

# CHALLENGE EUROPE

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

September 2014



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## The need for a New Pact<sup>1</sup>

*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 Schwarzzer 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 Schwarzzer 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':<sup>2</sup>

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](http://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.