU infrastructure of rights and rule of law. Grabbe calls on European leaders to limit racism in the public debate; connect national and European politics to increase tolerance; and bring more voices into the debates and increase transparency at EU level. Furthermore, instead of forming a grand coalition to protect the *status quo*, mainstream parties should become more active and reform the EU by making progress on issues such as fundamental rights and services liberalisation, while fuelling public debates about the future of Europe and communicating better through social media.

In his article on differentiated Europe, **Alexander Stubb** stresses that differentiation is a tool for effectively enlarging and deepening the Union. He analyses the topic in terms of the three

meta-challenges identified. Stagnation is seen as a catalyst for differentiation as differentiated Europe can be a solution to political and economic stagnation. The author argues that the difference between differentiation and a second meta-challenge, fragmentation, is a thin line that is best guarded by strong common institutions. In terms of input legitimacy, Stubb sees the strengthened role of the Commission as providing a fair degree of accountability, whereas working outside the EU Treaties poses a challenge to legitimacy. In terms of output legitimacy, differentiated Europe tends to perform well because it typically is a solution to policy problems where joint progress is not an option. The fact that treaty change is not an option for the time being will mean that differentiated Europe can be a useful instrument in deepening integration. However, he argues, we also need to recognise that there are no-go areas for differentiation, namely those areas where the essence of European value added lies and where effects are much stronger when the whole Union participates.

Fabian Zuleeg maintains that in what concerns EU decision-making four key challenges need to be addressed: crisis management (which requires more flexibility and speedy but accountable decisions); cohesive and comprehensive responses to systemic challenges (rather than a 'silo approach'); as well as increasing politicisation and fragmentation of decision-making. Referring to the structure of the Commission, the author notes that the lack of a clear cluster structure in the new Juncker Commission will require a clear definition of responsibilities. Regarding the governance challenge posed by the politicisation of the Commission, the author proposes outsourcing some of the functions by establishing independent bodies. He also argues that the EU level needs to gain more executive powers, accompanied by accountability mechanisms. Referring to the challenge coming from the limitations of the EU rules-based system, he calls for instruments that can be employed quickly and to ensure Member State compliance. Another challenge is that of the impeded possibility of further pooling sovereignty, which could be tackled by giving more executive powers at EU level and increasing the politicisation of the system.

In a final article, **Janis A. Emmanouilidis** argues that the Union and its members are still facing the aftershocks and collateral damage of the 'euro crisis' and identifies one structural challenge the EU and its members will have to confront in the new political cycle: the danger of fragmentation – between the EU and its citizens, between Member States, between states and national societies, which takes various forms (economic, social, political, geopolitical etc.). These fragmentations have exposed severe cracks in the 'old bargain' between Member States and between the EU and its citizens, which makes it difficult to convey a convincing future-oriented 'narrative' about the future of Europe. Simply consolidating past achievements will not suffice. If EU institutions and Member States want to turn the tide, they will have to go beyond a lowest common denominator approach. Emmanouilidis stresses that a new 'win-win' situation needs to be created or, in other words, there is need for a 'New Pact for Europe' between Member States and between the EU and its citizens. Such a New Pact could be based on three main pillars: an 'Enabling Union' which should foster sustainable growth and job creation by stimulating investment and enhancing Europe's competitiveness; a 'Supportive Union' which should enhance the EU's 'caring dimension'; and a 'Participatory Union' which should strengthen the ties between the EU and its citizens. Furthermore, he proposes a new 'grand project' around an Energy Union,

to provide new momentum for European integration and calls for a reflection process regarding the concrete measures to be taken, with the aim of reforming the EU Treaties in the next decade.

Janis A. Emmanouilidis is Director of Studies and Paul Ivan is Policy Analyst at the European Policy Centre.

Endnote

- 1 This chapter draws from the first report of the *New Pact for Europe* project: *Strategic Options for Europe's Future*, Brussels, 2013, Available at www.newpactforeurope.eu/documents/1st_report_new_pact_for_europe.pdf

Europe's economic challenges and the importance of ideas and innovation

Herman Van Rompuy

How will we Europeans earn *our* living in 20 or 30 years' time? And how can it be done, while remaining true to our values of fairness, freedom and solidarity? These fundamental questions predate the financial crisis and will still be with us once we have fully overcome it.

The world is becoming a hugely competitive place by the day. We see hundreds of millions of men and women from Asia, Latin America and Africa escaping poverty and entering the global market for jobs, ideas and resources; not just with energy and enthusiasm, but also with good diplomas. It is a movement that is unique in human history and obviously a reason to rejoice. But not only are new competitors catching up, older competitors are racing ahead too. For instance, the United States is now running on much cheaper energy than Europe, thanks to their shale-gas revolution. These sweeping worldwide changes matter much more than how we arrange banking oversight or coordinate economic policies within the Union. Globalisation, new technologies, the ageing of our populations, the race for resources: for all our countries, these are the real challenges.

In a job like mine, you get to meet a lot of business people. I also regularly meet trade unions, very often at my own request. Twice a year we hold a Tripartite Social Summit, bringing together the unions and business with EU institutions. In such exchanges, it can sometimes seem that we have two different understandings of economic realities, two separate narratives. And during my years in office, I have seen this gap widen. Of all the groups in society, business leaders are probably most keenly aware of the challenge posed by globalisation. They have their finger on the pulse of global economic activity and keep alerting me that Europe is losing out. The trade unions, generally more focused on the economy's demand side, regularly call for more (public) investment. Their leadership remains highly committed to Europe but they can sense a rise of Euro-scepticism among their members.

We must, and can bring these two narratives together. Yes, global change is relentless and our societies must adapt, but we can also preserve what makes Europe such a special place: a unique combination of relative prosperity, solidarity, individual freedoms, and security. This challenge was always on my mind.

The power of ideas

As Antoine de Saint-Exupéry once said: *"A pile of rocks ceases to be a rock pile when somebody contemplates it with the idea of a cathedral in mind."* Such individual strokes of genius are indispensable for any nation to grow and prosper. But nobody builds a cathedral alone; you build them as a society. Here also, it is a matter of improving conditions and opportunities.

Throughout my mandate, I have worked to impress upon European leaders the importance of ideas and innovation. By putting the topic high on the agenda of our European Council meetings – for instance, in February 2011, October 2013 and March 2014 – but also with concrete breakthroughs. I was pleased that on my watch we have finally been able to broker a deal on the remaining issue for the European patent (the seat of its court). This set the seal on the work of the Belgian Presidency in the second half of 2010, which had solved all but this point through 'enhanced cooperation'. It was the end of an odyssey that started forty years ago. I can still hear former Prime Minister Leo Tindemans speaking at a party meeting on the European Patent. It was in 1978... The point of patents is that by protecting an idea across national borders, they provide an incentive to be inventive. The new unified patent and its patent court mean that inventors and businesses at last have a real 'one stop-shop' for requests, delivery and after-sales, in no fewer than 26 EU countries. If you realise that the existing European patent office in Munich receives some 260,000 patent applications each year, it is clear that there is a real need. It will mean less time, less money, less worry and larger markets for businesses, so that innovation can spread further and faster, and progress can more easily benefit all Europeans.

Some argue that, as a society, we are no longer as innovation-minded as we used to be. In his book *Mass Flourishing*, economics Nobel Prize winner Edmund Phelps looks back at the exciting century leading up to the 1960s, during which Europe and the United States experienced a tremendously creative surge. He describes a grass-root, innovation-minded society, where people – not just geniuses, but ordinary people as well – would get excited about finding new ways to do things, and do them better. There is a wider lesson in this story. Innovation is not something that happens only in science labs. It can and should be happening in every workshop, in every office, behind every computer, in every meeting room. It means being open to trying out new things. Testing ideas until they work. Asking ourselves: how do we turn brainwaves into breakthroughs, and breakthroughs into real business?

When it comes to our competitiveness as a continent, turning ideas into real business is at the heart of the matter. Recent figures make the problem strikingly clear. The EU-US productivity gap, which had started to narrow in the years before the crisis, is widening again. It means that compared to the United States our collective competitiveness is eroding. The two factors that stand out are research commercialisation and ICT technologies.

Europeans may be leaders in scientific excellence (as Nobel Prize winners regularly show), but compared to our competitors in the US, Japan or South Korea we find it more difficult to bring this research to the market. And if we do not, others will do it for us, with our ideas. As they did for instance with the World Wide Web, which was invented at the CERN, the European Organization for Nuclear Research in Geneva.

We do have the power of ideas. I am certain that behind the scientific breakthroughs of the future, there will be some European research. Our research programme 'Horizon 2020' is one of the biggest in the world. It helps to make research in Europe attractive again. Ahead of the European Council on the Union's long-term budget, I received four Nobel Prize winners, all

urging me to protect the programme's share. They told me that after a period when many top researchers left to work across the Atlantic, we are now witnessing a 'brain-return'!

A second factor holding back our competitiveness is the fact that we are lagging behind in digital technologies. Over the past five years, the annual sales of typical ICT companies from the US and Asia went up by almost 50%, while those of European companies stagnated, or even went down in some cases. This is striking. In the history of communication technologies, there is a glorious tradition of innovation coming from Europe for the best part of the nineteenth and twentieth centuries. 'Made in Europe' communication technology has changed the world, starting with radio and television, right up to CD-ROMs, MP3 music technology and the World Wide Web. But who turned it into real business? American companies... The cutting-edge research and innovation today is in fields like social media, big data, cloud computing, or the 'Internet of things': this is where European companies should now focus.

We do not want to miss the boat again, and there is no reason why we should. It is perfectly clear what Europeans need to do to get back in the game. From intellectual property, to copyrights, to market fragmentation, to consumer protection, to investment in infrastructure, to venture capital for start-ups, to digital skills: we know the remedies. It is the body of knowledge that makes up the EU's 'digital agenda', our joint 'to-do' list, which, once carried out, would hugely benefit European companies and European citizens.

The continent of quality

I am deeply convinced that all our countries have what it takes to prosper in the 21st century. A highly educated workforce, the singular alchemy of our prosperity, freedom and rule of law, the solidarity embodied in our social models: when combined, these are unrivalled assets.

Faced with today's global competition, there is no reason to throw this all away. Other continents may offer products or services that are cheaper than the ones made in Europe. That is a reason to worry, but not a reason to panic. To worry, because cost – the relationship between trends in labour or energy costs and productivity – is certainly important. One lesson from the crisis is that a rise in income which is not linked to a related increase in productivity is not sustainable, and can fuel bubbles.

Labour costs are important but energy costs are also becoming more relevant by the day. In Europe we will probably not have a shale-gas revolution comparable to the one happening in other parts of the world, such as America. So we must win the battle on energy efficiency. There is huge potential in this field; specifically in the construction industry.

Having said this, if salvation for our economies were only to be found in bringing down costs, Europe could 'close shop' now. Fortunately, this is not the case. Our major strengths lie precisely in our so-called 'non-price competitiveness'. Our focus must not be exclusively on costs, but on quality in all its shapes and guises: novelty, reliability, image, design, experience, durability... It is our ability to produce such quality and to adapt to the needs of high-growth markets that will get results.

Europe will not emerge from the crisis by denying its true self. More now than ever before, our continent must be a synonym for innovation and quality. Our European brand is that of a certain way of life, of taste and style, of open social relations, of environmental protection, of a sense of progress. Individual countries offer fine examples. Take Denmark, which excels by the clarity of its design; or Germany, with its cars and high-precision machinery, both in demand in emerging economies; or Italy, with its luxury brands and seducing *belle cose*. All our countries can draw strength from remaining true to themselves. It is perhaps a handicap in some respects, if one sticks too rigidly to a strictly productivist logic that demands ever greater uniformity and speed. But it remains, above all, an asset.

This contribution draws upon Herman Van Rompuy's recent book "Europe in the Storm. Promise and Prejudice" (Davidsfonds, April 2014).

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The growth challenge for Europe and the EMU

George Pagoulatos

The European economy is slowly and painfully striving to reemerge from the last six years of crisis. It was a crisis of enormous intensity and contagiousness, given the unprecedented depth of global financial integration combined with the systemic flaws in the EMU architecture. And it is not over, as the high levels of unemployment and the growing divergence between Member States testify. The threat of fragmentation is imminent as ever: fragmentation between euro-ins and euro-outs; fragmentation between North and South; fragmentation within societies, with increasing income inequality and a growing number of, what used to be, the middle class population slipping through the social safety net and below poverty lines.

Policies of front-loaded fiscal consolidation have left welfare states in economically weaker countries severely underfunded. According to OECD data, the number of people living in households without any income from work has doubled in Greece, Ireland and Spain, and has risen by 20% or more in Estonia, Italy, Latvia, Portugal, and Slovenia. Fertility rates have dropped further since the crisis, deepening the demographic and fiscal challenges of ageing. There are long-term implications from these deteriorating trends, regarding people's long-term health, education and upward mobility from low-income families. It is also highly likely that many of the people unemployed for a long period of time will never again be able to gain proper access to the job market and build a normal career track. The enduring effects of the crisis risk creating vicious cycles of low growth, high debt levels, austerity, declining productivity, and stagnation.

These developments carry heavy implications for the future growth prospects of the European economies, for future prosperity, and for the sustainability of pension systems and welfare states. They must be urgently reversed.

What needs to be done (I): Euro zone adjustment on the short-term

The economic crisis in the euro zone must be addressed as a matter of priority, also given its wider implications for the entire European economy.

Over the last few years, under painful adjustment therapies, the euro zone took important measures towards confronting the large deficits and excessive imbalances which contributed to the sovereign debt crisis. Fiscal discipline and overall macroeconomic stability are essential preconditions for ensuring the viability of the euro and allowing the euro zone economies to move to a healthy growth trajectory.

However, the adjustment policy mix has been too procyclical, ending up amplifying the recession, fostering debt deflation and prolonging the crisis. The lack of any significant euro zone-level countercyclical measures, to offset the recessionary impact of adjustment, has been a significant factor for the prolonged stagnation of the European economy. The inability of the

broken monetary transmission mechanism to transfer the low interest rates from the core to the economies of the periphery has further deprived healthy companies, especially SMEs, of precious capital.

Since the crisis began, the growth rates of the euro zone economy have been deplorably low. At well below 1%, the current rate of inflation in the euro zone falls short of the ECB's definition of price stability. Deflation or 'lowflation' makes the rebalancing effort in the euro zone extremely difficult. The economies of the euro zone South need lower inflation, in order to restore cost competitiveness *vis-à-vis* the core; but against an average 0.5% they can only rebalance in deflation. A nominal GDP growth rate around 1% or below means that the public and private debt burden in highly indebted euro zone economies will be growing further, to the point of eventually becoming unserviceable.

What is needed is a policy mix that would assist fiscal consolidation, economic adjustment and structural reforms in the economically weaker countries, starting from a higher average inflation rate (closer to 2%) in the euro zone. At the same time the Euro zone economy needs an urgent countercyclical stimulus, which should be provided via an EU- or EMU-wide investment stimulus. A large investment stimulus at the euro zone could be funded by the European Investment Bank (EIB), assisted perhaps by the EU budget. The EIB should increase its capital base and could issue bonds, which among others, could be purchased by the ECB. This and purchases of private sector assets could be part of an extensive asset purchasing programme by the ECB, which could facilitate financing conditions and help push inflation upwards. Investing in European public goods such as Trans-European Networks and infrastructures (energy, telecoms, digital networks reaching remote areas where the private sector is disinclined to invest) would enhance Europe's growth potential and deepen the single market.

A true recovery programme is necessary and urgent in euro zone Member States which are currently suffering intolerably high unemployment. Productivity-enhancing structural reforms in these countries must be combined with large investment in education and research, new technologies, networks, health, energy, environmental sustainability and the business environment, all of which would strengthen longer-term competitiveness.

With an average unemployment rate around 12%, unemployment remains the most important concern for Europe. It is painfully acute in the crisis-hit economies, peaking above 25% in Spain and Greece. Apart from an explosive socio-economic and political problem, long-term unemployment is a terrible waste of human capital, undercutting the productive capacity and future growth potential of the economy, eroding welfare state capacities. It is vital to maintain the employability of the unemployed, especially the long-term unemployed, by making sure that active support and training is extended and social safety nets are funded, to avert marginalisation.

Most of the existing studies reveal a large investment gap in the euro zone, including Germany as well as the crisis economies, as a result of public investment spending cuts, private sector deleveraging, and the credit crunch. It would be preferable to cover this investment gap through large scale EU investment funding as mentioned above. The

European Commission can also apply flexibility, if justified by the specific circumstances, in treating national investment expenditure with regard to budget deficit rules, whose credibility however should be safeguarded.

An investment boost will help restore the long-term growth potential of the receiving countries and the EU economy as a whole. It is a necessary complement but not a substitute for national reforms aimed to raise the underlying productivity of EU economies. euro zone countries with relatively low public debt levels, that have the fiscal space, should lead the investment stimulus required for the recovery of the euro zone economy.

Following the extensive adjustment (fiscal and external) in the periphery, the euro zone must move to a more symmetrical distribution of the burden of adjustment. A stronger demand stimulus in the export-surplus economies would help economic rebalancing across the euro zone.

The faster implementation and completion of a fully fledged banking union, and the repair of bank balance sheets and bank restructuring where necessary, are vital in restoring normal credit conditions in the bank-based European economy. The access to credit for healthy SMEs remains constrained, especially in the crisis-hit economies. In the longer run, the development of alternative sources of finance, such as venture capital, angel investors, and SME bonds would enhance financing conditions in Europe, especially with regard to new innovative enterprises.

What needs to be done (II): Fixing the EMU

Raising competitiveness, especially in economically weaker countries has extensively relied on wage deflation and lowering labour costs. Though the adjustment of unit labour costs since the outbreak of the crisis has been necessary, there should be stronger emphasis on other cost factors too, and on raising overall productivity levels. This mainly remains a national policy responsibility, but the EU should become more active in supporting investment and providing technical assistance to the less developed regions.

Economies which prior to the crisis had relied on credit-driven growth and an overexpansion of non-tradable sectors, at the expense of tradable sectors, will need to shift to a more export-led model. This will require far-reaching structural reforms and intelligently directing or 'nudging' resources towards higher value added export sectors. In some cases, typically non-traded economic activities such as real estate, education or health services, can be redirected towards external demand. Some of the otherwise less competitive economies can exploit a comparative advantage in high-tech start-ups, where impediments of bureaucracy, weaker infrastructure and other cost-factors are less crucial. The EU should work closely with national and regional authorities, private business, research centres and other stakeholders to encourage and sustain smart growth.

It is important to promote the speedy implementation of the banking union. Without it, the euro zone periphery could end up trapped in a permanent situation of high perceived

country risk, higher capital costs, savings and investment flight, wage deflation, low growth and persistently high unemployment. This would undermine the economic and socio-political viability of the euro and European integration. The backstop established by the banking union needs to be strengthened. The third pillar of the banking union, a single deposit insurance system, needs to be added.

The recommendations outlined in the Presidents report "Towards a Genuine EMU" and the Commission's "Blueprint for a Deep and Genuine EMU" must be enacted upon. Most important among them is the need for the euro zone to acquire its own fiscal capacity. A euro zone budget, funded preferably by own resources (VAT, corporate taxation, financial transaction tax, etc.), should operate as a main instrument of macroeconomic stabilisation in the face of crises hitting Member States in an asymmetric manner. A euro zone budget, together with the EIB, should be able to direct investment to crisis regions, assisting their recovery. A European unemployment insurance scheme could assist national efforts to deal with excessively high levels of cyclical unemployment, while national reforms confront the sources of structural unemployment.

There should be progress towards an investment union, as proposed by the European Policy Centre (EPC), including a dedicated investment fund aimed at delivering investment for growth in Member States that are unable to make the necessary investments themselves. This would encompass and exceed existing initiatives such as frontloading EU budget funds, project bonds and the Connecting Europe Facility. A "European Investment Guarantee Scheme" would be a vital additional new instrument that would provide insurance against the higher country risks involved in private sector investment towards crisis-ridden economies. Such steps towards moderate mutualisation, combined with greater pooling of national budgetary and economic policies, would help build a more integrated, cohesive and sustainable euro zone. A Eurobond scheme could be employed to finance euro zone investment in infrastructure.

In general, the euro zone has not tapped on the advantages of a monetary union, and especially the status of the euro as the world's parallel reserve currency next to the dollar. This implies that euro zone bonds, Eurobonds, would be able to benefit from the advantages of a deep and liquid global financial market, ensuring low-interest finance for major EMU projects. Such projects include infrastructure, and they can also include the process of partly substituting the national issuance of debt through joint issuance in the form of Eurobills and a Debt Redemption Fund. Thus, through reducing servicing costs, high public debt levels would de-escalate more rapidly and financial markets would be better integrated and stabilised. The appropriate conditionality would effectively safeguard against moral hazard. Effectively dealing with the debt overhang is a crucial prerequisite for allowing the European economies to grow.

What needs to be done (III): EU growth strategy

The EU faces a great competitive challenge from the transformation of the global economy. The challenge is not only to reverse or decelerate the long-term trend of its shrinking share in the global GDP. The challenge is also to do so by preserving the European model of a social

market economy, balancing growth and competitiveness with social cohesion, environmental sustainability, and a European quality of life. The unhappy prospect of a "1% European economy" needs to be resisted: 1% GDP growth, 1% inflation, 1% of the population controlling wealth.

Globalisation, technological progress, and the shift of power towards new global economic poles are leading developments in Europe and the world. European enterprises are responding to global market transformations by becoming integrated in global value chains. Tapping on new sources of growth and competitiveness requires open and interconnected product and services markets, higher investment in research and innovation, a favourable environment for entrepreneurship, and an appropriately skilled labour force.

The Europe 2020 strategy places emphasis on the appropriate areas and priorities that will allow the EU to enhance its medium- to longer-term growth potential. Following the euro zone crisis, the EU is now even further behind on the Europe 2020 targets than it was back in 2010. Prolonged unemployment and exit from the labour market in crisis countries has led to further divergence on the now overambitious 75% employment target (persons aged 20 to 64 in employment). The EU must seek to raise the employment rate especially in Member States at the lowest tier (Bulgaria, Greece, Hungary, Ireland, Italy, Portugal, Romania, Slovakia, and Spain). The employment rate should also be enhanced by better policies of skill-building and life-long learning, and social policies to support full participation of women in the labour market. In addition, Europe should counteract ageing and the shrinking of the labour force by adopting a dynamic immigration policy, integrating larger number of immigrants into the labour market and attracting talented young workers from around the world.

Other Europe 2020 headline objectives are also drifting further away. The percentage of people at risk of poverty has actually increased to 25% in the EU. The crisis has made it difficult to reduce the number of early school leavers, and raise the proportion of young people with tertiary education to 40%. Education, training and lifelong learning should remain a policy priority shielded by expenditure cuts, preferably favoured with higher investment than it currently receives. A quarter of the EU's adult population still lacks the skills to make effective use of ICT. Investment in R&D should be supported to reach closer to the ambitious 3% GDP target, and so should the shift to renewable energy, where the momentum has been lost.

These are targets that are vital for attaining the objectives of smart, sustainable and inclusive growth in Europe. They should be promoted with new rigor and commitment at EU and national level, employing EU budget and regulatory instruments to support national efforts. Among others, the European Union could use its available instruments in order to promote productivity-enhancing reforms on the ground, for example by attaching the disbursement of EU budget funds to administrative reform.

Completing the single market in services, energy, the digital sector, and research should feature at high priority. These are areas where single market integration can drive economic

growth through spill over effects across sectors. In particular, completing the digital single market would enhance ICT, strengthen the productivity and competitiveness of European enterprises, improve the functioning of the labour market and the public services, assist Europe's transition to a low carbon economy, and promote education and skill-building in a knowledge-based society.

Linked to this is the objective of enhancing energy efficiency and autonomy. Europe is facing higher energy costs compared to major competitors such as the US. This warrants revisiting the energy policy mix, without compromising the main environmental and sustainability policy targets. The energy union must be promoted as a grand project (seeking among others greater energy security and lower energy prices) with important positive effects in a number of policy areas.

The functioning of the internal market for industrial products must be further improved and EU industrial policy should be strengthened, with a particular focus on SMEs which provide the majority of jobs in Europe. In particular, the more flexible reallocation of skills and resources across firms and sectors and towards emerging high-growth sectors and markets must be facilitated by financial systems and labour, capital market and bankruptcy regulations.

Finally, it is important for the EU and Member States to strengthen public finances by avoiding further tax increases on working people and productive enterprises, or deeper cuts on social and investment spending. In countries in need of fiscal consolidation, the tax burden should be shifted to tax bases linked to consumption, property, and pollution. Better EU-level and global coordination is necessary for broadening the tax base against tax fraud, tax evasion and tax havens.

In conclusion

Economic growth is vital not only for overcoming the enduring effects of the crisis but also for reintegrating millions into the labour market, for promoting prosperity, and defending Europe's position in the world. This would shore up public finances, reduce the debt overhang and deliver a functioning welfare state to the next generations of Europeans. Attaining this desired level of economic growth is also crucial for the European integration project to regain the trust of citizens, by delivering a European Union that actually works and delivers on their behalf.

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Strengthening the euro area

Daniela Schwarzer

The euro area

Since 2007, a series of acute crises have threatened the very existence of the euro area. The financial crisis which spilled into the currency union in 2007 was followed by an unexpectedly strong downturn of the real economy. As of 2010, the euro area was confronted with a severe sovereign debt and banking crisis.

Despite these troublesome developments, the euro area has proven to have a considerable degree of resilience. In each phase, governance weaknesses were revealed – and national governments together with the EU institutions have designed an impressive series of policy responses in crisis management and institutional innovation. The euro area today is completed by a banking union with a Single Supervisory and a Single Resolution Mechanism. National budgetary and economic policies are more closely overseen and coordinated. With the European Stability Mechanism, the euro area now has a permanent tool in place to manage sovereign liquidity crises and instabilities in the banking sector. Most importantly, the euro area's only true federal institution, the European Central Bank (ECB), has become its most effective crisis manager: with the announcement of its Outright Monetary Transactions (OMT) programme, the ECB finally managed to calm the self-fulfilling crisis in 2012. Meanwhile, the announcement of credit easing and quasi-quantitative easing in September 2014 is a move towards reducing financial fragmentation and countering deflation.

The euro area in 2014 is hence a lot different from the one in 2007. And yet, further challenges need to be overcome. Prevailing stagnation, fragmentation and problems of legitimacy require a rethink of policies and further governance reform.

Stagnation

Although sovereign debt markets have calmed down since summer 2012 and the euro area on average has finally emerged from recession, the economic situation in the euro area remains fragile. Economic growth rates, which for several years have varied significantly across Member States, now tend to converge, but at a low level.

The main challenge facing European and national leaders in the coming five years will be to return the troubled European economies to sustainable private sector-led growth and to fight unemployment, which has particularly affected the young generation in a number of crisis countries. Today, the social and political repercussions of years of crisis can be felt especially in those countries which underwent severe adjustment processes. Unemployment in the euro area is currently at around 12% – yet youth unemployment is close to 25% across the euro zone, and well over 50% in both Spain and Greece. Over five million young people under 25 were unemployed in the EU-28 area in July 2014. While current labour market adjustments like skills discrepancy and cyclical vacancies represent immediate

challenges for policymakers, demographic developments in the EU and skills shortage pose long-term challenges.

Strengthening growth and reducing unemployment are particularly challenging tasks in the euro area, where the tools for necessary adaptation processes are limited, as Member States no longer command national monetary and exchange rate policies. Meanwhile, the use of fiscal instruments is constrained by both the dire budgetary situations in a number of Member States, and the European surveillance and coordination mechanisms which, while enabling some flexibility to take into account national economic situations, still impose upper limits on deficits so as to enable a reduction of public debt levels over the medium term. European instruments designed to alleviate the social repercussions of the crisis have been created, but are currently underused.

Following a Finnish policy model, the European Commission is advocating all Member States to introduce youth guarantees to drastically improve school-to-work transitions and financial and administrative measures to immediately support job opportunities for young people. The European Social Fund (ESF) will provide more than 10 billion each year in the 2014-2020 period, as there is no or little money for such measures at the national level in the countries affected most by the crisis. A wide array of persisting barriers, such as delay in presenting the required operational programs by governments, a lack of awareness and still insufficient funds have so far delivered disappointing results, with only France and Italy participating one year after the programme's adoption.

While labour mobility has traditionally been significantly lower in the EU than in the United States, many EU Member States have demonstrated a greater responsiveness and stronger migration reaction to the current unemployment shock. More policy action in addition to the EURES mobility platform will be required to further remove obstacles to intra-EU labour mobility.

Fragmentation

Closely linked to the ongoing stagnation in the euro area is an increasing fragmentation of the monetary union. There are several dimensions to this which will be discussed subsequently: firstly, the North-South-divide which is most frequently attributed to varying levels of competitiveness, but is actually underpinned by deep running variations in political, administrative and civic cultures; secondly, increasing social inequality and the questioning of the social contract both within Member States and on the EU level; and, thirdly, financial fragmentation within the currency union. Moreover, fragmentation may occur between the euro area and the non-members, some of which are actually on the verge of disintegrating.

Since 2010, the euro area has rhetorically been divided into a "core" of countries which were not struck by liquidity problems and a "periphery" of crisis countries, a phenomenon that is also often referred to as a new "North-South divide" within the euro area. The two groups are visibly distinct because of substantial divergence in growth and underlying competitiveness, sustainability of public finances and employment. For instance, the gap between the

countries with the highest and lowest jobless rates for young people is extremely high, with about 45 percentage points between Germany (the lowest at 7.8% in July 2014) and Spain (the highest, at 53.8% in July 2014).

The North-South divide has been explained by structural economic factors. Recently, variations in political and administrative culture, governance approaches, and civic self-understanding and trust have been emphasised as relevant to explain the slow-down of the catch-up process. One conclusion from the insight in the institutional and socio-political underpinnings of the North-South-divide is that the path to convergence will be longer and both financially and politically more costly than initially may have been assumed. The adaptation processes that societies, political and bureaucratic systems and elites will have to undergo on top of the structural reforms of economies and labour markets encounter more obstacles than initially expected, in particular as those who would lose in the necessary reform and adaptation processes can hardly be paid off.

For policymaking in the euro area, the continuing divergence between crisis and non-crisis countries has further estranged the positions of Germany and a small group of Nordic countries from those of Southern European countries – both on short-term measures to foster growth and with regard to the differing visions of the future euro area held. Yet there is room for compromise. In terms of debt and deficit reduction, as well as structural reforms, some Southern countries have become slightly more similar to the Nordic ones. At the same time, there have been some moves by Northern countries that, to a small degree, contribute to a more symmetric rebalancing of the euro area. One example is Germany's recent introduction of a minimum wage.

It will take some time, and possibly another crisis, to make governments and citizens in those Member States that currently fair best in terms of economic and financial stability realise an important point: the euro area with one currency, one economy, and one financial market has made national states vulnerable, but instruments and mechanisms on the European level can ensure macroeconomic stability and help to alleviate asymmetric shocks. This approach, over time, would be to the benefit of all Member States. As the costs and benefits in the short term (for instance, from now to five years into the future) will be very unevenly distributed, a long-term vision is therefore necessary if the euro is to stay together. What is needed to move forward is a set of instruments that encourage growth and crisis resilience of the euro area and establishing a larger degree of mutual insurance. Part of this is achieved with banking union, other parts could take the form of a European unemployment scheme and European bond issuance. Participation in the mutual insurance mechanisms should be conditional on far-reaching domestic reforms. If this happens and structures between Member States actually converge, then more solidarity, insurance, and joint liability may be acceptable to the 'strong' Member States.

Fragmentation also occurs within societies – a phenomenon mostly felt in the crises countries. Inequality in Europe has risen substantially since the mid-1980s. While the enlargement process has added to this, large income gains among top earners have been a main driver that also increased inequality in the euro area. 4% of all the EU population (over 120 million people) live in or in risk of poverty.

In a number of nation states, the intergenerational contract no longer holds: the younger generations can no longer assume to be as well or better off than their parents – given the costs of longevity, record levels of youth unemployment and the failure to adapt education systems to tomorrow's needs. Moreover, governments can no longer maintain previously unchallenged levels of welfare provision. With a shrinking redistributive capacity and rising costs, for instance in health systems and unemployment schemes, the social contract across social classes or groups is challenged and has already put the intra-societal notion of solidarity to a serious test. In particular citizens in Member States which are going through severe adaptation processes have little reason to believe in mutual insurance mechanisms which in the past were at the heart of social systems and enabled and maintained social peace and political stability in post-War Western Europe. This is an important background to the fact that national opinion leaders have more and more difficulty to argue for intra-European solidarity mechanisms.

Reducing the social cost of the crisis therefore remains a key immediate challenge for policy makers. Improving social inclusion in Europe and reducing regional disparities through stimulating private sector-led growth in areas where incomes are relatively low remains a key policy challenge for the EU and its Member States.

The fragmentation of financial markets complicates this task further. Despite ECB actions to alleviate the situation in crisis countries such as Greece, Portugal, Ireland, and Spain, corporate borrowing rates still vary decisively, pointing to inefficiencies in the European financial market. While the OMT-programme announcement by the ECB could effectively stabilise interest on sovereign and large corporate bonds again, spreads for SMEs are still divergent. To a certain extent, structural differences and internal adjustment processes explain the reluctance of banks to increase lending within economies where capital allocation proved to be inefficient, fueling asset price bubbles and unsustainable investments. Nonetheless, a key factor for restrictive lending to small firms in Southern European countries is a bottleneck in the financial sector. Due to the ongoing deleveraging in the financial sector of Southern European countries like Italy and Spain, many banks reduce risky assets like loans as long as their profitability is impaired by rising ratio of defaulting loans.

Another important reason is the upcoming conclusion of the Asset-Quality Review (AQR) by the ECB in October 2014 that will present banks' capabilities to fulfill the new equity capital standards of BASEL III introduced in January 2014. As falling back on alternative sources of finance is not an option for many SMEs, the bottleneck in the financial sector has caused a significant private investment gap, contributing to sluggish growth and prolonging unemployment. The SME sector plays a vital role for employment and growth, especially in the compartmentalised structures of Southern European economies where they account for four in every five jobs on average.

The challenge for the European Union is to reduce these growth inhibitors in the financial sector faster and more effectively than through the slow process of structural reforms, before the operational completion of the banking union. Due to the deflationary pressure which

crisis countries increasingly experience, short-term measures have become necessary, as they create instant relief for banks and increase lending to the real economy. In the past, the vagueness of purpose of monetary tools has triggered moral hazard behaviour, for instance causing the sovereign bank nexus. Against this background, European policymakers should appreciate the plans of the ECB to expand its balance sheet with targeted purchases of securitised corporate and consumer loans from banks. While these measures would represent an improvement of banks' balance sheets, the expected increase in corporate lending and SME investments could provide a much needed cyclical stimulus to stagnating euro zone economies.

Another line of fragmentation may in the future deepen between the euro area and the non-euro area Member States. In the years 2010 to 2013, the euro area has become more integrated, both institutionally and procedurally. Closer budgetary and economic policy coordination, the creation of the financial insurance mechanism ESM, a more active and stronger role for the ECB entailing a higher degree of risk sharing, and close political cooperation in crisis management through the regularly meeting of euro area summits have given rise to the concern that a decoupling of the euro area core from the non-members may eventually take place. The political challenge is hence also to bridge this divide effectively as the return of private sector driven growth to the euro area will be made even more difficult if political divisions among the 28 EU members increase and prevent necessary steps to complete the single market, in particular in the field of the digital economy and services.

Reduced legitimacy

The dire economic situation, the high unemployment rates and the inability or unwillingness of the established political parties to effectively manage the debate on European integration by providing a strong and contemporary pro-European narrative, have given rise to eurosceptics. Anti-EU and anti-establishment movements scored high in the May 2014 European elections in a number of EU Member States. An unparalleled number of seats in the European Parliament are occupied by representatives of anti-establishment movements since, but it is not in the EU institutions that this electoral result will most be felt. The new strength of 'EU-critical' movements will impact most strongly on the national level, even if they are not part of government coalitions.

If anti-establishment movements and EU critics gain additional ground in domestic debates, then structural reforms and budgetary consolidation measures, along with further-reaching reforms of the institutions of the European Union and/or the euro zone, will become even harder to implement. Accordingly, this will have a negative impact on national governments' willingness and ability to take a proactive stance on EU affairs and projects like the Transatlantic Trade and Investment Partnership (TTIP) which are of a strategic importance to Europe. Many national debates, including in the UK, today are characterised by an EU criticism with strong anti-globalisation undercurrents.

Political leaders who believe in the merits of European integration need to trigger a substantial debate on EU reform and to improve the domestic conditions for sounder

economic development throughout the EU. Meanwhile, the long-term consequences for those societies and economies in which half of the young labour force will not find a job in the foreseeable future need to be publicly discussed, as action that would fully measure the effects of daunting social and economic challenge has not yet been taken.

Moreover, decision-making structures in the euro area need to be scrutinised. Given the potentially destabilising effects of financial and economic openness, the euro area poses a particular challenge to its Member States. Governments' ability to control economic developments in their home countries is limited as they have given up monetary policy and exchange rates as the powerful instruments of macroeconomic policy making. As there is no euro area fiscal capacity, or European economic and labour policies, macroeconomic policy developments are no longer a matter of democratic political choice, but a more or less random result accumulating national policy choices which do not usually take into account their contribution to overall macroeconomic stability and potential negative spill-overs. Moreover, capital mobility in the monetary union has increased the pressure on governments to improve price competitiveness. Monetary union and financial integration have created a bias towards supply-sided policies in order to attract investments and corporations. These new constraints were hidden until 2010 as less competitive and less fiscally sound countries benefitted from low interest rates. Today, all governments of euro area Member States face narrower policy options, in particular when it comes to impacting growth and employment in their home country.

In addition to these constraints on potential "output legitimacy", the European economic governance structures are flawed on the input side. It can hardly be argued that citizens' vote today impact macroeconomic policy choices. This problem is amplified by the rule-based, rather technocratic coordination of national budgetary and economic policy, which, in particular when it leads to the enshrining of certain policy goals into law or even constitutions, weakens the ability of democracies to self-correct.

Outlook

Europe's foremost and urgent challenge is to overcome the stalling of economic growth. A robust economic recovery is necessary to help Europe tackle the social and political challenges societies are facing and the reduction of the sovereign debt burden. Any promising path to economic recovery led by private-sector growth will have to combine measures that ensure accessible and cheap credit, in particular for small and medium sized companies in regions struck by the crisis, structural reforms that release growth potential both in deficit and surplus countries, investment in education and mobility, and finally a better macroeconomic policy mix. In the long run, it is unlikely that economic prosperity can be achieved without improving the decision-making mechanisms of the euro area.

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Social Europe. Can the EU again improve people's life prospects?

László Andor

Introduction: Unprecedented socio-economic divergence and eroded social mobility in Europe

The European Union has survived the long economic and social crisis, but is weakened by many social fractures that diminish its very ability to act on the challenges it faces.

After years or even decades of socio-economic convergence between Member States, Europe has recently experienced major disparities in economic, employment and social outcomes. In 2010 it agreed a wise socio-economic strategy: "Europe 2020", including clear targets to increase employment and reduce poverty substantially. This Strategy was based on the ambition of sustained convergence between Member States and within societies.

Four years later, it is clear that the EU has not managed to do enough to realise this ambition. The employment rate among 20-64 year olds has dropped from 70.3% in 2008, and 68.5% in 2010, to 68.3% in 2013 instead of rising towards 75%. An initial objective was to lift at least 20 million people out of poverty or social exclusion by 2020, but we have seen that the number of people in or at risk of poverty or social exclusion has risen from 118 million in 2010 to 124 million in 2012. Perhaps most worryingly is that we are far from a situation where every individual has decent opportunities and can rely on the society's support to improve his or her lot.

Citizens' trust in Europe as a force supporting upward social mobility has considerably diminished as the protracted crisis has left millions of people unemployed or trapped in precarious work. This too, can be seen at the national level: the crisis has weakened the ability of many governments to deliver the demands of their citizens: primarily to counteract the economic crisis, provide good-quality public services and ensure good socio-economic opportunities for everyone.

National welfare systems have been substantially weakened as a consequence of the sovereign debt crisis, especially in countries and regions considered as euro zone periphery. Therefore, for the first time since the Second World War, doubt has been cast on the assumption that children are (mostly) going to be better off than their parents.

Socio-economic disparities have grown particularly within the euro zone, chiefly as a consequence of the incomplete design of the Economic and Monetary Union (EMU). Today's set-up of the EMU, on the one hand, severely constrains individual Member States' monetary and fiscal policies, while, on the other hand, lacking sufficient common instruments to mitigate asymmetric economic shocks. The lack of a proper lender of last resort and of a common budget at the EMU level have been the most obvious deficiencies. Europe's monetary union with strict rules for national fiscal policies is today often seen by citizens as a constraint rather than a solution.

Experience since 2008 abundantly confirms that the systemic flaws of the Maastricht design of the EMU have significant real-life consequences during an economic downturn. Adjustment occurs predominantly through 'internal devaluation', resulting in high unemployment, rising poverty and weakening of essential public services like healthcare and education.

While countries deemed insolvent by the financial markets have stayed afloat thanks to drip-fed emergency support from other European countries, the European Central Bank (ECB) and International Monetary Fund (IMF), they had to accept tough fiscal and structural reforms. The latter may have been designed with the best intentions but in many cases had a socially regressive impact, i.e. lower-income groups had to sacrifice the most while upper classes remained relatively protected.

The rise of anti-establishment and often chauvinistic parties in the 2014 elections to the European Parliament reflects the dissatisfaction of many voters with the mainstream parties of the centre-right and to a lesser extent of the centre-left. In most European countries the main explanation for this development is the experience of frontloaded fiscal consolidation combined with 'structural reforms' geared mainly towards internal devaluation, i.e. cost-cutting. These policies have been, in most cases, supported by mainstream parties on both sides of the centre and have been coordinated in Brussels through the EU's reinforced economic governance mechanisms.

On the other hand, in countries which were not forced to implement pro-cyclical macroeconomic policies and did relatively well during the crisis, the rise of anti-establishment or anti-European parties is mostly explained by a fear of 'having to pay for somebody else's problems', e.g. through cross-country fiscal transfers or by accepting inflows of poorer people from other countries. The interdependence of our countries is not always sufficiently recognised, notably as regards the implications of a one-size-fits-all monetary policy and the economic spill-over effects of prolonged social hardship.

The EU has responded to the employment and social crisis by considerably strengthening the toolbox of employment and social policies. The social dimension of the EMU and the problem of socio-economic divergence have also been explicitly recognised. However, an obvious lesson from the recent crisis is that ambitious employment and social targets and policies can at best partially compensated, but not offset, deficiencies in macroeconomic policy responses and in the architecture of the EMU.

In the following, I will briefly review the main EU policies developed over the past five years in the field of employment and social affairs. I will put these in the context of the macroeconomic policy response during the same period and conclude by reflecting on systemic reforms which Europe needs to strengthen its economic recovery and to at last make progress towards the employment and social inclusion targets of the Europe 2020 Strategy.

Strengthening EU employment and social policies during the long crisis

The *Barroso II* Commission has made a number of proposals to improve the effectiveness of employment and social policies. In 2010, working in the hope of a steady recovery from the

economic crisis, we put forward three flagship initiatives aiming to support progress towards the employment and social targets of Europe 2020: The *Agenda for New Skills and Jobs*, *Youth on the Move* and the *European Platform against Poverty and Social Exclusion*. They contained a number of ideas for structural improvement in the functioning of Europe's labour market and in the social policy field, for instance the idea of a single open-ended employment contract, the concept of a youth guarantee, various measures to boost labour mobility and support for social innovation as the framework for constructive interaction between governments and NGOs in pursuing the objectives of social inclusion and poverty reduction.

However, as the sovereign debt crisis spread across the euro zone periphery and a second recession set in, it became obvious that the intensity of the measures foreseen under the Europe 2020 flagship initiative was insufficient to respond to a worsening employment and social crisis. We therefore had to shift gear and reflect not only on ways to translate an expected economic recovery into improved employment and social situation, but on ways to bring about a job-rich economic recovery in the first place and to improve the efficiency and effectiveness of social policies given the double challenge of fiscal consolidation and a deepening social crisis.

In December 2011 we launched a Youth Opportunities Initiative, which sought to mobilise existing resources, including national allocations from EU Structural Funds that were not yet committed to concrete calls or projects. Many operational programmes were consequently revised in order to enable faster and better drawdown of these resources, targeting in particular support for youth employment and job creation in SMEs.

In April 2012 the Commission put forward an 'Employment Package' which broadened the European Employment Strategy in several ways. It moved beyond the traditional focus on the quantity (participation) and quality (skills) of the labour supply and emphasised the need to boost demand for labour as a prerequisite for higher employment and consequently economic growth. In particular, it advocated lowering the tax wedge on low-paid labour, use of targeted hiring subsidies and arrangements such as short-time work as ways to maintain or increase employment.

These new measures have been recognised as crucial in order to rescue and valorise the productive potential of people otherwise abandoned by the economy due to the double-dip recession. This proactive employment policy agenda, seeking to use labour market levers to stabilise aggregate demand, also included action plans to achieve the job-creation potential of particular sectors such as the green economy, healthcare and information technologies as well as personal and household services. It has been followed up by sectorial initiatives such as the Grand Coalition for Digital Jobs and the 2014 Green Employment Initiative.

In December 2012, the Commission launched a Youth Employment Package whose key element was the proposal for a Council Recommendation on establishing a Youth Guarantee in each country, i.e. a comprehensive scheme ensuring that everyone under 25 receives a good-quality offer of a job, apprenticeship, traineeship or continued education within four months of leaving school or becoming unemployed. The quality of labour market

opportunities for young people has been further emphasised throughout a Quality Framework for Traineeships, agreed by Member States in March 2014.

The Youth Guarantee has been conceived as both relief and a structural reform, with some measures helping to immediately alleviate the youth unemployment crisis while others being focused on more structural improvements in school-to-work transitions, e.g. through the development of apprenticeship systems. In 2013 the European Council decided to ring-fence an initial 6 billion within the EU budget to support the Youth Guarantee's implementation in regions with particularly high youth unemployment rates under the new Youth Employment Initiative.

On the social policy side, we have put forward a Social Investment Package in February 2013 which set out ways of further modernising welfare states and improving the efficiency and effectiveness of social policies against the background of growing crisis and shrinking public budgets. We laid emphasis on social services enabling people to actively participate in the economy and society (e.g. childcare or lifelong learning) and on prevention of poverty and exclusion (e.g. through training and employment support) as compared to passive social expenditure that compensates for poor socio-economic outcomes *ex post*.

In emphasising support for people's active socio-economic participation, the Social Investment Package shared the philosophy of the 2012 White Paper on Pensions, which emphasised the need for active ageing and reduced gender employment gaps as prerequisites for adequate (effective) and sustainable (efficient) pension systems. The White Paper also promoted longer working lives, notably through alignment of the statutory retirement age to changes in life expectancy, reduction in early retirement options and investment in the employability of older workers.

As part of the Commission's agenda for a job-rich recovery, we have also completed a number of steps towards a *genuine European labour market*, where people can easily seek and take up work in other Member States while having their employment and social rights protected. As part of the effort to facilitate intra-EU labour mobility, the Commission proposed a reform of the European Network of Employment Services (EURES) in order to turn it into a pan-European placement and recruitment service, drawing on improved classifications of skills, qualifications and occupations and using new technological possibilities of automated matching between jobseekers' skills and requirements advertised by employers.

The *Barroso II* Commission also succeeded in removing obstacles to the free movement of workers in several ways. The 'portability' of occupational pensions has been improved through the adoption – after nine years since the original proposal – of a directive improving the acquisition and preservation of supplementary pension rights. This legislation establishes rules on so-called vesting and waiting periods and will make it easier for people to move to a different Member State for work without losing the possibility to accumulate and subsequently enjoy entitlements in occupational pension schemes. Agreement was found also on an enforcement directive on the exercise of the freedom of movement of workers,

which requires Member States to establish contact points where mobile EU workers can get information about their rights and redress in case their rights are breached.

In the context of labour mobility, a very important achievement was the adoption in April 2014 of an enforcement directive on the posting of workers in the context of free movement of services. This enforcement directive represents a difficult, if not miraculous compromise between the European Parliament and Council, reconciling a number of very different starting positions. By clarifying how the rules of the 1996 directive on the posting of workers are to be applied and enforced, the enforcement directive will make it easier to ensure that posted workers' rights are protected, that companies have greater legal certainty and that relevant national enforcement bodies work together more efficiently. The enforcement directive will also make it easier to combat the use of 'letterbox companies' and abuses of subcontracting arrangements, particularly in the construction sector, where provisions on joint and several liability for compliance with posting rules were introduced. The enforcement directive can therefore go a long way towards resolving the long-standing political controversy on the conditions of the posting of workers, and should enable policy-makers to move on to other challenges in Europe's single market for services and labour.

Together with strengthening the toolbox of employment and social policies through better analysis, guidance and coordination, and legislative work on a genuine European labour market with good working conditions, we have also ensured that a robust set of financial instruments is available in the EU's Multiannual Financial Framework for 2014-20 to support progress towards the 2020 employment and poverty targets.

The role of the European Social Fund (ESF) has been strengthened through an agreement on its minimum financial share within EU Cohesion Policy (amounting to over 80 billion in current prices for 2014-20) and through close alignment of the ESF's priorities to the Europe 2020 Strategy and country-specific recommendations issued during the European Semester. The European Globalisation Adjustment Fund (EGF) has been maintained and it can now support re-employment of workers affected by mass layoffs not only occurring as a consequence of changing global trade patterns but also those resulting from the on-going economic crisis. A new Fund for European Aid to the Most Deprived (FEAD) has replaced the EU's earlier food aid programme with the explicit objective of strengthening social cohesion through material assistance to severely deprived people and through targeted social inclusion projects. Finally, an EU-level Programme for Employment and Social Innovation (EaSI) will support employment and social analysis, policy-making and mutual learning across Europe, finance the functioning of the EURES job search network, and help to improve the access of micro-entrepreneurs and social entrepreneurs to finance.

Conclusion: Improving the EU's legitimacy through a stronger social dimension of the EMU and its economic policies

Given the complexity of Europe's financial and economic crisis, stronger employment and social policies have been a necessary response but they have clearly not been sufficient to offset the worsening employment and social situation. At the macroeconomic policy level,

much of our crisis response has been incremental, largely resulting from the very incomplete design of the EMU. Without any lender of last resort, any euro zone budget or any sort of economic government to begin with, Europe had to respond to the crisis through strengthening the coordination of national fiscal and structural policies and developing emergency macroeconomic stabilisation tools.

Preparations for a more systemic reform of the EMU were started only as a second step in 2012 when the underlying causes of the euro zone crisis became more widely recognised. The key question during the EU's institutional transition in 2014 is whether EMU reform will continue with a sufficient level of ambition or whether complacency will prevail now that GDP growth has turned slightly positive and financial markets are temporarily calm.

Throughout the crisis years, the *Barroso II* Commission has always paid attention to employment and social developments, although they were not always treated with the same urgency as the financial sector crisis. The Commission has benefitted from very strong analysis in its annual reviews of *Employment and Social Developments in Europe* (ESDE) and from close cooperation with the OECD, ILO and many distinguished experts. Since the European Semester of economic policy coordination was established, the Directorate-General for Employment, Social Affairs and Inclusion has been involved in the preparation of country-specific recommendations as part of the so-called 'core group' alongside the Secretariat General and the Directorate-General for Economic and Financial Affairs and later also the Directorate-General for Taxation.

In October 2013, the Commission also presented proposals to strengthen the social dimension of the EMU, in response to the conclusions of the European Council which identified this in December 2012 as one of the key aspects of EMU reform. A key element of initiative on the social dimension of the EMU has been the creation of a Scoreboard of key employment and social indicators to be used in the European Semester process. This Scoreboard became a tool helping to identify earlier and better major employment and social trends that may affect the good functioning of the EMU.

The Scoreboard, which was approved by the Council as part of the 2014 Joint Employment Report, consists of five key indicators capturing employment and social trends that can severely undermine employment, social cohesion and human capital, and have negative effects on the growth and competitiveness of a Member State and potentially on those of the EMU as a whole:

- the unemployment rate (15-74 age group);
- the NEET rate in conjunction with the youth unemployment rate (15-24 age group);
- real gross household disposable income (GHDl);
- the at-risk-of-poverty rate (18-64 age group); and
- income inequalities (S80/S20 ratio, i.e. the ratio between the incomes of the top and bottom quintiles of the income distribution).

The Scoreboard has been developed with the understanding that given the limited mechanisms of macroeconomic adjustment in the EMU, unemployment and social crises risk developing to

a greater extent and last longer within the currency union than outside (or than was the case during earlier instances of monetary cooperation in Europe). Therefore they have to be anticipated and addressed by the currency union on a collective basis. The Scoreboard has been used in preparation of the country-specific recommendations during the 2014 European Semester and could represent a very useful tool also in the coming years when it comes to further strengthening the coordination of economic, employment and social policies.

A good understanding of employment and social dynamics in Europe is very important, because the European integration project can hardly continue to evolve in the right direction unless we find an answer to the question how our Economic and Monetary Union can be made to sustainably work for socio-economic convergence and renewed prosperity across the highly heterogeneous group of countries of which it consists.

In the wake of an economic crisis which was longer and more severe in Europe than in other advanced economies, and which led to socio-economic divergences and inequalities unseen in Europe for decades, we should be grateful that European voters have maintained a majority in the Parliament which wants to further strengthen the European project. However, unless Europe achieves a job-rich and inclusive growth in the second half of this decade and makes visible progress towards the targets originally set for 2020, we can be certain that much fewer voters will give the EU the benefit of the doubt in 2019, if we are still a Union of 28 democratic countries at all by then.

Restoring the capacity to achieve balanced growth and socio-economic convergence in Europe is a key condition for the EU to regain 'output legitimacy'. However, no promising results can yet be shown in this respect, which also means that continuing EMU reform should be seen not only as a key component of the European recovery strategy, but also as a pre-condition of progress towards the Europe 2020 goals.

Our crisis experience shows that achieving durable recovery and restoring convergence will be extremely difficult as long as the EMU remains without a fiscal capacity and continues to rely on austerity and internal devaluation as the main mechanisms of adjustment to economic crises. A more resilient and growth-friendly EMU would require a well-designed mechanism of fiscal transfers between Member States using the euro. Through such a scheme, it should be possible to create a European safety net for the welfare safety nets of individual Member States, strengthening the ability of national governments to support an economic recovery.

The best options for a predictable and rules-based mechanism of countercyclical fiscal transfers appear to be schemes where EMU Member States would share part of the costs of short-term unemployment insurance. One such option is a basic European unemployment insurance scheme, enabling partial pooling of fiscal risks through a common core of national unemployment insurance schemes. Another option is reinsurance of national unemployment insurance schemes that would be activated in cases of severe downturns.

Both such schemes would provide a limited and predictable short-term fiscal stimulus to economies undergoing a downturn in the economic cycle, thus strengthening market

confidence in the EMU and helping to mitigate economic contraction. By alleviating the need for abrupt fiscal consolidation in a downturn, such automatic fiscal stabilisers at the EMU level would also create a more favourable environment for structural reforms that bear fruit in the longer term.

Crucially, a countercyclical fiscal capacity at the EMU level would help prevent short-term crises from unleashing longer-lasting divergence within the monetary union. It would provide a good answer to the citizens' question: "How does Europe help us when we need it most?" – an answer which over the past years we have unfortunately struggled to find.

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Solidarity and cohesion

Pawel Swieboda

In the past five years, the concept of solidarity has quietly lost much of its traction in the public discourse in Europe. Widely used at the time of the creation of the single market, the emergence of the common currency and during the EU's big bang enlargement of 2004-2007, it has recently become a more confused organising principle. The European system has been affected by growing levels of distrust, which has much to do with the way in which the euro zone crisis was tackled. In spite of massive resources having been mobilised to support countries in need, mutual accusations and discord have become ever more present in the EU's policy-making process.

As a result, many observers and analysts have given up on the promise of restoring convergence in the European Union. Ashoka Mody for one, has argued in favour of accepting a "*de facto* decentralisation in Europe" making it more robust, rather than seeking a federal arrangement at any cost.¹ His basic assumption is that overcoming structural differences between the Member States and the differences in governance cultures will be impossible. Europe should accept this situation and manage its diversity, rather than continue to seek uniformity.

However, questioning the rationale for economic convergence in Europe can pose a major risk to the sustainability of the European project. It can blow a hole in the meticulous effort to restore legitimacy of the European Union in the face of massive pressures of fragmentation. What is more, it can also weaken growth prospects in the EU at large. As the continent struggles through the aftermath of the deepest recession since the 1930s, it is becoming broadly accepted that weakness in one quarter of the European Union affects the performance elsewhere. Even in Northern Europe, "the recovery has been much slower and less powerful than after previous downturns", leading analysts dwell on the likelihood of the "new normal" of lower growth.²

Cohesion was, from the beginning, part of a larger bargain by means of which some Member States received compensation for benefiting less from some European policies. One of the first instruments of cohesion policy, the European Regional Development Fund, which was introduced in mid-1970s, compensated the UK for not being in the position to draw benefits from the Common Agricultural Policy. At the time of the formation of the single market, the reason for compensation changed and a more redistributive logic was accepted: the deepening of European integration was to be accompanied by measures supporting those members with lower ability to withstand competitive pressures. The objective of reducing disparities between regions with different levels of development has been for long enshrined in the Treaties. The introduction of the euro also carried cohesion policy implications, granting weaker countries the benefit of lower interest rates and better access to capital. As we have seen later, what seemed to be a bargain at the time, in this case, turned out to be a curse.

Subsequent reforms of cohesion policy, starting in the late 1980s have focused on the efficiency of spending and success of investment projects as the major criterion. Although

much criticism has been voiced with respect to the resistance of the EU budget to change, cohesion policy itself has been undergoing significant modernisation towards broader acceptance of its role in incentivising economic activity, rather than providing a blank cheque for investments. In the context of the economic and financial crisis, the case for elements of redistribution at the EU level has only been strengthened by the unquestionable benefits, which the stronger countries have drawn from the single currency.

However, as the World Bank stated in its flagship "Golden Growth" report³, the convergence machine in Europe had been broken from the early 2000s onwards when the inflow of investment in Southern Europe was diverted to unproductive use. The scale of the damage done by the lack of vigilance on the part of the recipient countries has been enormous, not only in the social texture but also in economic prospects. In Spain, new loans for small and medium sized businesses (non-financial) have decreased nearly 70% between the end of 2007 and the first quarter of 2013.⁴ This contrasts with an increase of nearly 30% between the beginning of 2003 and the end of 2007. The prerogative of solidarity requires recognising that there are always two sides to each investment decision – just as some sectors of the Southern European economy had a sponge-like ability to attract funds, creating financial bubbles, investment decisions were backed up at the other side of the equation by Northern European banks.

In the meantime, Central Europe has largely continued improving its economic performance and catching up with the European median. Most countries of the region have exceeded the aggregate EU-27 level of growth, although performance has differed sharply among them. Poland and Slovakia have done best with their 2013 growth 49% above the 2004 level. They were followed by Lithuania (38%), Romania (37%) and Bulgaria (34%). Some have done less well with Slovenia's economy growing only by 14% and Hungary's by 9%.⁵

The 2004-2008 boom years in Central Europe can be justifiably attributed to the EU dividend. Lower business risk, higher attractiveness for investors and financial credibility, reducing barriers in the flow of capital all contributed to the catch-up dynamic. Investments and exports have interchangeably been the main contributors to growth in the region. Foreign direct investments have been particularly important, given Central Europe's low saving rate. They have led to rise in productivity and technology transfers. In some of the younger Member States, EU funds constituted over 90% of public investment in the course of the crisis, underlining the importance of transfers in maintaining growth dynamic.

Productivity improvements have been significant, although not allowing yet for bridging the gap to the EU average levels. When it comes to labour productivity, Poland is at 72% of the EU average (up from 60% in 2003) while Slovakia is the regional leader with 81% (up from 64% in 2003). Trade has been a big growth engine in Central Europe with Poland's exports rising 220% in the years 2004-2013 and imports by 160%. Slovakia has become the most open economy with exports amounting to 97% of GDP in 2013.⁶ EU membership has led the region to anchor its enterprises in the global supply chains. As the IMF observed, the spill-over of German domestic demand to Central Europe remains relatively small while much of the bilateral trade between Germany and the region is in intermediate goods.⁷

All this is a success story. However, more recently, Central Europe's advances have stalled and its rates of growth have converged downwards towards the median for EU-27. There are two paradigms to explain the region's slowing growth. One draws on the approach presented in the European Bank for Reconstruction and Development (EBRD) "Stuck in transition" report⁸, which puts the blame on the slowing momentum of reform. Another builds on the approach of the World Economic Forum, which speaks about the need for transition from the efficiency-driven to the innovation-driven model of growth. Given that most countries in the region have not yet made that transition, one of the EU's objectives in the next institutional cycle ought to be to incentivise and assist in the process.

Looking at both Southern and Central Europe, it is clear that the post-crisis solidarity and cohesion agenda must focus on restarting the convergence process. No other priority is more important for winning back citizens trust and ensuring renewed legitimacy for the European project. Importantly, reinstating the pivotal role of convergence is not only an issue with relevance for the more vulnerable Member States but is profoundly in the interest of the stronger countries as well. It is both the question of restoring aggregate demand as well as avoiding the transmission of individual countries' instabilities. The EU cannot afford to be a patchwork of growth areas intermittent with countries and regions on the trajectory of failure.

There will have to be several components of this 'growth for convergence' agenda. The basic one will have to do with overcoming the legacy of the past and restoring the level-playing field in the European Union. Much of the effort at the reconstruction of the euro zone belongs to this category. A genuine commitment to the convergence agenda would require completing the Economic and Monetary Union with a robust fiscal pillar, including the joint issuance of debt and elements of a "transfer union". However, reduction in the cost of debt, which this would entail, or a mechanism for orderly restructuring of debt, which still does not exist in the euro zone, would not be effective without restoring growth.

Beyond issues of re-footing the EMU, the new convergence bargain will need to span across both demand and supply sides of the equation. On the demand side, stronger economies will need to play a more pronounced role, given their surplus savings, while on the supply side, more will be expected of the vulnerable countries. There will also need to be a powerful EU dimension to enable the scaling up of opportunities through advancement of the single market.

In the former basket, increasing investment in order to raise aggregate demand is the most pressing task. It is the collapse of public investment in the weaker countries that has contributed to the depth of the recession. There are three possible ways to proceed. One would be to create a dedicated investment fund, aiming to serve the interests of the strategy for growth by pulling the available resources through a loan-based vehicle.⁹ Another possibility is the one to which the new President of the European Commission, Jean-Claude Juncker, has committed himself. This means greater efforts at leveraging private investment through the more flexible use of the EU budget and European Investment Bank (EIB) lending. In Jean-Claude Juncker's view, this can mobilise up to 300 billion euro additional public and private investment in the real economy over the next three years.¹⁰ A further increase in the EIB's capital "should be considered" for this end.

The third method would be to encourage more domestic investment by incorporating a range of EU-level incentives. This may include exclusion of national co-funding of EU-financed investments from the fiscal indicators of the Stability and Growth Pact as well as the extension of the EU fiscal framework with an asymmetric "golden rule" to protect public investment in times of difficulty, while limiting adverse incentives in good times.¹¹ In parallel, improving the range of financial instruments, which are available to the Member States and enterprises, is vital. This means increased use of the new private-public partnership instruments, including project bonds, and greater use of loans or guarantees.

A workable and flexible financial infrastructure to allow firms to gain finance and investment must be an essential component of the new convergence agenda. The most vulnerable countries have appealed for a long time to the European Central Bank (ECB) to engage in non-standard reflationary policy and restart credit to small and medium sized enterprises (SMEs). They would benefit enormously from increasing the flow of non-bank finance, including by more equity funding, venture capital and corporate bond issuance. Peer-to-peer lending could significantly improve the funding environment for start-ups. As Hugo Dixon points out, an initiative to create a "capital markets union" could "kill two birds with one stone: it would help the euro zone finance jobs and growth, while giving the UK another strong reason to stay in the EU".¹²

Investment needs to increase not only in the periphery but also at the centre. In Germany, low investment has meant low productivity growth and a vicious cycle of continued dependence on low wages and outsourcing of the production to Central and Eastern Europe.¹³ Therefore Germany should change its approach to investment not only to help overcome the wider EU imbalances but also for the sake of its own growth model.

The prerequisite for increasing the flow of investment lies in improving the supply side environment and competitiveness in the vulnerable countries. Progress needs to be achieved across the whole range of component areas of competitiveness, including not only labour market reforms but also efficiency of the institutions, quality and extent of infrastructure, good macroeconomic environment, maturity of financial markets or sophistication of the business models. Better investment environment also involves improving absorption capacity, including earlier involvement of the European Commission and the EIB in the preparation of projects.

The other side of the bargain has to do with improving macroeconomic performance and completing structural reforms in vulnerable countries. Efforts need to be undertaken to work out an optimal policy matrix, which combines the objectives of fiscal consolidation with those of growth and equity. As the OECD suggests, "well-designed consolidation packages can avoid severe adverse side effects on growth, equity and current-account imbalances".¹⁴ In spite of major efforts, which have been undertaken in the past few years, there is still an enormous scope for improvement. Spain, for example, is ranked 136th in the World Bank's "Doing Business" report when it comes to starting a new business. Being an entrepreneur in Spain "continues to be more expensive than in other European countries" with the different levels of administration requiring different authorisations for starting a business and licensing goods and services.¹⁵

Prior to the crisis, much of the EU's economic policy, including the use of cohesion funds, was geared increasingly towards addressing the EU's strategic challenges of globalisation, demography and technological change. Although the "Europe 2020 Strategy" will need to be significantly revised to take into account the fallout from the crisis, the focus on long-term readiness to meet societal and global challenges will need to be retained.

This means that the EU's agenda for solidarity and cohesion will become more complex and more nuanced. It will need to be better anchored in the societies' understanding of the commonality of their interests. In the future, solidarity in the EU will need to be more tailor-made and better adapted to the specific requirements of countries at different stage of economic development. It will also need to be more of a two-way street with clear mutual advantages. Its ratio of success will be measured by how decisively and how effectively it re-launches the convergence process in the EU.

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The single market and competitiveness – the challenges for the Juncker team

Malcolm Harbour

The announcement of the new European Commission is encouraging for single market supporters, especially in terms of how internal co-ordination and cross functional working will be organised. It is particularly significant that the responsibility for the single market in both goods and services is to be combined under one Commissioner portfolio. There is much to be gained from a combined focus, especially on enforcing the existing rules. A unified Consumer focus is also much welcomed. The European Parliament's Internal Market and Consumer Protection Committee (IMCO), which I had the privilege to Chair over the last five years, was extremely critical of the fragmented approach to consumer policy and legislation adopted by the outgoing Commission. A strong consumer focus underpins a dynamic and well-functioning market place and encourages more competition.

It is notable that the Competition Commissioner portfolio is the only one in the new Juncker line up that remains unchanged. Moreover, none of the Vice Presidents are given a policy co-ordination role over Competition. Hopefully this is because President Juncker wishes the Competition team to be given an independent role and to take impartial action in enforcing rules or approving mergers. It will be important for the single market that consumer detriment due to absence of competition or abuse of dominant positions is swiftly dealt with.

The role of the new team in the single market arena must focus on effective application and enforcement of existing rules rather than major new initiatives. In this respect, the new Vice-President (VP) for Better Regulation will play a key role. President Juncker has said that his senior VP will ensure that "every" Commission proposal respects the "principles of subsidiarity and proportionality". For the single market, this is too narrow a remit. Efficiency and effectiveness of measures must also be optimised. Top of VP Timmermans' in-tray should be a major reform of the Commission Impact Assessment rules, to give far more emphasis to "post implementation assessments" – actually understanding what is working on the ground in Member States to make the single market work. Combining the Better Regulation role with Inter Institutional relations will give him a greater chance to tackle the biggest weakness in the structure – the Council of Ministers.

The Council is a key player in agreeing, implementing and enforcing single market rules. Yet the Council is only making tentative and timid steps forward for a "better regulation". There is very weak input from Member States on the enforcement cost and effectiveness of the existing *acquis*. Ministers – and especially their Parliaments – are not systematically engaged in strategic reviews which would pave the way for reforms, improvements, simplification or even repeals of existing rules. The European Parliament is way ahead of the Council in collecting data and guiding legislative Committees to carry out extended strategic reviews. The new Commission can work with the Parliament to put pressure on all Governments to modernise the Council and open opportunities for national Parliaments to become engaged.

The Vice-Presidential team also needs to tackle the continued problem of ineffective application and weak enforcement of key single market measures by Member States. A "fast track" method of dealing with Member State non-compliance without recourse to expensive, cumbersome and time consuming infringement procedures is clearly needed. VP Timmermans could also exploit his 'inter-institutional' role by securing agreement for better co-ordinated transposition of new and amended rules across all Member States, combined with exchanges of best practice and better use of the mutual evaluation tool pioneered in the Services Directive. The Council should be encouraged to review its Ministerial 'formations' and ensure that issues of clear under performance or market protectionism are running items on all Ministerial meetings.

Given the new team, applying "better regulation" and improved co-ordination, the priorities for action to apply these new policy tools need to be systematically identified. The Digital Single Market has been given a welcome boost by a Vice Presidential role. But it is important that digital tools are seen as a mechanism to deliver existing single market benefits more efficiently and to encourage cross border competition. It is sometimes too easy to become mesmerised by the latest online shopping application, while forgetting that speedy, reliable low cost delivery of items ordered online is a key factor in enhancing online sales. Full implementation of the Consumer Rights Directive, with online redress, will also raise confidence and encourage more consumers to go 'online'. Vice-President Ansip will need to take a down to earth, pragmatic, approach and tackle the less glamorous issues vigorously.

On the core single market legislation, it is time for a major review of the goods market and a full appraisal of the provisions of the Mutual Recognition Directive. Far too many goods are still subject to entirely unnecessary local testing regimes or blocked from being placed on the market by unjustified restrictions. The 2005 Mutual Recognition provisions were supposed to give producers or importers of goods, new rights to challenge arbitrary restrictions, and to require public authorities to justify import bans on clear public interest grounds. It is clear that many companies are unaware of their rights to challenge restrictions, or frustrated by a lack of response to their questions, despite the fact that clear deadlines are written into the rules. The new Commissioner should press for an intensive screening of the biggest problem sectors, with a mutual evaluation programme by national authorities, allowing them to challenge restrictions imposed by their peers. This process can be modelled on the lines of the Services Directive, deploying the shared expertise of combined goods and service sector teams.

The Services Directive will be subject to a mandatory review and possible revision during this Commission cycle. Member States must be closely involved from the outset, and should be collecting data on potential opportunities, and amassing evidence on unjustified barriers. The existing output from the "mutual evaluation" process must be published more widely, and Member States maintaining unjustified restrictions on business highlighted. The Commission needs to ensure that any changes will really make an improvement, and not used by Member States as a 'smoke screen' to disguise their underperformance.

Public Procurement is another of the 'flagship' measures that underpin an effective single market. Moreover, it is increasingly realised that the strategic use of public procurement will

help deliver other key policy goals. A major reform of the Procurement Directives, and new measures on Concessions, were agreed by Parliament in 2013 and formally enacted in March 2014. At the heart of the changes are simplified and more flexible measures to encourage SMEs to supply to the public sector; provisions to encourage innovative suppliers to develop tailored solutions, responding to customer demands; and the possibility for suppliers to take parameters such as life time costs into account. The new Commission must take a strong role in working with Member State authorities to introduce these rules in a consistent way and ensure that the potential for more competitive market based solutions are realised.

The deployment of some of the new provisions, such as "Innovative Partnership Procurements" needs to be encouraged by the development of training programmes and best practice exchanges. Otherwise, risk averse purchasing teams may be reluctant to work with innovative companies to develop leading edge solutions. The use of public contracts to drive innovation must be a policy imperative for all the Commissioners in the Jobs, Growth and Investment Portfolio, and commends itself to Vice-President Katainen as a lead project. It would be especially appropriate in view of Finland's leadership in exploiting public procurement of innovation, and linking university research teams and innovative companies with smart customers. In this respect, VP Katainen should demand a co-ordinating role for Research, Science and Innovation, which in the published Juncker plan is reserved only for the VP Energy Union.

In the last Commission cycle, there was a welcome boost in the political profile of the single market. The adoption of two Single Market Acts (SMA) set out clear political programmes across the Commission to boost its functioning. These Acts were also widely welcomed by all stakeholders. The SMA was an initiative of the European Parliament, and it should be energetically followed through by the new Commission, as it is fully in line with the goal of more co-ordinated policy making. The SMA was modelled on an earlier Commission initiative, the Small Business Act, and the drive to make the European Union more SME friendly needs to be stepped up. A further imperative is to encourage more innovation by enterprise and public authorities. The new Commission needs to ensure that Member State performance in meeting these critical competitiveness goals are included in the European Semester, as demanded by Parliament in its last mandate. VP Dombrovskis is a known single market enthusiast and should be ideally placed to take on this task.

At first sight, this new Commission seems well placed to put the single market at the forefront of policy making, and to focus on better implementation alongside "better regulation". The European Parliament hearings should concentrate on this aspect of the new Commissioners' competences, and judge them on their potential to deliver good results for the European economy. The European Council and especially, the Council of Ministers, need to look at their own internal procedures, and engage their National Parliaments much more deeply in the competitiveness journey. Let's hope for real progress.

Malcolm Harbour was Chairman of the Internal Market and Consumer Protection Committee in the European Parliament between 2009-2014.

A European response to the resource and climate challenge

Jo Leinen

The 20th Century was characterised by growth: the world population grew by four times and its economic output grew by 40 times. At the same time, the resource use and greenhouse gas emissions increased drastically. Only within the last two decades, the worldwide extraction of resources increased by over 50%.

With the expectation that the demand of resources will triple by 2050 and the demand for food, feed and fibre is projected to increase by 70%, there is no doubt that we will exceed our planet's boundaries, the safe thresholds within which humanity can continue to develop and thrive for generations to come. Crossing these boundaries could generate abrupt or irreversible environmental changes. Respecting them reduces the risk that human society and ecosystems will face irreversible damages.

The model on planetary boundaries has been developed by the Stockholm Resilience Centre¹ and its most prominent boundary is "human induced climate change" which is an ever increasing threat to humanity. The impacts of global warming have been researched and analysed in depth not at least by the International Panel on Climate Change (IPCC) and range from the increased risk of storms, droughts and floods until the rising sea level with unpredictable effects for society, environment and global economy.

In order to meet these challenges, the European Union (EU) aims to move towards a sustainable, resource efficient and low carbon economy. This ambitious transition demands the commitment of all stakeholders. The overarching objective of its resource efficiency and climate policies is to decouple resource use and greenhouse gas emissions from economic growth. Of course that requires more than a legislative approach; it requires changes in our behaviour as producers and consumers, and that in turn requires incentives across many policy areas. The EU must make this paradigm shift happen swiftly and successfully. Every gram of resource that is not extracted, transported and used will reduce the ecological footprint. Every measure to reduce the emission of greenhouse gases will limit climate change and bring the EU on a path towards sustainable development.

Accordingly, a vision for "living well, within the limits of our planet" has been formulated and agreed on in the identically named 7th Environmental Action Programme:

In 2050, we live well, within the planet's ecological limits. Our prosperity and healthy environment stem from an innovative, circular economy where nothing is wasted and where natural resources are managed sustainably, and biodiversity is protected, valued and restored in ways that enhance our society's resilience. Our low-carbon growth has long been decoupled from resource use, setting the pace for a global safe and sustainable society.²

A closer look at the size of the challenge of resource constraints and climate change

Knowledge and science on climate change, its impacts and the need for action have been well developed over the last years and ultimately led to the international goal to limit the increase in average global temperature below two degrees. This goal has been accepted by the international community under the United Nations Framework Convention on Climate Change (UNFCCC) and is the highest affordable rise in order to have a 50% chance to avoid the worst effects of climate change. Scientifically translated it means the concentration of carbon dioxide equivalent in the atmosphere should not exceed 450 parts per million with a current concentration of around 400 parts per million.

From a European perspective, the challenge is clear: the EU – together with other developed countries – has a historical responsibility for the large amount of emissions caused since the industrial revolution; the bills for energy imports are constantly rising and the dependency on few exporting countries increases accordingly which has been evident not at least in the context of the Ukraine crisis; altogether with the fact that the co-effects from burning fossil fuels (bad air quality and health impacts) have been increasing.

Already in the early 1970's, the European Union recognised the need for urgent action and subsequently committed itself to emission reductions under the Kyoto Protocol to fulfil its responsibility. With the adoption of the climate and energy package for 2020, the EU showed international leadership in being the first to adopt binding climate change mitigation targets as follows:

- the reduction of greenhouse gas emissions by 20% from 1990 levels;
- to reach 20% of renewable energy in the total energy consumption in the EU;
- to increase energy efficiency to save 20% of EU energy consumption and;
- to reach 10% of biofuels in the total consumption of vehicles by 2020.

It was agreed that the implementation shall take the triad of sustainability, competitiveness and security of supply equally into account. Furthermore the following measures were determined: completing of the internal energy market, ensuring security of supply and solidarity in times of shortages, making the energy mix more sustainable, setting up an emission trading scheme and, a coherent external energy policy.

Member States have made substantial progress towards reaching the aims and targets, yet the way towards an absolute decoupling from economic growth and greenhouse gases and reaching the goal of an 80-95% emission reduction is still long. The upcoming two years will be crucial as the 2030 climate and energy framework will be discussed and the UN Climate Summit 2015 in Paris has to be prepared – where an international climate change agreement shall be reached.

In the run-up to the Climate Summit in Copenhagen in 2009, the EU has shown leadership in the negotiations, especially after the ratification of the Kyoto Protocol, providing material resources, showing commitment and readiness to compromise. Its role as an agenda-setter

and as a continuous booster of ambitious climate policy goals had a significant impact on the negotiations. Its recognition as an important international actor in the climate regime was further strengthened through communication and integration of emerging and developing countries, as well as by providing them financial and technological support. In the upcoming months, all eyes will be on the EU, the level of ambition in the 2030 package and how the facilitation of reaching consensus on a global climate treaty progresses.

While the size of the climate challenge has been clearly defined by scientists and the political agenda is well elaborated, the resource agenda is still rather vague. The challenge is vast, and rather difficult to break down on a single indicator such as the concentration of carbon dioxide equivalent.

Already today, resource extraction and consumption exceeds the Earth's capacity to regenerate those resources. However, the very same planet with limited resource capacity shall feed 9 billion people by 2050, all with similar expectations for a high standard of life. Already by 2030, there will be an additional 3 billion middle class consumers which will thrive on providing for their demands. This is of course good news but worrying at the same time: If we continue with a 'business as usual' scenario it will put immense strain on many resources and could potentially limit the ability to grow and provide higher living standards.

Over the past years, some improvements in the efficient use of resources have occurred, but economic growth worldwide has outstripped these gains. Resource extraction and use continue to rise dramatically on a global level and lead to a high volatility in resource prices. The EU is poor in mineral resources and therefore the biggest importer of raw materials. We get 48% of our copper ore from abroad, 64% of zinc bauxite as well as 78% of nickel. We import all of our cobalt, platinum, titanium and vanadium. The challenge for the EU is thus to reduce the need of virgin raw materials, use resources more efficiently and become thus independent from other countries. In order to avoid the waste of valuable resources, the old concept of 'extract-use-throw away' has to be transformed into a more sustainable production and consumption mode. Especially as we have to expect an end of perpetually cheaper resources in the next decades. We need to leave this path and become a more resource efficient and resilient economy.

From a highly import dependent continent you would expect that resources are managed efficiently out of a logical, ecological and economical reasoning. Yet, it seems Europe is still locked into resource inefficient infrastructures, resource inefficient consumption and production patterns, resource inefficient economic systems and resource inefficient behaviour.

As mentioned above, it is difficult to say how big the transition shall be, but with regard to the fact that people in rich countries consume up to 10 times more natural resources than those in the poorest countries, it shall be indicative that the EU needs to reduce its resource use, drastically. This implies changing the business models and moving towards a society where the extraction of virgin raw materials, the absolute level of resource use and the waste of valuable resources is reduced. This can be achieved by moving to a "circular economy" (with a circular concept of extract-take-make-use-remake) where resources are reused and recycled.

The next passage will focus on how to meet the challenges of mitigating climate change and reduce the overall resource use.

Policy options for a sustainable, resource efficient and low carbon economy

To continue with the need for action in the field of resource efficiency, measures and recommendations shall be given hereafter as well as ways to tackle climate change, described afterwards.

According to a Commission study³, every percentage point reduction in resource use is worth around 23 billion to business and could create up to 100,000 to 200,000 new jobs in the related sectors. It has been estimated that a reduction of the total material requirements of the European economy by 17% is feasible and this could boost GDP by up to 3.3% and create between 1.4 and 2.8 million jobs.

This should be an incentive to rethink the system with its related business models and move towards a circular economy by changing our production and consumption patterns. The basket of policy measures ranges from targets and indicators to awareness-raising campaigns, yet discussions on the right way forward are still at an early stage at the European level. Often, innovative ideas or instruments are difficult to implement or lose effectiveness. The idea of a 'product passport' which lists which materials a product contains; where they come from and how they could be re-used or recycled after the end of life of the product; and its environmental impact on water, carbon and land. This range of information could facilitate consumer choices and provide the necessary information for a potential label on how resource efficient the product is. However, if a product consists of hundreds of small pieces it is questionable if all the information could be collected and properly evaluated.

The European Parliament called for a legal framework on resource efficiency which includes targets, indicators, and benchmarks for standards and market-based instruments to create long-term investment perspectives for the private sector. A well-chosen mix of 'push' and 'pull' measures, including support for research and development, is needed to approach this challenge. Especially since recent OECD findings confirm that voluntary action brings us only half-way: "environmental effectiveness of voluntary approaches is often questionable, and their economic efficiency is generally low".¹⁴

As the study of the Commission shows, it is a win-win situation: business can save money, additional jobs are created in the society and the impact on the environment is reduced.

Until a legislative proposal will be adopted, other measures can be taken already:

- Products should be designed in a way that they can be entirely or partly recycled and re-used; the use of recyclable materials can then be promoted accordingly. In addition, increasing the life span of products and services is a measure which is not so often mentioned, but which could be very effective in reducing waste – this could be achieved through a longer minimal period of warranty.

- Technology and innovation are key elements in the decoupling of resource use and environmental impacts from production, consumption and economic growth. It is up to business to thrive for innovation and become market leaders and international frontrunners in resource efficient products and services.
- Like in all areas where a change of consumer behaviour is required, the necessary information must be provided. Creating a waste avoiding, re-using and recycling society can only be successful with the support of our citizens. Awareness raising campaigns can help consumers to take better informed decisions and increase the demand for sustainable products.

In order to achieve the goal of mitigating climate change and energy-self-sufficiency, Member States need to significantly expand renewable energies, increase energy efficiency and invest in the grid and storage capacities. In the range of policy options, development and deployment of renewable energies will be the most sustainable.

The benefits of an increased use of renewable energy are already known: they foster sustainable development and access to energy for all; contribute to social and economic development, a more secure energy supply and the reduction of greenhouse gas emissions; offer side-benefits in terms of less air pollution and health concerns and; reduce the costs of energy imports; provide economic possibilities for companies due to exports, market leadership and innovation and last but not least creates jobs.

In the 2020 package, three targets were adopted to provide energy companies and other stakeholders with clear market signals and necessary predictability for their investments. This path must continue with an ambitious framework and three legally binding targets as strategy for sustainable growth beyond 2020. The combination of energy efficiency, renewable energy and climate protection is crucial to achieve a sustainable energy mix and become energy-self-sufficient.

In contrast, last year we were able to witness many regressive measures taken by some Member States due to the economic crisis. This short-sighted economic interest shall not prevail over a clear long-term vision for renewable energy and a low carbon roadmap in Europe.

Creating momentum for a sustainability agenda after the European elections 2014

The transition towards a sustainable, resource efficient and low carbon economy includes profound changes in thinking, behaviour and consuming as well as economic and social structures. A redefinition of the European economy is needed. The figures and data on employment, emission reductions, and business opportunities – to name just a few – are proof that sustainable development will be beneficial for the environment and society alike.

Especially in this time of multiple crises, we are in a situation where we need to reduce costs spent on energy and resources, we need to increase our competitiveness and we need to

become less dependent on imports from other countries. Therefore, Europe can't afford to delay action. Doing more with less, will become our competitive advantage in the 21st Century.

Jo Leinen is Member of the European Parliament.

Endnotes

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Renewal through international action? Options for EU foreign policy

Rosa Balfour¹

"Actually, this time it is serious. Foreign policy is now compulsory for the EU"

Robert Cooper, Lecture given at the EU Institute for Security Studies
Annual Conference, Paris, 11-12 September 2014

A time for choices

The time has come for the EU to become more curious of the world around it, open and receptive to different ideas, and more articulate and thoughtful about its own. This is a somewhat anthropomorphic description of what would be needed to 'mature' into a global actor. The EU has promoted and managed globalisation while pretending that its political dimension would not require attention. This has led to it punching below its weight globally. Now it is abundantly clear that the systemic weaknesses of globalisation require international action and that the management of internal affairs cannot be divorced from the external context: decision time has come.

Two decades since the end of the Cold War and the beginning of a Common Foreign and Security Policy (CFSP), the EU has become more active internationally and taken some steps to improve its capabilities. While it has moved at snail pace on its hard security capabilities, hiding behind the luxury of external guarantees of the US and NATO, it has endowed itself with a broad, diverse, and innovative tool box for external action reflecting its 'whole of government' approach. It has issued plenty of strategies and policy documents, established relations with governments around the world and, to a much lesser degree, with societies, and has continued its contribution to multilateral institutions.

Yet it falls short of widespread hopes and expectations inside the EU and from some of its international partners to become a fully-fledged global actor. The Union has remained a self-referential and internally indulgent power rather than become an actor deeply engaged with the rest of the world politically as much as it is interconnected economically and culturally. Now the time for making choices has come.

Never before have the intimate connections between the 'domestic' and the 'international' realms been so evident. Global patterns of insecurity and turmoil, state fragility, the scramble for natural resources, climate change are felt in Europe in the price of heating, in the loss of life in the Mediterranean waters, in the rise of xenophobia and of fear of the unknown. Europe's eroding welfare system and slow growth has consequences on what should be thriving multi-lingual school courtyards, on solidarity between multi-cultural and multi-religious communities, and on Europe's ability to connect, rather than conflict, with citizens across the world through the exchange of ideas, people, goods and services.

European politicians seek international trade agreements to secure sources of economic growth while citizens become increasingly insulated and allergic to contacts with the outside world. EU born and bred citizens are moving to fight insurgency wars in the name of religion, while their elected politicians fail to prevent the break-down of those states and security on their borders.

If Europe wants to address its key internal priorities, it needs to do so in an international context of growing and deepening interdependence which the EU itself has contributed to create.

The nexus to unravel is conceptual, strategic, policy-related, and organisational: how are the 'domestic' and 'international' inter-related, and what are the implications? How should the EU position itself globally? What kind of player should it aim to be? What are the implications on policy and how to identify the priorities? How to organise the institutions and division of labour to make the EU fit for the challenge? Whatever the choices and ambition, these four levels need each other for a fuller realisation of the EU's global potential.

Options for Europe's global role

Current and future global trends impose an overarching choice about the EU's global role.

There are two politically possible directions. The first works on the assumption that the current state of EU politics suggests that to keep the EU hanging together it is necessary to lower the level of ambition. A more realist reading of Europe's declining position in the world advises the identification of a smaller and less ambitious set of priorities which could ensure survival and possibly, in the future, renewal.

The second sees the urgency of renewal precisely through international activity. The EU has plenty of assets, experiences and practices which can still be relevant and useful for the 21st century world. As it was a unique experiment in peace-building after a century of wars which erupted at the heart of Europe and crumbling empires, it now is a unique example of cooperative management of the post-modern world, albeit still imperfect and in need of some fixing.

Both directions have distinctive policy implications, require the next EU leadership to adjust their institutions to address the challenges, and call for a leap ahead in political and strategic cohesion – even if outside the traditional mind-sets through which EU integration is usually seen.

Option 1: Do less but better

The meta-narrative about Europe's decline is coupled with the emergence of other powers, which frequently entertain a general 'anti-Western' agenda. Juxtapose this environment to the EU's track record in foreign policy, and the case for downscaling is strong. Many of the EU's foreign policy 'brands' have become redundant in the midst of international turmoil, from the Strategic Partnerships to the European Neighbourhood Policy. This loss of

confidence, all the more striking when compared to the post-Cold War ambitions of shaping a new multilateral, rules-based and cooperative world, has already led to a toning down of rhetoric and to an appeal for realistically-based objectives. The EU should not think 'big' if it can only act 'small'. It should focus on what it is good at and avoid raising expectations it cannot and does not want to meet.

The consequences of the crisis that Europe has been undergoing since 2008 also advise a focus on internal matters to make the EU relevant to its citizens and to refound solidarity in Europe *before* shifting the outlook to the rest of the world. The priorities of the recently designated Presidents of the Commission and the European Council certainly suggest an urgency accorded to economic recovery, citizens' confidence and the pressing need to avoid fragmentation.

Because of interdependence and the politics of scale, however, the EU cannot abandon the international game altogether. Member States would cooperate on a foreign policy with a more focused and determined pursuit of priorities which reflect the main collective challenges and interests. One consequence would be to abandon the already shaken normative rhetoric built up since the 1990s. The argument is that the EU's insistence on 'values' has not been successful; the world has become more hostile; and Europe has lost its traction and its friends also as a consequence of its attempts to proselitise about democracy. The rest of the world, so the argument goes, is not interested in the EU model; on the contrary, some parts of the world are turning against it.

Following this interpretation, the EU would abandon any ambition to have a global voice and just focus on a few, selected interests where the Member States agree, and pursue these without championing visions of the world. The end of the normative model would in time lead to a specific set of policy priorities only: energy security, the pursuit of trade deals and improvement of trade diplomacy, crisis containment and some resolution attempts on the EU's periphery, migration control, differentiation and selective engagement with third countries. It could also entail a progressive abandonment of some goals of EU foreign policy: shaping global governance in favour of common rules and universal principles, human rights diplomacy, supporting peace world-wide. Or it could continue paying lip service to these without investing into making them the cornerstone of a renewed approach.

Even such retreat towards more clearly identifiable and delimited goals would require strong backing of the Member States and EU institutions (which in turn means that the structures for EU foreign policy need continued attention, as will be argued at the end of this paper); the politics of EU foreign policy would still be needed even for a lower scale of ambition. European capitals would still need to go through their differences, especially over relations with Russia, if they were to focus on a more narrow definition of EU-wide interests, such as energy diversification and security. It is questionable whether the EU would be able to pursue such a strategically planned international role with identifiable goals based on clear-cut interests. This is precisely the EU's weakness, due to its complex structure based on 28 democracies stretching from the Atlantic to Russia, from the Arctic to the Saharan desert, working together on the basis of required unanimity.

Option 2: International engagement as a means for EU renewal

Beyond the EU's ability to act as a hard-nosed single power, albeit with limited ambitions and outreach, it is worth speculating whether it is in its interest to do so. The economic crisis has had a huge impact on the EU's global role and image precisely because the crisis has undermined many of the assets for which Europe was seen as a model. Basic human rights have been under threat within the EU, with the erosion of its welfare systems and economic growth models. If the EU had been frequently accused of preaching standards it was not respecting itself, the crisis has brought evidence to this accusation. With growing signs of intolerance and xenophobia across all European countries and dissatisfaction within some communities of non-European origin, the solidarity model that the EU proposed abroad rings hollow. If then the EU withdraws its support for the empowerment of people and societies elsewhere in the pursuit of its 'interests', its attraction as a model will no doubt diminish further.

Yet it is precisely those assets that have been under threat which are appreciated externally. The nexus between getting Europe's house in order and the consequent impact on the EU's global profile has never been so obvious. The EU has been a live example of multilateralism, devising complex and (imperfectly) representative structures to manage internal diversity. These are still observed by outsiders as interesting. What is less understood is the obsession with them, not their value in themselves.

The EU has been a unique example of cooperative security and peace-building, through the creation of complex diplomatic and negotiating processes which have led to de-securitisation of contentious issues through economic integration and interdependence. These are still seen as the best means to overcome insecurity, as the continuing requests to join the EU demonstrate. The EU has fostered normative socialisation more than any other international organisation, including those created precisely to promote the spread of norms and international law. To date, no other model has proven better suited to offer some reference points in governing international turbulence. The EU as regional integration and peace project is relevant in an Asia, which is seeing rise in military expenditure and worrying patterns of escalating confrontation, or in Latin America, where populism has not solved the welfare gap within its populations. In a world which is exchanging more goods, ideas, services and people, Europe's economic integration model is significant. And the rising middle classes across the globe may be interested in Europe's history of democratisation, class struggle and rights' development.

This does not mean that the EU should reinvent itself by praising its own model. On the contrary, it needs to be self-critical about its own model and about the historical conditions in which it came about. The point is that some of the EU's experience can form a basis to engage in a renewed dialogue with countries and citizens around the world to find new cooperative ways to address common challenges. This would give the international and transnational matter a new centrality around which institutions, governments and policies need to work. It is about addressing challenges through concerted analysis and action, rather than about creating competences, silos, mandates and boundaries.

The EU itself does not need to make a federalist quantum leap to reinvent its international self. It has the institutions, the tools, the resources, and 28 governments. If these acted concertedly, together they would not be ignored.

From a cognitive point of view, what is required is a common strategic analysis of global developments, a recognition that the sovereign illusion is actually damaging to the state is supposed to defend, the acknowledgement that there are more common interests that are vital and threatened by existential risks than particularistic ones, and a new pursuit of solidarity on international issues. These would be enabling steps towards a diversified, flexible Europe acting on the global stage through its EU and national institutions in the name of a shared understanding that it is more convenient to work together than apart.

Whichever path the next EU leadership will embark upon, there are some issues that require fixing – and these cannot wait much longer.

The prioritisation conundrum: devising a strategy or thinking strategically?

Discussions on EU strategy usually fall in the 'Christmas tree' risk of collecting a wide range of priorities that all require actions without producing a clear strategy. The trouble with international politics is that it pushes and pulls actors in different directions. This said, the broad priorities for the next mandate are already clear: the next mandate will have to address energetically, in depth, and with foresight relations with the EU's neighbours (including Russia and Turkey). This will require consolidating the Union's crisis management structures, dealing with energy matters (internally and externally), and will impose some long overdue thinking on European defence, both in terms of its industry and its existential purpose.

In turn, this will by necessity have implications for the more global management of natural resources and climate change, which will lead to rethinking the EU's global network, its friends and allies, its trade relations, its multilateral preferences. Finally, the broad range of emerging risks has been amply reported on: population growth and increased resources consumption pose global risks for societal and environmental security; vectors of connectivity, from the internet to expanding international travel, all have potential side-effects for cybersecurity, global financial institutions, or the spread of pandemic diseases; the fragility of states puts populations at risk of poverty, exclusion, forced mobility, to name but a few.

The risks are evident, and they inevitably end up in the Christmas tree. The challenge is not so much in prioritising their importance but in finding the best ways to address them. The scale of the challenges and the intangible quality of many of them because of their interconnectedness, means that they cannot be addressed simply by building institutions or creating new policies. What is needed is lateral thinking, flexible networks, knowledge exchange, and cooperative frameworks within the EU and between the Union and the rest of the world.

Externally, the EU needs to learn to work better with others. The internal negotiating process is so tough that when the Union then turns to discuss the challenges with other countries, it

has little room for taking on board different perspectives. The recognition of the need to switch to a 'listening mode' does not seem to have produced much by way of results: the global space occupied by the EU's friends seems to be shrinking and in need of a new diplomatic activism.

The EU need not be a bloc or a power in all areas, but it does and can engage with a very broad spread of themes of global relevance. Flexibility should be the keyword – flexibility of representation (it need not be the EU, but a representative of its institutions, Member States or even societies); flexibility of engagement, reflecting the actual interest, influence, feasibility and efficiency; flexibility of means, where in some cases economic clout will make the difference, in others a tailor-made civilian mission.

While governments have always been the prime actors in world politics, the EU has in recent years increasingly tried to engage and give roles to people and their organisations in its international relations. This focus on people rather than on states better reflects the world in making. States and their governments, of course, are unavoidable, but the dilution of power and the continuing emergence of new societal actors create new opportunities for strengthening transnational networks connecting Europeans with citizens around the world.

The EU has always claimed to be a champion of multilateralism but has made poor efforts at reforming its institutions, among other things blocked by its own inability to overcome the post-World War Two representation in the United Nations. But for multilateralism to remain relevant in the 21st century, and to avoid new global divisions, international institutions need to renew themselves to become more participatory and democratic. Together with representation comes responsibility. The relative decline of the West and the emergence of new actors requires more burden-sharing in addressing global risks, from security to climate change and resource exploitation.

For the EU this also entails diplomatic work to deepen ties with its friends and allies, and court more countries into its network. Instead of institutionalising relations with so-called "strategic partners", which frequently are neither partners nor are the relations strategic, the EU should more mundanely better connect with its friends, sharing ideas and exchanging views, while seeking to expand that network, through multilateral, regional and bilateral channels.

Fixing the institutions: making the system work for the new leaders

The Lisbon Treaty took a first stab at making the EU institutions fit for the 21st century. Implicitly, it gave up on the longstanding dichotomy between a supranational, federal foreign policy (the single voice debate) and the intergovernmental sovereign approach by mixing the two concepts together and hoping that a more coherent foreign policy would come out of the shaker. This has not (yet) happened, and the 2009-2014 mandate was wrought with divisions and new sources of disunity.

It is unfortunate that the whole summer debate on the next mandate focused exclusively on leadership and insufficiently at structures and challenges: leaderships and personalities play an important role in international diplomacy, but without the structures there is not much

that leaders can do. How to fix the structures is clear. The world cannot wait further for the EU to oil its nuts and bolts: put simply, the system just has to overcome its current dysfunctionality – asap.

The proposal for the organisation of the next Commission addresses many of the shortcomings of the previous system. First and foremost, it lays the basis for a different relationship between the European External Action Service (EEAS) and the Commission by placing the headquarters of the High Representative (HR) in the Berlaymont's building, thus strengthening the HR's role as Vice-President of the Commission. Secondly, it organises the College in 'projects' with overlapping competences and responsibilities, forcing the next Commissioners and their officials to work together. While a messy start is to be expected, this organisation will help cross-fertilisation and horizontal coordination. The creation of an external policy group, meeting regularly and chaired by the HR/VP who will be *primus inter pares* in the Commission, and not just in the Foreign Affairs Council, will give leadership and allow for burden-sharing in the many tasks that the HR/VP cannot carry out without deputies. It could even foster more innovative and cross-cutting analysis of challenges and solutions to them, in a way that few states have been able to do, giving the EU as a whole a competitive edge as far as policies and tools are concerned.

The EEAS and its crucial roles, however, must not be forgotten. Fixing the problems in the EU headquarters will also enable its global network to work better. Some of the EU's 139 Delegations have proven a microcosm of what a global EU could become: ears and eyes on the ground interpreting complex events and their meaning for Europe, a strong presence around the world, contacts and outreach with a multiplicity of state and non-governmental actors, good cooperation and burden-sharing with the Member States' missions abroad, network-building, bottom-up understanding of local and global developments, the importance of individuals and people in making a difference.

This asset needs investment if it is to become exemplary, through sound staffing and training policies and by boosting resources to make them better operational. If EU foreign policy were more joined-up with national European foreign policies and with Commission-led external relations, Europe as a whole would benefit from a most formidable world-wide network of diplomats and officials.

The Member States will need to be better and more drawn into the system, especially in view of the shift of power towards the Commission. The temptation to 'go it alone' remains strong in many European capitals and signs of nationalisation have been frequently evident. But beyond some national delusions, Member States would struggle globally even more than alone. Emerging patterns of intra-EU and NATO cooperation are showing a preference for minilateral alliances and solutions, but there has been a parallel tendency to consult and discuss with each other more systematically at EU level through the Foreign Affairs Council, the Political and Security Committee and the European Council. These discussions need to be encouraged, coordinated, often steered, and sometimes driven by the EU leaders, but ideas and solutions need to come from all parts of the system, not just the foreign policy structures. Here, Member States have an important role to play.

Between a rock and a hard place: the reality check

Disentangling short-term consequences of the crisis from the longer-term structural trends is no easy task for observers of contemporary politics. It is pedestrian to forecast disaster; irresponsible to underestimate the depth of discontent and its potential for change. Political leaders too are part of this subjective process of understanding continuity and change.

Even if one avoids Cassandra-type scenarios, the next leadership will have to steer the EU between a rock and a hard place. The fragility of national contexts in Europe has made political life more unpredictable and leaders more vulnerable to accommodating short-term particular interests. This does not create a context in which longer-term vision plays much role in political choice; nor does it support leaders in search of a positive legacy to be remembered.

At the same time, the reality is that EU Member States cannot afford *not* to cooperate more closely on foreign policy, notwithstanding their lack of an appetite to do so. Global trends will demand more EU not more small states – more incisive and faster responses, deeper and longer term approaches which are not a mishmash of different priorities and a long list of initiatives.

The choice is between levels of ambition. Whichever level will require work, commitment, ingenuity, inspiration. Feeding into the that ambition a compelling narrative about a new form of international multilevel engagement with states and citizens in an age of interdependence, while resting on the solid roots of peace-building, could become a source of renewal for Europe as a whole.

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Endnote

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EU migration policy – new realities, new opportunities

Cecilia Malmström

European countries, like the United States, Canada, and Australia before them, are becoming lands of immigrants. While the percentage of foreign-born residents in the EU is still relatively low, immigration is a significant factor in European societies and their labour markets. Therefore, the question whether or not we need migrants is moot. Instead, we should focus on how to make the most of migration and how to make Europe attractive to the migrants we need.

The pedigree of EU migration policy

The European integration we have achieved to date can trace its roots to developments over half a century back. The political decision to integrate the economies of Europe and to create a single market resulted in a strong institutional framework. The European Commission acted as the emerging Union's executive, while the Court of Justice played an important part in the establishment of the single market by striking down internal barriers.

European policies in the domain of home affairs do not have the same pedigree. They came to the fore in the 1970s and were mainly driven by events such as the Munich hostage crisis. Member States then saw the benefits in cooperation and exchange of information on specific topics. Gradually, a structure of intergovernmental cooperation was put in place, with a growing number of working groups in very specific areas of common interest. In 1985, six EU Member States agreed to set up a borderless zone, allowing their citizens to travel to each other's territory without being stopped and checked at the border crossing (the so-called "Schengen area"). This agreement resulted in true free movement of persons across EU internal borders and is considered one of the main achievements of the EU.

In spite of their significance, these developments took place outside the institutional framework of the EU. They were governed by separate structures, and decisions – sometimes important ones – were taken solely between Member State officials. The European Parliament, which played an increasingly important role in EU policy making elsewhere, was not involved in any way. Neither was the European Court of Justice.

The treaties of Maastricht (1993) and, in particular, Amsterdam (1997) were the first steps towards the integration of justice and home affairs policies into the EU institutional framework. However, the pillar structure embodied the special status and reflected the reluctance of Member States to share sovereignty in this field.

When, in 2001, the Commission proposed to put in place EU rules for the admission concerning migrants for employment purposes, Member States rejected it. Instead, they chose to advance on specific categories where they shared an interest and saw an added value. This has led to a "sectorial approach" on legal migration.

The Treaty of Lisbon, in force since 2009, marked a sea change, making EU legal migration policy subject to the ordinary decision making process used for other policies. The European Parliament became an equal partner with the Council in negotiations on new legislation, playing its role, often forcefully.

What we have achieved

Migration policy is a very young policy from a European perspective, rooted in an intergovernmental approach. We have, nevertheless, made significant achievements in this short history.

Eight Directives covering different categories of migrants have been adopted, each containing specific rules on admission and residence, as well as on migrants' rights.

The Long-Term Residents Directive is particularly important to the EU's approach, as it awards migrants who have resided legally for five years or more the same treatment and rights in certain areas as nationals, and gives them the right to move to another Member State under certain conditions.

The Blue Card Directive was the first true labour migration policy agreed at EU level. It was adopted in 2009, still under the unanimity rules which were in place prior to the Lisbon Treaty. As a result, it offers significant leeway to Member States in their implementation and the admission conditions reserve it for the most highly-qualified and well-paid of foreign employees.

The Single Permit Directive was the first to be adopted under the Lisbon rules, resulting in an important role of the European Parliament. It ensures that non-EU nationals coming to the EU to work and those already present can do so on the basis of a single residence and work permit and a single application procedure. They are also ensured a set of equal treatment rights (e.g. as regards working conditions, access to social security).

Earlier this year, the EU agreed common rules on seasonal workers, who are the backbone of several important sectors. The directive will allow for seasonal workers to benefit from the same rules as EU nationals, notably on working hours, minimum wage, leave and holidays, as well as health and safety requirements, and access to appropriate accommodation. Thus the Directive will allow for employers to draw on foreign labour in a responsible manner and facilitate "circular migration" into the EU.

The recently adopted Directive on intra-corporate transferees harmonises rules for this small but highly valuable group of foreign employees and their family members, and foresees true intra-EU mobility. It will allow the EU to present a common approach in its negotiations with its trading partners, who may, in turn, facilitate mobility of specialised staff from the EU.

The Commission's proposal for a Directive on students and researchers aims to attract talented non-EU students and researchers who can contribute to our growth and competitiveness with their knowledge and skills. If agreed, the legislation would allow

students and researchers to take up employment or start a business following their studies or research. The proposal corresponds to the increasing global mobility and is similar to policies being implemented in other advanced nations.

Recognising the importance of accurate information, we have set up an EU Immigration Portal, which serves as a first point of entry to reliable, practical and up-to-date information on immigration issues, in several world languages.

After many years of deliberation, Europe has now finally united around a Common European Asylum System. Once fully in place by 2015, the system will make sure that asylum seekers are treated fairly and humanely wherever they arrive. Europe will have modern, transparent, legally safe and predictable rules on who should be considered a refugee, how they should be treated in the procedure as well as common standards on the rights. It will also mean that *all* Member States will have to have the capacity to receive asylum seekers. Today only a handful of Member States take the responsibility in receiving people coming to Europe for protection.

During the past years, the EU has considerably reinforced the external dimension of migration, which is an essential component in the development of a comprehensive immigration policy. The Global Approach to Migration and Mobility (GAMM) is the overarching framework of the EU's external migration policy. We now work with countries of origin and transit to open legal channels, prevent unsafe or irregular migration, including through the conclusion of readmission agreements, stop smuggling and fight trafficking in human beings, and ensure adequate protection to those in need.

The EU has made large strides in harmonising return policy and rendering it more humane, in particular through the implementation of the Return Directive. The Member States will have to ensure the Directive is correctly applied, including the provisions which aim at strengthening the rights of the returnees.

We have taken measures to prevent abuses of migrant labour, by establishing EU-wide standards for imposing sanctions on employers who take advantage of irregular migrants' precarious position, thereby also reducing the incentive for migrants to come to the EU irregularly. The EU has also helped create the means to fight criminals who are exploiting the willingness to migrate, and who are turning the unwitting migrants' ambitions into a nightmare by trafficking and exploiting them.

The EU does not have the competence to legislate in the area of integration, but since migration and integration are closely related and as many cities in Europe are facing the same challenges, there is also a dimension of integration policy at the EU level. Member States share a commitment to integration and the EU's policy framework on integration is about integrating third country citizens who are legal residents in the EU. It is mainly focused on assisting national, regional and local organisations and authorities in identifying and sharing best practices on successful integration strategies with each other. A European Website on Integration was also set up, in order to facilitate the sharing of best practices and benchmarking at EU level.

These recent achievements constitute the building blocks of a comprehensive EU-level migration policy. If applied correctly, they provide the tools to allow us to effectively manage migration to the EU and to pool our resources to that end.

The way forward

It is of the utmost importance to consolidate and effectively implement all agreed legislation, and to give it wider publicity among migrants, international organisations, Member States and other stakeholders. The policies have to work in reality, and the EU should foster cooperation between Member States to ensure the laws are implemented in a coherent manner. There are political forces which would want to roll back on this and on so many other accomplishments of the Union. Following the rise of xenophobic parties in elections and in parliaments, we should be on guard against such backsliding and prevent these forces from taking over the political agenda.

At the same time, the EU should continue to develop a strategic and comprehensive approach to migration. The deep economic crisis and the resulting unemployment have to some extent revealed shortages and EU enlargement has increased the labour market significantly. However, the effects of this are temporary and should not detract from the long-term challenges we are facing.

The baby boom generation and the generations that followed it, are highly educated, with many having completed tertiary education. Indeed, a highly-qualified and productive labour force has always been one of Europe's most important assets. It ensures that high living standards and global economic competitiveness can coexist in the EU. Moreover, a more diverse workforce favours innovation. The shrinking of the workforce, which we are beginning to witness this decade, can therefore have immense consequences for Europe's social model, the vitality of its cities, its ability to innovate and compete, and for relations among generations as the old become more reliant on the young.

The needs of the labour market are evolving, with demands for new skills and qualifications appearing and others disappearing. Most native workers, as well as the economy as a whole tend to benefit from the growth that is generated by labour migrants because the economy is not a zero-sum game. Gains by one group do not require losses by another one. Filling a vacancy which would otherwise have remained open creates additional income and wealth for our society, increases productivity and contributes to the creation of jobs in related activities. Well-managed migration is therefore an essential part of the policy response to the challenges faced by the EU economy.

A key element of well-managed labour migration is respect for the rights of workers, be they migrant or native. Flexible labour migration policies which allow our economies to address real shortages are essential to sustainable economic growth, but they should not be used to instigate unfair wage competition. Any decision to recruit from abroad should be driven by real needs, not a desire to simply increase profits at the expense of native workers.

Providing comprehensive and accurate information to potential migrants prior to their decision to migrate will remain a cornerstone of any sound migration policy. International recruitment is challenging for all parties involved and carries significant risks. Here, authorities can work together with employers to devise credible approaches to prevent disappointments and abuses.

It is worth recalling that Europe is not the only region in the world which is aiming to address ageing through managed migration. Other major economies are rolling out ambitious policies to attract 'the best and the brightest', to various degrees of success.

We should not forget that the EU is the largest economy in the world. Our single market is one of its main achievements and a major attraction for ambitious migrants and investors alike. This has been achieved whilst maintaining, compared to our trading partners, exceptionally high living standards and relatively low levels of inequality. Europe remains a good place to live and work, and to raise a family. While individual Member States may struggle to gain recognition in the global competition for talent, Europe has the potential to do so very successfully. Nevertheless, voluntary migration to Europe is decreasing as shown by OECD reports. We must increase our efforts to be attractive in the global competition for skills and talents.

EU legislative instruments provide consistency and transparency across the EU while leaving a certain degree of flexibility and the possibility for more favourable provisions to Member States. EU-wide instruments leverage the attractiveness of the EU as a whole towards migrants, in particular when allowing intra-EU mobility.

Enabling integration and labour market participation of all migrants, in particular of those already present in the EU or arriving for reasons other than work, will be an essential component of a successful migration policy. In a study as part of its 2013 Migration Outlook, the OECD highlighted the enormous potential of increasing employment rates amongst migrants, in particular of highly-educated migrants and women, in countries with large and long-standing immigrant populations. Additionally, over-qualification and under-employment of foreign workers is a widely known issue.

The European Union should also face the fact that as long as there is war, dictatorship, oppression, and poverty in the world, people will try to seek refuge in Europe. This is a challenge that will not go away and which cannot be addressed simply by putting in place legal migration channels. A sustainable migration policy for the future requires a comprehensive strategy, including search and rescue at sea, enhanced cooperation with third countries, fight against migrant smuggling networks, and emergency support for the countries facing greater pressures. A new policy must be based on solidarity where all 28 Member States take their part of the responsibility. Today only five countries receive 70% of the asylum seekers. In the future all Member States must be involved in resettlement programmes. We need to reflect on how we can ensure a more orderly arrival of those who have strong claims to international protection to reach Europe safely for instance by exploring possible use of humanitarian visas or other ways of protected entries.

We should continue to engage with countries of origin and transit, using the channels already available to us, such as Mobility Partnerships and regional dialogues. We should not waiver in our struggle to combat trafficking in human beings and to prevent unsafe forms of migration but then alternatives must be produced

Conclusion

History suggests that countries that welcome the energy and vibrancy of newcomers, compete the best internationally. We need Europe to be open to the world, bringing in skills and talents that we need, to ensure our levels of prosperity. We also need a Europe that offers protection for those in need of it, true to our founding principles and values. If we succeed, human mobility can become one of the great assets of the twenty-first century.

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Freedom of movement of persons – the building-block of European growth

Radoslaw Sikorski

The European integration project is founded on values and principles which are simple, equal, and advantageous for all. Freedom of movement of persons is one of the main cornerstones of EU success. It is a fundamental, cherished right of EU citizens. Thanks to this liberty, European citizenship is real, concrete and attractive. Moreover, it spurs economic growth and technological development. But because freedom of movement has become an obvious feature of our day-to-day lives, some of us tend to underestimate its consequences. Important recent developments mean that we must renew our commitment to defend this building-block of a Europe whole and free.

The year 2013 was proclaimed the European Year of Citizens and was dedicated to the rights that come with EU citizenship. And yet, during this time, several European countries witnessed a growing backlash against the free movement of persons. At a time of economic crisis, the political debate has become swollen with stereotypes and prejudices. As a consequence, the image of EU mobility is becoming increasingly distorted. This in turn has led policy-makers to take decisions based on falsities, rather than facts. It is thus high time to dispel the myths of migration.

When it comes to the public debate, we should underscore another key aspect: that migration from third countries and intra-EU mobility are two very different phenomena. While the former is based on secondary law via a process that we manage, control and adapt to our needs, the latter is a manifestation of the rights bestowed upon all the EU citizens.

First and foremost, free movement of persons within the EU is exercised in a limited scope. Only 3% of EU citizens live in a different country than that of their origin. So it is false to claim that Western Europe is facing a Central European invasion. Far from it. The EU enlargements in 2004 and 2007 contributed only around 4 million people to the current 11.3 million people exercising freedom of movement, aligning the EU average with the global one.

Second, free movement of persons, an inherent part of the single market, stimulates economic growth. Studies carried out by various think tanks in both receiving and sending countries, as well as by the European Commission, show that migrations from Central and Eastern Europe have brought huge benefits to the EU economy. The estimated combined effect of migration on GDP growth in the EU-15 receiving countries amounted to 1% – and that's just between 2004 and 2009! So it should come as no surprise that the boost in economic growth has been most visible in countries that opened their labour markets back in 2004: Great Britain and Ireland. Freedom of movement helped revitalise EU economies back then – and is continuing to do so today.

Third, another widely disseminated myth concerns the misuse of social benefits by EU-10 citizens abroad. Also in this case, reality has nothing to do with the ugly picture painted by

many politicians. Indeed, social benefits are not the reason why people move to a different country – it is the possibility of finding gainful employment. Let us take the example of the United Kingdom, where many of my fellow citizens have settled and found jobs. Since the year 2000, migrants from the 'new' Member States have paid 25 billion GBP more into the UK budget than they have received in benefits. Another study shows that the net contribution of immigrants to the British budget amounted to 37% in 2008-2009. A report published by the Centre for Research and Analysis of Migration at University College London puts it bluntly: between 2001 and 2011, immigrants from the European Economic Area to the UK contributed about 34% more in taxes than they received in benefits. Similar evidence can be found in other European countries, such as Denmark. Far from breeding benefit seekers, free movement is bringing benefits to national budgets in receiving countries.

Nevertheless, the alleged 'abuses' of mobility continue to make the headlines. Slogans like "Send them all back home" and "They've stolen all our jobs" still adorn the front pages of the newspapers in some EU countries. Indeed, one of the most common arguments is that migrants prevent local inhabitants from getting work. But studies show that immigration from the EU-8 fills gaps in the labour market, which consequently contributes to economic growth – which in turn creates jobs. Instead of scapegoating hard-working, legal EU migrants, Western employers have learned to respect Central European employees. Now it is time for politicians to follow suit.

While free movement brings benefits to the EU economy and Europeans on the whole, it can be challenging for local communities faced with a large influx of migrants. I fully understand their concern and believe that some domestic measures may be taken to fix this issue, but under no circumstances should the steps taken threaten the fundamental freedoms that make up the EU single market. The challenges local governments are facing are not being neglected. An exhaustive study was carried out by the European Commission, which presented its results in the communication, "Free movement of EU citizens and their families: Five actions to make a difference". It presents several proposals of measures and good practices to better cope with the issue at the local level.

Necessarily, in times of austerity every government is forced to implement measures resulting in public spending cuts. Any kind of abuse of the social welfare system, if evidenced, should be eliminated as contradictory to the freedom of movement and conducive to unwelcome distortions. To some, excluding migrants from the social welfare system comes as the only reasonable solution. I believe the chosen tools should be different, more proportional to the scale of the problem and less threatening to the fundamental freedoms of the EU. The stakes are high, as they concern our common prosperity and future position in the global economy. We will sympathise with countries undertaking reforms of their social welfare systems. But freedom of movement must prevail and any changes should be founded on the principle of equal treatment to all legal residents. To this end we must provide for a balanced response to the problems at stake.

So we will either manage to cope with these economic challenges – or risk being marginalised by more dynamic global regions. The only effective way to proceed – and succeed – is to do

it together. Thus I strongly oppose the approach of some European politicians, mainly from far right parties, who claim that a singular and national approach to the economy might not only suffice, but would also enable the restoration of their cherished 19th-century order. Such an ahistorical vision of modern socio-economic processes has no chance of working in practice.

Instead, it should be the joint responsibility of European leaders to facilitate endeavors that make our continent more innovative, more competitive, and more cost-efficient – as well as more sustainable as regards social structures. Measures that some governments have already implemented or are planning to adopt in coming months are signs that we are losing the spirit of European unity.

I believe that one of the most important lessons we have learnt from European history is that the more troubled and testing the times, the stronger the demand for a coherent and coordinated response to the problems troubling our continent. Setting aside the rhetoric, we are faced with a simple truth – no Member State can afford to isolate itself, shut its doors and go it alone. We need to discuss these issues objectively and act responsibly. To put it simply: we need to stand as one.

Today the EU is tasked with tackling an unemployment rate of about 10.5%, reaching 22.8% among young people. This situation, which limits possibilities for growth and innovation, has important consequences for an entire generation of Europeans. Thus, we need not less but more mobility. We should be talking about further eliminating restrictions – and not imposing new ones.

Mobility has proven its positive impact on the economic and social development of Europe. It is also of great importance to our citizens, enabling them to build careers and ensure the well-being of their families. For this reason, it deserves to be strengthened by the abolition of administrative rules that hinder EU citizens' exercise of this freedom. We need to cut red tape and make moving within Europe easier. This would also help reduce the risk of abuse and fraud. Removing barriers will operate in both directions, as well as facilitate the return of migrants to their home countries.

People who benefit from the freedom of movement are motivated and determined to make better use of their skills and talents. In their new place of residence they tend to become more efficient and productive, thus contributing to economic development. What is more, cross-cultural interaction often leads to innovative solutions. The European economy cannot afford to let go of this potential.

However, just for the sake of argument, let us assume that all EU Member States would decide to take similar steps restricting freedom of movement. Reverting from the EU Treaties would only please those who dream of benefitting from weak, internally divided and mutually competing European economies. If our intention is to tackle global challenges, we will have to make better use of the instruments at our disposal – and not abandon them. What we need is good use of the EU budget and a new proactive European Commission that would be more willing to see off the real problems our societies are facing. We need

institutions that would engage in good reforms. This means that we have to re-assess the paradigms of EU policies. But we also need to watch the Commission's actions and keep reminding it about public expenditure, the priorities linked with youth, and – last but not least – good communication. The outcome of European Parliament elections confirms that we need to become more adept at explaining our decisions to Europeans. At the same time, we need to check our priorities and promote those activities which require prompt action.

Our achievement of the common market, complete with its four freedoms, plays another crucial role. It determines our position on the economic and political map. Indeed, today more than ever before, political power stems from solid economic foundations.

As we exit the economic crisis, we must not rest on our laurels. A lot still needs to be done – and we need all Member States to act consistently. Though the EU is often rightly challenged for not taking precautionary anti-crisis steps in advance and focusing too much on the institutional dimension, moving away from the EU would do us wrong, already in the short-term.

Positive changes not only require time, but also determination and joint effort. If we don't accept this, we stand to lose a lot, not least economically.

Europeans make up just 7% of the globe's population. Moreover, the forecasts are gloomy – in 2050, no EU country will be among the top ten global economies. Even those EU Member States currently considered world powers will lose their privileged position.

Yet, the EU as a whole is still a global powerhouse – an indispensable element of the international order. Our market of over 500 million consumers produces almost 25% of the world's GDP. That's more than the US, and more than Brazil, Russia, India and China combined. We are the largest exporter of goods in the world. Our experience in terms of conflict resolution, democracy promotion, institution-building and economic integration is being sought after by countries all over the world – including on our doorstep, not least in Ukraine.

Let us look back 25 years. According to World Bank data, in 1990 the GDPs *per capita* of Poland and Ukraine were on a par. Today Poland's is three times higher. Given this comparison it is difficult to question the effectiveness of the European model. Still, in order to maintain its attractiveness we need to consistently work on its coherence. Dismantling the very foundations of the single market is precisely the opposite of what we should be doing.

Over the last quarter-century, Poles have experienced first-hand the benefits stemming from European integration. So we believe that the future of our continent lies in advancing the European project. Returning to economic nationalisms, on the other hand, would jeopardise our recovery, thereby impeding the creation of highly competitive market economy for the benefit of Europe as a whole. For this reason, as Europeans we have both the right and the obligation to develop the European Union into a genuine community of solidarity and responsibility.

For the last several years, the European Union has had to face perhaps the most demanding internal test in its history. To pass it, we all need to accept that this exercise demands concessions and sacrifices. This applies to every member of our community, without exception. Our actions should be evaluated not in the context of a simple cost-benefit ratio within a single labour market, but in light of the combined strength of the Union. Because what we need right now is a stronger and more competitive Europe.

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Building up European leadership – an assessment of the recent process

Maria João Rodrigues

Europe is in need of a new leadership capacity able to recreate stronger European unity in the external and internal fronts. Otherwise, anti-European forces will increase their influence and presence in European governments and EU institutions with large implications for the direction of European integration. This will be the central concern in making a first short assessment of the recent process of building European leadership capacity for the next five years to come.

This assessment will particularly focus on the choice of the President of the European Commission, of the President of the European Council and, finally of the members of the European Commission.

Choosing the President of the European Commission

The most important game changer was the new procedure to select the President of the European Commission.

For the first time the Lisbon Treaty was applied, enabling a choice which took into account the outcome of the European elections. The candidate of the European party winning elections was recognised and proposed by the European Council to the European Parliament to be submitted to election. This new procedure will be probably and hopefully taken for granted in the future, which was not the case this time. Several European Council members had assumed until the final moment that the choice of Commission President should be mainly made by themselves.

The President of the European Commission was elected by the European Parliament according to a formal vote in secret ballot requiring the majority of the seats, after presenting and discussing a formal document with political guidelines. This new procedure has empowered him with a stronger democratic mandate, but it has also made him more accountable to the European Parliament.

Finally, it is important to underline that nothing of this would have been possible without the stronger role played by European political parties, which had become more organised and active throughout the process: when inviting candidates for President of the European Commission to emerge; when selecting them to run in European elections; when organising pan-European campaigns; when making alliances inside the European Parliament to force the recognition of the electoral outcome; when defining conditions to support the President candidate; or when organising the political opposition to him. It was in this context that Jean-Claude Juncker became the first elected President of the European Commission, backed by his European party EPP, and conditionally supported by S&D and ALDE groups.

Choosing the President of the European Council

The choice of the President of the European Council also deserves consideration. First of all, it is important to underline that the European Council had been changing its institutional and political nature as a consequence not only of the Lisbon Treaty, but also of the systemic chairmanship conducted by Herman Van Rompuy. It became a more powerful institution, able to set the political agenda on the internal and external fronts, as well as driving the most relevant EU processes. Some will argue that this has weakened the community method, others will argue that this has increased the sense of community interest which should be acquired by the heads of state and government. Beyond this, it is impossible to ignore that the new strength of the European Council has also enhanced the European influence of some particular national leaders, further than the traditional Franco-German couple.

Secondly, the choice of the European Council emerged from a complex game of distribution of posts, not only the top ones such as the High Representative, or the Eurogroup President, but also many portfolios in the European Commission.

Finally, the criteria which were formally or informally taken into account have also evolved: not only bigger or smaller countries, geographical, gender, political parties, but also political relevance. When the major challenges of the European Union are linked to Russian pressure and the Ukrainian crisis, or to consolidate enlargement and to heal the wounds of the past, as well as to design an inclusive future for the euro zone, we should not be surprised that the final choice was the Polish Prime Minister Donald Tusk.

Choosing European Commissioners, as European actors

The choice of the members of the new Commission's members became a controversial issue across Europe and should also be assessed more in-depth in the future. This can provide a new opportunity to discuss how future Commissioners should be chosen and organised in order to build up an EU institution whose purpose is to represent the community interest. Some lessons of the recent experience should be learnt for the future.

According to some opinions, we should make a distinction between a European Commissioner and a national minister, to argue that his/her selection should be conducted by the Prime Minister alone and under similar full reservation. Should this be the case? Before speaking about the selection process, we should first ask what a 'good' European Commissioner is.

A 'good' Commissioner is one who can make an assessment of European challenges and develop a plan to address them, overcoming or reducing political divergences, and pulling together the relevant actors, i.e. governments, Council, European and national parliaments, civil society organisations, and experts across Europe.

Hence, there is a big difference between candidates if, for example, one has negotiated the structural funds for his/her own country, and another who has negotiated the EU budget as a

whole; if one has negotiated a national plan and the other has negotiated the European growth agenda; or if one has conducted an adjustment programme and another has co-participated in the general reform of the euro zone. This is the difference between knowing how to operate at national or at European level.

If, in addition, a candidate has been elected in the European elections he/she should have more legitimacy (which is called input and not just output legitimacy), although this should not be a *sine qua non condition* to be selected.

What is fundamentally at stake is the construction of a European Commission as a supranational entity able to defend the European interest and not just the sum of national interests, or the influence of private interests.

With this aim, the President of the European Commission should be given sufficient latitude so that he can build a team that has an adequate number of suitable Commissioners and a political mix – able to implement the priorities according to which the Commission President was elected. If this President has been elected by the European Parliament reflecting the European elections outcomes, as it was, by the first time, the case of Jean-Claude Juncker, he will have even more legitimacy to require this latitude, and to select or discourage national suggestions.

It is important to emphasise that, under the Lisbon Treaty, the Member States present suggestions, but the final selection depends on the President of European Commission, because he/she needs to build up a team which is able to implement the priorities endorsed by the European Parliament. These suggestions of Commissioners should be made by governments, not on behalf of themselves but of the Member States they represent. This should be understood as the national contribution to build up a strong European Commission and should imply a process of national consultation which is open enough to identify suitable candidates.

But, to be appointed, the Commissioner candidate will still have a long way to go, outside the national sphere. He/she will first have to be evaluated by the President to build up a consistent team. This year, this process was also revised to increase the weight of women, which originally was very insufficient. Prior to final approval by the European Council, each Commissioner candidate will still be submitted to a hearing by the European Parliament, which may require replacement of some as a condition of its overall vote of consent on the new Commission.

It follows that the source of political legitimacy of a Commissioner goes beyond one Member State. It derives from a process involving the European Council and the European Parliament, and ultimately European citizens as a whole.

A European Commissioner is a European actor or, even better, a central actor of the European Union as a *sui generis* political entity. He/she should not be considered neither as a top official of an international organisation which is selected with the support of his/her national

government, nor as a national delegate to an international organisation, which is appointed by the government without previous consultation of their own country.

Hence, when identifying names to suggest to the President of the European Commission, each Member State should encourage a debate on the key challenges of the European Union in the coming years; the priorities from the national perspective; the most credible names that the country may propose to the Commission President to develop responses to these challenges; and how to get a more relevant portfolio.

It is this debate that was almost absent in several Member States. Many of them were not open to consider possible personalities, men and women with different political sensitivities, as Jean-Claude Juncker explicitly called for. Their relative merits should be assessed and compared to those priorities, on the basis of proven facts of competence and political successes. It is understandable that the criterion of political and personal trust plays a role, but not to the point of sacrificing the criteria of European merit to limited objectives of national politics.

Moreover, the alignment with the top priorities of Jean-Claude Juncker – growth; investment and employment; and the need to increase the presence and political weight of women in the Commission should not be downplayed either.

This article was concluded when the final list of chosen commissioners with their portfolios was about to be announced. We need to wait for the next developments of this story to identify the kind of political chemistry which would be needed to build up stronger European leadership capacity.

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Populism in the EU: new threats to the open society?

Heather Grabbe

In May 2014, around one in four Europeans voted for protest parties and anti-establishment candidates in the first pan-European poll since the euro crisis began. The rise of populism across Europe has brought more extremism of various kinds into the European Parliament. It could change the balance of power between the institutions, and be detrimental to EU policies, legislation and funding that nurture open societies. This chapter will consider the impact of xenophobic populist parties,¹ who have also become increasingly anti-EU, not considering here the extreme left Members of the European Parliament (MEPs) who entered the Parliament.²

The populist blame game is having an impact on national politics as well as at EU level. Already many parties of the centre are leaning much further to the right on migration. During national election campaigns over the next few years, they may well adopt more extremist exclusionary rhetoric on the grounds of "defending national identity" and "protecting our culture." The mainstream right and left are talking more about protecting wages and restricting labour migration from one EU country to another, as well as from outside Europe. This raises a major challenge for the new leadership of the EU institutions

Beyond rhetoric, the more xenophobic populists could attack the infrastructure that protects the most vulnerable marginalised groups, much of which was put in place at EU level. Already there is an attack on the whole concept of human rights from many populist groups, and talk of withdrawal from the European Convention on Human Rights in the UK. Other Member States are challenging the EU by not complying with fundamental rights principles, such as limits on freedom of expression and association in Hungary, and discriminatory collection of personal data from Roma in Italy.

Why are the populists doing so well?

Populists did well in both creditor and debtor countries, showing that protest parties are thriving even where economic conditions are not so bad. Many of them straddle the old left/right political divide. In her criticism of the euro, for example, Front National leader Marine Le Pen sounds remarkably like French far-left leader Jean-Luc Mélenchon. But her anti-migrant and anti-Muslim stances are traditional of the far right.

The angry cry from European voters deserves a deeper hearing. The easy response for mainstream parties is to hear it as a protest against the EU and migration – and jump on that bandwagon. But much deeper concerns are driving people away from mainstream parties. Recent research on first-time voters for radical parties shows that there are much deeper trends at work here – economic pain, disillusionment with politics in general and concern about how representative European democracies really are.³ Many European voters are sceptical that traditional political institutions represent them anymore, including national as well as EU ones. And there is a great sense of insecurity about cultural identity and traditions being eroded right across Europe.

Voters' economic concerns will not be relieved anytime soon. The euro has stabilised, but many southern Europeans are wondering if economic dynamism and jobs will ever return. Northerners are not feeling the pain as much and may have jobs, but they are left wondering if they can rely on the welfare state to protect them as they age. The crisis revealed the dark side of globalisation – that interdependence means permanently greater vulnerability to turbulence elsewhere in the world. Even in wealthy European countries, the state has limited powers to protect citizens from insecurity and rising inequality. The world has changed, undermining the social contracts that Europeans hold dear. Taxes stay high but economic security cannot be assured. And citizens in many countries have the impression that elites serve their own interests rather than the public interest.

Populists have tapped into all these fears and resentments. They do not offer policy solutions or clear options. But they are adept at channelling frustration and hopelessness into hostility towards both elites and minorities. It is much easier to pin the blame on politicians and those on the margins of society – especially Roma, migrants and Muslims – than the faceless forces of the global economy.

What effect on the EU?

The populist surge has happened just after the European Parliament gained major new powers under the Lisbon Treaty. The Parliament has the power to block EU legislation, funding, and resolutions, as well as having the ability to put political pressure on governments – but who will use it?

Anti-EU and xenophobic populist parties have nearly a third of the seats, far from a majority. They are far from unified and have many different views. Some of these MEPs have an openly racist agenda, many express xenophobic views and some use hate speech. Others disavow racism but criticise immigration.

How will they behave? In the past, populist MEPs have mainly used the Parliament as a source of personal funding and a podium from which to broadcast their messages over YouTube. They made xenophobic and anti-elite speeches in the Parliament and uploaded them to the internet, but most did not get involved in the details of parliamentary decision-making. Partly this was tactical, because anti-system MEPs were seeking to show their supporters they were not part of the system. But it was also because they disagreed on many issues, from gay marriage to Israel. Most importantly, they did not have clear policy goals that would motivate them to organise joint action or to form coalitions with other mainstream parties on particular issues.

A big change lies ahead if a better resourced and organised populist front emerges from the new party groupings that will now get public funding and more speaking opportunities. The question is which of the new groups in the Parliament will just use it to get funding and publicity for their national campaigns, and which will invest in learning the Parliament's procedures and systems.

At a minimum, the larger numbers of populists will make bolder attempts to challenge the EU political system and disrupt parliamentary business. If they use speaking time and tabling of questions to disrupt debates and voting, the President of the Parliament will find it increasingly difficult to keep order and maintain momentum behind proceedings. That will slow down legislation and approval of policies and funding. They could also bring the whole institution into disrepute if the antics of demagogues and xenophobes dominate media coverage of the Parliament.

The Parliament will be more fragmented overall, with the populists pulling many centre-right MEPs further to the right, especially on migration. That will make the European Parliament more unpredictable as its party groups lack the kind of disciplinary measures used in national parliaments such as the whip. UKIP's new political group could attract the more right-wing members of the European People's Party (EPP) to vote with it on some issues.

What are the implications for policies that help keep societies open?

Given the Parliament's position as a co-legislator, populist MEPs could make it more difficult for the EU to adopt progressive legislation and policies, especially where they share common ground – for example in opposing migration, asylum, development aid, and EU standards, and policies that protect marginalised groups. They could attack EU foreign policies too, including the asylum fund and development aid, as well as human rights promotion.

Five areas to watch for populist influence are:

- The Parliament has hitherto been a stronger supporter of Roma rights and social inclusion than reluctant Member States and Commissioners. The Parliament has pressed the Commission and national governments to maintain momentum on initiatives for Roma inclusion, in particular the National Roma Integration Strategies. It has also made EU funding available for NGOs to monitor implementation of national strategies, and for programmes to promote equality. Populist MEPs could try to stop the Parliament supporting such initiatives in future by pushing centre-right parties into opposing these initiatives.
- Through election observation missions and joint parliamentary committees, MEPs have an influence in other countries beyond their powers in the EU. Populist MEPs have recently used their positions to endorse flawed elections (Azerbaijan) and to promote the rights of ethnic Hungarians over those of Roma (Serbia). An increase in these MEPs is likely to further undermine the EU's credibility and its leverage in promoting human rights in the rest of the world.
- The European Parliament will have to approve the EU's accession to the European Convention on Human Rights. Although the EU would become more accountable to citizens if it were under the jurisdiction of the European Court of Human Rights, anti-EU MEPs are likely to perceive it as giving greater powers to European institutions and favouring minorities – and so block it.

- The Parliament shares responsibility for approving the EU's budget, so populist MEPs could try to steer EU funding away from causes such as equality and social inclusion for minority groups.
- Populists could attack key parts of the EU's infrastructure that protects open societies, such as the return directive on asylum-seekers, the mandates of the Fundamental Rights Agency and the FRONTEX border agency, or the proposed mechanism to monitor fundamental rights in the Member States.

What can supporters of the open society do?

An open society needs much more public defence from its many quiet supporters in Europe. Protection of rights, freedoms and diversity can no longer be taken for granted by all Europeans who have enjoyed a quarter-century of peace and tolerance. Problems are growing that can no longer be dismissed as a passing phenomenon that results just from the economic crisis.

There are four areas where concerned Europeans could focus their efforts to pull energy away from blame and fear into positive action:

1. **Limit racism in the public debate:** If many more populists start using the European Parliament to broadcast hate speech, the rise in racist rhetoric will also have an impact on national politics. How can we make it harder for populist parties to use political debate as a medium for hate speech and incitement to violence?
2. **Connect national and European politics:** In both European and national politics, centrist parties are moving towards extremes, and anti-racism norms are being eroded. How could anti-racism and pro-tolerance norms be bolstered by bringing other voices into political debates?
3. **Look deeper into how European societies are changing:** Research shows that there are many long-term trends behind the latest election results, particularly mistrust of elites, and dissatisfaction with public institutions and representative democracy. How can Europeans find fresh ideas to revitalise democratic life in their countries and make political institutions of all kinds more accountable to citizens?
4. **Increase transparency at EU level:** Citizen inclusion and participation in policy-making are required by the Lisbon Treaty but initiatives to bring citizens closer or to ensure more accountability, are either too infrequent (the European Citizens' Initiative), too shallow (the voluntary lobbyist register or MEP code of conduct), or too precarious (the 'Spitzenkandidaten' exercise). The result is a perception of poor inclusion and participation which compounds anti-elitism. The EU could improve its accountability by joining the Open Government Partnership (OGP), which 20 Member States have already signed up to.

Conclusion

In response to the populist threat, the centrist EPP, Social Democrats and Liberals are likely to form a grand coalition to push through major votes where there is no ideological left/right divide. This would mean more deals between the parties behind closed doors rather than in the public debate, which is not good for democracy.

If the mainstream parties use a grand coalition primarily to maintain the *status quo*, citizens will ask why they bothered to vote. Instead, political leaders of the centre should focus on reforming the EU and delivering the benefits of European integration to citizens by making progress on issues like fundamental rights and services liberalisation. Instead of hiding behind a grand coalition, they should open up public debates about the future of European society beyond Strasbourg and Brussels. And traditional parties need to get their act together to communicate better through social media, where populist parties are much more effective.

Political leaders across Europe also need to defend the open society from rising intolerance and nationalism. The greatest benefit of living in Europe is personal freedoms that allow citizens to express their opinions, and choose lifestyles according to their values, preferences and beliefs. The EU has helped to build an infrastructure of rights and rule of law that protect these benefits and foster tolerance and diversity. European societies are an extraordinary enabling environment for people to live and let live. To let these gains be eroded by the politics of fear and hate would be a tragedy.

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Endnotes

- 1 This definition applies Cas Mudde's seminal classification of populist radical right parties to the European Parliament, as used M. Morris, [Conflicted politicians: the radical right in the European Parliament](#), Counterpoint, 2013 (pp 11-14). For the original classification, see: C. Mudde, [Populist radical right parties in Europe](#), Cambridge University Press, 2007.
- 2 For an analysis of the impact of the far left see J. Bartlett, P. Krekó, B. Hunyad, [New political actors in Europe](#), Demos, 2013.
- 3 C. Fieschi (ed), [Populist fantasies: European revolts in context](#), Counterpoint, 2013.

Differentiated Europe needs strong institutions

Alexander Stubb

A dear child has many names. Multispeed Europe, Europe *à la carte*, variable geometry, avant-garde, flexibility, multi-tier governance and enhanced cooperation – all dealing with the concept of differentiated Europe. I wrote my doctoral thesis at the London School of Economics in 1999 on Flexible integration and the Amsterdam Treaty. The subject seemed academic at that time, but the issue is very concrete for the Union.

A simple definition of differentiated Europe could be that it consists of any institutionalised cooperation between EU members at smaller configurations than the totality of its membership in the pursuit of EU objectives.

Differentiated Europe is reality. The most prominent forms of differentiated Europe are the Economic and Monetary Union – with the euro area having 18 members at present – and the passport free Schengen area. But other examples are abound – the banking union, the fiscal compact, enhanced cooperation in community patents, divorce law etc.

Differentiated Europe has become more relevant because of growing EU membership and the extension of the Union's policy reach. There was hardly any need for differentiation at six. Differentiation is not an objective in its own right, but a tool for effective enlarging and deepening of the Union. In academic terms, differentiation is a form of functionalism. Politicians talk about pragmatism.

Prominent examples of differentiation surfaced with the Maastricht Treaty as a reaction to domestic political pressures and led to Britain abstaining from social policies, Denmark opting out of justice and home affairs cooperation and the common security and defence policy, and both gaining a legal opt-out from the euro.

Later new layers have been added to differentiation as the EU has broadened its scope. With a larger and more heterogenic membership, the probability for differentiating Europe increases. A 28 member union is a completely different story than a community of six, nine, ten or even 12.

Differentiated Europe can be analysed in terms of the three meta-challenges outlined in this publication – stagnation, fragmentation and legitimacy. My argument is simple: stagnation or the prospect of it has been a catalyst for differentiation, fragmentation poses a risk of differentiation gone too far and legitimacy of differentiation is embedded on institutional cohesion and good results.

Stagnation is an obvious factor in terms of differentiated Europe. Differentiated Europe can be a solution to political stagnation – the inability to decide on a policy that would include all members, but is still seen as a necessity for a broad majority of Member States. This is one of the reasons why recent treaty amendments have codified rules for reinforced cooperation, Euro-speak for differentiation.

This is in essence the philosophy of the avant-garde – a smaller group takes the lead, and the rest will follow later. The Treaty puts it well concerning enhanced cooperation, *"Enhanced cooperation shall aim to further the objectives of the Union, protect its interests and reinforce its integration process. Such cooperation shall be open at any time to all Member States (...)"*.

Economic stagnation – or be it any other policy frustration – can be a major motivator for differentiation. Economic stagnation and the euro crisis definitely presented a clear case for deepening integration in the euro area. At the same time, major treaty changes were not an option. The six pack, the two pack and the fiscal compact were born complementing the European Semester. Economic policy coordination as a result lies somewhere in between intergovernmental decision making and the community method, the key words being coordination, consolidation, peer pressure, and guidance.

The European patent, another example, was a reaction to the fact that a more integrated patent system was deemed important for competitiveness, but no solution was found between all Member States because of fundamental differences on the language regime.

Stagnation is a typical cause for differentiated Europe – a motive, a driver – but fragmentation can be the main negative consequence of differentiation – a cost, a risk to be avoided.

In theory, any policy not aimed at all Member States can already be labelled as EU **fragmentation**, but for analytical purposes it is useful to define fragmentation in terms of differentiation gone too far, producing an overall negative impact on the Union – more or less as the dark side of differentiation. Therefore, the central issue in terms of fragmentation is how to ensure that functional differentiation does not degenerate into dysfunctional fragmentation.

This is perhaps the key issue for differentiation. An outline of the political and institutional elements that can prevent EU fragmentation would act as crucial guidelines for future policy. So far all the evolutions within differentiated Europe still involve a unity of direction, of purpose. The idea being that there is a common goal, but a number of Member States will either join later or even remain behind.

There are different levels of participation, but with the idea that non-participants can, and many will, join at a later stage – usually when they will have attained the ability to do so. Same direction, but different speeds. For example, the United Kingdom and Denmark have a legal derogation from the euro, but they have the right to opt-in if they so decide, and for the Union at large Economic and Monetary Union constitutes a central element of EU integration, not some irrelevant side-show.

Until now, differentiation in the EU has never meant that the Union would split in different directions on any policy. Different levels of participation, but never as groups that would assume exclusive or competing aims from each other. I would argue that differentiation within the European Union should never be allowed to develop in this direction, because it would mean that differentiation would degenerate into fragmentation.

The evolution within Economic and Monetary Union is a good example – members of the euro area have worked on closer economic policy coordination, fiscal rules, banking union, and there is a good case for further cooperation on issues like taxation. This core remains open to non-euro members as we have seen with banking union and the fiscal compact. The fiscal compact is outside the EU framework – because of UK insistence – but it still serves EU aims.

Existing and foreseeable differentiation within the Union revolves around a central core. The euro area is the political and economic core of the European Union, but does not present an exclusive institutional core. In fact, various forms of differentiation involve different groups of Member States.

In practice the difference between differentiation and fragmentation is a thin line. And this thin line is best guarded by strong common institutions. At this stage we have differentiation, but all within a single institutional structure. The European Commission remains the executive body for all EU policy – at 28 or less. The European Parliament covers all policies. Decision making resides in the Council with the Eurogroup firmly embedded to Council structures. The President of the European Council also serves as the President of the euro area summit. The European Central Bank is a European institution, well defined by common EU Treaties.

We have unitary institutions, even though policy is differentiated in some areas. We could call this the singularity principle. European institutional singularity serves differentiated European policies and at the same time ensures overall coherence. After all, more simplicity, more continuity and more stability were the guiding principles in the constitutional process leading to the Lisbon treaty. Duplication, overlapping and complexity would not serve institutional coherence.

As this institutional unity is crucial for policy coherence, all attempts to break this singularity should be resisted. There have been proposals for endowing the euro area with its own institutions – an own secretariat separate from the Commission, a separate President of the euro area summit. The break-up of the existing institutional singularity would risk degenerating what is now pragmatic and functional differentiation into detrimental fragmentation.

Legitimacy – and especially the risk of reduced legitimacy – is an important issue for any public policy and differentiated Europe is no exception. Legitimacy can either be approached through process or outputs. With process you need to assess the procedures legitimate as such, do they inspire public confidence, and are there enough checks and balances. In terms of outputs it should be asked whether policies produce outputs that are beneficial to society, to EU citizens, to the Union's purposes.

Looking at the legitimacy of differentiated Europe in terms of process, the same rules apply as to any EU policy – democratic accountability, openness, subject to rule of law etc. The fact that the Union's common institutions are in charge of differentiated Europe provide a fair degree of accountability.

Fortunately differentiated Europe is mainly channelled within EU structures. Despite the euro crisis leading to several intergovernmental solutions, the role of the Commission has in fact been strengthened. Working outside the Treaties poses challenges in terms of legitimacy through process, which is often tackled by *de facto* involvement by the European Parliament in the negotiation process. For example, the negotiations on the Single Resolution Fund were packaged with the Single Resolution Mechanism with European Parliament taking part.

In addition, the role of national parliaments providing the negotiation mandates for their governments should not be neglected either – despite different levels of their involvement in the negotiation processes.

European political parties presenting top candidates in the elections this spring for leading EU positions has been an attempt to further politicise European politics and this way to strengthen accountability and legitimacy without the burden of treaty change.

Unfortunately, the turnout of the elections was similar to previous rounds at just around 43% and therefore the impact of top candidates in this respect was not as strong as envisaged. Despite this, the precedent is there and I would expect European political parties to have top candidates in future elections, too.

Looking at legitimacy in terms of outputs, it is logical to assume that differentiated Europe tends to perform well. After all, it is typically a solution to policy problems where progress by all member states was not an option.

To put it in very simple terms – you either have some progress by means of differentiated Europe or you have no progress at all. Choosing on more or less differentiation is often choosing between results or no results.

As a synthesis on differentiated Europe as seen from the perspective of stagnation, fragmentation and legitimacy, the **conclusion** is that fragmentation is the most pertinent dimension, and the risk of fragmentation is best avoided by ensuring that the EU continues to be endowed by strong institutions that include all aspects of EU policy, including any items that would belong to the scope of differentiated Europe. At the same time, this institutional approach tackles questions on legitimacy through process. Similarly, differentiation at best provides legitimacy by output, by results, by solutions to stagnation.

What does the future hold in terms of differentiated Europe? A safe assumption is that differentiation will probably increase, because the euro area needs to build a firm economic core. The fact that treaty change is not an option for the time being will mean that differentiated Europe can be a useful instrument in deepening integration.

At the same time we need to recognise the limits of differentiation. There are no-go areas for differentiation, policies that include all members are an absolute must. These are areas where the essence of European value added lies: in the fact that there are no divisions among Member States so that all are included.

An exhaustive list of the no-go areas for differentiation would be long, but the essential elements are obvious. The internal market needs to work as a coherent entity, competition policy needs to include all members, trade policy cannot be divided, values are indivisible, external action is all the more stronger as the whole union participates.

In general, areas with strong Union competence have very limited scope for differentiation. When taking that path, this should be coupled with strong institutions.

Alexander Stubb is the Prime Minister of Finland.

Improving decision-making in the EU

Fabian Zuleeg

The multiple crises the European Union (EU) has experienced in recent years have fundamentally altered decision-making and, more broadly, governance in the EU. Pre-crisis systems and processes were not adequate to react to such critical and systemic challenges, but the speed of the crisis meant that new governance mechanisms have been superimposed on existing processes and structures rather than seeing a fundamental reform of decision-making. Consequently, not all changes have been fully successful. Given the institutional changes this year and the ongoing development of the EMU governance framework, now presents a good opportunity to reform EU decision-making.

The crisis has shown that decision-making needs to change. In particular, there are five key challenges, which now need to be addressed:

- dealing with crisis and limiting economic and financial risks – this requires speedy decisions that provide flexible but definitive answers from a clearly identified source of authority. When dealing with international financial markets, this is especially crucial as uncertainty will fuel speculation. The difficulty extends to the decision-making on strategic direction, where the EU is encumbered with unanimity and a difficult and cumbersome procedure for amending EU Treaties, including referenda in some Member States;
- providing systemic, cohesive and comprehensive responses to systemic challenges – the key policy challenges that the EU and its members face are cross-cutting and complex. Issues such as dealing with the energy challenge, kick-starting economic growth and employment or improving legitimacy cannot be dealt with in policy 'silos';
- increasing politicisation of decision-making – the EU, and in particular the European Commission, is increasingly engaged in political decisions rather than legal, technocratic or bureaucratic decisions. Making assessments of countries' fiscal policies; finding the appropriate balance between growth and austerity; or dealing with foreign policy crises will be influenced by political preferences;
- fragmentation of decision-making – the new governance arrangements are complex, especially given that different mechanisms apply in different instances. There are unresolved issues of what should be done by Member States and what needs to be done by the institutions. The new governance has increased the distance between euro and non-euro countries, also raising questions on how differentiated integration will function in the future; and
- efficiency and effectiveness of policy-making – with increasing concern over the sheer amount and complexity of European laws and insufficient focus on implementation and impact of the legislative output.

These challenges to the EU decision-making process will not be resolved overnight, especially since a grand reform involving also treaty change seems rather unlikely and any reform is likely to take time. However, there are reforms which could be carried out, or at least started, in the coming years.

Structure of the Commission¹

A long-standing issue, aggravated by the recent enlargements of the EU, is the number of Commissioners. While the EU Treaties have provided for a reduction in the number of Commissioners to enable the Union to cope with successive enlargements, it has proven to be impossible to get the political agreement for countries to give up the principle of one Commissioner at least, per country. Equally, having 'junior' and 'senior' Commissioners in line with similar arrangements in many national governments does not seem to be acceptable to many Member States, with some of the smaller states worried that they would perpetually end up with junior posts.

The number of commissioners had increasingly led to a strong 'silo' mentality, with each member of the college virtually autonomous in their own portfolio's competences, with inter-service consultations and infrequent top-down direction from the Commission President insufficient to break the overall pattern. Eventually this leads to a lack of coherence and focus and in the worst cases can give rise to uncertainty over the overall direction and even create outright contradictions. There is, however, a way of potentially overcoming these difficulties. This would be through building on the existing structure: creating clusters of Commissioners around Vice-Presidents.

In previous publications², we have suggested a possible distribution of priorities of Vice-Presidents and clusters of Commissioners to ensure that the structure of the Commission mirrors the overarching challenges of the EU, with four new Vice-Presidents without specific portfolio covering *growth, single market, well-being, citizenship & mobility, and environment & natural resources*. Reflecting on their special roles, this structure also proposed vice-presidents for the Economic & Financial Affairs and for the Energy portfolios (without other commissioners to coordinate), as well as the High Representative who leads a thematic cluster, but also retains their High Representative role. These Vice-Presidents would need to have a role which goes beyond merely coordinating the activities in each thematic cluster. They would need to have an explicit role in conjunction with the Commission President to make decisions on the strategic direction of policy within their cluster, working with their portfolio Commissioners. This should also be reflected in the administration, for example having a joint strategy unit for each cluster rather than each portfolio.

The new structure of the Juncker Commission does partially reflect these suggestions, with seven vice-presidents covering broad thematic areas without a specific portfolio. However, there is one crucial difference: in an attempt to maintain flexibility (and possibly to assuage fears of Member States that this would create 'junior' commissioners), the clusters of Commissioners differ for each broad policy area, with many commissioners contributing to

more than one area. In other words, there is no clear cluster structure, as well as numerous overlaps between Vice-Presidents themselves and Vice-Presidents and Commissioners, both in terms of portfolio content and in terms of the supporting bureaucracy. At the very least, this will require a clear definition of which Commissioner is ultimately responsible for what and who reports to whom at the outset of this Commission but the structure might well prove ineffective without a clear hierarchy.

This new way of working will also require effective coordination between the President and the Vice-Presidents, guided by a common purpose and vision. But this will turn the Commission into a more political instrument, with clear-cut political priorities, and the ability to better deliver and implement them, which raises fear over the politicisation of the Commission as discussed later in this article.

Better regulation

One further innovation of the new Commission is the creation of a First Vice-President for 'better regulation', reflecting the concern in many countries that the EU has a tendency to over-regulate, which potentially imposes costs, especially on businesses at a time when corporates are struggling to remain globally competitive. However, beyond the mere signal of creating such a post, what can this new role achieve, given that an effective better regulation agenda would have to be implemented horizontally, across all portfolios? Better regulation also needs to be built into the earliest stages of decision-making to be effective, for example to stop an idea turning into a legislative proposal. It is hard to see how the First Vice-President can manage such a detailed process apart from issuing general guidance and then checking on its implementation, a role which the Commission President could also have fulfilled.

The new First Vice-President will also have to show how his activities will make a qualitative difference to the 'better regulation' activities, which have, after all, been ongoing for years, including for example the impact assessment system or the activities of the Stoiber Group. The challenge will be to overcome some of the political barriers, which in the most part, lie outside the Commission, including the willingness of Member States to change their priorities to incorporate better regulation principles as well as the willingness of the European Parliament to be bound by any such principles in its legislative deliberations. It should also never be forgotten that the EU system is based on compromise, which might not always be the most effective solution. However, reopening any compromise can lead to further negotiations with an uncertain outcome, potentially increasing the legislative burden.

As a starting point, the new First Vice-President should set out what he understands under the term 'better regulation' or, even better, 'better policy-making'. This should include the focus on *ex ante* vs. *ex post* impact assessment and what future for the impact assessment system; as well as the role of consultation and involvement of stakeholders; what is defined to be an unnecessary legislative burden as opposed to the cost arising from democratically defined policy priorities, in how far we need to focus on the existing stock of legislation vs. the process of making new legislation; what role subsidiarity should play in the decision-making

processes at the EU, etc. By defining what the focus of activity will be, it will not only provide a way of assessing at some point in future how successful this new post has been but it will also provide clear guidance not only to the rest of the Commission but also to the other decision-makers involved in the process.

Executive powers and the politicisation of the Commission

A further governance challenge for the new Commission is not new but is becoming increasingly difficult to handle: the conflict between the political function of the Commission, taking a role in the overall political direction of the EU, and its role as an independent monitoring/assessment agency, regulator and arbitrator in the application of EU law, for example, in areas such as competition policy or in the assessment of Member States' budgetary policies. With an increasingly 'political Commission', potentially further reinforced by the link to the EP elections made in the Lisbon Treaty and with the *Spitzenkandidaten* process, maintaining credibility as an independent and objective arbitrator might be severely challenged in future.

One way to address this would be to outsource some of the functions which call for impartial, legal arbitration, for example, by establishing independent bodies, for example, by creating a separate Competition Authority. Undoubtedly, this would be a longer term process but thinking about a fundamental reform of the Commission along these lines should start now.

Ultimately, the EU level needs to gain more executive powers, especially to be able to react swiftly to any emerging crisis. But currently, many Member State governments are unwilling to relinquish control over executive powers in politically highly sensitive areas to the Commission, insisting that the national level or, at the very least, the Council needs to retain the final decision-making power. There is no effective way in which two bodies can share this kind of executive power; while co-legislation can work due to its sequential nature and the absence of acute time pressure, co-executive power shared by Council and Commission is likely to create uncertainty and delay that can be very costly in a crisis. The only way out is to vest powers in a supranational body, whether this is the Commission or another construction. Further far-reaching steps seem highly unlikely at the moment.

In addition, an effective system also needs to have accountability mechanisms. In national systems, this is usually performed by the legislative. But with co-legislators, the Council cannot hold itself to account if it also has an executive role. There is also now a greater role for national parliaments, which can create additional uncertainty: who, in the end, holds the executive to account: the Council, the EP, national parliaments or a combination of these?

The limitations of rules-based systems

A further challenge to the absence of effective executive power at EU level comes from the limitations of the rules-based system, which includes questions about how to pick

appropriate rules/targets, the perennial question of enforcement mechanisms, whether a country's failure to meet a target is down to willingness or capacity to deliver and under what circumstances there needs to be flexibility, and who decides.

The available instruments, both old and new ones, are too complex and therefore difficult to understand for policy-makers that need to quickly apply and comply with the rules. Complexity is another factor that leads to low automaticity, obstructing the necessary degree of *ex ante* support for the prevention of new economic and financial crises. Rules also suffer from low anticipatory powers: they often address past crises rather than the coming ones. To deal with emerging risks, it is necessary to have significant instruments that can be employed quickly (or even automatically) rather than having a set of inflexible rules.

Another key challenge is to ensure compliance with the rules by both small and big countries to safeguard the long-term credibility of the new governance system. In light of the discussions over sticking to the 3% deficit limit and the reactions in Germany regarding the investigations of its export surplus (fully in line with the governance instruments that have just been created), there are at least some doubts whether bigger and more powerful countries feel that the rules apply to them equally, and in how far the Commission can enforce such rules in these circumstances. This is further complicated by the need to interpret rules which always opens up potential disagreement. While the system offers the opportunity of taking the legal enforcement route, this requires political will to take countries to Court, as well as patience as rulings take time to be delivered. In addition, it can be questioned whether a Court with legal rather than economic competence is well placed to rule on matters of economic governance.

In addition, in times of crisis any rules-based system must have flexibility built-in. This, however, raises the question of who makes the decision whether rules can be suspended or eased in such an instance. In the case of fiscal governance, any such decision (or the decision to enforce the rules) by the Commission is likely to be challenged, especially by the bigger countries. However, if it is down to the Council, it is difficult to see heads of state and government holding their peers to account strictly.

The difficulties with a rules-based, legalistic system go further than this. In policy areas which are close to the heart of national decision-making systems and that the EU now needs to cover, the reliance on a rules-based approach is unlikely to function well. While at times adhering to European rules in politically sensitive areas can be politically useful to shift responsibility for unpopular measures, at other times the political cost of compliance will outweigh the consequences of breaking the rules, especially for more powerful countries.

Given the difficulties in changing the EU's strategic direction, it is also very challenging to change any of the rules that have been written into the EU Treaties. Furthermore, it is nearly impossible to take into account country-specific conditions and circumstances, or changes in the broader macro-environment. This raises a number of crucial questions: Is the same inflation target still appropriate, in a situation where deflation might be

threatening? Is it right to focus strongly on public debt? Is a deficit target of 3% the right one for all countries, given divergent growth performances and debt financing costs? Again, if for any of these rules there is a need to consider more flexibility, who is empowered to make such a decision?

Pooling of sovereignty?

Underlying these discussions on flexibility is a much deeper challenge to how the EU works. For some countries, it seems that the main objection is that the European level attempts to impose rules, rather than the content of the rules itself or how flexibly they are applied. In essence, under the disguise of flexibility, countries might aim for a repatriation of fiscal powers, which would undermine effective fiscal coordination at euro zone level, as well as undermining the underlying political bargain: debt financing support only with attached conditionality.

In addition, there is a widespread feeling at Member State level that we have had enough 'more Europe' due to the crisis and that it is now time for 'less Europe'. In many countries, there is also a sign of the 'British disease', namely that any further integration is seen as undesirable and that further integration steps are blocked with the argument that this might raise strong objections by the electorate.

This will be a significant challenge for the EU. There are already a number of areas where a process of 'inverse subsidiarity' can be observed, i.e. areas where Member States want to retain control but EU solutions are now needed as it is no longer possible to deal effectively with the issue at national level, for example, related to energy security or migration. In addition, further integration is also becoming necessary for the euro zone due to a process of 'spill-in', i.e. further integration within a policy area with the aim of avoiding negative consequences, here driven by the necessity to correct the flaws of EMU (as opposed to positive reasons for integration such as a wish to move towards a federal Europe or the pull of positive spill-over effects). Increasingly, we will see that what is politically possible diverges further and further from what is required to effectively deal with the challenges the EU faces. Clearly, to have effective decision-making, there first needs to be agreement on what the EU should be doing and at the moment we are nowhere near such an agreement.

Moving forward or backward?

In the end, there are two separate directions in which the system could be developed: either trying to turn the clock back by attempting to set up the Commission as the independent, bureaucratic, apolitical arbitrator which it (arguably) once was or to accept that the circumstances have changed with the need for more executive powers at EU level and an increased politicisation of the system.

Even if it were desirable, it seems unlikely that we can go back to a 'golden age' where the Commission does not get involved in politics. The Commission is already highly politicised

and increasingly the EU needs a Commission which will be able to make executive decisions that can be implemented across the Union. This implies a move from governance to government, from a rules-based legalistic system to one driven by political preferences, underpinned by mechanisms of legitimacy and direct accountability. However, this will increase concerns that the EU is moving from a supranational arbitrator to a political actor in its own right.

Politicisation should not be seen as a negative process. For a long time, many convinced Europeans have lamented that the EU is remote from its citizens, that democracy is not functioning as it should at EU level and that there is no engagement with EU policy debates. While current governance/political developments certainly don't answer all the questions posed for EU democracy, at least it is a starting point to get citizens more interested in EU policy decisions.

But to do this, democracy at EU level also needs to be developed further to facilitate engagement. In addition to the existing mechanisms of representative democracy, which are still struggling with low engagement and participation, there is a need to develop a more accessible, informed participatory democracy, by utilising new technologies and building bespoke mechanisms for citizens to input in EU decision-making, such as developing an EU version of 'liquid democracy', where citizens can be involved directly in EU policy. In addition, there needs to be a clear mechanism to hold the Commission to account for its executive/political decisions, a role the EP could increasingly play.

As a starting point, the new Commission's hearings in the EP should be treated as a political process. Commission President-elect Juncker has set out his political programme "An Agenda for Jobs, Growth, Fairness and Democratic Change". All proposed Commissioners should be tested against what their policies are going to deliver from this Agenda, including three crucial questions:

- Given its importance for growth and jobs, in what way are actions in this portfolio going to increase public, private or social investment?
- In how far are actions in this portfolio going to increase protection of citizens from internal and external threats, including in terms of the crisis in the East?
- In how far are actions in this portfolio going to facilitate the engagement of EU citizens with EU policy making?

By-and-large, the EU could start to introduce the kind of changes proposed here in the near future, without major changes to the institutions or the EU Treaties. However, the elephant in the room is the question what Member States want the EU to do and in how far they are willing to make the changes necessary, especially if it requires further pooling of sovereignty in some areas. This will also require finding a solution to the differences between Member States, especially the euro *ins* and *outs*, with a need to find a way of re-invigorating differentiated integration.

While progress is certainly possible, in the end decision-making at EU level will only be as effective as Member States allow it to be.

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Endnotes

- 1 This section draws from F. Zuleeg 'A more effective structure for the Commission' EPC Commentary, 7 March 2014
http://www.epc.eu/pub_details.php?cat_id=4&pub_id=4230
- 2 See F. Zuleeg 'A more effective structure for the Commission' EPC Commentary, 7 March 2014 & F. Zuleeg 'Beyond individuals: a more effective structure for the Commission' EPC Commentary, 9 September 2014
http://www.epc.eu/pub_details.php?cat_id=4&pub_id=4735

The need for a New Pact¹

Janis A. Emmanouilidis

During the last political cycle (2009-2014), the European Union (EU) went through the worst crisis of its history. In the months and years to come, the new EU leadership and Member States will have to take major decisions if Europeans want to sustainably overcome the crisis, prepare themselves for the manifold internal and external tests ahead, and provide the grounds for Europe to exploit more of its potential and meet the needs and expectations of citizens.

The outcome of this venture is unclear considering the 'state of the Union' and the current mood in Brussels and national capitals. But one thing seems rather certain: to generate active support from citizens and elites, future developments at European and national level need to be driven by confidence and renewed ambition and not, as in the past years, by fear first – fear of a euro implosion; or of an involuntary exit from the common currency with unforeseeable consequences. In order to take strategic decisions about the Union's future, there is a need to identify and address the key challenge(s) and provide a coherent and holistic response on the grounds of an ambitious but at the same time pragmatic 'package deal', taking into account the diverging interests of Member States and their citizens. But what is the state of affairs, what is the key strategic challenge and how can the new EU leadership cope with it in the next political cycle (2014-2019)?

The state of affairs – systemic improvements and 'reactive muddling through'

The Union and its members have gone through and are still facing the aftershocks and collateral damage caused by the most fundamental crisis in EU history. The experience since 2009/2010 revealed and exacerbated significant structural deficiencies in the Union's economic and political construction. It cast doubt on the fundamentals of the European project, as the unthinkable became thinkable, that the 'crisis snowball' might spiral out of control and trigger an avalanche with the potential to bury the euro and the European project underneath it.

Today, the situation remains volatile and it is still too early to judge the deep economic, political, societal, and institutional consequences of the crisis. Ultimately, it will be the task of future historians to assess the significance of the current period for the overall process of European integration. However, in systemic terms the situation has improved significantly compared to the summer of 2012. Much has happened since 2010 at both European and national level that would have been considered impossible some years earlier and the fears of a 'euro implosion' have receded. The European Central Bank's (ECB) promise to do whatever it takes to guarantee the stability of the euro and the substantially reduced risk of a country having to exit the common currency have boosted confidence and averted the worst-case scenario from becoming reality.

However, the EU is not out of the woods. The reality of many Europeans remains (extremely) difficult and the crisis is not overcome, given the persistent socio-economic problems characterised by low growth, high unemployment, increased poverty rates, and eroded social mobility (see the chapter by László Andor on social Europe in this volume), the political uncertainties in many EU countries manifested in the rise of 'anti-forces' (anti-establishment, anti-EU, anti-euro, anti-migration), and the fact that collective efforts to overcome the remaining structural shortfalls of Economic and Monetary Union (EMU) have lost momentum since late 2012 (see also the chapter of Daniela Schwarzer on euro governance).

'Consolidation' or even 'reactive muddling through' and stagnation have become the predominant mood of the day as the immediate crisis threats and market pressures have regressed. Recent progress regarding the establishment of a (limited) banking union indicate that the reform engine is still running. But EU governments are lagging behind and backtracking from earlier, more ambitious plans aiming towards a "(Deep and) Genuine Economic and Monetary Union" (see also the chapter by George Pagoulatos in this volume). National governments want the EU to steer clear of 'overambitious' attempts to deepen integration, which could backfire given the increased negative attitudes towards the EU. According to this line of thinking, there is a need to be realistic and accept that Member States are not willing or able to go much further in pooling sovereignty at European level and that one should avoid an opening of Pandora's Box as it is not the right time to pursue more ambitious plans to reform the EU.

The challenge of fragmentation

There are undoubtedly good reasons to support the 'logic of consolidation', but is this path sufficient in light of the current situation? The EU and its members face numerous concrete internal and external challenges. But there is one structural challenge, which seems more profound and precarious than others, which has the potential to undermine the Union's ability to deliver effective policy solutions: namely fragmentation – in its different dimensions:

- *Fragmentation between the EU and its citizens:* Many people have turned their back on the EU in recent years because of their dissatisfaction with the Union as it stands. There is a widespread feeling that the EU has not been 'part of the solution' but rather 'part of the problem', poisoning national debates and public attitudes. There are growing doubts among 'ordinary citizens' – and increasingly also among elites – about the future added value of European integration.
- *Economic fragmentation between Member States:* There is a growing economic gap between EU countries. While some Member States have managed (more or less) to weather the storm, many European economies, especially in Europe's periphery, are characterised by persistently low growth rates, extreme levels of (youth) unemployment, a lack of competitiveness, a continuing credit crunch, and persistently high public and/or private debt levels (see also the chapter by Daniela Schwarzer in this volume).

- *Fragmentation between states and national societies:* Europe has witnessed a resurgence of national stereotypes, nationalistic chauvinism, historical resentments, increasing levels of distrust, and a damaging 'blame game' between national governments and even national societies. Even if the worst of this appears to be behind us, its consequences are likely to haunt Europeans for years to come, as the crisis experience is likely to remain in the 'collective memory' of citizens.
- *'Interpretative fragmentation':* Citizens in different EU countries live under very diverse economic and social circumstances and evaluate the 'state of the Union' and the root causes, nature and complexity of the crisis in very different ways. At times, it seems as if they are 'living on different planets', making it much harder for them to understand each other and to find the common ground needed to identify joint policy solutions.
- *Social and political fragmentation within EU countries:* There is not 'only' fragmentation between Member States, but also within them. Social cleavages are growing between the 'haves' and the 'have-less' both in countries hit hardest by the crisis and those less affected (see also chapter by László Andor in this volume). Alongside this there is an increased loss of trust in traditional political elites and their ability to provide timely and adequate policy responses to master the complex challenges of today's world. Although the resulting challenge to traditional models of political representation is a wider phenomenon, which goes well beyond Europe, it has particularly drastic consequences for the EU, which is still perceived as an elitist project.
- *Geopolitical fragmentation:* Europe is also facing a new form of geopolitical fragmentation, between the 'West' and Russia. It is too soon to judge the long-term impact of the political standoff with Moscow in the Union's direct neighbourhood. Some argue that we are witnessing a 'paradigmatic shift' spelling the biggest challenge since the end of the Cold War, and that this will require new and deeper strategic thinking and a strengthening of the EU's hard power. But it is not yet clear how fundamental and lasting the effects of the 'Ukrainian crisis' will be on the EU's ambition as a foreign policy actor (see the chapter by Rosa Balfour on the Union's role as a global actor in this volume).

The European project always had to cope with centrifugal forces and some of the dimensions of fragmentation had in one way or the other already been present before the crisis. But the developments of recent years have acted as a catalyst aggravating some of the existing sources of division and adding also some new ones. They have also provided a fertile ground for populist 'anti-forces' – anti-EU, anti-euro, anti-migration, anti-establishment – on both the left and right of the political spectrum (see the chapter by Heather Grabbe on populism in the EU in this volume).

Altogether, the increasing fragmentation and the widespread perception that European integration is no longer a positive-sum game for all has exposed severe cracks in the 'old bargain' between Member States and between the EU and its citizens, which makes it

difficult at both European and national level to convey a convincing future-oriented 'narrative' about the need for and the benefits of European integration.

Now, tackling fragmentation is not an end in itself. Citizens want the EU to provide answers to the problems they are facing; they want it to contribute added value in providing prosperity, peace and democracy; they want it to protect and safeguard the 'European way of life' in a massively changing global economic environment. A disunited Union will struggle to deliver adequately on these objectives. The challenge for the EU now is to find a way to restore a higher degree of unity, heal the wounds of the crisis, develop effective public responses adding to efforts at national level, and articulate a new vision of the future aiming restore the public's and elites' faith in the European project as part of the solution rather than part of the problem.

A New Pact based on three pillars and a new grand project

It will be one of the key tasks of the new EU leadership to identify and implement – together with national capitals – ways to counter the different sources and dimensions of economic, social and political fragmentation. In light of the gravity and complexity of the situation, it is clear that there is no 'silver bullet'; there is no 'magic wand' at the European level to master the challenge, and much will depend on developments at national level and the readiness in the Member States to tackle long-overdue reforms.

However, one thing seems rather certain: simply consolidating past achievements will not suffice. If EU institutions and Member States want to turn the tide, they will have to go beyond a lowest common denominator approach, while at the same time respecting the fact that in the current political mood the vast majority of national elites and most European citizens are very reluctant to increase the powers of supranational institutions by pooling core elements of national sovereignty at European level.

The EU and its members should avoid the risk of history repeating itself. When the common currency was conceptualised and introduced, policy-makers and experts knew that the construction of EMU was by no means perfect, but the political realities of the time did not 'allow' governments to go further. Ten years later when the euro left calm waters and began being buffered by storms, the EU, its Member States and citizens collectively and individually were severely hit by the consequences of these imperfections. So, even if the euro area crisis seems better in systemic terms today than in 2012, there is a risk that Europeans will be left asking themselves – five, ten, or 20 years down the road – why they stopped halfway when they should have been aware of the potential dangers of failing to 'finish the job'.

So, what to do in light of the current state of the Union and the challenge of fragmentation? While being 'pragmatically ambitious' and avoiding 'gesture politics' that capture headlines but fail to deliver tangible results, the new EU leadership should – together with national capitals – follow an approach aiming to create a new 'win-win' situation in which the Union is once again perceived as a positive-sum game for all its members. To achieve this objective, there is need for a 'New Pact for Europe' between Member States and between the EU and

its citizens, which can replace the old permissive consensus, which has long been under strain and has cracked under the pressure of the 'great crisis' whose aftershocks are still buffeting Europe.

In order to find broad support, this New Pact could be based on three main pillars as part of a wider package deal balancing different interests between Member States and their citizens – an 'Enabling Union', a 'Supportive Union' and 'Participatory Union', as well as a new 'grand project':²

An *Enabling Union* should foster sustainable growth and job creation by stimulating public and private investment at both European and national level (see, for example, the chapter by Malcolm Harbour on the single market), promoting and safeguarding social investment, focussing on innovation as a key to greater productivity in a highly competitive global environment (see chapter by Herman Van Rompuy on Europe's economic challenges), and enhancing Europe's overall competitiveness by supporting structural reform processes, especially in those Member States lagging behind, to ensure that all countries can do their 'homework' while remaining on the path towards fiscal consolidation. Measures to strengthen and transform Europe's economies – implemented by Member States but supported by the EU through, for example, a new fiscal capacity – will help to realise the Union's combined growth potential, which is in the interest of all EU countries, irrespective of how well they have weathered the crisis storm. So too is focusing support particularly on countries and regions suffering from intolerable high levels of unemployment, to avoid the waste of 'human capital' that undermines Europe's productive capacity. All this would help address the growing economic and social divisions within the Union by relaunching the convergence process to narrow the gap between its richest and poorest countries/regions (see the chapter by Pawel Swieboda on solidarity and cohesion in this volume).

A *Supportive Union* should enhance the EU's 'caring dimension' to address concerns that the crisis has hit some countries and citizens particularly hard, fuelling a sense of social injustice within and between Member States. The potential measures foreseen under this pillar would send a clear signal to Europeans that efforts to reform national economies and social systems will always have to respect minimum social standards and will not lead to a 'race to the bottom'. Instead, a social compact including social convergence criteria and more specific measures to support those suffering most from the crisis, including e.g. a "complementary European unemployment scheme" (see also chapters by László Andor and George Pagoulatos in this volume), an 'obligatory minimum support scheme' or a 'European Mobility Fund', would flank efforts to promote Europe's economic competitiveness. Beyond a protection of basic social rights, the Union should also enhance its capacity to ensure respect for, and the protection and promotion of civil rights, fundamental values and freedoms when they are encroached upon at national level. This can be done by enhancing the EU's ability to act as a 'democratic watchdog' in response to serious breaches of its common values.

A *Participatory Union* should strengthen the ties between the EU and its citizens by increasing its democratic legitimacy. The focus here should not only be on traditional issues

such as the powers and role of the European Commission and Parliament (see the chapter of Fabian Zuleeg on the structure of the Commission in this volume), but also on extending schemes to enable more people to experience the direct benefits of EU membership and foster greater understanding of the Union; on expanding the opportunities for a frank national and transnational dialogue within Member States and between citizens from different EU countries; on mechanisms for strengthening the direct involvement of citizens by bringing more voices into EU policy debates; and on ways to enhance the role of national parliaments in European policy-making at Member State level, especially when it comes to translating country-specific recommendations made in the framework of the European Semester into reality.

Besides the three main pillars of a New Pact, the EU should heed the lessons of history and seek to identify and implement a new 'grand project' with potential knock-on effects in numerous policy areas and clear benefits for all EU countries – just as it did with the Europe '92 single market initiative – in order to break the current impasse and provide new momentum for European integration. Given the current political and economic climate, an *Energy Union* might offer the greatest potential to demonstrate the EU's added value and deliver genuine benefits for many different groups of Member States. It would certainly not be an easy endeavour, but it could be the type of 'grand bargain' or 'package deal' that is required with positive spill-over effects in a range of policy areas (economic, environmental as well as foreign and security policy). It could be a political catalyst addressing the concerns of all Member States, including non-euro countries that often feel that there is too much focus on issues related to EMU while other important challenges are being neglected.

The measures necessary to implement a New Pact for Europe would have to be ambitious but not overly so: almost all could be implemented on the basis of the current EU Treaties or, if necessary, within the framework of additional intergovernmental treaties/agreements. However, this cannot be a long-term solution. The content of the many intergovernmental treaties/agreements of recent years ('fiscal compact treaty'; ESM treaty; agreement on the creation of the Single Resolution Fund) should, at some point in the not-too-distant future, be integrated into the EU's treaty framework and to do this, the Union and its members need to start preparing the grounds for the process of treaty change.

The implementation of a New Pact could lay the foundations for this by helping to reverse the tide of public opinion and attitudes towards the EU, which will be essential before any attempt can realistically be made to launch a process aimed at getting agreement on substantial amendments to the EU Treaties and getting those changes approved in all EU countries.

The European Union should use the time between now and then to prepare the ground for this process. Besides integrating the content of intergovernmental agreements into the EU Treaties, there is a need to reflect on and identify (i) the key issues and questions which should be addressed; (ii) the potential treaty provisions which should be amended, and (iii) the concrete details of the procedure for treaty change,

including the timing, mandate and organisational set-up of a new Convention. This reflection process could be launched in 2015, with the aim of reforming the EU Treaties in the next decade.

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Endnotes

- 1 The present article reflects the outcome of the New Pact for Europe (NPE) project, which aims to promote a Europe-wide debate on the future of Europe and is supported by a consortium of thirteen European foundations led by the King Baudouin Foundation, the Bertelsmann Stiftung and the European Policy Centre. A more extensive and thorough version of the basic arguments presented in this piece can be found in the second NPE project report. For more information about the project and its reports see here: www.newpactforeurope.eu
- 2 For a more thorough description of the three pillars of a 'New Pact for Europe' and potential concrete measures see the second report of the New Pact for Europe project.

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