



EUROPEAN POLICY CENTRE

In strategic partnership with the
King Baudouin Foundation and the Compagnia di San Paolo

June 2011

Stronger after the crisis

Strategic choices for Europe's way ahead

Strategy Paper on the 'State of the Union'

Janis A. Emmanouilidis
Josef Janning

with
Rosa Balfour
Hans Martens
Yves Pascouau
Fabian Zuleeg

Stronger after the crisis

Strategic choices for Europe's way ahead

Strategy Paper on the 'State of the Union'

June 2011

Janis A. Emmanouilidis
Josef Janning

with
Rosa Balfour
Hans Martens
Yves Pascouau
Fabian Zuleeg

ISSN 1782-494X

EPC PROGRAMMES ON
EUROPEAN POLITICS AND INSTITUTIONS
EUROPEAN MIGRATION AND DIVERSITY
EUROPE'S POLITICAL ECONOMY
EUROPE IN THE WORLD

Table of Contents

Executive summary	6
Introduction	8
I. Lessons from the past	10
II. Will the EU be able to exploit the current crisis?	11
III. A new momentum for Europe	21
IV. Strategic choices for Europe: five grand projects of integration	23
The way ahead	31

About the authors

Hans Martens, Chief Executive, European Policy Centre
Josef Janning, Director of Studies, European Policy Centre
Rosa Balfour, Janis A. Emmanouilidis, Yves Pascouau and Fabian Zuleeg are Senior Policy Analysts at the European Policy Centre.

The contents and structure of this paper reflect the outcome of numerous discussions, which took place in the first half of 2011 and involved a large number of EPC staff who are all thanked for their most valuable input. A special word of appreciation goes to Annika Ahtonen and Claire Dhéret for their specific contributions to parts of this paper.

Executive summary

Europe finds itself again at a crossroads. Either European leaders succeed in re-energising European integration or the EU will lose relevance for its citizens and become marginal as the principal instrument of shaping their future. After two decades of institutional reform and three major rounds of enlargement, the European integration process appears fragile and tired. European policy-making has lost momentum at a time of dynamic change of markets and minds. But some EU leaders and parts of the public do not seem to comprehend that integration could still fail – maybe not as a consequence of war, but as a result of distrust and negligence.

So far, the European project has been a remarkable success story. Looking back, European integration seems to follow an 'iron law' to 'never waste a good crisis', to weather the storms by creating more momentum rather than merely strengthening its defences. Today, European integration is once again being put to a major test, but one that is more profound and serious than ever before. The global crisis and especially the sovereign debt crisis have cast doubt on the fundamentals of European integration. The unthinkable has become thinkable: the exit of a country from the euro zone, the end of the euro and even a disintegration of the EU are no longer taboo.

In this situation, how well equipped is the EU to overcome or even exploit the current crisis? The proven instruments of crisis management do not seem to apply to today's Union. The EU's capacity to adapt and the broad consensus over the merits of integration have weakened visibly. Signs of erosion appear like writing on the wall: legitimacy has been lost despite the progress made on democratic governance; direction has been lost in wrangling over the twisted fate of constitution building and treaty reform; and long-term vision and far-sighted leadership and coalitions have also disappeared. Europe muddles through. Meanwhile, new centres of growth and assertiveness are emerging and contesting the old continent's role in the world. No one is waiting for Europe to sort out its problems.

To master the current crisis Europe needs new momentum, driven by enlightened self-interest, added value and the will to act. Translating into practice the Union's strategic objective of a global Europe, which is able to co-determine international developments in a highly dynamic global environment and deliver peace and prosperity for its citizens, requires that the EU and its members concentrate their efforts on concrete, ambitious, yet realistic, strategic projects. European integration has always been particularly dynamic and successful whenever it has set its sights on an ambitious goal derived from the Treaties and linked to a concrete project – when there is the political will to achieve a longer-term goal through specific means over a specified period of time. Without this, European politics descends into horse-trading and short-termism.

The resolution of the euro crisis is a *condicio sine qua non* for the future of the European project. However, it will not suffice to merely follow a reactive approach aimed at papering over the cracks. Once the sovereign debt crisis is contained, the EU will be in dire need of proactive projects that could reignite integration, rebuild consensus, and attract and tie the leadership ambitions of its key actors on both the national and European level.

For Europe to remain relevant, leaders could choose among a number of potential strategic projects: (1) the completion of a truly integrated internal market that is fit for the future, including a Digital Single Market, a European Energy Market, a Single Market for Health, and a Single European Labour Market; (2) the establishment of a common migration and asylum policy that can tackle the pressing challenges of demographic change, social diversity and increasing mobility; (3) the revitalisation of the European social model through a common vision of a 'Social Europe' that places the well-being of European citizens at the centre of the political agenda; and/or (4) the establishment of a 'Defence Union' aimed at integrating the Member States' territorial defence capabilities.

Without the determination to address the unfinished business of integration and reap the benefits of these projects, the European project itself will suffer from the '*juste-retour*' mode of engagement, from doubts about solidarity within the EU, and from deepening distrust among Member States.

Bigger challenges as well as opportunities lie ahead: How should and could Europe protect and promote its interests, values and governance model in an increasingly interdependent and fragile world – a world with dynamic, technology- and knowledge-driven economies, with people on the move, driven by a strong desire for a better life and equally strong convictions? How will Europe adjust to a world of scarce resources, ageing populations and a global eco-system under severe stress? Europeans cannot stand happily on the sidelines of such developments and expect to preserve their current way of life. There is no 'Swiss option' for Europe in the world.

The time to act is now. Like it or not, everything is faster in today's world, and the EU cannot afford a decade of navel gazing and stagnation. Not all EU countries will rise to this leadership challenge. But those who do – who grasp the added value of strategic projects – need to move ahead and lead the way forward. The Treaties give them room to act, and it will be their actions that define the future of European integration. This requires building strong project partnerships between Member States. In the EU 27, no single actor or couple could pull it off alone. Strategic projects demand strategic coalitions to generate momentum. They are not born out of 'summitry'. They are not declared. They have to be constructed – and that's what European leaders need to do now.

Introduction

European integration has been created by the ambitions of its Member States – to overcome the divisions among them, shape the determinants of their economic prosperity and sustain their place and role in the world. Step by step, these objectives have been translated into impressive politico-institutional structures and policies in the framework of the European Union (EU).

Today, this historic asset is being severely challenged: European integration faces major internal and external challenges while Member States seem reluctant to provide leadership and put the EU framework and its potentials to its full use. It is high time for policy-makers to come together in the political centre of the EU, to reassemble the 'builders' coalition' and proactively work out the way ahead. Ambitious coalitions, opt-in strategies and close cooperation with EU institutions have been the recipe to overcome crises in the past. That is what Europe needs again today. But will the EU and its members be able to meet the challenge?

No doubt, the history of European integration since the 1950s has been a formidable success story. After the experience of two devastating world wars the European project has contributed enormously to prosperity, peace, stability, and security on the old continent.

However, the EU's remarkable success story has witnessed many setbacks and crises triggered by divisions among members, economic recession or external events. In the 1950s the integration process started with the failure to establish a *European Defence Community* and a *European Political Community*. In the 1970s and 1980s the continent lived through an extended period of *euroclerosis* in which the integration process lost dynamism while Europe was battling with the oil crisis, fiscal problems and exchange rate turbulence. In the last 20 years the EU experienced a number of reform crises starting with the Danish 'no' to the Maastricht Treaty (1992), the Irish rejection of the Nice Treaty (2001), the crises surrounding the 'no' by the French and the Dutch to the Constitutional Treaty in 2005, and the Irish refusal to endorse the Lisbon Treaty in 2008.

But despite this long yet inconclusive list of heavy blows, the EU has always overcome its crises and in most cases emerged even stronger than before. Looking back, European integration seems to follow an 'iron law' to grow out of crises, to weather the storms by creating more momentum rather than by strengthening the defences. The founding of the European Communities in the 1950s, the Single Market project (Europe '92), the abolition of border controls, the establishment of joint policies and institutions in the fields of foreign policy, security and defence, the introduction of the euro, the Constitutional Convention and the entry into force of the Lisbon Treaty in 2009 are visible examples that even though European integration has not been crisis-resistant, it has proven to be crisis-proof.

Today, the EU has reached another integration plateau – much higher up – but equal in the confusion about the goals and way ahead. Once again, European integration is being put to a major test, but this time more profound and more serious than ever before. The global economic and financial crisis and especially the euro crisis have cast doubt on the fundamentals of European integration. The unthinkable has become thinkable: the exit of a country from the euro zone, the end of the euro and even a disintegration of the European Union are no longer taboo.

In early 2010, it became clear that the EU was insufficiently equipped for bad weather conditions, as the Economic and Monetary Union (EMU) lacked the appropriate institutional structures, procedures, rules, and instruments to effectively face the sovereign debt crisis. At times, the situation seemed out of control as the Union proved unable to get ahead of the markets and stop the crisis spreading from Greece to other Member States. By Spring 2011 the crisis had fully reached Ireland and Portugal, who were forced to join Greece in asking for financial assistance in exchange for drastic austerity measures and ambitious national reform programmes.

However, the crisis is far from being resolved. The situation in Greece continues to deteriorate as the country remains in deep recession and faces increasing reform and austerity fatigue. The government is struggling to reduce the deficit and an early return to the international bond markets seems increasingly remote while the likelihood of some form of (mild) restructuring of Greece's debt seems to be growing day by day. At the same time, the results of the reform programmes and austerity measures in Ireland and Portugal remain unclear and the fear of contagion remains high, as an extension of the crisis beyond the borders of Portugal cannot be excluded.

Under these circumstances, one must ask whether the 'iron law' of integration will prove itself again this time around. Will the European Union be able to master or even 'exploit' the current crisis and emerge stronger than before? To answer this question, it is worth examining both the past as well as the main political and economic determinants in the current situation.

June 2011

I. Lessons from the past

Managing and overcoming crises has always been a difficult exercise. EU institutions have also in the past been unable to solve critical situations on their own and Member States have not been able to easily or speedily provide adequate responses. There is nothing automatic about European crisis management, not least because of the structural limits of integration. Major changes in the internal or external environment usually require both a policy and an institutional response to build the necessary means to effectively address new challenges. A range of factors has proven to be essential for the success of crisis management. Among those, six factors have shown to be particularly effective in triggering and shaping the EU's response:

- **Permissive consensus:** Following the experience of two devastating wars, European integration was built on a broad and fundamental conviction among citizens and elites that 'more Europe' would provide added value for peace, stability, security and prosperity. European integration thrived while Europe's prosperity increased in relative terms compared both to other parts of the world and to previous generations.
- **High adaptive capacity:** European integration has always been a 'project in the making', whose politico-institutional system has not (yet) reached its final form but has rather been constantly adapted to internal and external challenges. In the last 25 years the EU's politico-institutional architecture has been reformed through successive new treaties including the Single European Act, the Treaties of Maastricht, Amsterdam, and Nice, the Constitutional Treaty, and finally the Lisbon Treaty. No other political entity has undergone so many substantial reforms in such a short period of time.
- **Enlargement pressure:** The accession of new Member States has been a key motivating factor behind European integration and a major source of economic and political dynamism. After the fall of the Berlin Wall and the collapse of the Soviet empire, the prospect of countries from Central and Eastern Europe joining the EU has been both a challenge for the effective functioning of the EU and at the same time a key motivator behind European integration.
- **Determined and far-sighted leadership:** Europe has been able to come out of phases of major stagnation or crisis when individual Member States or coalitions of states and EU institutions led by far-sighted leaders renewed their ambitions. Progress relied on the determination of 'coalitions of the willing and able' to lead into a new integration phase. The Franco-German tandem, other bilateral or trilateral initiatives, or the six founding members provided leadership on a number of critical junctures in EU history.
- **Link between objectives and projects:** The European project has always been particularly dynamic and successful whenever Europe set its sights on an ambitious goal derived from the Treaties and linked to a concrete project. The most impressive example is the Single Market project, Europe '92, which in the late 1980s/early 1990s brought the EU out of a long phase of *euroclerosis*. Such projects always aimed to open up new opportunities and create the potential for prospective gains from which all or almost all Member States would directly or indirectly profit.
- **Model competition:** During the Cold War, EU integration had to be successful because the overall political and socio-economic model of 'free Europe' was at stake should integration fail. At the same time, the integration project benefitted from the fact that Europeans were able to rely on the United States as a benevolent hegemon.

II. Will the EU be able to exploit the current crisis?

A common wisdom of political management is to 'never waste a good crisis.' For European political actors today, this sounds like a tough call in a situation challenging both the degree of internal solidarity and the capacity to shape the EU's external environment. While power shifts continue on the global scale and Europe's neighbourhood enters a complex process of transformation raising both opportunities and risks for Europe, the EU debt crisis calls upon actors and institutions to take decisions on a scale never seen before.

The economic and political pressures resulting from the euro crisis have undoubtedly led to new dynamism in the European Union. In the course of the last 15 months the EU and its members have taken a number of decisions, which before the outbreak of the crisis would have seemed out of the question. Who would have thought that Member States would agree on a €110 billion bail-out mechanism for Greece and a €750 billion rescue umbrella for the entire euro zone? In addition to these immediate *ad hoc* responses to the crisis, the EU is putting in place an enhanced model of economic governance to strengthen the 'E' in EMU. The long list of innovations includes the introduction of a European Semester to strengthen *ex ante* economic policy coordination, the setting up of a stricter 'Stability and Growth Pact III' (SGP III), the establishment of a system of macro-economic surveillance, the introduction of the so-called Euro Plus Pact aspiring to commit euro-zone countries to closer economic coordination, and, finally, the establishment of a permanent European Stability Mechanism (ESM) with an effective lending capacity of €500 billion from 2013 onwards.

Many of these reforms still need to be fine-tuned, implemented and tested over time. However, the long list of crisis mechanisms and preventive instruments testifies that the sovereign debt crisis has compelled EU institutions and Member States to step up to the plate – even though decisions were not taken rapidly and decisively enough, especially in the early phase of the euro crisis.

But is this new dynamism proof that the EU will once again be able to overcome a crisis and emerge stronger than before?

At this moment in time there is no clear-cut answer to this question. The EU is still in the middle of the crisis and there is no guarantee that the *ad hoc* mechanisms and the enhanced model of economic governance will suffice. It is also doubtful whether the prevailing legalistic approach can compensate for a lack of political will and leadership and increasing differences of opinion and cacophony within the EU. Despite all its efforts, the EU has failed to get ahead of the curve and persuade markets and citizens that EU institutions and Member States are capable of meeting the challenges posed by the sovereign debt crisis. In addition, the crisis has inflicted collateral damage: unintended and unexpected economic, financial, political and/or social consequences of the crisis on both the national and European level, which are not always immediately visible but ultimately could jeopardise the Union's ability to master current and future challenges.

So, how well equipped is the EU to overcome or even exploit the current crisis? What are the main internal and external factors, which will affect the ability of the EU and its members to master the current situation? Analysing the present state of affairs, it is possible to distinguish six major determinants, which have all been strongly affected by the global crisis and the sovereign debt crisis in one way or another: (1) an increasing legitimacy deficit, (2) a growing distrust and divide among Member States, (3) a limitation in the EU's capacity to adapt, (4) the perspective of Europe's potential economic decline, (5) a leadership gap at both the Member States and EU level, and (6) a number of challenges deriving from a rapidly changing international environment.

1. Increasing legitimacy deficit

The European Union suffers from a growing legitimacy deficit, which it will not be able to overcome as long as the EU is unable to re-engage citizens and re-connect elites. The negative outcomes of successive

national referenda on EU treaties, the decline in the support for European integration documented by opinion polls, and the recent rise of euro-sceptic populism and nationalism in a number of Member States are clear signs of public apathy, alienation and even anger with the European Union as it stands.

Unlike earlier challenges to EU legitimacy, the current crisis appears to be driven at least as much by scepticism from the elites as from the public. The key structural reasons for the Union's growing legitimacy crisis spring from the lack of a future-oriented *raison d'être*, the effects of an apolitical Europe and the consequences of a profound elites crisis.

Missing raison d'être

Many Europeans – citizens and increasingly also parts of the political, economic and intellectual elites – question the EU's future added value. The grand ideals of the past – peace, prosperity, solidarity and stability – remain valid. However, the concrete achievements of more than 50 years of European cooperation are widely taken for granted. Europeans value (more or less) the 'four freedoms' of the Single Market, the practical advantages of a common currency, the abolition of border controls, and the fact that the prospect of war between EU countries has become unthinkable. But these success stories are associated with the past. When it comes to the future, a renewed uncertainty about the EU's *raison d'être* is the hallmark of current political debate.

After Nice, many Europeans once again dared to think the *finalité* of integration. However, the idea that the time had come for Europe to end the ambivalence about its trajectory withered away with the defeat of the constitutional project. The 'constitutional trauma' triggered by the negative referenda in France and the Netherlands in 2005 and especially the euro crisis have created disillusion about the prospects of the 'grand European project'. Europe lacks in-depth conceptual debates about the future as politicians and a vast majority of intellectuals avoid public discussion about the long-term perspectives of European integration. The debate is dominated rather by short-term developments and current events. Considerations about the political significance of the integration project for the future of the old continent have been pushed to the sidelines.

At the same time, antagonistic views between and within EU countries remain about the future political order of the continent with contradictory and often irreconcilable attitudes towards the Union's *finalité*. Some EU leaders – although fewer and fewer – support the idea of a more political Europe or even a "United States of Europe" as a survival strategy for the continent. Others are keen to emphasise that they merely joined an internal market and are not willing to go (much) beyond the current level of integration. In addition, the number of politicians and commentators who argue in favour of a 're-nationalisation' of policies – for example, in the area of agriculture or regional development – is growing.

The profound disagreement over Europe's ultimate direction is hindering the integration project, as the lack of orientation raises uncertainty and doubts about the future of the EU.

Apolitical Europe

A majority of European citizens perceive the EU as a distant apolitical apparatus, which lacks resilient debates on the future of European integration and on the objectives and content of EU policies. The fact that large parts of the electorate perceive the Union as an apolitical entity has become more and more problematic, as the issues discussed and decided in Brussels and Strasbourg climb up the political agenda. The fact that EU decisions have a direct influence on the lives of citizens increases expectations that voters should have a more direct influence on EU policy-making on both the European and national level.

However, citizens consider themselves unable to shape the Union's decision-making process. Despite the progress made on democratic governance, many continue to perceive the EU as a detached bureaucratic machinery with citizens as objects rather than subjects of European policy-making. This perception

springs from the fact that the principle of opposition, the dialectics of political discourse, and the personalisation of conflicts play a minimal role in the EU's political system.

European political life lacks the lifeblood of a thriving democracy, which is the clash of colliding arguments as the essence of politics. In contrast, the EU machinery is still structurally oriented towards consensus. Competing ideas and concepts are not sufficiently presented and discussed beyond the 'Brussels bubble'. As a result, there is neither a public nor a media-driven opinion-forming process about European issues. In addition, national policy-makers 'abuse' the EU as scapegoat, which is blamed for failures, whereas successes are chalked up as national accomplishments – a phenomenon further strengthened during the sovereign debt crisis.

Elite crisis

Citizens have lost faith in the ability of politicians and political parties to manage the complexities of modern life in a globalised world – a phenomenon propelled by the global crisis and the sovereign debt crisis, when citizens were confronted with the limited ability of political actors to discipline and tame irresponsible, (sometimes) irrational, dysfunctional yet very powerful financial markets.

Declining trust towards political elites is not an EU-specific problem. However, the loss of confidence in national and European policy-makers has particularly drastic consequences for the EU, which is still perceived as an elitist project. In other words: increasing distrust towards the elites leads to an increasing distrust towards the elitist European project. This development is particularly harmful for the EU, which enjoys a much smaller benefit of doubt than nation-states and is thus called into question more quickly and more profoundly than its constituent members.

2. Growing distrust and division between Member States

The EU is heavily burdened by an increase in national focus and a growing distrust and divide between Member States – a phenomenon exacerbated by the recent crises, which have negatively affected the relationship among national capitals. The financial and economic challenges of the global crisis had provoked self-contemplation, national egoism and even some unilateral reactions especially in the early phase after the fall of Lehman Brothers in 2008. But the effects of the sovereign debt crisis are even worse, as they go well beyond the realm of the economy.

The euro crisis and the reactions to it have reopened old cracks and created new wounds between Member States, which will take time to heal and are likely to leave some scars. Old stereotypes and inappropriate historical references have reappeared. The public standoff between Greece and Germany in the first months of 2010 has been particularly shameful, as some commentators, irresponsible parts of the media and even some politicians on both sides broke out of bounds. Mutual accusations reached a level unworthy of the common history and the many personal, cultural and economic ties between the two countries.

But the debt crisis has not only harmed the relationship between Athens and Berlin. Mutual recriminations about a lack of solidarity carry the seeds of a new European divide. Anger over the crisis is increasing in both weaker and stronger EU countries. On the one hand, the weakest hold that the EU and especially core countries in the euro zone are disrespectful and impose too many burdens on them while asking for too much too quickly. On the other hand, the strongest feel overburdened and betrayed, and fear that they will have to 'pay' for the self-inflicted problems in Europe's periphery and that the EU will eventually turn into a 'transfer union'. On both sides, there is an increasing national focus and a rise of populism profiting from growing anti-EU sentiments. The EU is increasingly perceived as a problem and citizens and elites on both sides challenge the current recipes for curing the crisis.

Obviously, the reality is much more complex. However, the different perceptions and understandings of the euro crisis are creating an explosive mixture, which could lead not only to (increasing) social unrest and political turbulence in certain Member States, but also to growing political tensions within the Union and

among EU capitals. At the end of the day, the Union might be able to contain the economic domino effect of the crisis at the borders of Portugal, but the social and political repercussions – which usually come with a certain time lag – might be just as great a cause of concern. Rising nationalism, populism and a poisoned atmosphere among EU countries could lead to a standstill, or even challenge the accomplishments of the European project.

3. Limited adaptive capacity

The euro crisis has proven that the Union's politico-institutional system and its legal base are by no means perfect. On the contrary, it seems likely that the Lisbon Treaty will not be the final step in the history of EU reform. However, compared to the past, the Union's ability to adapt to internal and external challenges and necessities has been limited for three main reasons related to the danger of a more permanent reform gridlock, the fear of 'power castration' on the national level and an increasing enlargement and accession fatigue.

The danger of reform gridlock

The EU's incapacity to effectively reform in the last two decades has been a major source of frustration for both citizens and policy-makers. Following the Maastricht Treaty in the early 1990s, the EU got stuck in a continuous reform quagmire. The Treaties of Amsterdam and Nice did not bring the long-awaited integration leap. The French and Dutch 'no' to the Constitutional Treaty in 2005 as well as the initial Irish rejection of the Lisbon Treaty in 2008, were multiple sources of incomprehension, disappointment, disillusionment, and alienation.

The ratification and entry into force of the Lisbon Treaty on 1 December 2009 provided some relief. However, the need to amend the EU's new primary law in the context of economic governance reform has been ample proof that the Treaty on European Union (TEU) and the Treaty on the Functioning of the European Union (TFEU) are far from perfect. Rather, it seems likely that the future will reveal further inefficiencies and new internal and external challenges will oblige the EU to further optimise its treaty base.

On the other hand, the political appetite in EU capitals and Brussels to engage in yet another major treaty reform is close to zero after the painful experience with the Constitutional and the Lisbon Treaties. This explains – at least to some extent – why EU leaders have in the framework of economic governance reform opted for intergovernmental 'solutions' outside the EU Treaties with respect to the Greek rescue umbrella, including the European Financial Stability Facility (EFSF) and/or the permanent European Stability Mechanism. It also explains why EU governments applied the simplified and not the ordinary revision procedure to revise Article 136 TFEU, as the former is less complicated and time-consuming since it requires neither an Intergovernmental Conference nor a Convention.

EU leaders are particularly eager to avoid another Convention to avert the involvement of a plethora of national and European actors that could open up the spectrum of a more comprehensive and therefore cumbersome treaty reform, which in the end might even fail ratification. Fear of the latter stems in particular from the absurdity that every treaty amendment needs to be ratified by all Member States before it can enter into force. As long as this system stays in place, a reform of the EU's primary law can become the hostage of individual EU countries – an increased likelihood in a Union of 27 and eventually more Member States.

The hesitation or inability to further amend the EU's primary law to increase the Union's effectiveness has reduced the EU's adaptive capacity and could prove to be politically and economically costly, in the event that the Union gets stuck in a more permanent reform gridlock.

Fear of 'power castration'

Now that European integration has reached a high threshold, national elites increasingly fear the consequences of a further loss of sovereignty. Any additional transfer of competencies would limit

national prerogatives in the last remaining bastions of state sovereignty. In the course of the last 50 years EU countries have transferred a large portion of their national powers to 'Brussels'. A further pooling of sovereignty in areas such as social policy, labour policy, fiscal policy, tax policy, or foreign, security and defence policy would not only further reduce the autonomy of Member States, it would also deprive national elites of residual privileges. This is a major reason why national actors – governments, parliaments, parties, and even constitutional courts – resist a further expansion of EU competencies to avoid their own 'power castration'.

Therefore, it is no surprise that national policy-makers – even those tied together by a common currency – have opted for loose and flexible forms of intergovernmental coordination in the context of economic governance reform rather than a genuine harmonisation and integration of national economic policies. 'Muddling through' has long been the EU's dominant mantra and it seems that this is unlikely to change in the near future, as long as policy-makers are unable and unwilling to accept the advantages of a further pooling of sovereignty.

At the end of the day, the fear of 'power castration' inhibits the Union's capacity to come up with adequate European policy solutions needed to address major internal and external challenges, which cannot be answered sufficiently on the national, regional or local level.

Enlargement and accession fatigue

The EU is losing momentum, with the enlargement process becoming the victim of its own success. Following the entry of 12 new members in 2004/07, enlargement fatigue has become a widespread phenomenon in many Member States. At the same time, there is also an increasing accession fatigue in a number of (potential) candidate countries. As a result, the EU is eroding one of its major assets: the power of attraction to its European neighbourhood. This does not mean that EU widening will come to an end. However, the pace of enlargement is slowing down and it seems rather unlikely that the Union will expand beyond Croatia (and Iceland?) in the years to come. As a consequence, the European project has been deprived of one of its key sources of dynamism, given that EU enlargement has since the 1970s been a major impetus for economic, political and institutional change.

Following its 'big bang' enlargement in 2004/07 the EU took an 'enlargement pause' to consolidate the growth from 15 to 27 members. As a result, the EU's approach towards its European neighbours has become rather reactive. The Union has responded defensively to the calls of prospective accession countries and has been mainly driven by a concern to guard the EU and its members against unwanted turbulence at its borders.

In the future, the EU's policy towards its neighbourhood should follow a different paradigm along the lines of the strategic objective of a global Europe. A successful enlargement strategy in the years to come – regardless of the timeframe for future accessions – will contribute greatly to maintaining the EU's power of attraction in the wider region and to strengthening its credibility in the world. An EU that lives up to its regional responsibilities will be able to play a more powerful role, not only in its own neighbourhood but also beyond. In other words, the Union's policies *vis-à-vis* its neighbours are linked to the question of the EU's future character, the role it intends to play and the influence it wants to yield beyond its borders. With respect to enlargement this means that the EU should not close its doors to prospective future members but, rather, seek innovative ways of associating neighbouring countries to the Union.

4. Europe's relative economic decline

Europe is a major economic player, which has promoted and profited from economic globalisation. But the old continent is challenged by new economic players and by the negative economic, financial, and social effects of the global crisis and the European sovereign debt crisis. The balance of economic power is shifting and Europe – or at least parts of it – risks feeling the long-term consequences of the crises more severely than other world regions. Many Member States struggle with low growth rates and severe austerity measures aimed at decreasing high levels of national debt and deficits. Unemployment – especially youth

unemployment – has increased in most Member States and European companies face fierce competition in almost every sector of the economy. The technological gap between EU countries and non-European competitors continues to narrow and European societies face the socio-economic consequences of an ageing and shrinking population.

At the same time, the EU's combined economic power still accounts for more than 20% of global GDP and around one fifth of global trade. This is significantly higher than the US (13%) or Japan (9.5%). Europe's leading economic position is also demonstrated by the fact that 161 out of the 500 world's largest corporations are based in the EU 27, compared to 139 in the US, 71 in Japan, 46 in China, and 8 in India. In addition, the average GDP *per capita* in the EU 27 lies at around US\$ 32,500 compared to 46,000 in the US, 32,700 in Japan, and 'merely' 10,100 in Brazil, 6,600 in China, 4,000 in Indonesia, or 3,100 in India. And although the developing world is becoming more competitive, it is unlikely that countries such as China, India and other emerging players will be able to maintain the same growth levels as in past decades.

Although the EU's collective economic weight is still high, there is a risk that Europe will decline in relative terms compared to other economic powers and potentially even to previous generations. Looking into the future, citizens already fear that living standards in Europe will drop (further) and that the European social model will be increasingly challenged. As a result, more and more Europeans – including large parts of the middle classes who have also been hit by the crises – feel a sense of insecurity and anxiety about their future and about the future of their children and grandchildren.

Zukunftsangst has become a widespread phenomenon. This growing unease is in part an immediate reaction to the negative impact and uncertainty created by the crises. However, these concerns are also longer term, and beg the question whether Europe needs to reassess how it deals with the negative effects of economic, financial, and social globalisation and how we perceive and define progress and well-being.

In this situation, European integration is not viewed as an effective response to the negative consequences of globalisation. On the contrary, the Union is perceived in the eyes of many citizens as a catalyst for unfettered globalisation. At the same time, public opinion polls indicate that a majority of citizens want the EU to become a 'protective force'. But until now the Union has not been able to live up to these expectations – at least in the eyes of its citizens. On the contrary, increasing social unrest and mass demonstrations in Brussels and in other capitals indicate that the EU and its members have not been able to convey the message that reform programmes and austerity measures are the right way to combat the effects of the current crises.

When considering the future of European integration, the prospect of Europe's potential relative economic decline makes it more difficult to argue that the old continent and its citizens will become more prosperous if Member States would only opt in favour of a higher degree of integration. Or to put it more bluntly: 'more Europe' might not turn the tide and reverse some of the megatrends of our time. And the argument that Europe's situation could worsen if Europeans are unable or unwilling to deepen integration, is a defensive one and thus not particularly attractive – for policy-makers or citizens.

The potential relative decline makes it also more difficult to negotiate a new 'grand bargain' between Member States. Searching for compromises above the lowest common denominator is more difficult in the absence of positive-sum trade-offs from which all (or almost all) EU countries would somehow profit. On the contrary, there is an increasing danger that a growing number of policy-makers and citizens might (wrongly) conclude that the national path looks more promising or even that the EU is a barrier to exiting the crisis.

5. Leadership gap ...

The EU lacks initiators and initiating coalitions, which can provide the necessary leadership to make reforms and push for new solutions. The European Union suffers from a multiple lack of leadership at both the level of Member States and EU institutions.

... at Member States level

In theory, the enlargement to 27 Member States should have multiplied coalition options in the EU, but the reality is different, for three main reasons: Firstly, old coalitions have disappeared or lack critical mass. The founding members, the most significant among the 'builders' coalitions, are only a core in name. For years now, Italy has opted out of the traditional core group. For different reasons, Belgium and the Netherlands seem less able and eager to be at the helm of EU policy-making, and, as a result the Benelux as an avant-garde group of integration has lost its historic meaning. In addition, the traditional Franco-German engine has lost steam, attractiveness and effectiveness. The increased size of the Union, the growing economic, financial, social and geopolitical heterogeneity, and the diversity of interests within the EU have structurally weakened the significance and leverage of the Franco-German tandem. The motivation in Germany and France to reach proactive compromises and visionary policy responses has diminished, although the euro crisis has forced Berlin and Paris to reach common ground and dispel harmony.

Secondly, new coalitions in the EU 27 are difficult to build. Getting to a 'Yes' obviously poses greater difficulties than coalescing around a 'No'. While leadership is still sought by Member States, partnering in leadership has become rare. The presumption that the 'Big Three' (Germany, France and the United Kingdom) or the Weimar Triangle (Germany, France and Poland) could replace or reinforce the old Franco-German engine has not materialised. Likewise, the informal coalition of net contributors, a powerful veto player on budgetary issues, has demonstrated little ambition to push integration forward. More recently, the search for new coalitions has become even more difficult with the Libyan crisis revealing major policy differences between the biggest Member States and a high level of disunity both within the EU and NATO.

Thirdly, Germany's role within the EU has changed significantly since the mid-1990s and through the course of the sovereign debt crisis. During the last two decades, Berlin's European orientation has gradually become more pragmatic, less visionary and determined more by its immediate national economic, political and financial interests. This development is part of a more fundamental and long-term adaptation process, which followed re-unification and has led to a 'normalisation' of Germany's *Europapolitik*. Twenty years down the road, Germany is still adapting to the transition from the Bonn to the Berlin Republic and the pre-Maastricht to the new Lisbon era. The experience of the sovereign debt crisis has fostered this process and Berlin's more critical European orientation became most apparent in early 2010, when the ruling coalition government hesitated to set up rescue mechanisms to support Greece and other peripheral euro-zone countries.

But the crisis had also another significant effect: Berlin's position in the EU has been substantially strengthened as the German economy weathered the crisis reasonably well compared to many other Member States. After a heavy blow in 2009, the German export-oriented economy recovered rapidly in 2010 and 2011 with growth figures above 3% accompanied by a substantial decrease in unemployment rates.

The 'normalisation' of Germany's *Europapolitik* and the shifting balance of power in the EU bears two major structural consequences. Firstly, Berlin's strengthened self-confidence has disrupted the old balance between France and Germany, which up until the Kohl-era was characterised by a display of modesty on the part of Germany *vis-à-vis* France. Secondly, Germany has neglected and lost its traditional role as a mediator between larger and smaller EU countries, actively reaching out in both directions to bring about a critical mass. As a result, Berlin is no longer perceived as a motor of supranational integration and a defender of genuine European interests taking into account also the interests of smaller EU members.

As an overall consequence, Germany is struggling to determine its new role in Europe and at the same time Berlin's EU partners are trying to figure out how to accommodate and react to this 'new Germany'. In this context, it was somewhat paradoxical to observe complaints about the lack of German leadership in the early phase of the sovereign debt crisis and, subsequently, increasing unease about the growing German dominance after April/May 2010 when Berlin took the lead and came forward with specific proposals on how to manage the crisis and reform European economic governance.

... at EU level

The EU is increasingly characterised by a top-down approach as power and influence have gradually shifted towards the European Council, where the heads of state or government determine the Union's overall strategic orientation. The Lisbon Treaty has further intensified this trend. Under Lisbon, the previously informal gathering of heads of state or government was established as a formal institution, led by a semi-permanent President, and excluding foreign ministers from its meetings. Its higher frequency of meetings and more detailed initiatives have in fact moved the European Council to the front line of EU policy-making, sidelining the role of the Council (and its presidency) and downgrading the European Commission to the role of work horse. The enhanced role of the European Council is also fostered by developments at national level, where an increasing 'presidentialisation' of EU policy-making can be observed in most Member States with more and more decisions taken by the heads of state or government.

At the same time, the European Commission has lost much of its strategic clout since the 1990s for a number of reasons. Firstly, although the Commission still enjoys the exclusive right to initiate legislation, it is no longer the main political initiator of the integration process as this role in practice has been largely taken over by the European Council. Secondly, EU enlargement has impeded the Commission's role as an 'interest broker' and 'compromise seeker', as the Union has become more heterogeneous and more complex. Thirdly, the Commission has lost its main interlocutor on the Member States' side as the Franco-German tandem no longer plays the constructive role it played in the past. Fourthly, as the EU has over the last decades progressed from a rather 'technical' to a more 'political project', the Commission is increasingly contested as lacking democratic legitimacy. Finally, the Commission's power position in the EU's institutional architecture has been diminished by the fact that the relationship between the 'Brussels' executive' and the European Parliament has become less characterised by 'supranational partnership' but rather 'institutional antagonism'. In the course of the last decades the EP has tried to extend its powers of scrutiny over the Commission, which has led to a gradual erosion of the strong political alliance between both institutions.

Concerning the latter, the introduction of the Lisbon Treaty might turn the tide and (re-)establish closer ties between the Parliament and the Brussels' executive. The Union's new primary law increases the degree of interdependence between the Commission and the EP, as more legislative proposals require Parliament's approval and as the (s)election of the Commission President is more tightly linked to the outcome of European elections. With the Lisbon Treaty in place, one can already sense a *rapprochement* between the Barroso II Commission and a strengthened, more self-confident European Parliament. Linking the (s)election of the next Commission President to the outcome of EP elections could further increase the 'strategic partnership' between both institutions. This would not only boost citizens' interest in European elections and in the role of the EP; it would also work to the advantage of the Brussels' 'executive' by consolidating the political power base and popular legitimacy of the Commission. The idea currently being discussed in the European Parliament to elect 25 additional MEPs from a transnational list and link the (s)election of the Commission President to the vote on this list could further invigorate the strategic partnership between the Parliament and the Commission and at the same time increase the significance and autonomy of European political parties, which are still loose conglomerates of national parties dominated by party headquarters in national capitals.

The increasing top-down approach and the Commission's loss of strategic clout have severe consequences for the functioning of the EU as they impinge on the relationship between Member States. Smaller EU countries are concerned that the Union is increasingly dominated by the interests of big(ger) EU countries and, consequently, are turning towards a more *status quo* approach.

With regard to the European Parliament, the Lisbon Treaty has substantially strengthened its legislative, budgetary and nomination powers. In legislative terms, the Parliament has been put on an equal footing with the Council, with co-decision becoming the ordinary legislative procedure. In budgetary terms, Lisbon has given the EP full parity with the Council in approving all expenditure related to the annual budget, and it remains to be seen how the Parliament will be able to influence the compromise on the

EU's next Multiannual Financial Framework (MFF). As for its nomination powers, the new Treaty has also upgraded the EP's rights in the (s)election of the Commission President.

Since the entry into force of the Lisbon Treaty in December 2009, the Parliament has demonstrated its readiness to flex its new muscles. In a display of power, MEPs initially rejected the SWIFT agreement with the US, pressed Member States for a greater say concerning the European External Action Service (EEAS) and effectively compelled Commission President Barroso to enhance the Parliament's powers in the framework of a new inter-institutional agreement.

There is no doubt that the assembly's increased powers strengthen the role of the Parliament in EU policy-making. But can the EP bridge the gap between the Union and its citizens? Given that it is the only EU institution with a direct popular mandate, more parliamentary authority should strengthen democratic accountability. Such arguments sound appealing, however, they have so far failed in practice. The logic of expanding the EP's powers to democratise the Union inspired all previous rounds of treaty revision. Yet, the strengthening of the Parliament has only been matched by falling rates in citizen participation – voter turnout at European elections alone dropped from 62% in 1979 to 43% in 2009.

Only 18 months after the entry into force of the new Treaty, it is still too early to deliver a final verdict on whether the Lisbon reforms will substantially contribute to making the EU more legitimate and more democratic in the eyes of citizens. But one thing seems clear: the strengthening of the EP, the enhanced involvement of national parliaments, and the inclusion of more elements of direct democracy through the introduction of the European Citizens' Initiative will not suffice to bridge the existing gap between the EU and its citizens. Boosting the Union's 'input legitimacy' and increasing the level of politicisation are essential drivers. However, ultimately the EU will be judged on the output it generates, and Member States bear the main responsibility for making the Union capable of providing the kind of returns that may convince citizens (and elites) of the Union's added value.

6. Increasing fragility in a changing international environment

Global affairs are in a major state of flux and the global crisis has accelerated the pace of change. Those who predicted the "end of history" were proven wrong. On the contrary, history is very much in the making as the world is in the midst of a major transformative moment and the EU and its members are under pressure to respond to the fundamental changes and challenges 'out there'.

It is impossible to predict what the future global order will look like. It is unclear which powers will 'prevail' and whether the new system will be characterised by 'confrontational rivalry' or 'cooperative interdependence' – or a complex mixture of both. However, it is certain that countries such as China, India, Brazil, and Russia, as well as Indonesia, Mexico, South Africa, and/or Turkey will (in most cases) continue to increase their economic, political, cultural, and/or ideological significance and influence.

The weakened hegemony of the United States and the relative decline of the 'old West' due to the (re-)emergence of new powers – especially in Asia – have created a shift towards a less transatlantic and less Eurocentric world. In this new global landscape, Europe is no longer the centre of gravity of international affairs and history, with global developments increasingly shaped by actors or events taking place in other parts of the world.

This geopolitical shift increases the pressure on Europe to fill the gaps and to rise to the challenges of both regional and global affairs. The pressure will increase even further as the United States loses its power monopoly and as Washington shifts its attention to other regions and strategic partners. As a result, Europeans will be less able to 'hide' behind a benevolent hegemon, as they have conveniently done in the past. The Arab Spring and the Libyan crisis are strong indicators that Europeans must extend their share of transatlantic burden sharing, since Washington is less able or inclined to cope with crises around the globe on its own.

At the same time, there is a rise and intensification of global risks. The most severe challenges to human security are increasingly related to global challenges, which in the worst case can be as devastating as wars. Negative effects of global warming, financial and economic turmoil, nuclear proliferation, failed states, demographic change, persisting poverty and social injustice, or the risk of global pandemics are not limited by national frontiers. It is increasingly clear that globalisation means that a range of issues which were previously predominantly domestic now have an international dimension and can only be dealt with effectively on a global level.

Yet, the elaboration and implementation of adequate responses are impeded by two key factors. Firstly, the current system of global governance seems inadequate to face the new quality of risks, as it has not yet been adapted to the new realities of international relations. The tectonic shift to multipolarity poses a challenge to global institutions originally created and still dominated by the US and Europe. Organisations that reflect the realities of the second half of the 20th century seem outdated and will be increasingly contested if they do not evolve to reflect the rise of new powers. This insight is not new. However, the global crisis has increased the pressure to restructure the system of global governance, and the quest of emerging powers to play a stronger role in the framework of the International Monetary Fund (IMF) or the G-20 testify the need to adapt the system. Secondly, risk perceptions vary from country to country, or from region to region as witnessed in the case of climate change. In other words, there is still a lack of recognition that humankind operates in a global risk society.

Despite their rhetoric, which highlights the goal of “effective multilateralism”, the EU and its members have not been leading attempts to adapt the system of global governance to the new realities of international relations. But the global crisis has increased the pressure on Europeans to match their words with an initiative that will allow the EU to shape a more effective system of global governance. To this effect, Europeans should jointly propose a blueprint for how to reform their representation in international political and financial organisations. The Union should be leading attempts to reform global institutions like the G-8, the G-20, the IMF, the United Nations, the World Bank or the WTO. Europeans should be ready to surrender historic prerogatives before the balance of power tips even further to their disadvantage. As long as the EU and its members fail to come up with concrete proposals, they should not complain that international governance structures are becoming ineffective. If Europeans, however, can present a common position, they can credibly ask others to join efforts to strengthen old and create new more balanced and inclusive structures of global multilateralism.

III. A new momentum for Europe

Europe could be moving in two different directions: If the European Union is able to overcome the crisis and create a new momentum in European integration there is a chance that Europe will be able to co-determine the future of global governance. If, however, the EU and its members fail the test, Europe could be faced with creeping decline, political marginalisation and even global irrelevance.

Consequently, the EU and its members are now forced to make long-term strategic choices with increasing costs if decisions are delayed. Adopting a reactive and defensive approach aimed at 'papering over the cracks' will not suffice. On the contrary, if Europe wants to emerge stronger from the crisis, it has to be proactive and provide a new rationale explaining the necessity for continuing or even enhancing cooperation between its members.

There is no need to reinvent the EU wheel. European integration was built on a solid foundation: the peaceful unification of the continent, economic prosperity in a single market with a common currency, solidarity among Member States and the abolition of internal borders. All these objectives and achievements remain important. However, the consequences of the global crisis and especially the sovereign debt crisis have shown the fragility of the European construction.

Under these circumstances, EU institutions and Member States are challenged to present an appealing rationale legitimising the Union's future added value. Far more than its constituent nation-states, the EU needs to offer citizens and elites a persuasive and attractive *raison d'être*, if it is to enhance the European project by inspiring a new European self-assurance both within and outside the Union.

In order to regain attractiveness it is not necessary to arrive at a common understanding of the ultimate finality of the European integration process. On the contrary, a debate about the EU's *finalité* would be counter-productive in the present situation due to the conceptual schism among and within Member States. Taking lessons from its history, the European Union should rather pursue a functional approach on the grounds of a convincing formula explaining the ongoing need for European integration. The EU requires a modernised narrative that can provide an answer to the following question: what is the EU's future added value beyond the mere preservation of past achievements? The answer to this question is first and foremost linked to the fact that the EU and its members do not exist in a vacuum – the revitalisation of the integration project and the EU's ability to co-influence global developments are two sides of the same coin.

In a nutshell, the Union's strategic objective or normative *Leitmotiv* for the next decades can be summarised as follows: The EU needs to enable Europeans to manage and co-determine global and regional developments in a highly dynamic international environment on the basis of their common values, history, and last but not least, their common interests aiming, ultimately, to enhance the well-being of Europe's citizens.

But how can this strategic objective of a global Europe be translated into reality? It will not be enough to proclaim the Union's new *Leitmotiv* in Sunday speeches or in the form of a solemn declaration. Citizens and elites will only re-identify with the European project, if the latter provides convincing evidence of its added value in their everyday life.

Translating the Union's strategic objective into practice requires that the EU and its members concentrate their efforts on a new strategic project, with a detailed road map including specific measures, a clear timetable and a fact-based communication strategy. European integration has always been particularly dynamic and successful whenever it sets its sight on realistic yet ambitious goals – the most impressive example being the Europe '92 project. Obviously, European leaders need the momentum of such ambitions to invest in a stronger Europe, for they are convinced they will need it further up the road.

This is not to say that the definition and implementation of a new strategic project is a silver bullet, or a magic potion, which will miraculously wipe out the EU's problems at a stroke. However, by focussing

political energy on a larger goal the EU could counter some of the internal and external challenges described earlier. The elaboration and realisation of a new grand project could:

- generate a new sense of orientation by making citizens and elites aware of the future added value of (more) European cooperation. It would insert new dynamism into the integration project as it would set concrete and proactive policy objectives, which the EU and its members would have to translate into action within a given period of time;
- provide 'real' opportunities and reasons to engage in national and Europe-wide debates about the Union's future orientation – something no EU or national communication strategy will ever be able to achieve through mere information campaigns or artificially organised debates about the 'future of Europe'. Discussions about the objectives and content of a new grand project would provide opportunities to strengthen European political space and could help reduce the citizens' perception that 'Brussels' is a distant political apparatus which lacks resilient debates about EU policies;
- open up to political elites the opportunity to present and implement policy responses to challenges inside and outside Europe, which cannot be answered adequately on the national level – not even by the biggest Member States. Agreeing on more ambitious and effective policy responses on the European level will at the end of the day help national political elites to regain trust among citizens, even if this means that they will have to give up some of their beloved national prerogatives;
- allow EU governments to display proactive leadership and build opt-in coalitions in concrete policy areas. The elaboration and implementation of a new project will provide the 'yes camp' with an opportunity to lay down and support their functional vision of Europe's future. However, not all EU Member States will in every case be willing and able to participate in a specific project from the very beginning. But the circumstance that a strategic project has been adopted and supported by all Member States will increase the likelihood that opt-in coalitions are organised not outside but within the EU framework;
- inspire Member States to work out package deals within and across different policy areas, which would allow EU governments to 'claim victory' in front of their electorate. Such win-win situations could also counter the growing distrust and division among Member States and over time foster a new sense of unity within the European Union;
- help to re-engage Germany and to persuade Berlin to play a more constructive and visionary role in EU policy-making and at the same time re-balance the balance of power within the EU, which at the end of the day is in the interest of both Germany and its partners. The past has shown that the deepening of European integration and the continued pooling of sovereignty have been a successful recipe for addressing the question of leadership in Europe;
- deliver rational reasons for determining the Union's financial and budgetary priorities (including the next MFF and funding used to stabilise the euro zone) on the grounds of sound arguments and strategic planning and not solely on the principle of *juste retour* and narrowly defined national interests;
- and last but not least: by committing itself to concrete objectives and targets the EU would become a more attractive partner for other global players, not only proving the Union's willingness but also its ability to take the lead and to shoulder more regional and global responsibility.

IV. Strategic choices for Europe: five grand projects of integration

Europe needs momentum, generated by enlightened self-interest, added value and the will to act. That is why integration has been driven by projects, by the will to achieve a longer-term goal through specific means over a specified period of time. Without projects, European politics descends into horse-trading and short-termism, following a project, however, requires the mind-set of an expedition.

The best strategic projects are those clearly based on the existing Treaties, as expressed in the statements of principal goals and ambitions, or those aiming to overcome a principal obstacle to integration or major crisis. Whenever a critical mass of Member States comes together around such projects, this will positively impact the entire EU policy-process, simply because these actors will need a functioning and capable Union.

What are such potential strategic projects? Evidently, one grand project is a given and needs to be successfully concluded – the resolution of the euro crisis and the successful implementation of the new enhanced economic governance model. The other four project proposals outlined below are a matter of choice. Each of them deals with realising important goals enshrined in the European Treaties, each of them offers significant added value to Member States and the EU at large. None of these, however, will be achieved by business as usual. They would rather require foresight, determination and some robust coalition building.

1. A 'New Deal' for the euro

First and foremost, the EU needs to manage and ultimately master the sovereign debt crisis – in the current situation this is and will for some time remain the Union's number one priority. A further deterioration of the crisis would not only cast into doubt the future of EMU, it could even shake the very foundations of the European construction. In other words, overcoming the euro crisis is a *condicio sine qua non* for the future of the European project.

On this front, much has been accomplished since the outbreak of the crisis in early 2010, when the EU and its members had no effective means and instruments at their disposal to deal with the crisis. The EU has set up *ad hoc* rescue mechanisms and is putting in place an enhanced model of economic governance. Each element of the comprehensive reform package can be challenged and key questions remain. Will the European Semester and the Euro Plus Pact deliver as they lack enforcement procedures and rely predominantly on an intergovernmental logic? Will the sanctions included in the SGP III ever be applied in practice? Will the new macro-economic surveillance system be able to detect imbalances and vulnerabilities at an early stage, and will the Commission and the Council be able to 'persuade' Member States to take appropriate counter-measures? Will the ESM's lending capacity suffice and was it wise not to allow the Mechanism to purchase bonds of distressed countries on the secondary market? Will we witness a (mild) restructuring of Greek, Portuguese or Irish debt? And if yes, what are the potential consequences of such a move? Will the new construction of EMU turn the EU into a 'transfer union'? And finally, will the EU be able to exit from the crisis while the banking system remains highly fragile?

These and other questions need to be addressed in the immediate future and additional adjustments related to economic governance will most likely be required in the years to come. However, taken together the innovations and reforms brought forward in the last 15 months constitute a quantum leap, which over time can contribute to re-establishing financial stability, avert similar crises in the future and strengthen the credibility of both the euro and the EU inside and outside Europe.

But even if the efforts undertaken eventually help stabilise the markets, they will not be sufficient in the long term. Growing economic divergence between the strongest and weakest member of the euro zone will increase pressures and strain the political, economic and monetary management of the single currency. In the end, the increasing heterogeneity might even endanger the success of the new model of economic governance currently put in place.

During the last decade, EMU has not led to a synchronisation of economic cycles but rather to a divergence of economic fundamentals in most countries of the euro zone. The sovereign crisis is further increasing the gap, as some countries in the core of the euro zone have been able to manage the crisis much better than countries on the periphery of Europe. Countries such as Greece and Portugal have low growth forecast and, in the absence of sectors with high economic potential, current structural reforms and wage moderation are not sufficient to reduce the competitiveness gap. In the long run, these countries will not be able to cope with a rapidly rising debt burden, especially with limited access to financial markets, high spreads and a rising interest rate. Politically, maintaining the reform momentum will become increasingly difficult if there is no light at the end of a long and dark tunnel. In stronger countries we are at the same time likely to witness even less support for ongoing rescue efforts.

Ultimately, growth will be a prerequisite for a sustainable reduction of debt in the periphery of Europe. Conversely, the absence of growth will most likely necessitate ongoing external support to weaker Member States unable to service their debt. Even a reduction in the cost of financing, for example through Eurobonds, or any form of debt restructuring will not suffice if the issue of long-term divergence is not addressed more effectively. Without growth in the periphery, chances are high that the Economic and Monetary Union can only be maintained by ongoing support, getting us close to the 'transfer union' feared by so many – especially in the core of Europe.

What can be done to overcome this Catch 22? What is needed is a 'New Deal' for the euro, based on investment rather than transfers.

This New Deal should include a number of key features: Firstly, continuous reforms in the weaker countries to enable productive investment, such as simplification of administrative procedures, the fight against corruption and tax evasion, or labour market reform. Secondly, a separate treatment of productive investment (such as education) in the excessive debt procedure, austerity programmes and fiscal consolidation plans. Thirdly, a re-allocation of the EU budget (especially cohesion funding), including a change in eligibility criteria, with less focus on GDP and more on combating the crisis and reducing imbalances, as well as a new focus on novel governance arrangements and spending on core drivers of growth, such as education. Fourthly, the establishment of a dedicated investment fund – a new Stability and Growth Fund (SGF) aiming specifically to deliver the goals of Europe's growth strategy, Europe 2020, in countries unable to make the necessary investments themselves. In addition to funds from the EU budget, an initial capital injection from core countries will be required, but any support channelled through the SGF will not be a bail-out but a loan-based investment into future growth – not a transfer union but an investment union. Finally, increased use of new loan/private-public partnership instruments in the periphery, including project bonds, to increase leverage. This would require some funding from the SGF and support from the European Investment Bank or the European Bank for Reconstruction and Development.

A New Deal concentrating on investment would increase the political feasibility of reforms, demonstrate solidarity, boost growth and employment in the weaker economies, reduce divergence within the euro zone, and, in the end, calm markets: even speculators take long-term growth potential and the political feasibility of reform into account.

Such an approach should also be more acceptable politically in the stronger economies: instead of simply 'borrowing' money, investing money will bring long-term benefits and create a real stake in achieving economic growth in the weaker economies. Further economic integration, a reinvigorated Single Market, reduced divergence and investment driving future growth in the periphery using surplus savings from the centre would increase Europe's economic dynamism. It might even prove to be strategically important: if political and economic transformation takes hold in North Africa, southern Europe could become a hub for investment projects in the EU's southern periphery.

Providing a positive economic path for the weaker euro-zone countries must take priority in the near future – for their sake but also because it will benefit the EU as a whole. But are Europe's leaders ready for this? Not yet – but it will become increasingly clear that halfway houses will not work, politically or

economically. Many might argue that a New Deal for the euro is highly unlikely, but economic necessities are powerful drivers: who would have thought two years ago that Member States would agree on the establishment of a permanent rescue mechanism with an effective lending capacity of €500.000.000.000?

2. New frontiers for the Single Market

At first glance, the Single Market does not seem to be an ideal candidate for a new strategic project: it is certainly not new, there is already ongoing development (as, for example, demonstrated by the Monti Report and the subsequent Single Market Act) and, as Delors already noted, it is hard to “fall in love” with the Single Market.

However, much work remains to be done to move from a market without legal barriers to an integrated European labour, capital, goods, and services (as well as knowledge) market – current ambitions fall short. Such a move requires a change in approach: not merely removing legal barriers but actively encouraging market integration. The end result should be assessed from the perspective of citizens, consumers, tax payers as well as companies: only when they perceive that it is as easy, secure and natural to purchase, live and work across borders as it is within their country will the Single Market truly have been delivered.

Would such a project help overcome some of the barriers observed in the current crisis? Crucially, there are a number of dimensions such a project could fulfil: (1) it provides a 'prize' – the positive impetus on Europe's economic growth means that there are additional benefits which can be distributed within and between countries to facilitate further integration; (2) it addresses the underlying causes and challenges of the crisis and will activate private sector investment as an effective and available tool to drive development, unlike public investment which is scarce; (3) it provides 'output legitimacy' not least for consumers who can access cheaper products and services or easily move across borders; (4) it helps to address global fragility by basing European development more soundly on Europe's own market; (5) it provides the countries with the largest stake in an enlarged market with motivation to cooperate and conclude a grand bargain; (6) it can, at least in the medium term, halt or even reverse Europe's relative decline; and finally (7) the EU can, by-and-large, use tried and tested methods of integration.

But opening up new frontiers for the Single Market will not be easy. There are a number of vested interests that need to be overcome. Creating a truly integrated market will thus entail tackling head on those with an interest in halting further integration, be they companies who are happy not to be exposed to competitive pressures, trade unions who defend generous provisions of national labour markets or politicians who feel that they must defend their 'home' companies.

In more concrete terms, there are four areas where the Single Market needs to be developed further:

- A Digital Single Market adapting the Single Market to the transformation to the knowledge economy. Not only will this deliver significant economic benefits but it will also increase European legitimacy in the eyes of young generations for whom a nationally fragmented digital environment is an anachronism.
- A European Energy Market, which can not only deliver a better deal for European consumers, critical in times of high resource prices, but also enhance energy security and energy efficiency, enable the large scale integration of renewables as well as a consistent approach to feed-in tariffs and energy taxation (and thus address climate change objectives) and address the political inconsistencies implied by increasing cross-border implications of national choices (such as nuclear power stations situated close to borders).
- A Single Market for Health. European citizens value health as a key component of well-being, however, managing the demand for health and healthcare is becoming increasingly difficult due to demographic change and pressures on public budgets. The EU must build on its competences to find common solutions to common problems. Europe needs a single market for health that promotes greater patient choice in cross-border treatment, increases research co-operation, tackles the barriers in bringing medicines and medical technologies to market, and bundles procurement across borders. The potential is enormous. It benefits

citizens, industries and health systems, and it brings significant economic and welfare gains for Europe. While ensuring that health considerations are taken into account in all EU policies, it can also help to address inequalities and promote well-being in Europe.

- A Single European Labour Market will offer tremendous potential to generate momentum to exit the crisis and to bring Europe onto a path of higher and sustainable economic potential. It would provide companies with the opportunity to meet their human resource needs more efficiently, enabling individuals to realise their potential and helping to stabilise macroeconomic variations. Citizens value the ability to move within the EU but all too often doing this is in reality complex and costly.

Achieving such a qualitative step forward in developing the Single Market in these four crucial areas requires action across a number of fronts, with many detailed policy changes required. But the first step must be the political will, a coalition of countries, helped along by the Commission who see the potential in pushing such a project forward. At times, progress might only be possible within a small coalition of the willing – a *de facto* multi-speed Single Market. But given that the benefits promise to be very significant indeed, it would provide further impetus for economic and political integration for both the countries involved and those who would stand outside at the outset.

3. Common migration and asylum policy

A European migration and asylum policy is emerging since the entry into force of the Treaty of Amsterdam. More than ten years later, the rules and measures adopted are still subject to significant imbalances between different domains. Policies related to safeguarding the EU's external borders and the fight against illegal migration have benefited from strong support from Member States whereas policies relating to legal migration and asylum have not. In a world in which mobility is steadily increasing and where societies are becoming more diverse, such an approach seems inadequate to tackle the current and forthcoming challenges of mobility, attractiveness and fair treatment.

It is time now to fill in the gaps. The EU needs to define a strategic policy to adapt rapidly to evolving societies. In order to achieve this goal, the EU should establish a common immigration and a common asylum policy, and grant third country nationals more freedom to access and move within the EU's territory. The Union's new approach should rest on five main pillars:

Firstly, a common and coherent migration policy requires that Member States overcome both the security-oriented focus on border management and irregular migration, as well as the limited approach based on the adoption of rules regarding specific categories of persons (highly skilled workers, seasonal workers or intra-corporate transferees). In more concrete terms, EU immigration policy should provide a set of general rules concerning the legal admission of third country nationals. Taking into account national differences and particular needs of individual Member States, these rules should define a number of general conditions and procedures regulating admission. This will allow Member States to adapt rules in line with their specific needs but at the same time make the EU more accessible for outsiders and thus more attractive. This first step should be accompanied by an enhanced coordination of national policies in order both to define more precisely the needs at EU level and to further harmonise the rules on the legal admission of migrants.

Secondly, a more comprehensive admission policy should extend the intra-EU mobility rights to third country nationals. At present, the freedom to move within the EU is limited to holders of long-term residence permits and – under specific conditions – to highly skilled workers. A further development of the internal market should go hand in hand with the establishment of a more flexible labour market where workers from third countries are granted enhanced mobility rights between Member States. This implies recognition of the right to free movement under facilitated conditions to a larger number of persons than those already concerned.

Thirdly, fair treatment of third country nationals residing in EU Member States should be provided. Differences of treatment between own nationals, EU citizens and third country nationals with regard to

social rights should be reduced as much as possible in order to enhance their integration into the host European societies. This calls for the development of policies where third country nationals have access to a set of rights identical to those provided to nationals and EU citizens. In this view, existing differences regarding *inter alia* access to work, health care, housing, and social assistance should be minimised. While such alignment will reward third country nationals' contribution to the society, it will also enhance social inclusion and make the EU more attractive for workers. This will, on the one hand, shape the grounds for a more open society and, on the other, help to fill in gaps deriving from demographic shrinking.

Fourthly, the EU should completely revise its external policy in the field of migration based on the principle of conditionality when dealing with third countries in the field of migration. Currently, the possibility for non-EU countries to engage in legal migration negotiations with the EU and its Member States is conditioned by their involvement in the management of borders and the fight against irregular immigration. This policy approach has been rather ineffective. The EU should reconsider its external policy in the field of migration and asylum by taking into account demographic trends and recent political developments in the Union's southern neighbourhood. As a consequence, the EU and its members should abandon the principle-of-conditionality approach and develop a new and open partnership based on a facilitated movement of people from third countries to the EU. Increased legal migration access, visa liberalisation programmes, recognition of diplomas, as well as comprehensive development policies (including trade, remittances or education) should be seriously explored and rapidly implemented for the mutual benefit of the EU and countries of origin.

Finally, the EU should continue to enhance its asylum policy. This requires first and foremost the establishment of a Common European Asylum System, which can assure that asylum seekers are granted the same protection and guarantees irrespective of where their application for asylum has been lodged. This objective can be reached through the adoption of a second generation of rules and through enhanced practical cooperation between national authorities involving also the European Asylum Support Office. With regard to the external dimension, the EU should demonstrate its ability to protect asylum seekers when operating at sea and enhance solidarity with third countries. The latter requires the development of resettlement programmes where refugees residing in third countries are resettled in the EU. Such programmes would show solidarity with third countries receiving high numbers of refugees and prove that the EU is able to tackle the question of protection in a broader and more comprehensive way.

4. A new vision for Social Europe

The need to put citizens' well-being at the centre of the political agenda has entered the European discourse. But actions needed to enforce this tenet are still very inconsistent and, in the aftermath of the recent crisis, restoring economic recovery has come back as the ultimate imperative. While it is clear that policies likely to foster growth and competitiveness are needed to maintain the level of citizens' material satisfaction, income and assets are far from being the only determinants of life satisfaction. Europeans do value other aspects in life – such as living in a cohesive and equal society where each citizen can benefit from equal opportunity – which are only achievable through appropriate social policies.

Clearly, the EU has a role to play in placing well-being at the centre of its political agenda. Not only because strengthening the European social model is a necessary means to increase European legitimacy and balance out the effects of budget consolidation, but also because the discrepancy of social standards in Europe has prompted fierce protests inhibiting further economic integration, as shown by the debate triggered with the Services Directive on the 'Polish plumber'.

Undoubtedly, strengthening the European social model and investing in social policies has not been the road taken by policy-makers to exit the financial and economic crisis. While 2009 was devoted to implementing Keynesian policies and cushioning the social impact of the crisis, most Member States have now embarked on austerity programmes, which limit the role of the welfare state and sacrifice social investment priorities to short-term austerity measures.

Having a political debate on the development model Europe wants to promote is a precondition to revitalise the European social model and to reconcile citizens with the European project. In the aftermath of the crisis, key questions have emerged: What kind of societies do Europeans want to live in? What kind of growth are Europeans ready to back and what are their perceptions of 'social progress'? Which social policies are more likely to make people more resilient to social risks and to improve equal opportunities? And, how to improve the quality of spending in social policies? Policy-makers will have to deliver answers to these questions and the EU has a clear role to play in fostering such a debate.

But having a political debate will not suffice. Five more concrete areas will have to be advanced if Europe is serious about promoting a society that maximises Europeans' well-being, built on a fairer society that benefits from a common European vision of a 'Social Europe':

- The introduction of further common social standards across the EU could be a way to achieve the inclusive objective of the Europe 2020 strategy and a strategic measure to tackle the issue of rising inequalities. Defining common standards or norms for national minimum wages could be part of the solution as it would help lift people out of poverty and compress the wage structure from below. In addition, where national competences, for example in the field of education, hinder the achievement of these common social goals, Member States need to be 'named and shamed' if they do not take corrective action.
- Recognition of social investment as a key factor in any European growth strategy and within economic policy frameworks. This entails ensuring that fiscal austerity programmes and European economic governance processes such as the excessive deficit procedure explicitly exclude constraining socially productive investment in areas such as health and education.
- The EU can pioneer a new approach to competitiveness built on a common understanding of 'Social Europe'. Human capital is becoming a predominant economic force and living in an attractive and fair environment can help to retain and attract human capital needs. Europe's social systems need to be geared towards achieving this attractiveness, for example by offering migrants from outside the EU the possibility to move freely within the Single Market.
- A focus on universal public services as the cornerstone of Europe's social model. Equal and free access to basic services such as health and education are considered by Europeans as key drivers of equal opportunity, which need to be maintained and protected. But this fundamental principle is being put in question, not least because of the serious budgetary difficulties European states are already facing and pressures from an ageing population. At the EU level, there is a need to contribute to the understanding of these services through measuring their outputs in qualitative terms. Europe should establish output measurements, which will enable comparison of public services' performance across Europe and measure their capacity to deliver equal opportunity to citizens. But there is need to go even further: where cross-border activity can potentially enhance European social systems, for example in the case of cross-border healthcare or trans-European education, a common approach is needed at EU level and strategies, such as Europe 2020, must explicitly address the issue of public services.
- Europeans value the possibility of being geographically mobile but few take up the opportunities existing within the Single Market. The EU needs to create a framework that encourages mobility by providing a supportive social framework, for example in relation to pensions and benefits, and by building citizens' adaptive skills, including language skills. But mobility needs to be understood in a broader way: career mobility, the ability to move in and out of the labour market, digital mobility and job mobility all need to be promoted at EU level.

While having a 'Social Europe' with common social provisions across the 27 Member States appears to be a long way-off, opt-in strategies and committed coalitions between Member States could help pave the way for more 'Social Europe' and develop a new vision where enhancing citizens' well-being is the ultimate objective. Forging a consensus on the strategic projects mentioned above, even within a group of Member States, would represent a significant step towards more social integration and

encourage public opinion of reluctant Member States to put pressure on their own governments to participate in this ambitious project.

5. Establishment of a 'Defence Union'

Among the strategic options for Europe's future, the integration of foreign policy and defence has the longest history. The ambition to ensure peace among Europeans and to gain security from external threats guided the plan for a *European Political Community*. When revisited in the 1980s, in a much more different political environment, the ambition to secure Europe's role and independence appeared to be the driving motive behind 'revitalising' the Western European Union, which in effect was in the end swallowed by the EU in its process of upgrading the Union's foreign, security and defence policy.

Today, two major developments raise the issue of integrating defence capabilities within the EU: Firstly, foreign and security policy has advanced significantly with the Lisbon Treaty and the creation of the European External Action Service (EEAS) allows for much stronger linkages between the political, economic and security related instruments of the Europeans. Also, with the Lisbon Treaty, for the first time, a closer cooperation on defence by an avant-garde group could be set up within the treaty framework. Secondly, a new changed strategic environment and severe budget constraints both call for a fundamental reassessment of the armed forces of EU Member States. Apart from the massive force transformation processes that have shaped defence policy and reform in the United Kingdom and France, defence organisation and structures in most EU Member States still centre on the traditional notion of territorial defence. At the same time, this is the area of greatest redundancy and duplication. Defence planning, research and development, procurement and deployment still largely follow national structures, while the strategic challenges have effectively become Europeanised and internationalised. Most Member States have entered into major force reduction and restructuring programmes on the national level. Driven by international crises, defence cooperation has increased within NATO and the EU mostly on the development and operation of force projection capabilities, while the obvious area of closer cooperation on territorial defence is rarely addressed.

As a strategic project, an integration of European defence would seek foremost to address territorial defence as the area of greatest redundancy and highest consensus. Obviously, any armed attack on the territorial integrity of one EU member would trigger the full effort of all members in response. If that solidarity, one of the normative pillars of the EU Treaties, were in doubt, the whole framework of integration would be in question. Therefore, it is conceivable to integrate territorial defence on land, in coastal waters, by air and space on the EU level and put it under one flag and a unified command. The concept would also strengthen the European pillar inside NATO and would reinforce the Article 5 commitment of NATO members.

Such an initiative could be launched by a group of Member States, open to all, under the provisions of a permanent structured cooperation, which would allow the step-wise development of joint structures and processes. Member States would contribute to a single budget, planning and procurement would be fully integrated. The joint European forces would also take on peace keeping and peace building missions.

Alongside such a defence integration, Member States would maintain and develop force projection capabilities. Their use for intervention and peace enforcement missions will continue to require the legitimacy of national decision-making and parliamentary endorsement. These forces would be embedded in the European territorial defence force; not separate but separable, funded and equipped by national budgets and operated under a national command when necessary. Some Member States could choose to not maintain such capabilities, others could opt for limited capabilities to be operated with those of others, and still others would want to maintain or build sizeable national force projection capabilities.

An ambitious project like defence integration or a 'Defence Union' would significantly alter the current state of affairs. It would allow for more efficiency, more visible solidarity and be a continuous impulse to joint assessment of challenges to the security and integrity of the European Union. The joint practices should have visible impact on the EU's foreign and security policy – those participating would likely be drivers of

June 2011

common approaches and actions thus strengthening the political arm of defending and promoting Europe's interests in the world. The establishment of a Defence Union would increase pressure on governments to overcome divisions of opinion and oblige Member States to overcome the current deficit in strategic thinking. If Europe at some point in time wants to speak with one voice regarding even the most sensitive foreign policy issues, strategic thinking and a sense of strategic community will be essential prerequisites. In other words, the creation of a Defence Union would both push and pull the Europeans to act more collectively, decisively and coherently in the fields of foreign policy, security and defence.

The way ahead

European leaders have to make a choice: either they revitalise integration through strategic projects, or they risk letting euroscepticism grow into *euroclerosis* once again. It took European policy-makers well over a decade to overcome stagnation and creeping disintegration in the 1970s and 1980s. When they finally succeeded, two decades of dynamic development followed, which made the Union significantly stronger, deeper and wider.

For certain, the one mandatory project on the table will be a 'make or break' challenge. A stable and sustainable common currency backed by effective fiscal and economic governance would benefit greatly from reinvigorating the will to lead Europe forward. Without the determination to address the unfinished business of integration and reap the benefits of the projects laid out above, the European project will suffer from the '*juste-retour*' mode of engagement, from doubts about solidarity within the EU, and from deepening distrust among Member States, among the large, between larger and smaller, and between 'haves' and 'have-nots'.

After all, bigger challenges and opportunities lie ahead: How should and could Europe protect and promote its interests, values and governance model in an increasingly interdependent and fragile world – a world with dynamic, technology- and knowledge-driven economies, with people and peoples on the move, driven by a strong desire for a better life and equally strong convictions? How will Europe adjust to a world of scarce resources, ageing populations and a global eco-system under severe stress? Europeans cannot stand happily on the sidelines of such developments and expect to preserve their current way of life. There is no 'Swiss option' for Europe in the world.

The time to act is now. Like it or not, everything is faster in today's world, and the EU cannot afford a decade of navel gazing and stagnation. Not all EU countries will rise to this leadership challenge. So be it. But those who do – who grasp the added value of strategic projects – need to move ahead and lead the way forward. The Treaties give them room to act, and it will be their actions that define the future of European integration. This requires building strong project partnerships between Member States. In the EU 27, no single actor or couple could pull it off alone; to do this would merely play to one's own public. Strategic projects demand strategic coalitions to generate momentum. They are not born out of 'summitry'. They are not declared. They have to be constructed – and that's what European leaders need to do now.

PROGRAMMES

European Politics and Institutions

With the entry into force of the Lisbon Treaty, the new focus of this programme is on adapting the EU's institutional architecture to take account of the changed set-up and on bringing the EU closer to its citizens.

Continuing discussion on governance and policy-making in Brussels is essential to ensure that the European project can move forward and respond to the challenges facing the Union in the 21st century in a democratic and effective manner.

This debate is closely linked to the key questions of how to involve European citizens in the discussions over its future; how to win their support for European integration and what are the prospects for, and consequences of, further enlargement towards the Balkans and Turkey.

This programme focuses on these core themes and brings together all the strands of the debate on a number of key issues, addressing them through various fora, task forces and projects. It also works with other programmes on cross-cutting issues such as the reform of European economic governance or the new EU foreign policy structures.

European Migration and Diversity

Over the past decade, immigration to Europe has presented growing policy challenges for the European Union. While on the one hand striving to integrate immigrant communities, Member States struggle with irregular inflows and high numbers of asylum applications. Meanwhile, ageing Europe faces more labour shortages - even in these times of high unemployment - and policy-makers see migrant workers as helping efforts to sustain the continent's economic and social models.

The EU's response to these challenges has been to begin creating a common EU policy framework on asylum and immigration. With the finished product still a way off, the Union's latest strategy to achieve this goal comes in the form of the Stockholm Programme (2009-2014). Given the stronger role for the European Parliament ensured by the Lisbon Treaty, as well as increased evidence of anti-immigrant rhetoric in national politics, the context is set for immigration to remain a hot political topic in the years to come.

This programme, run in collaboration with the King Baudouin Foundation and the Compagnia di San Paolo, focuses on debates surrounding Europe's migration and asylum policies and considers the integration challenges raised by our increasingly diverse societies.

Europe's Political Economy

Taking the steps needed to make the EU a world leader in today's globalised economy and ensure the sustainability of the European economic and social models form the core of this programme's activities.

Europe's ability to create wealth on a sustained and sustainable basis, while at the same time ensuring employment growth, equitable income distribution and the efficient provision of public services, will depend on the necessary reforms being introduced to respond to the challenges of globalisation, the ageing of Europe's population and climate change.

The Lisbon Agenda has provided a good starting point, but Europe needs to look now at reinvigorating this process to achieve its goal of becoming the world's most competitive economy.

This programme addresses these issues through a number of fora and task forces. It engages in, and stimulates debate on economic policy in general and focuses on specific issues such as the internal market, innovation, better regulation, energy and lifestyle risks. It also works with other programmes on cross-cutting issues such as the economic integration of migrants, the EU budget and the Union's relations with Africa and Asia.

Europe in the World

Building EU foreign policy over the past twenty years has been one of the most challenging and difficult aspects of the process of integration and, despite the innovations introduced by the Lisbon Treaty, is still far from meeting the expectations of European citizens and of the rest of the world. At the same time, the EU's role in international politics is challenged politically and economically. The rise of new powers, an increasingly fluid system for global governance, the growing internationalisation of domestic politics and policies, all put the EU under the spotlight to deliver.

This programme, supported by the Calouste Gulbenkian Foundation, takes a dual approach. EU capabilities in foreign policy and its political will to play as a global actor are essential to understand the ways in which the Union engages with the world, by analysing the External Action Service, the use of the EU's foreign policy tool box, and political dynamics in Europe.

Through seminars, public events, and special projects, the programme also examines the EU's 'performance' in certain parts of the world (especially in the Balkans and in the EU's neighbourhood, but also in Asia) while addressing thematic and cross-cutting issues, such as foreign policy and international migration, international justice, and human rights.

For details of the EPC's activities under these programmes, please visit our website: www.epc.eu

The EPC is an independent, not-for-profit think tank committed to making European integration work. It aims to promote a balanced dialogue between all the different stakeholders represented in its membership.

European Policy Centre

Résidence Palace
155 rue de la Loi
1040 Brussels - Belgium

Tel: + 32 (0)2 231 03 40
Fax: + 32 (0)2 231 07 04
email: info@epc.eu

www.epc.eu



**Europe for Citizens
Programme**

With the support of the Europe for Citizens
Programme of the European Union.