

New Pact *for* Europe

EXECUTIVE SUMMARY **TOWARDS** **A NEW PACT FOR EUROPE**



The New Pact for Europe project is supported by a large transnational consortium including the King Baudouin Foundation, Bertelsmann Stiftung, Allianz Kulturstiftung, BMW Foundation, Calouste Gulbenkian Foundation, European Cultural Foundation, European Policy Centre, “la Caixa” Foundation, Network of European Foundations, Open Estonia Foundation, Open Society Initiative for Europe, Stiftung Mercator and Svenska Kultur Fonden

the **Promoting
European
Debate**

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EXECUTIVE SUMMARY

Over the past decade, European integration has been tested as never before, buffeted by storms that have exposed and exacerbated significant shortcomings in its economic and political construction. As a new leadership team takes office after years of deep crisis, the **EU faces key strategic decisions** about its future.

The history of European integration is littered with crises. In the past, the EU has always bounced back and emerged stronger than before, but the current state of the Union has cast doubt on whether history will repeat itself this time. The crisis that has rocked Europe since 2008 has raised serious questions about whether the EU and its members can deal effectively not only with the immediate problems they face, but also with the many socio-economic, political-institutional, societal and global challenges the 'old continent' will be confronted with in future – and all of this at a time when the world is in the middle of a great transformation, putting pressure on Europeans to respond to fundamental changes 'out there' and get their act together if the Union is to remain a pivotal player on the international stage.

The EU and its members have, individually and collectively, made some remarkable progress in recent years and **fears of the worst-case scenario** – that the euro would implode – **have receded**. But if Europeans want to overcome the lingering effects of the crisis and provide a solid basis from which to exploit their combined potential both within and beyond the EU, they will have to address **two interlinked strategic challenges**: those posed by economic, social and political divisions within and between countries, leading to **increased fragmentation**; and the growing perception in many EU countries that **European integration is no longer a 'win-win' for everyone**, that it has ceased to be a 'positive-sum game'. This has exposed severe cracks in the 'old bargain' between Member States, and between the EU and its citizens, making this a moment of both risk and opportunity for the EU: on the one hand, this fragmentation could complicate the search for compromises and thus undermine the Union's ability to provide adequate policy responses; on the other, the scale of the challenges facing Europe and the success of populist anti-EU forces increase the pressure on national capitals and EU institutions to do so.

Tackling these issues is not an end in itself. Citizens want the EU to provide answers to the problems they are facing; they want it to **provide added value in the drive for prosperity, peace and democracy**; they want it to help **protect and safeguard the 'European way of life'** in a massively changing global environment – and a **disunited Union would struggle to deliver adequately on these objectives**. The challenge for the EU now is to find a way to restore unity, heal the wounds of the crisis, develop effective responses to multiple challenges and articulate a new vision of the future, and thereby restore the public and elites' faith in the European project as part of the solution rather than part of the problem.

So, what options are open to the Union to respond to citizens' expectations, restore its image as a 'win-win' for all its members and confront the new realities of a changing global environment?

'Going back to the basics' – putting the EU into reverse gear and abandoning any moves towards an 'ever closer union' – would not help tackle the many challenges facing Europe. The quest to (massively) scale back European integration would, in most cases, weaken rather than strengthen countries' ability to deliver effective policy responses. At the other end of the spectrum, **'leaping forward'** – putting the EU into the highest possible gear and moving towards a fully-fledged economic, fiscal, social and political union – does not seem viable either, at least not now, given the reluctance of most national political elites and European citizens to pool core elements of national sovereignty at European level.

Another option, much favoured by policy-makers in national capitals and in Brussels at the moment, is **consolidation** – putting the gearbox in neutral while the ‘EU vehicle’ continues to move. According to this logic, the structural reforms and governance innovations of recent years should be given more time to work. This, say supporters of this approach, is the only realistic option in the current economic and political climate: the EU needs to catch its breath rather than being over-ambitious. **‘Doing less, but doing it better’ has become the predominant mantra in Brussels and in many national capitals** as immediate crisis threats and market pressures have receded, with a loss of ambition and some complacency as reform fatigue is omnipresent.

There are **many rational and understandable arguments supporting the logic of consolidation. But would this be enough to reverse the trend towards fragmentation, prevent similar or worse crises in future and avoid the risk of repeating past mistakes?** When the euro was launched, its architects knew its construction was by no means perfect, but the political realities of the time stopped governments going further. Ten years later, when the euro sailed into stormy waters, the EU, its Member States and citizens were hit by the consequences of these imperfections. The overall situation may look better today than in 2012, but the state of affairs remains volatile, and there is a risk that Europeans will be left asking themselves – five, ten or 20 years down the road – why they stopped the reform process halfway when they should have been aware of the potential dangers.

A New Pact for Europe

Simply **consolidating past achievements will not be enough**: to turn the tide, the EU must go beyond a lowest common denominator approach. Closer cooperation will be indispensable if Europe wants not only to overcome the immediate crisis, but also to create fresh momentum that will allow it to exploit more of its potential and meet citizens’ needs and expectations. This will require a pragmatic but ambitious approach to create a new win-win situation in which the EU is once again perceived as a positive-sum game for all its members, within the framework of a ‘New Pact for Europe’ between Member States and between the EU and its citizens.

The reforms of recent years have been driven first and foremost by fear – fear of an implosion or involuntary exit from the euro. To generate active support, **future developments must be driven instead by confidence and renewed ambition**. That is why elaborating a **New Pact** should be a key strategic task for the new EU leadership: a Pact **based on three main pillars** – an **‘Enabling Union’**, a **‘Supportive Union’** and a **‘Participatory Union’** – and a **new ‘grand project’** as part of a package deal balancing the interests of different Member States and different groups within them.

An **Enabling Union** should **foster sustainable economic growth and job creation** by stimulating (public and private) investment at both European and national level, promoting social investment and enhancing Europe’s overall competitiveness by supporting structural reforms, especially in countries that are lagging behind, while remaining on the path towards fiscal consolidation. Measures to strengthen and transform national economies – implemented by Member States but supported by EU instruments – will enable Europe to realise its combined growth potential, which is in the interest of all EU countries irrespective of how well or badly they have weathered the crisis storm. ‘Smart’ investments will provide them with better tools to enhance their human capital through an active agenda focused on knowledge and skills.

A **Supportive Union** should **enhance the EU’s ‘caring dimension’** to address concerns that the crisis has hit some countries and social groups exceptionally hard, fuelling a sense of social injustice within and between Member

States. The potential measures foreseen under this pillar would send a clear signal to European citizens that efforts to reform national economies and social systems will always have to respect minimum social standards and will not lead to a 'race to the bottom'. Instead, a social compact including social convergence criteria and more specific measures to support those suffering most from the crisis – including, for example, a complementary European unemployment scheme, an obligatory minimum support scheme or a European Mobility Fund – would flank efforts to promote Europe's economic competitiveness.

A **Participatory Union** should **strengthen the ties between the EU and its citizens** by increasing its democratic legitimacy. The focus should not only be on traditional issues such as the powers and role of the European Commission and Parliament, but also on expanding the opportunities for frank discussion within Member States and between citizens from different EU countries; on mechanisms to strengthen the public's direct involvement in the EU policy debates; on ways to enhance the role of national parliaments in European policy-making at Member State level; and on expanding schemes that enable people to experience the direct benefits of EU membership and foster greater understanding of the Union.

These three pillars are designed to provide the foundations for the New Pact, a set of guiding principles to underpin the development of a **new bargain to replace the old permissive consensus** which has long been under strain and has now cracked under the pressure of the crisis. Taken together, the measures envisaged under **each pillar could help meet the concerns of different countries** and different groups within them. Taken together, they are 'game changers' that could help to restore confidence in the Union by enhancing its capacity to deliver effective solutions that benefit all EU countries and groups within society, thereby addressing the causes of fragmentation and helping to restore the EU's image as a win-win project for all its members.

Besides these three main pillars, the EU should heed the lessons of history and seek to **identify and implement a new 'grand project'**. In the current political and economic climate, **an Energy Union appears to offer the greatest potential** to demonstrate the EU's added value and deliver genuine benefits for many different groups of Member States and stakeholders. It could be a perfect illustration of the type of 'grand bargain' that is required, with the potential to deliver beneficial spillover effects in a range of policy areas (economic, industrial and environmental, as well as foreign and security policy) and to act as a unifying factor, a political catalyst by addressing the concerns of all Member States, including non-euro countries that may feel there is too much focus on the common currency while other important challenges are being neglected.

The **measures proposed** within the framework of this New Pact for Europe **are ambitious but not overly so**: almost all could be implemented on the basis of the current EU Treaties, although some might require additional intergovernmental treaties/agreements. However, this is not a long-term solution, and the **EU and its members need to start preparing for the process of treaty change**. A New Pact could lay the foundations for this by helping to reverse the tide of public opinion towards the EU, which will be essential before any attempt can realistically be made to reach agreement on substantial changes to the EU Treaties and get them ratified in all Member States.

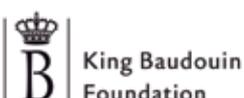
The pragmatically ambitious approach necessary for the New Pact for Europe to deliver requires that EU leaders demonstrate the political will to help restore confidence in the Union by equipping it with the means to meet future challenges. Only in this way can future progress be built on solid foundations, by basing it not just on addressing fears about what might happen if Europe fails to act, but also (and more importantly) on offering hopes – as well as tangible prospects – of a better future for the citizens of Europe.

Over the past decade, European integration has been challenged as never before, buffeted by storms that have exposed and exacerbated significant shortcomings in its economic and political construction. As a new leadership team takes office, the EU faces key strategic decisions about its future. To create fresh momentum that will allow Europe to exploit more of its potential and meet citizens' needs and expectations, there is a need to elaborate a New Pact for Europe between Member States and between the EU and its citizens: a Pact based on three main pillars – an 'Enabling Union', a 'Supportive Union' as well as a 'Participatory Union' – and a new grand project, which balances the interests of different EU countries and different groups within them and restores the perception that European integration is a 'win-win' for everyone.

The New Pact for Europe project was initiated by the King Baudouin Foundation (Belgium) and the Bertelsmann Stiftung (Germany) and is supported by a large transnational consortium of foundations, think tanks and civil society organisations. The initiative aims to promote a Europe-wide debate on the perspectives for European integration and this second project report, which will be discussed with policy-makers and stakeholders in a majority of Member States, is designed to feed into the ongoing discussions about the European Union's future.

 Bertelsmann Stiftung

 "la Caixa"



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