

New Pact *for* Europe

STRATEGIC OPTIONS FOR EUROPE'S FUTURE



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Promoting
the European
Debate

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INNOVATION REPORT

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NEW PACT FOR EUROPE: STRATEGIC OPTIONS FOR EUROPE'S FUTURE

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The views expressed in this report reflect the result of the work and discussions of the Reflection Group, enriched by input from the Advisory Group, but they do not necessarily represent the views of each member of these groups.

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LIST OF ABBREVIATIONS

CFSP	Common Foreign and Security Policy
CSDP	Common Security and Defence Policy
EC	European Community
ECB	European Central Bank
EEAS	European External Action Service
EEC	European Economic Communities
EFSD	European Financial Stability Facility
EMF	European Monetary Fund
EMU	Economic and Monetary Union
EPU	Economic and Political Union
ESM	European Stability Mechanism
EU	European Union
GEMU	Genuine Economic and Monetary Union
IMF	International Monetary Fund
MEP	Member of European Parliament
MS	Member States
SSM	Single Supervisory Mechanism
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Cooperation and Governance
TTIP	Transatlantic Trade and Investment Partnership

FOREWORD

The euro crisis has prompted one of the most intense debates about the viability of the European project in its history, but many of the contributions to that debate have amounted to little more than immediate crisis management.

But the European Union is facing financial, economic, political and social challenges in a globalized world going far beyond the current crisis and what we need now is a much more ambitious debate in and between Member States and their citizens, which is inspired by fresh thinking and new ideas about how to shape the future EU. We need a new 'pact' for Europe – between its Member States, and between policy-makers and the public – not only to heal the wounds of the crisis but to deliver effective responses to these different challenges, and to foster the EU's clout in international affairs.

What is the New Pact for Europe initiative?

A consortium of eleven European foundations initiated by the King Baudouin Foundation and Bertelsmann Stiftung decided in 2012 to launch a project to promote a Europe-wide reform debate involving the public, politicians, policy-makers, business leaders, trade unionists, EU experts, opinion-formers, and other civil society representatives in many Member States. The ultimate goal is to develop realistic reform proposals to shore up an EU suffering from socio-economic and political turbulence and the growing threat of global marginalisation, and feed these ideas into the work of the new EU leadership which will take office after the May 2014 European elections.

Why this report?

This report marks a first major step in the project by delivering an input for that debate, which will be launched in November 2013. In the run-up to the launch of this public debate, a 'Reflection Group' of EU experts from different Member States have been analysing the current 'state of the Union' and the myriad of challenges facing Europe, and developed and discussed five strategic options for tackling them. Their work and discussions, which are reflected in this report compiled by Janis A. Emmanouilidis (rapporteur and member of the Reflection Group), have been enriched by input from an Advisory Group made up of prominent Europeans from the worlds of politics, business, academia, and civil society.

What are the next steps?

The report deliberately comes to no conclusions and makes no concrete policy proposals, because it is simply designed to foster an open debate about possible options for the future development of the European Union. It will be discussed between December 2013-April 2014 by citizens, politicians, policy-makers and key stakeholders in about 50 public events in many EU countries to generate ideas for future action. After that, the Reflection Group will draw on the outcome of these debates to draft a proposal for a New Pact for Europe, including concrete recommendations, with additional input from the Advisory Council to further enrich their work.

Obviously, not all the ideas that make their way into the pact will be taken up by policy-makers, but it will hopefully provide a valuable contribution to the ongoing debate over how to introduce workable, realistic reforms to make the EU more effective in responding to the challenges we face.

The timing of this initiative is crucial: by the end of the consultation process and the drafting of proposals for change, the new European Parliament and new leadership in the European Commission, European Council and European External Action Service will be in the process of being installed, with a huge responsibility to ensure that the European Union of the future is able to tackle key challenges.

We hope that this report will make a valuable contribution to inspire and kick-start a debate in and across Member States – a debate which Europe so urgently needs at this point in time.

Last but not least, we would like to express our gratitude to Janis A. Emmanouilidis, Paul Ivan and Corina Stratulat from the European Policy Centre, Jacki Davis as well as the members of the Reflection Group and Advisory Group who made this report possible. Many thanks go also to Maria João Rodrigues for her valuable contribution to the conceptualisation and implementation of the project. For more information about the objectives, structure and state of affairs of the project see: www.newpactforeurope.eu

King Baudouin Foundation and Bertelsmann Stiftung

Brussels, November 2013

EXECUTIVE SUMMARY

The euro-zone crisis has prompted the most intense debate about the European Union's future in its history. Deep cracks have appeared in the European project, posing the most serious test it has ever confronted, complicated by the fact that Europe faces not one but a number of highly complex, multi-rooted and interlinked crises. Although fears of a 'euro-implosion' have receded since the summer of 2012, the overall situation remains volatile and the reality of daily life is still very tough for many people in many Member States.

Even though numerous measures that seemed impossible some years earlier have been adopted since 2010, it is still questionable whether Europe will emerge stronger from this crisis, as it has from past watershed moments. But one thing seems certain: if Europeans want to overcome the current malaise and also prepare themselves for the manifold internal and external challenges that lie ahead, they will soon have to make strategic choices about the EU's long-term future.

In this situation what is urgently needed is a discussion in and between EU countries about how to respond to the financial, economic, political and social challenges facing our troubled continent. This process could eventually lead to a new 'pact' for Europe – between its Member States, and between the policy-makers and the public – to heal the wounds left by the crisis, deliver effective policy responses, and strengthen the EU as a global player.

It is this which has prompted a consortium of European foundations, led by the King Baudouin Foundation and the Bertelsmann Stiftung, to promote a pan-European public debate on the EU's future which seeks to generate ideas to make the Union more effective in responding to key challenges and strengthen its position on the international stage. It aims to do this through an analysis of the 'state of the Union' and the elaboration of potential strategic options for the future, followed by a series of national debates involving the public, politicians, policy-makers, business leaders, trade unionists and other civil society representatives, and to feed the ideas generated by this process into the work of the new EU leadership which takes office after the 2014 European elections.

This report, which reflects the work and discussions of a Reflection Group including EU experts from different Member States, marks the end of the first stage of the process: it analyses the 'state of the Union' and the multifaceted challenges ahead, and assesses possible strategic options for the future.

THE KEY CHALLENGES FACING EUROPE

The report identifies a series of interlinked challenges confronting Europe, in four 'dimensions' – socio-economic, political-institutional, societal and external-global – and several key challenges within each dimension.

Socio-economic dimension: threats to social peace resulting from indignation and despair caused by the crisis, very high levels of unemployment and mounting pressures on the welfare state; a widening economic gap between EU countries; and the structural deficits of a fragmented euro area that still lacks adequate fiscal, financial and economic integration.

Political-institutional dimension: a lack of public support for the EU; leadership crises at national and European level; and growing challenges to traditional concepts of political representation.

Societal dimension: the lack of a common understanding (narrative) and vision ('leitmotiv') of European integration; increasing divisions between Member States; a lack of knowledge about the EU; and simplistic perceptions of national sovereignty in a globalised world.

External-global dimension: the risk of gradual marginalisation, a loss of regional and global attractiveness and credibility; and mounting pressure to adapt the multilateral system of global governance to the realities of modern international relations, weakening the EU's role.

THE FIVE STRATEGIC OPTIONS

So, which of the paths open to the EU should it take to put Europe in the best possible position to confront these challenges, and exploit and make the best use of its potential? This report identifies five potential avenues for the EU to go down:

- (1) going back to the basics (undoing the mistakes of the past);
- (2) consolidating past achievements (If it ain't broke, don't fix it);
moving ahead ambitiously (doing more and doing it better);
- (4) leaping forward (economic and political union is the only answer); and
- (5) changing the 'more/less Europe' logic (a fundamental rethink is needed).

To provide a basis for a thorough debate about which path Europe should follow in the years to come, this report examines the underlying rationale behind each option, outlines what type of policy measures might be introduced under each of them, and assesses how effective they would be in responding to the challenges outlined above by analysing the main advantages and disadvantages of each one.

STRATEGIC OPTION 1 **GOING BACK TO THE BASICS**

(undoing the 'mistakes' of the past)

The basic rationale

Supporters of this option insist that the events of recent years have shown that European integration has gone too far; that the euro has become part of the problem rather than part of the solution, poisoning national debates and public attitudes towards the EU; and that the EU should abandon moves towards "ever closer union". Performing a U-turn and undoing past mistakes is the most promising way forward to rescue the most worthwhile result of integration, which is not the euro but the EU's Single Market of more than 500 million consumers. Dismantling the euro in its current form would not lead to the collapse of the Union, but rather herald the start of a more pragmatic, effective approach to European integration.

Key potential measures under this option

- > Undo the 'euro mistake' in an orderly and consensual way by either abolishing it, creating two separate currency areas, or allowing some 'weaker' countries to leave.
- > Carry out an objective review of the EU's powers to identify where cooperation at European level provides real added value and where it does not, leading to a focus on certain key policy areas and the re-nationalisation of others.
- > Limit the role of the European Parliament and European Commission, and enhance the role of national governments and national parliaments in European policy-making.
- > Complete the Single Market by filling in the gaps and updating it for a digital world.

Main advantages and disadvantages

Meeting the socio-economic challenges:

- + Champions of this approach argue it would be the most effective way to deal with threats to social peace and the widening economic gap within the EU by giving Member States a freer hand to tackle the crisis in the way that best suits their circumstances; this would also help to ease tensions between weaker and stronger countries.

- Opponents say abolishing or scaling back the euro would not solve but rather increase Europe's economic and social problems, the costs of 'undoing' it would far outweigh the benefits both at European and national level, and it could have strong negative impact on other policy areas, including the Single Market.

Meeting the political-institutional challenges:

- + Advocates of this option argue that most people are not ready for more integration, and public acceptance of the EU would increase if it concentrated on its 'core business' – i.e. on the Single Market, whose benefits are widely acknowledged.

— Opponents say 'less Europe' would undermine the EU's legitimacy and intensify the crisis of political leadership. Most citizens still support the euro and failing to rescue it would undermine trust in political elites and their ability to master the complex challenges of today's world.

Meeting the societal challenges:

+ Supporters of this option argue that undoing past mistakes, including the euro, would remove some of the biggest bones of contention between Member States; abandoning the quest for "ever closer union" would end fruitless discussions about the EU's final destination; and focusing on 'core business' would make it easier for people to understand what the EU is and how it works.

— Opponents say it is highly questionable whether dismantling the euro would help tackle the societal challenges facing Europe because it would have major financial and economic implications and serious negative political spill-over effects, increasing friction within and between Member States. Also, 'renationalising' powers would weaken countries' ability to respond effectively to today's and future complex challenges at a time of increasing regional and global interdependence.

Meeting the external-global challenges:

+ Supporters argue that this option would repair the damage to the EU's international standing caused by the crisis, and that focusing on the Single Market is the best way to revive the economy and thus increase Europe's international 'clout'. Instead of concentrating energies on vain attempts to rescue the euro and deepen integration, the EU could focus more attention on strengthening its capabilities to make it a more attractive partner for other countries and regions.

— Opponents insist that failing to 'save' the euro would undermine Europe's economic clout and international credibility, reduce Member States' willingness to cooperate in a wide range of areas, and foster a political 'blame game' that could fuel unconstructive competition between governments on key foreign policy issues.

STRATEGIC OPTION 2: **CONSOLIDATING PAST ACHIEVEMENTS**

(if it ain't broke, don't fix it)

The basic rationale

Supporters of this option argue that the EU has introduced most of the reforms needed to overcome the euro crisis and these should be given time to work, with attention focusing now on putting the remaining pieces of the jigsaw puzzle in place. There is a need to be realistic and accept that Member States are not willing or able to go further and pool sovereignty in key areas such as taxation, the budget or social and labour policy, and the EU should, at this difficult moment, steer clear of overambitious attempts to deepen integration which could backfire given negative political and public attitudes in many countries towards the EU and euro. Ultimately, a revival of public support for the EU and euro will depend above all on whether they will be able to deliver, especially in terms of measures to boost growth and employment.

Key potential measures under this option**• To tackle outstanding issues relating to Economic and Monetary Union**

- > More innovative and flexible use of EU structural, cohesion and regional funds and a comprehensive strategy for growth and jobs.
- > A limited extension of economic coordination through 'reform contracts' between Member States and the European Commission, coupled with a limited financial solidarity fund to support targeted national reforms.
- > Full implementation of the new fiscal rules that have been agreed, but no additional rules or enforcement mechanisms.
- > A minimal banking union, including European Central Bank supervision of all major banks and a banking resolution mechanism relying heavily on existing national regulators.
- > Intensified tax cooperation focused on fighting tax evasion and fraud.

• To strengthen the EU's institutional setting and its democratic legitimacy

- > A bigger role for the European Parliament in the governance of the euro zone.
- > Greater involvement of national parliaments in EU policy-making.
- > A stronger role for euro countries in framing and deciding policy by strengthening the Eurogroup of finance ministers, holding Euro Summits, etc.
- > Gradual improvements in the functioning of the European External Action Service.

Main advantages and disadvantages***Meeting the socio-economic challenges:***

- + Supporters of this option argue that while the EU may not be completely out of the crisis woods yet, efforts at European and national level are bearing fruit, and will help to counter threats to social peace and the widening economic gap within the EU. Ultimate success in overcoming the crisis now depends mostly on individual Member States' ability and willingness to continue putting their own houses in order.

- Opponents argue that a reactive and minimalist approach will be insufficient to address Europe's economic and social problems because the situation on the ground remains very volatile and difficult, more needs to be done to address the root causes of the crisis, a reluctance to overcome EMU's remaining structural deficits could undermine confidence once again, and continuing hardship could boost anti-EU/euro sentiment.

Meeting the political-institutional challenges:

- + Advocates of this option say public support for the EU will increase as the threat of a euro melt-down subsides and as the economy recovers, and focusing on effective policies to deliver concrete results will do more to boost the EU's legitimacy than attempting overambitious and risky institutional reforms.
- Opponents argue that without more radical reforms to enhance democratic legitimacy and accountability, the public may not accept more financial, fiscal and economic coordination at EU level. The growing perception that citizens cannot influence the Union's complex decision-making machinery also needs to be addressed, as do the limits on the EU's capacity to deliver effective responses to key challenges.

Meeting the societal challenges:

- + Supporters of this option argue that once Europe emerges from the crisis, there is a good chance Member States will overcome their divisions and citizens will recognise how interdependent their countries are and how powerless individual countries are to tackle most issues alone in a globalised world. Thus, recent events could prove to be a unifying moment in EU history and a source of collective identity, strengthening the perception that there is no viable alternative to European integration.
- Opponents question this assumption, especially if the crisis drags on for years as might happen if Member States take a cautious, reactive approach. The crisis has already widened old cracks and opened new wounds which will take time to heal, and the seeds of division sowed since 2010 risk eroding the very foundations of EU integration. Thus, there is a need now for a thorough and honest transnational public debate about the crisis and the future of the EU.

Meeting the external-global challenges:

- + Advocates of this option say the EU should concentrate all its political energy on restoring confidence in the euro, and thus in the Union, as the best way to avoid gradual marginalisation on the international stage. The positive experience of mastering the crisis through more centralisation could eventually have a knock-on effect in areas such as foreign and defence policy.
- Opponents say continued 'navel-gazing', focusing solely on tackling the crisis, would be a mistake: there are other challenges that merit equal attention if the EU wants to avoid further marginalisation, such as the need to enhance foreign and security policy cooperation.

(doing more and doing it better)

The basic rationale

Supporters of this option argue that simply consolidating past achievements will not be enough: the crisis is not over, much more needs to be done to tackle its root causes, and the EU must be more ambitious. Further integration (with more powers for the EU to deliver effective policy responses to address key challenges), measures to boost the Union's democratic legitimacy in the public's eyes, and an honest transnational public debate about the EU's future are vital not only to overcome the crisis but also to prepare for future challenges. This will require significant changes to the EU Treaties, but will have to be done cautiously, step by step, to avoid creating new dividing lines between EU countries. An increasingly multi-speed approach seems likely, but a permanent 'multi-tier Europe' must be avoided.

• To strengthen financial and economic cooperation:

- > Intensifying macroeconomic coordination and introducing economic guidelines setting the Union's multiannual priorities prepared by the Commission and adopted by the Council and the Parliament.
- > Increasing the EU budget and allowing the Union to raise at least some of its own revenue, although spending priorities/ceilings would still need to be agreed by all Member States.
- > Creating a 'Budget Tsar'/'Super Commissioner' with the power to reject/veto national budgets if they do not comply with European rules.
- > Completing a limited banking union based on a Single Supervisory Mechanism and a common European resolution mechanism with a financial backstop able to use resources from the European Stability Mechanism.
- > Introducing short-term European public debt issued jointly by euro countries (Eurobills) and/or some mutualisation of debt in the euro zone, with strict conditions attached (Redemption Fund).
- > Establishing a fund to provide counter-cyclical financial aid to help countries withstand national economic shocks that could undermine the stability of the entire euro area.
- > Incorporating the ESM and the fiscal compact treaty into the EU treaty framework.

• To strengthen the EU's political-institutional setting and its democratic legitimacy:

- > Electing a limited number of (extra) MEPs in a single constituency on the basis of a transnational EU-wide list of candidates, which could also generate candidates for 'top' EU jobs.
- > Establishing a clearer, more direct link between European election results and (s)electing the Commission president; reducing the number of Commissioners, and giving the president more leverage in choosing them.
- > Extending MEPs' powers, especially in areas where the EU now has more authority, and creating a 'euro committee' within the European Parliament for MEPs from euro-zone countries with special decision-making powers.
- > Involving national parliaments more closely in EU policy-making at both national and European level.

- > Changing the rules for amending EU treaties to allow them to enter into force even if some Member States have not ratified them.
- > Holding a European Convention to debate the EU's future, involving government and Commission representatives, plus national parliamentarians and MEPs.
- > Introducing a more coherent representation of the EU in international financial institutions such as the IMF, World Bank and G20.

Meeting the socio-economic challenges:

Advocates of this option argue that a reactive crisis recipe will not be enough to address the socio-economic challenges facing Europe: more ambitious measures, including automatic stabilisers, some form of joint financial liability and a relatively strong banking union, are needed to stabilise and gradually improve the economic situation, thereby stimulating growth, reducing the threats to social peace and narrowing the economic gap within the EU.

There are three main lines of opposition to this approach, with some arguing it would not go far enough to help those suffering now because of the crisis or to restore the EU's credibility; others insisting it would lead the EU in the wrong direction and reduce governments' willingness to introduce much-needed national structural reforms; and others warning that attempts to agree the required changes to the EU Treaties could not only lead to yet another reform deadlock, but also provoke an even more severe crisis than the one Europe has just been through.

Meeting the political-institutional challenge:

Advocates say this option would enhance the Union's legitimacy in the public's eyes and increase interest in European elections and policy-making, boosting support for the EU and countering challenges to traditional concepts of political representation. 'Personalising' and 'politicising' the EU would strengthen European democracy.

Opponents insist EU history shows this does not work in practice (with more power for the European Parliament matched by falling turnout at European elections) and could backfire if the EU lacks the tools to deliver concrete results, fuelling public disillusionment – and it is very unlikely to get such powers in the current climate.

Meeting the societal challenges:

Supporters of this option say a public debate about the EU's future is vital to counter resurgent national stereotypes, chauvinism etc. This must take place in public via a European Convention with a comprehensive mandate to develop a new treaty. This would raise awareness of the EU's (potential) added value and give people a clearer picture not only of its strategic goals, but also the limits of the integration process.

Opponents question whether such a public debate would in fact help to develop a new 'narrative' for European integration and bridge divisions. They warn that it could backfire by exposing

significant differences in Member States' positions, undermining integration successes of the past or hampering cooperation in other areas.

Meeting the external-global challenges:

Advocates of this option argue that a readiness to reform the EU's institutional architecture would provide an opportunity not only to tackle the crisis more effectively, but also to enhance foreign and security policy cooperation at EU level.

Opponents argue that Europe's role as a regional and global actor would be further undermined if the EU gets bogged down once again in 'navel-gazing' through a cumbersome and time-consuming reform exercise.

STRATEGIC OPTION 4: **LEAPING FORWARD**

(economic and political union is the only answer)

The basic rationale

Supporters of this option say recent experience has provided ample proof that the EU is insufficiently equipped to face current and future challenges, and that it needs to take a major qualitative leap towards a fully-fledged economic, fiscal, financial, social and political union, with a strong European executive ('European government') and legislature (parliament) able to take autonomous decisions reflecting genuine European interests. European integration must overcome the basic contradiction between having a common 'post-national' currency and Member States defending 'national interests'. Potential opposition from some countries should not prevent the 'willing and able' from making a major leap forward, even if this leads to a 'core Europe' including only those countries ready to deepen integration significantly.

Key potential measures under this option

• To foster and deepen economic and monetary union

- > Having a much larger EU budget funded by taxes levied at the European level, which would be able to decide autonomously what to spend the money on.
- > Establishing a European treasury to manage this budget, equipped with unlimited/substantial borrowing capacity and the power to issue European public debt.
- > Transferring economic sovereignty to the European level, with a substantial pooling of powers in areas such as taxation, energy, labour, industrial and social policy.
- > Giving Europe the power to veto national budgets that do not meet fiscal commitments.
- > Establishing a European Monetary Fund (EMF) with more powers than the existing bail-out mechanism and largely independent of national governments.
- > Creating a full, genuine European banking union with an independent supervisory system, a single banking resolution authority fully independent from national regulators and a single deposit guarantee scheme

• To strengthen the EU's political-institutional setting, resulting in much deeper integration:

- > Electing a politically partisan European executive (government) headed by an elected president/prime minister.
- > Maximising the European parliament's powers, giving it an equal say in all EU policy areas, the right to propose EU legislation and elect the head of the European executive.
- > Electing MEPs via a Europe-wide list of candidates chosen by European political parties.
- > Introducing a new procedure for changing Europe's 'constitution'/'fundamental law', with reforms adopted by a 'super-qualified' majority and significant changes put to a Europe-wide referendum.
- > Moving to a single European seat in international organisations such as the International Monetary Fund, World Bank, G20 and United Nations Security Council.
- > Deepening integration in foreign, security and defence policy, including the introduction of a European foreign minister and moves towards the creation of a 'European army'.

Main advantages and disadvantages

Meeting the socio-economic challenges:

Supporters of this option say it is essential to overcome the crisis, fully restore confidence in the euro and avoid history repeating itself. Europe can only address the impact and root causes of the crisis if those who are ready and able to do so move towards full economic and political union. This would create actors at European level strong and independent enough to strike compromises in line with common European interests.

Opponents argue that it would move Europe in the wrong direction: 'economic federalism' would damage the competitiveness of Europe's economy, a 'transfer union' in which stronger countries subsidise weaker ones would do more harm than good, and the creation of a 'core' or 'two-tier' Europe could strike at the heart of the Single Market. Overambitious attempts to create some kind of 'federal entity' could fail and fundamentally undermine confidence in the euro and the EU in general.

Meeting the political-institutional challenges:

Advocates of this option say far-reaching political-institutional reforms of the type outlined above would close the democratic deficit and strengthen Europe's problem-solving capacity, thus helping to restore confidence in the ability of decision-makers to provide adequate policy responses to pressing problems and boosting public support for the EU. More personalised, parliamentarised and politicised policy-making would also stir public interest in European elections and policy-making.

Opponents maintain that attempting to apply national models of democracy at EU level would not work and would be counterproductive, given strong opposition from most national political elites and citizens to giving Europe more powers and the trend towards considering the re-nationalisation of policy-making in some areas. National democracies are not perfect and having a more technocratic institution like the EU, which is not predominantly guided by electoral pressures, could also be regarded as an asset.

Meeting the societal challenges:

Supporters argue that this option would give Europe a new sense of direction and clearly demonstrate its added value, thus helping to create a common vision of European integration and overcome divisions between Member States. It would also reduce the complexity of the EU's governance system, making it easier for Europeans to understand how 'Europe' works.

Opponents say it is highly doubtful that Member States would be able to overcome their differences and agree on the main features and details of an economic and political union, and that this could in fact create new divisions and lead to even greater tensions between Member States.

Meeting the external-global challenges:

Advocates say this option is the only way to counter the risk of gradual marginalisation internationally, because the EU will only be able to speak with 'one voice' and play a key

international role to match its potential if governments are ready to pool sovereignty at Union level and allow a 'European government', represented by a European foreign minister, to conduct a truly common foreign and security policy.

— Opponents say this is unrealistic: Member States will never give up their sovereignty over issues of 'life and death'; i.e. foreign policy and especially security and defence. Some also argue that a single European seat in international institutions would not strengthen, but rather reduce, Europe's weight and manoeuvring power.

STRATEGIC OPTIONS **CHANGING THE 'MORE/LESS EUROPE' LOGIC**

(a fundamental rethink is needed)

The basic rationale

Supporters of this option believe the traditional debate about European integration along the lines of more or less Europe has been exhausted. The experience of the last six decades has shown that a further transfer of national political and democratic concepts to the European level would not work in the absence of truly European transnational political debates and is not really desirable taking into account the already visible deficits of national democratic systems. They say the state of the Union and complexity of current and future challenges require a more fundamental rethink of European cooperation and a longer-term approach aimed at strengthening the EU's ability to respond to the challenges that lie ahead, making it more accountable to the public for its actions, finding new ways to involve the public in policy-making, and boosting the EU's capacity to safeguard the fundamental rights of its citizens and guarantee their basic social rights by strengthening the Union's caring dimension.

Key potential measures under this option

- > Better monitoring, auditing and control of EU spending, including creating a 'European Public Prosecutor' to investigate, prosecute and bring to justice those who commit criminal offences affecting the Union's financial interests.
- > Increased citizens' participation in EU policy-making via new instruments encouraging active involvement in decision-making (for example, through 'regional referenda' on how EU funds should be spent at the regional/local level).
- > Strengthening the EU's capacity to ensure respect for civil rights and fundamental freedoms when they are encroached upon at national level.
- > A greater focus on long-term policies of direct benefit to citizens, from safeguarding minimum social rights to guaranteed access to education and health services and delivering sustainable economic growth beyond a simple GDP orientation.
- > Establishing a "Charter of European Citizenship", setting out people's individual and collective rights, to strengthen their sense of what it means to be an EU citizen.
- > Setting up new consultation groups including NGOs, regional and local bodies, and experts in particular areas to consider long-term policy options and inform decision-making at EU level on issues such as migration, mobility and the economy.

Main advantages and disadvantages

Meeting the socio-economic challenges

Champions of this option say it would give the public a greater sense of ownership of EU policy-making, help to ease social tensions by safeguarding basic rights, and enable the EU to do more to support recovery in countries hit hardest by the crisis.

Opponents say the suggested measures are either not sufficiently bold or the wrong recipe to address the root causes of the crisis and current and future socio-economic challenges.

They would be too costly, too difficult to implement and divert attention away from the need to create a Genuine Economic and Monetary Union.

Meeting the political-institutional challenges

- + Advocates of this option argue that EU fortunes will improve when citizens feel fully engaged, with more direct involvement in – and influence over – European policy-making and a greater sense that the Union is working for their best interests.
- Opponents say current EU structures already include consultation with citizen groups and other democratic checks and balances, and the focus now should be on strengthening national governments and parliaments as key sources of EU legitimacy, not on bolstering EU bodies and institutions.

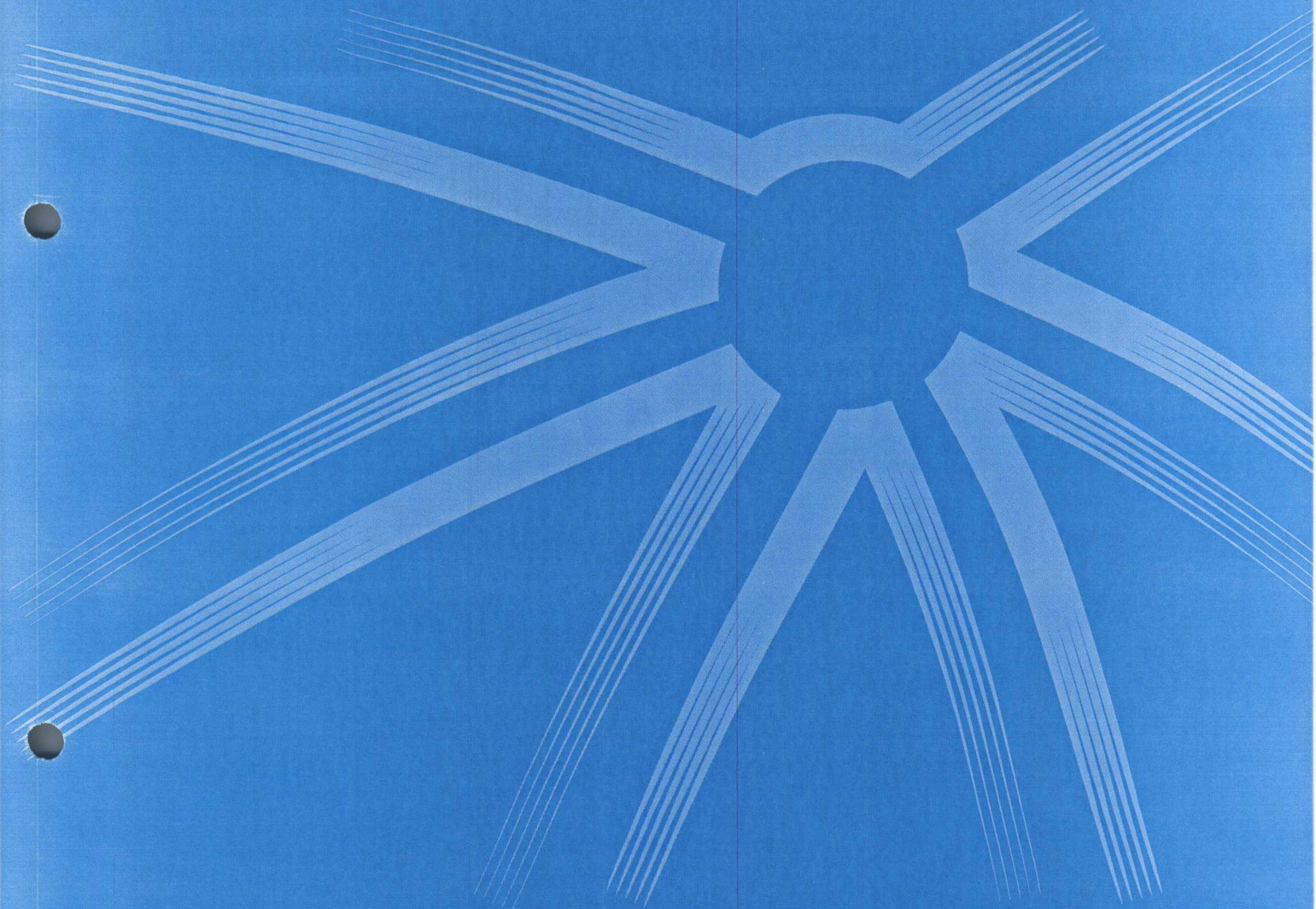
The societal dimension

- + Supporters of this option say it would improve public understanding of European integration and the value of EU membership, and help to create a stronger understanding of what Europe is 'for' and thus a greater sense of 'belonging'.
- Opponents question whether this option would really give people a new sense of where the EU is headed, or enhance their understanding of what the Union does. A political system modelled more on national democracy is needed to make it easier for citizens to understand how 'Europe' functions.

Meeting the external-global challenges

- + Champions of this option say that moving away from a "more or less Europe" approach would boost the EU's global credibility, with a longer-term strategy that goes beyond a narrow focus on GDP growth underscoring Europe's position as a role model and a key world player.
- Opponents say this option does not deal with the reasons why Europe is facing the risk of gradual marginalisation in international affairs, because it fails to emphasise the need for much closer cooperation on foreign, security and defence policy and could further contribute to the tendency of policy-makers getting lost in navel-gazing and introspection.

PART 1



PART 1: THE 'STATE OF THE UNION'

Uncertainty has been one of Europe's most loyal companions. Over the last decade, the European Union (EU) has resembled a sedate tanker with a glorious history but lacking a command bridge to steer it towards a clear destination. But in the near future the EU and its members will need to take strategic decisions about the continent's future. In 2014, when a new EU leadership team takes office in the wake of the European elections, following years of deep crisis which exposed and exacerbated some of the EU's biggest deficiencies, national capitals and 'Brussels' will together have to decide which way they want to go. But what are the strategic options open to them? And which of the potential alternative routes has the potential to put the EU in the best possible position to master the many internal and external challenges ahead?

Since the 1950s, European integration has been the product of a grand aspiration born of the horrific experiences of two devastating World Wars. Inspired by the imagination of visionaries such as Robert Schuman, Jean Monnet and Winston Churchill, and guided by the political courage of political leaders like Konrad Adenauer and Charles de Gaulle, six European countries – Belgium, France, Germany, Italy, Luxembourg, and the Netherlands – embarked on a journey without a clear destination, but with hopes of breaking Europe's century-old cycle of violence and vengeance.

That journey was an experiment aimed at securing peace, freedom, stability and security, and providing a sound basis for economic and social prosperity throughout the continent. Six decades later, it has reached a level the founding fathers might have aspired to but were not sure Europeans could ever reach: multiple rounds of enlargement to the west, south, north and east of the continent which have taken the EU from six to 28 members; the launch of the Single Market with its four freedoms; the abolition of border controls; the establishment of a common currency; and, most significantly, the absence of military conflict among the EU Member States.

This process is not – and never was – perfect, and has not been without major ups and downs. Indeed, the history of European integration is littered with multiple crises. In the 1950s, it faltered with the failure to establish a European Defence Community and a European Political Community. In the 1970s and early 1980s, the continent lived through an extended period of Eurosclerosis, with the integration process losing dynamism as Europe wrestled with the consequences of an oil crisis, fiscal problems and exchange rate turbulence.

The last 20 years have been dogged by a series of reform crises owing not only to differences among Member States, but also to an emerging gap between the negotiations between governments and the perception of the European project by Europe's citizens. The initial Danish 'Nej' to the Maastricht Treaty in 1992, the Irish rejection of the Nice Treaty in 2001, the 'constitutional trauma' of the French 'Non' and Dutch 'Nee' to the Constitutional Treaty in 2005, and Ireland's initial refusal to endorse the Lisbon Treaty in 2008 show that the margins of popular consent on the direction of European integration have been progressively shrinking.

But despite this long list of heavy blows, the European project has always bounced back and, up to recently, emerged stronger than before. The founding of the European Economic Communities (EEC) in the 1950s (starting with functional economic rather than political integration), the Single European Act (1985) and the Europe '92 project establishing a Single Market, the creation of a borderless Europe through the Schengen Area, the establishment of joint policies and institutions in the fields of foreign, security and defence policy, and the Lisbon Treaty's entry into force in 2009 all demonstrate that although European integration had not been crisis-resistant, it had proven to be crisis-proof. This probably reflected a conscious or subconscious awareness that integration might not have been perfect, but probably the best option to secure peace, freedom, stability, security and prosperity.

However, the deep crisis that has impacted Europe since 2009 has compounded the legitimacy deficit that has affected the Union for at least a decade. Deep cracks have appeared in the European project. The euro-zone crisis triggered by a severe global financial and economic crisis has put European integration to a major test, more profound and serious than ever before. The experience of recent years has revealed and exacerbated significant deficiencies in the EU's economic and political construction. It cast doubt on the fundamentals of the European project and raised questions as to whether Europe will be able to effectively deal not only with the immediate crisis, but also with the many other challenges the 'old continent' is and will be confronted with in the years and decades to come.

Since 2010 the unthinkable became thinkable: that one or more countries could leave the euro; that the euro zone could implode; or even that the European Union could disintegrate. As a consequence, there are increasing concerns and a growing disbelief among citizens that the EU will be able to provide an added-value in effectively addressing the manifold future internal and external challenges.

Two years after the collapse of Lehman Brothers in 2007, Europe became the epicentre of the biggest financial and economic crisis since the Great Depression in the 1930s. What began as a government debt crisis in one of the smallest economies on its periphery, representing only 2% of the EU's combined economic output, soon exposed the fundamental deficits of a fully-fledged monetary union without an equally strong economic and political dimension. As the Greek crisis escalated in early 2010, many European leaders wanted to believe its problems were unique, but the markets followed their own logic and the crisis quickly spread to other EU countries. As the dominos started to fall, it became obvious that the EU – and especially the euro area – were insufficiently equipped to weather the storm; that Economic and Monetary Union (EMU) lacked the necessary institutional structures, procedures, rules and instruments to prevent such a crisis from beginning, spreading and deepening.

To make matters worse, Europe is facing not just one but a number of highly complex, multi-rooted and highly interlinked crises, which together have produced a crisis of confidence, undermining the trust of markets, citizens, elites, and global partners in the future of the euro and the EU itself. Europe faces a *banking crisis* in a highly interwoven European financial system which includes illiquid or even insolvent financial institutions burdened by high levels of public and private debt; a *public debt crisis* prohibiting or endangering over-indebted

governments' access to capital markets; a *private debt crisis* putting additional strains on the banking sector in many EU countries; a *competitiveness crisis* illustrated by current account deficits in some EU countries, especially on Europe's periphery, and by the limited ability to adapt Europe's economy to the challenges of a more competitive global economic environment; an *institutional crisis* characterised by the rising significance of national governments in EU policy-making and a lack of leadership at the European level while responsibilities have been shifted to the Union without a parallel delegation of actual powers; a *social crisis* caused by deep, long-lasting recessions and unbearable levels of unemployment and by more fundamental and unresolved challenges related to ageing societies and shrinking populations – a social crisis which requires a renegotiation of the social contract within Member States and a renegotiation of the 'solidarity contract' between EU countries; and a *political crisis* characterised by high levels of volatility and instability and the rise of populist anti-establishment/elitist, anti-EU/euro and anti-immigration parties and movements within Member States and a resurgence of distrust among EU countries leading to high levels of fragmentation not only between governments but also between national societies.

There was and is no textbook that European and national decision-makers could turn to for advice on how to respond to these unprecedented crises. Responses have been often slow, insufficient and sometimes ill-advised, and the results sometimes meagre and disappointing.

However, many things that seemed impossible some years earlier have happened since the outbreak of the crisis. We have witnessed huge bailout programmes for Greece, Ireland, Portugal, and Cyprus, with strong conditions attached and supervised by the so-called Troika of the European Commission, International Monetary Fund (IMF) and European Central Bank (ECB). We have seen the establishment of two multi-hundred billion euro rescue mechanisms (firewalls), including the *ad hoc* European Financial Stability Facility (EFSF), which provided financial assistance to euro countries between 2010-2013, and the European Stability Mechanism (ESM), which is the permanent bail-out mechanism facilitating loans and other forms of financial assistance to euro-area countries. We have observed unprecedented fiscal consolidation efforts in the deficit countries, accompanied by deep and painful structural reforms – bold and fast in some countries, like Ireland; often reluctant and slow in others, such as Greece. We have seen the ECB *de facto* recapitalising private banks and directly purchasing government bonds. Last but not least, we have witnessed a strengthening of EMU governance, especially within the euro area, involving a tougher Stability and Growth Pact (the 'six pack' and 'two pack'); the introduction of much stronger euro-zone economic governance to enhance coordination of key economic and fiscal priorities (including the European Semester); the creation of an annual system of macroeconomic surveillance to assess the risks of macro-economic imbalances and vulnerabilities; and the entry into force of an intergovernmental fiscal compact treaty – the Treaty on Stability, Cooperation and Governance (TSCG) – which includes the introduction of binding 'debt brakes' at national level.

But despite all these efforts, the EU and its members repeatedly failed to get ahead of the curve and persuade the 'markets' and citizens that they were capable of meeting the multifaceted challenges posed by the crisis. At times, it seemed that the 'crisis snowball' might spiral

out of control and trigger an avalanche with the potential to bury the euro and the European project beneath it.

Today, the situation remains highly volatile, and it will be the task of future historians to assess what happened and judge how significant this period was for European integration. At the time of writing (November 2013), fears of the worst-case scenario have receded, for two main reasons: the ECB's promise to do 'whatever it takes' to guarantee the stability of the euro and the substantially reduced risk of a country leaving the common currency have boosted confidence and significantly reduced the danger of a euro meltdown.

But the day-to-day reality for ordinary people remains very difficult in a large number of Member States. The crisis is by no means over and there is no room for complacency, given the continuing fragility of the economic, fiscal, social and political situation: the European banking system is still highly fragmented; government debt levels are still rising mostly due to continuous economic contraction; the social and political situation in many EU countries is tense; the rise of populist forces on both the left and right of the political spectrum has raised concerns about the state of democracy in Europe; and, last but certainly not least, collective efforts to overcome the euro's remaining structural shortfalls have lost momentum since late 2012, with the decreasing threat of a euro meltdown limiting governments' readiness to take bold decisions at European level.

All this is happening while Europeans are not living in a vacuum. The world around us is in the midst of a major transformation, and the EU and its members are under pressure to respond to fundamental changes 'out there', with global political and economic affairs in a major state of flux. Those who, 20 years ago, predicted the "end of history" have been proven wrong. History is very much in the making – even if we, as spectators from the inside, do not always seem to grasp the complexity and speed of developments as well as the extent of change.

It is impossible to predict with any certainty what the future global order will look like, which powers will prevail and whether the new system will be characterised by 'confrontational rivalry' or 'cooperative interdependence' between major players. Despite different patterns of relative rise or decline, all major international players expose a considerable degree of domestic fragility. But on balance we are witnessing a shift towards a less transatlantic and less Eurocentric world. The ability of the 'West' to influence international affairs is being put to test as its societies grow older and its share of world population and economic might is expected to further shrink. Under these conditions, Europeans have to face the challenges related to increasing global economic competition by individually and collectively preparing themselves for the transition of Europe's economy.

In the new global landscape, Europe is no longer a centre of gravity in international political and economic affairs, as global developments are increasingly shaped in other parts of the world while the 'old continent' is mainly preoccupied with itself. As a consequence, there are severe doubts as to whether the European Union and its members will be able forge the process of growing global interdependencies and connectivity.

Globalisation is and will continue to be the most significant factor shaping international politics and Europe – as in 1945 and in 1989 – finds itself once again at a crossroads while things could move in two very opposite directions: Europe could either face creeping decline, gradual marginalisation and in the worst case even global irrelevance or co-determine the future rules of global governance. While the distribution of power detracts from Europe's clout on the global stage, the EU remains a pivotal international actor whose combined resources can make a positive difference to international cooperation, if mobilised for the pursuit of clearly defined goals. Whether Europe will be willing and able to act strategically to advance its values and interests in a changing world remains unclear and will very much depend on developments at home.

Taking into account the current state of the Union it is questionable whether Europe will, once again, emerge stronger from the crisis. But one thing seems certain: if Europeans want to overcome the current malaise and also prepare themselves for the internal and external challenges ahead, they will soon have to make strategic choices about the EU's long-term future.

THE KEY CHALLENGES FACING EUROPE

But what are the main challenges that Europe will be confronted with in the months and years to come? The answer to this question is complex: there is no one single challenge, nor even a clear hierarchy of issues, but rather a series of interlinked internal and external ones that Member States and the EU institutions will have to address. These fall into four broad dimensions: the socio-economic, political-institutional, societal and external-global.

The socio-economic dimension

With respect to the socio-economic dimension, Europe faces three major challenges:

- **Threats to social peace resulting from indignation and despair** caused by high levels of (youth) unemployment in most Member States; pressures on the welfare state stemming not only from the crisis but also from ageing populations and other structural challenges related to demographic change; growing pressures on, and a gradual erosion of, the middle classes; widespread perceptions of (increasing) social injustice; and a lack of upward social mobility, especially among young people (the 'intergenerational divide').
- **Increasing economic divergence between EU countries** due to a lack of competitiveness of certain EU economies; 'beggar thy neighbour' policies because of insufficient economic co-ordination between Member States; persistently high public and/or private debt levels in some EU/euro countries; and the lack of mechanisms between weaker and stronger euro countries to cushion economic and social shocks that hit some harder than others.
- **The structural deficits of a fragmented euro area** due to an incomplete and unbalanced Economic and Monetary Union that still lacks adequate fiscal, financial and economic integration.

The political-institutional dimension

With respect to the political-institutional dimension, Europe faces three key challenges:

- **Insufficient public support for the EU** because of a widespread and growing feeling among citizens in both weaker and stronger Member States that they are directly affected by decisions taken 'in Brussels' which they cannot influence and which do not (always) reflect their interests and point of view; national elites acting as 'gatekeepers' and looking for 'scapegoats' when talking about the EU to national electorates; a complex and often incomprehensible EU decision-making system, which, at a time of crisis, relies heavily on decisions taken behind closed doors and often driven by powerful national governments.
- **Multiple leadership crises at national and European level** due to the failure of political elites to provide timely, effective and adequate policy responses; the inability of politicians to effectively reconcile their various roles at different levels (EU, national and regional); the lack of a coherent and politically accepted 'integration engine' commensurate with the role previously played by the Franco-German tandem; the inability of the European Commission to provide strategic guidance at supranational level along the lines of a 'common European interest' as it lacks political might, sufficient means/tools and – at times – support from key Member States.
- **Growing challenges to the traditional concept of political representation**, leaving room for new forms of opposition, often from the fringes of the political system and characterised by radical/populist rhetoric; the empowerment of individuals through higher levels of education and the availability of new technologies; the multiplication of different and potentially conflicting sources of identity at local, regional, national and transnational level; challenges linked to openness, diversity, plurality and multiculturalism which spur immigration-related problems; the delegation of decision-making powers to beyond the national level and to institutions without a popular mandate; the impact of non-traditional means of communication and interaction via social media.

The societal dimension

With respect to the societal dimension, Europe faces three major challenges:

- **The lack of a common understanding and vision of European integration (narrative; 'leitmotiv')** – of what Europe is for and what is in it for 'me' – due to a lack of awareness or relative neglect among citizens, including elites, of the EU's core added value (peace, prosperity and well-being, collective global influence) and the nature of its identity (i.e. distinct historical experience, rule of law, collective rules, the European social model, protection of individual rights). All this creates ambiguity about what unites Europeans, making it harder to foster the shared sense of identity and common destiny needed to generate active support (and not just passive consent) for European integration. There is also a growing perception that 'Europe' is not 'part of the solution' but 'part of the problem', souring national debates and younger generations' attitudes towards the Union.
- **Increasing divisions between Member States** leading to a (re-)surfacing of national stereotypes, nationalistic chauvinism and historical resentments, and an ever-louder, over-simplistic and harmful blame game between Member States because of differing interpretations of the root causes, nature and complexity of the crisis; disagreements over how to respond

to the crisis at national and European level; conflicting visions of the future of European integration; and a reluctance to address sensitive questions openly because of 'political correctness' and fears that the debate might degenerate and become counter-productive.

- **Lack of knowledge about the EU and simplistic perceptions of national sovereignty in a globalised world** due to ignorance about the functioning, powers and limits of the EU and of individual EU institutions; insufficient awareness of the consequences of the high level of interdependence between EU countries; idealistic views of national sovereignty and the 'power' of nation states in a globalised world.

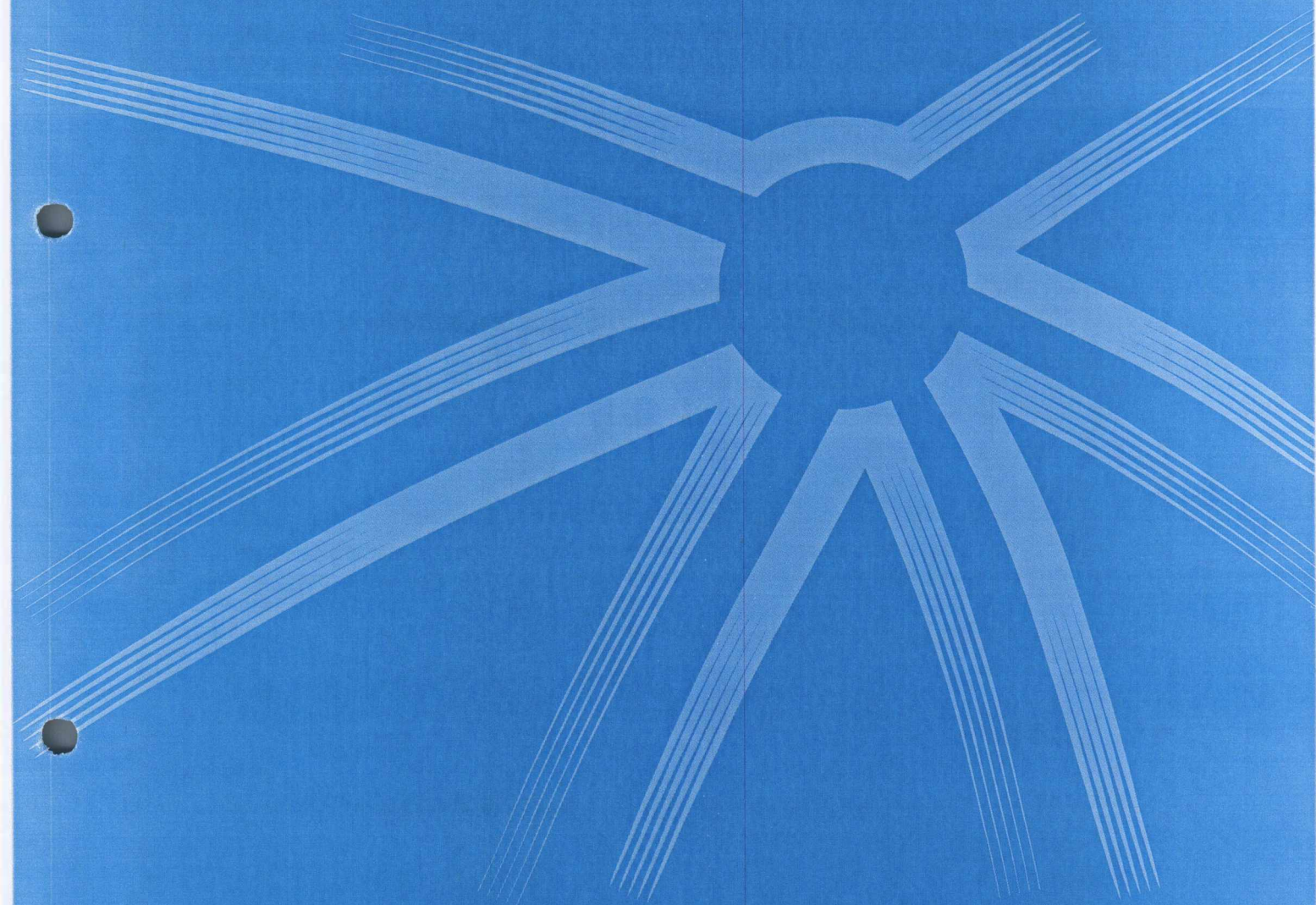
The external-global dimension

Regarding the external-global dimension, Europe faces two major challenges:

- **Danger of gradual marginalisation, loss of attractiveness and credibility on the global level and in the EU's neighbourhood** as influence shifts globally and economic, political, sociological and ideological competition increases; inadequate attention paid to regional and global affairs because of an enduring preoccupation with internal affairs and crisis-related 'navel-gazing'; the damage done to the EU/euro's image outside its borders by the crisis; and the persistent inability of the EU to act jointly and speak with one voice in the global arena because of the lack of a shared 'strategic vision' of Europe's role and core interests and insufficient support from Member States.
- **Pressure to adapt the multilateral system of global governance to the new realities of international relations (weakening the EU's role) and risk of gridlock**, given the limited ability of individual countries to respond effectively to global challenges (e.g. climate change; resource scarcity/security; economic imbalances; migration; nuclear proliferation; international terrorism) in a highly interdependent and competitive world; the lack of effective global rules and mechanisms to enforce them; growing question marks over the legitimacy of existing global institutions because they fail to reflect the emergence of 'new' powers demanding a stronger, more equal say; the prospect for a downsizing of the weight of EU Member States in key global bodies to meet the demands of others; and an increasing risk of stand-offs between major powers (e.g. competition over scarce natural resources; 'currency wars').

So, what can and should the EU and its members do to address this long list of socio-economic, political-institutional, societal and external-global challenges effectively? Which of the alternative paths available should they pursue to put the continent in the best possible position not only to confront the many risks and uncertainties it faces, but also to exploit and make the best use of all of Europe's potential? The next part of this report examines the strategic options available and considers how effective each of them would be in responding to these challenges.

PART 2



PART 2: FIVE STRATEGIC OPTIONS

To assess which path Europe should follow in the years to come, we first need to identify the main potential strategic options available and the basic rationale underlying each of them; consider the sorts of measures that would be possible and might be introduced if this path was chosen; and evaluate the key advantages and disadvantages of each option against the backdrop of the challenges facing Europe outlined in Part 1 of this report.

Five different potential avenues seem possible, which can be loosely described as:

- (1) going back to the basics (undo the mistakes of the past);
- (2) consolidating past achievements (if it ain't broke, don't fix it);
moving ahead ambitiously (do more and do it better);
- (4) leaping forward to economic and political union (economic and political union is the only answer); and
- (5) changing the 'more/less Europe' logic (a fundamental rethink is needed).

GOING BACK TO THE BASICS

(undoing the 'mistakes' of the past)

The basic rationale

Supporters of this option argue that the events of recent years have clearly shown that European integration has gone too far, and that the EU and its members should abandon moves towards "ever closer union". They should instead acknowledge that the EU will not, and should not, ever become an economic and political union; quite the opposite: performing a 'U-turn' and undoing the mistakes of the past is the most promising way forward if Europeans want to rescue the most worthwhile result of integration, which is not the euro in its current form but the Single Market.

Proponents of 'going back to the basics' stress that national governments and parliaments are the key sources of sovereignty, democracy and legitimacy, and insist that citizens and political elites should not willingly surrender their national identity and powers in exchange for a diffuse and in many ways artificial European identity. They view European integration as, first and foremost, a way to find functional solutions to concrete policy problems rather than the pursuit of vain attempts to create an artificial sense of shared community among EU citizens ('European demos') as the basis for building a kind of European federal 'superstate'.

They also insist that recent experience has shown the euro system does not work: it has become 'part of the problem' rather than 'part of the solution', poisoning national debates and public attitudes towards the EU, especially among younger generations. Policy-makers at European and national level overestimated the transformative power of the euro: it has not led to a sustainable narrowing of the gap between rich and poor EU countries and regions, but rather to increasing economic and social divergence. Euro-zone membership is hampering national governments' efforts to tackle the crisis, given the limits on their autonomy in economic policy-making and inability to devalue 'their currency' to increase their competitiveness *vis-à-vis* other Member States and non-EU countries.

Therefore, champions of this option argue that striving to create a so-called Genuine Economic and Monetary Union (GEMU), which aims to go much beyond the current level of EMU integration, is misguided. EU countries – including euro-area governments, parliaments and citizens – are not really willing to do what is ultimately required to preserve the common currency. Almost nobody is prepared to take the steps needed to move towards a fully-fledged financial, fiscal, economic and social union, which would entail a European economic government, a major transfer of powers to the EU level in areas such as taxation, social and labour policy, and the creation of some sort of 'transfer union' where stronger countries subsidise the weaker ones, financed largely via a central budget funded through taxes levied at European level.

Under all these circumstances, dismantling the euro area in its current form in an orderly fashion and concentrating on the EU's most successful 'core business' (i.e. the Single Market) would, for supporters of this option, not mean a breakdown of the EU but rather herald the beginning of a more pragmatic and promising approach to European integration. A re-start that would enable the European Union and its members to concentrate on delivering policies addressing the actual challenges 'out there' – including the effects of a globalising world, entrepreneurial barriers of an incomplete Single Market, climate change, resource scarcity, increasing economic competition – and not on fruitless attempts to 'fix the unfixable' and chase the undesired.

Key potential measures

Policy measures that would be possible and might be introduced under this option include:

- **Undoing the 'euro mistake'**, in an orderly and consensual fashion, by either **abolishing the euro** and returning to national currencies; introducing **two separate currency areas** within the EU (a 'hard' northern euro and a 'weaker' southern euro); or **reducing the size of the euro area**, with some economically, socially and politically weaker countries leaving voluntarily.
- **Carrying out at EU level an objective review of the Union's powers and track record** to identify where cooperation at European level has no significant added value. This could lead to a **focus on certain key policy areas and objectives** (e.g. the completion of the Single Market) and to a **re-nationalisation of others**.
- **Changing the way money from the EU budget is spent** to focus on future-oriented policies such as research and innovation aiming to strengthen Europe's global competitiveness (and cutting others such as the Common Agricultural Policy).
- **Completing the Single Market** by filling in the remaining gaps and modernising it to the realities of an increasingly digital world and **strengthening strategic partnerships with key actors to support trade and investment opportunities** like the initiative to create an integrated transatlantic market (Transatlantic Trade and Investment Partnership (TTIP)).
- **Limiting the role** of both the **European Parliament** and the **European Commission**, and **enhancing the role of national governments and parliaments** in European policy-making.

Unlike most of the other strategic options, the 'back to the basics' option would not aim at a higher level of economic, fiscal, social or political integration leading to a further loss of national sovereignty. It would not try to enhance the role of EU institutions such as the European Parliament or the European Commission.

Main advantages and disadvantages

How effective would this option be in responding to the main challenges facing Europe outlined in Part 1 of this report?

The socio-economic dimension

- + Champions of 'going back to the basics' say this would help to address the three main challenges in this area: threats to social peace; increasing economic divergence within the EU; and structural deficits of a fragmented euro area due to an incomplete and unbalanced Economic and Monetary Union.

They argue that:

- Member States hit hardest by the economic consequences of a strong euro would be able to devalue their currency, and thereby regain competitiveness and restore growth.
- Citizens in these countries would no longer have to endure the tough austerity measures required if they wish to remain within a strong currency union, and stronger countries would no longer have to bear the risks and potential costs associated with the bail-outs.

- It would be easier to manage monetary policies and address some of the euro area's structural deficits, and more homogeneity would do away with the need to go much beyond the current level of EMU integration.
- Abolishing or scaling back the euro would ease tensions within the EU, countering rising resentment in countries hit hardest by the crisis about being 'told what to do' by others and growing resentment in stronger countries about the mounting financial risks of bailing out their weaker, 'less virtuous' neighbours.
- By concentrating their efforts on completing the Single Market, through a fostering of the mobility of goods, services and labour, Member States would overcome the remaining entrepreneurial barriers and thereby improve the prospects for Europe's economy and enhance the global attractiveness and competitiveness of Europe.

Opponents of this approach argue that abolishing the euro or scaling it back would not solve but rather increase Europe's economic and social problems, that the costs of 'undoing' it would outweigh the benefits, and that it would entail risks/uncertainties for both stronger and weaker EU Member States.

They argue that:

- Weaker Member States leaving the euro would probably face (very) high levels of inflation, massive and repeated currency devaluations, unsustainable levels of public debt and limited access to capital markets, which could lead to both government and corporate defaults.
- 'Undoing' the euro would not in itself close the competitiveness gap between weaker and stronger EU economies, as other factors (e.g. the macroeconomic, institutional and bureaucratic environment; quality of education etc.) are equally important. Re-introducing and devaluing national currencies would not solve underlying structural problems, so weaker countries would still have to introduce painful reforms and suffer the negative effects of austerity, without the supportive EU framework that exists now to help ease the pain.
- Dismantling the euro area could not be done in an 'orderly fashion' and would have incalculable economic, legal and political costs. The euro is the world's second largest reserve currency, so 'undoing' it could destabilise global financial markets, with severe repercussions potentially going well beyond the consequences of the fall of Lehman Brothers as a result of very likely European sovereign defaults.
- 'Undoing' the euro would involve indeterminable transition costs, imposing financial burdens and legal uncertainties on public authorities, private companies and individual citizens.
- The departure of individual countries from the euro area could have incalculable domino effects, challenging the notion that the 'euro is irreversible' and sparking a renewed bout of market speculation about which country would be next, resulting in a negative spiral which could eventually force more countries to leave the euro.
- Scaling back or abolishing the euro could have strong negative spill-over effects on other policy areas, including the Single Market, prompting more protectionist reflexes, a competitive race to the bottom, pressures on the free movement of labour or the imposition of capital controls. By 'going back to the basics', the European integration process would reverse its general direction without a clear guarantee where this reversal might end.

The political-institutional dimension

Advocates of 'going back to the basics' argue that abandoning the path towards an "ever closer union" and undoing the mistakes of the past (including the euro in its current construction) would do much to address the key challenges in this area: insufficient public support for the EU; the leadership crisis at national and European level; and growing challenges to the traditional concept of political representation.

They argue that:

- An overwhelming majority of people in the EU are not ready to move further towards economic and political union and public acceptance of the EU would increase if the Union concentrated on its 'core business'; i.e. on the Single Market, whose benefits are widely acknowledged.
- Issues of legitimacy and accountability at EU level would recede if national governments and parliaments, who are closer to the immediate concerns of their citizens than Brussels-based institutions, regain power and influence.
- Giving more powers to the European Parliament and 'politicising' the European Commission would not increase the EU's legitimacy in the public's eyes, as the vast majority of citizens and elites oppose giving the EU more powers. Experience has also shown that strengthening the European Parliament does not enhance the EU's legitimacy in its citizens' eyes: a steady increase in its powers has been matched by decreasing voter turnout in European elections.
- The idea of copying key features of national democracy at EU level is naïve given that, even after six decades of integration, there is no common European language (*lingua franca*), no transnationalisation of public discussions and media coverage across the Member States (that is, no European 'public space'), and no common sense of identity among the citizens of different EU countries (that is, no European 'demos') strong enough to provide a platform for transnational political debate.
- 'Politicising' the EU could backfire if the European Commission and Parliament lack the powers required to deliver concrete policy results, leading to disillusionment among citizens. It could also prompt the sort of 'short-termism' so often seen in elected governments, who concentrate their political energies on getting re-elected.

Opponents of 'going back to the basics' say 'less Europe' would undermine the EU's legitimacy and intensify the crisis of political leadership and representation.

They argue that:

- Opinion polls show a majority of citizens in most EU countries are still in favour of the euro (although approval ratings have fallen during the crisis), and dismantling the euro zone would be seen as a failure to preserve one of the key achievements of European integration.
- Citizens moving around Europe and companies operating across borders cherish the practical advantages of the euro, and consider it a valuable 'stability anchor' in times of political uncertainty and socio-economic hardship.
- Latvia's decision to join the euro and the fact that other Member States aspire to follow suit in the years to come, indicate that the euro remains an attractive project also for those who have not yet adopted the common currency.
- Failing to rescue the euro would (further) undermine trust in European and national political elites, and their ability to master the complex challenges of today's world, despite their

efforts and assurances that they would do whatever is necessary to preserve the integrity of the common currency. This could have particularly drastic consequences for the EU, which is still perceived as an elitist project: put simply, increasing distrust of elites would foster further distrust of the elitist European project. All this could undermine the Union's overall ability to provide joint policy responses not only regarding the euro crisis but with respect to the many internal and external challenges Europe will face in future.

The societal dimension

Supporters of 'going back to the basics' argue that performing a U-turn and undoing the mistakes and misguided developments of the past would remove some of the major sources of disagreement between Member States, given that, for them, the euro and the aspiration of an "ever closer union" are not 'part of the solution' but 'part of the problem'. It would thus help to address the three key challenges in this area: the lack of a common understanding and vision of European integration; increasing divisions between Member States; a lack of knowledge about the EU and simplistic perceptions of national sovereignty in a globalised world.

They argue that:

- Dismantling the euro in its current form would eliminate one of the major bones of contention between Member States. Arguments over the 'right crisis recipe' and what European solidarity means and requires in practice would disappear.
- Abandoning the quest for an "ever closer union" would end fruitless discussions about the EU's final destination between those who think a more political Europe or even a 'United States of Europe' is the best survival strategy and those who insist the Single Market is the essence and core of the integration project.
- A stronger focus on its 'core business', abandoning the path towards a higher level of integration and politicisation, and strengthening national governments and parliaments would simplify European policy-making and make it easier for citizens to understand what the EU does and how it works.

Opponents of this approach say it is highly questionable whether abolishing the euro, introducing two separate currency areas or letting individual countries leave the euro would help the EU to tackle the main societal challenges it faces.

They argue that:

- Failing to save the euro would not only have major financial and economic implications, but would probably also have severe negative political spill-over effects, increasing the sources of friction within and between Member States. EU countries would blame each other and the Union's institutions for the euro's collapse and this could foster nationalism, feed populist anti-EU rhetoric, sow doubts about what unites Europe and thus challenge the basic pillars underpinning European integration.
- The political blame game could well have negative spill-over effects on other policy areas, including the Single Market – and it is by no means clear just how far back European integration would move if the euro 'mistake' was undone, given that this would reverse the direction of integration for the first time in the EU's history.

- The quest to abandon the euro and scale back the EU's powers is in many ways steered by a misguided nostalgia for the past, as most pressing internal and external challenges (e.g. climate change, migration, resource scarcity, economic competition, nuclear proliferation or international terrorism) cannot be dealt with effectively at national level at a time of increasing regional and global interdependence. 'Retrieving' national sovereignty would, in most cases, not strengthen but rather weaken the ability of Member States (including the biggest ones) to 'deliver' effective policy responses.

The external-global dimension

Supporters of 'going back to basics' argue that 'undoing the euro mistake' would restore the EU's credibility in the world given how damaging the crisis has been to its reputation in the international arena. Plus, focusing on the EU's core strength – the Single Market – would be the best way to revive Europe's economy and thus increase the Union's 'clout' on the world stage, which is first and foremost grounded in its economic significance. All this would, they say, be the best way to address the main challenges facing Europe in this area: the danger of gradual marginalisation, a loss of regional and global attractiveness and credibility; and the pressure to adapt the multilateral system of global governance to the new realities of international relations, weakening the EU's role.

They argue that:

- Instead of concentrating energies on vain attempts to rescue the euro in its current form or create an "ever closer union", Member States should instead invest much more in their practical capabilities/capacities in the area of security and defence. This is a sine qua non if Europeans want to be able to share more of the international burden when it comes to defending Europe's interests in its direct neighbourhood and in various 'hot spots' all around the world.
- This would make the EU also more attractive as a credible and valuable partner for other strategic foreign policy actors, and strengthen its international presence. As a result, this could, at the end of the day, help Europe to withstand increasing pressures to reduce its role in international organisations such as the International Monetary Fund, World Bank or United Nations.
- But cooperation should not be guided by the illusion that national capitals will ever be ready to 'communitarise' the EU's foreign, security and defence policy, as these areas lie at the heart of national sovereignty. Member States will continue to conduct their national foreign policies and never give up their veto rights on issues that lie at the heart of national sovereignty and those arguing for the creation of, for example, a single European seat in international organisations or a 'European army' are naïve and unrealistic.
- Others again might argue that a sober evaluation of Europe's potential might well show that foreign, security and defence policies are the areas where more cooperation and coordination at European level has the biggest potential to provide added value. National capitals should thus try their utmost to identify and actively promote common positions on foreign policy issues based on their joint interests.

Opponents of 'going back to basics' insist that failing to 'save' the euro and backtracking from the objective of an "ever closer union" would undermine Europe's credibility in other parts of the world and thus foster marginalisation of the 'old continent'. The EU's position in the global

financial system would be weakened by the loss of the euro, which is now the world's second most important reserve currency.

They argue that:

- Abolishing the euro, introducing two separate currency areas, or the exit of individual countries from the euro zone could lead to severe economic and political distortions between Member States, which in turn could have significant negative knock-on effects on the EU's common foreign, security and defence policy and the general readiness of Member States to cooperate with each other in external relations matters.
- The political blame game between Member States likely to follow a dismantling of the euro area in its current form could also lead to competition among key national capitals on external affairs issues, not least because of the temptation to use these to distract political attention away from domestic issues.
- Some opponents of the 'going back to the basics' option would argue that the EU and its members should not backtrack but rather substantially deepen integration in the area of foreign, security and defence policy if Europe wants to avoid global irrelevance. Europeans will only be able to tackle future external challenges, if governments stop perceiving these policy areas as national prerogatives, which should not be dealt with at the supranational level.

CONSOLIDATING PAST ACHIEVEMENTS

(if it ain't broke, don't fix it)

The basic rationale

Supporters of this option argue that the EU should focus its attention on what more needs to be done to respond to, and overcome, the immediate crisis as today's greatest challenge; i.e. on measures designed to boost confidence in the euro and revive Europe's economy. The EU should, at this difficult point in time, steer clear of overambitious attempts to deepen integration to avoid potential overstretch.

Those who favour consolidating past achievements and only doing more where absolutely necessary point out that there have already been significant advances in integration since 2010, many of which would have been unthinkable some years ago, and argue that most of the changes needed to overcome the crisis have now been made or are in the process of being concluded. These changes should be given time to work, especially as there are strong indications that the worst of the crisis is behind us, and attention should focus on putting any pieces of the jigsaw puzzle that are still missing in place at European and national level.

Champions of this approach also insist that there is a need to be realistic and accept that Member States – their governments, parliaments, citizens and some constitutional courts – are not willing and/or able to make further leaps in integration and pool sovereignty in key areas such as taxation, the budget, social and labour policy or foreign, security and defence policy. These and other core areas of national sovereignty must remain in the hands of national governments and parliaments; the current EU Treaties have already been stretched to their limits, especially with respect to the 'no bail-out' clause and the European Central Bank's powers.

They acknowledge that the EU suffers from a 'legitimacy deficit' both in terms of delivering policies, which effectively address the key internal and external challenges facing Europe, and in view of its political-institutional structures. Moves towards deepening financial, fiscal and economic cooperation will thus require accompanying measures to make the EU more accountable and answerable to its citizens. But national governments and parliaments will remain the key sources of public legitimacy, which in practice means that their roles must be adequately reflected in EU policy-making. Ultimately, a revival of public support for the EU and euro will depend above all on the ability of the Union and its members to deliver, especially in terms of measures to boost growth and employment with a special focus on reforms at national level.

It is neither necessary nor the right time to introduce major reforms of the EU's powers or institutions requiring significant treaty change which would need the assent of all 28 EU countries, and involve complex ratification processes, including constitutional amendments in some Member States. Overambitious attempts to move forward now could backfire, given the negative political and public mood in many countries towards the EU and euro, although this does not preclude significant reforms at a later stage if need be.

Key potential measures

Potential policy measures to tackle outstanding issues relating to economic and financial integration could include:

- **More innovative and flexible use of EU structural, cohesion and regional funds** to cushion the negative effects of the crisis, especially on young people, and formulation and implementation of a **more comprehensive EU strategy for growth and jobs** with a strong focus on national reforms.
- **A limited extension of economic coordination** through systematic coordination of major structural reforms and '**contractual arrangements**' (reform contracts) between individual Member States and the European Commission, coupled with a **limited financial solidarity mechanism** funded mainly through national contributions to support targeted reforms at national level.
- **Full implementation of the fiscal rules adopted since 2010** ('six pack'; 'two pack'; fiscal compact treaty), but no additional rules or mechanisms to guarantee the enforcement of these rules.
- Establishing a rather **minimal version of a banking union based on two pillars**: supervision of all major European banks by the European Central Bank; and a banking resolution mechanism relying heavily on existing national regulators. This minimal version of a pan-European banking system would be limited to the biggest, systemically relevant European banks, and not include a single European deposit guarantee scheme or any substantial retrospective direct recapitalisation of banks through the European Stability Mechanism.
- **Intensified tax cooperation**, with a particular focus on an EU-wide fight against tax evasion and tax fraud.

This option would exclude measures aimed at an even higher level of financial, economic, fiscal and/or social integration. There would, for example, be no substantial transfer of economic powers from the national to European level; no issuing of European public debt and no shared responsibility for national debt in the euro area (that is, no debt mutualisation); no substantial increase in the EU budget; no instrument to provide counter-cyclical financial support to individual Member States (so-called automatic stabilisers); no European unemployment insurance; no European treasury; no changes to the ECB's powers/competences; no 'Budget Tsar'; and no European Monetary Fund.

The type of policy measures that would be possible and might be introduced under this option to strengthen the EU's political-institutional setting and its democratic legitimacy, and make it more accountable and answerable to citizens, include:

- **Stronger involvement of the directly elected European Parliament in the economic governance of the euro zone** and enhanced coordination of key economic and fiscal priorities (in the framework of the European Semester, a six-month cycle of economic and fiscal policy coordination within the EU). MEPs could, for example, hold debates before the European Council discusses the Annual Growth Survey, which each year sets the EU's broad economic priorities, and before the Council of Ministers adopts country-specific recommendations,

and be informed regularly about the implementation of austerity and reform programmes in Member States receiving financial assistance from the EU's bail-out funds.

- **Stronger involvement of national parliaments** in EU policy-making by enhancing their role at both the national and European level and strengthening their coordination with the European Parliament.
- Inviting **European Commissioners to attend national parliamentary debates** when they are discussing recommendations from the EU for action at national level.
- Enhancing the role of euro countries by **strengthening the Eurogroup** that brings together their finance ministers; holding **Euro Summits**, including all heads of state and government of the euro area; and **creating subgroups within the European Parliament** restricted to MEPs from euro countries to discuss euro-zone matters, but with final decisions still taken by the full Parliament.
- **Gradual improvements in the functioning of the European External Action Service** and more **concrete policy initiatives** (e.g. TTIP with the United States; investment agreement with China) aiming to enhance the Union's role as an external actor.

This option would exclude other measures aimed at an even higher level of political integration, which would require a change to the current EU Treaties. There would, for example, be no extension of the European Parliament's legislative or budgetary rights; no transnational lists in European elections; no 'European government'; or no new procedures for amending EU treaties or paving the way for their entry into force.

The above-mentioned measures could be introduced using the existing EU Treaties, although some might require very limited and targeted 'surgical' treaty amendments agreed among EU governments (without a Convention). If all 28 EU countries could not agree, additional inter-governmental treaties might be needed outside the EU treaty framework, similar to the fiscal compact treaty.

Main advantages and disadvantages

How effective would this option be in responding to the main challenges facing Europe outlined in Part 1 of this report?

The socio-economic dimension

Supporters of this approach argue that while the EU (especially the euro area) may not be completely out of the crisis woods yet, efforts at European and national level are bearing substantial fruit and there are clear signs that the situation today is much better than before the summer of 2012: the danger of a euro meltdown or one country leaving the common currency have been significantly reduced; national budgets are being consolidated; the EU's system of economic governance has been significantly enhanced; and while economic recovery is still slow in most EU countries, the first signs of stabilisation are appearing. All of this will help to address the key socio-economic challenges facing Europe: the threat to social peace; increasing economic divergence within the EU; and the structural deficits of a fragmented euro area due to an incomplete and unbalanced Economic and Monetary Union.

They argue that:

- While the crisis recipe might not have been perfect and the EU had to learn from misinterpretations, miscalculations and mistakes, there are clear signs of recovery and confidence in the euro is steadily growing, although there is still some work to be done at the European and especially at the national level.
- Collectively, the euro area is gradually moving towards Genuine Economic and Monetary Union by further strengthening financial, economic and fiscal cooperation without leading to an integration overstretch.
- Ultimate success in overcoming the crisis now depends, first and foremost, on individual Member States' ability and willingness to continue putting their houses in order, moving towards fiscal sustainability and continuing to implement structural reforms aimed at increasing their European and global competitiveness. The implementation of these reforms could be assured through the conclusion of contractual arrangements (reform contracts) between individual EU countries and the Commission ratified by national parliaments and supported by financial means from a separate budget/fund (stability mechanism).

Opponents of this approach argue that such a reactive and rather minimalist approach has been, and will continue to be, insufficient to address Europe's economic and social challenges: the danger of a euro meltdown may have been averted, but the situation on the ground remains very volatile and difficult, with many EU countries still in recession; the EU and euro zone are continuing to diverge economically; there is record unemployment in many Member States and widespread feelings of social injustice and despair, especially among younger generations; the credit crunch is continuing in a highly fragmented and volatile European banking system; government debt levels are still rising mostly due to continuous economic contraction; and there has been a loss of momentum behind efforts to create a so-called Genuine Economic and Monetary Union as crisis pressures ease and governments become less willing to take bold decisions at European level.

They argue that:

- A cautious approach addressing the consequences rather than the root causes of the crisis is unlikely to be enough: the recovery of Europe's financial system might falter without a strong and credible banking union; economic stabilisation/recovery could be undermined by continuing high re-financing costs for governments and companies; and jobless rates will stay at intolerable levels without significant growth-enhancing measures in countries hit hardest by the crisis.
- Persistent and increasing threats to social and political stability caused by continuous hardship and little improvement in the socio-economic situation could further increase anti-EU, anti-euro and/or anti-establishment sentiment and might at the end of the day lead to more political volatility/instability and – in the worst case – even force some countries to leave the euro, with potentially severe repercussions for the entire EU.
- National governments' reluctance to do what is needed to overcome the EMU's remaining structural deficits could (once again) undermine confidence and reignite speculation about the euro-zone's long-term future.

The political-institutional dimension

+ Advocates of consolidating past achievements and only doing more where absolutely necessary argue that this is the best way to address the three main political-institutional challenges facing Europe: insufficient public support for the EU; a leadership crisis at national and European level; and growing challenges to the traditional concept of political representation.

They argue that:

- Public support for the EU will gradually increase once it has fully overcome the threat of a euro meltdown and national economies show (stronger) signs of gradual recovery.
- The emphasis must clearly be on delivering effective policies, and not on yet another round of overambitious, time-consuming and risky institutional reforms. European citizens' priority is concrete results rather than enhancing the EU's legitimacy by trying to restructure the Union's supranational political system.
- It is politically wise for EU governments to shy away from embarking on yet another uncertain treaty reform journey with hazardous ratification processes at the voyage's end.

— But opponents of this approach say that without more radical institutional reforms to enhance the EU's democratic legitimacy and accountability, citizens might not accept a higher level of financial, fiscal and economic coordination at EU level, especially if decisions taken in 'far-way Brussels' seem to have largely been determined by the interests of particular powerful national players.

They argue that:

- There is a growing perception that citizens cannot influence the EU's complex decision-making machinery. This is not new, but has increased since the crisis began, as decisions taken at central level now have an even stronger influence on the daily lives of citizens.
- More needs to be done to strengthen the EU's democratic legitimacy and the discretionary powers of the European Commission and European Parliament, even if this requires a complex process of EU treaty change, to both bridge the growing gap between 'Brussels' and national capitals and to strengthen the capacity of supranational institutions to provide strategic guidance and deliver results in line with the 'common European interest'.
- Opposition, debate and the 'personalisation' of political conflicts, which until now have played a minimal role in the Union's political system, are vital and need to be enhanced at EU level to (re-)engage European voters. Political life in the EU is still, by and large, oriented towards consensus and lacks the lifeblood of a thriving democracy: the clash of colliding arguments and elections as the culmination point of democracy.

The societal dimension

+ Supporters of this option say this is the most effective way to address the main societal challenges facing Europe: the lack of a common understanding and vision of European integration; increasing divisions between Member States; a lack of knowledge about the EU; and simplistic perceptions of national sovereignty in a globalised world.

They argue that:

- Once Europe emerges from the crisis and has averted a euro break-up, there is a good

chance that the EU will reach a higher level of maturity, Member States will overcome their divisions, and citizens will recognise the extent to which countries are interdependent and the limits of national sovereignty, especially for countries sharing a common currency.

- Paradoxically, the events of the past few years could in fact prove to be a unifying moment in EU integration history, a source of collective identity and remembrance, strengthening the perception that there is no viable alternative to European integration. This experience could also provide the grounds for more cooperation and integration in other policy areas aiming to cope with internal and external challenges which cannot be dealt with effectively at the national level.

— Opponents of this approach question whether this will really be the case, especially if the crisis drags on for many years to come, as might well happen if Member States do not go beyond a cautious, reactive approach. In any case, the negative consequences of the global crisis and subsequent euro area crisis have already widened old cracks and opened new wounds between Member States and national societies which will take time to heal, and scars are likely to remain.

They argue that:

- Old stereotypes have re-surfaced and mutual recriminations about a lack of solidarity are sowing seeds of division. In the weakest countries, many feel the EU institutions and 'lender countries' reacted too cautiously and imposed too many burdens on them, asking for too much too quickly. In the stronger EU countries, many feel overburdened and betrayed, fearing they will have to 'pay' for self-inflicted problems on Europe's periphery and the EU will turn into a permanent 'transfer union' in which the stronger subsidise the weaker.
- On both sides, this has fuelled an increasing national focus and a rise of anti-EU/euro populist rhetoric, even in 'mainstream' political parties. It is thus by no means clear that recent experience will be a unifying moment in the EU's history: the seeds of division sowed since 2010 could create cracks in the fundamental basis of the European integration project. There is thus a need to launch a thorough and honest transnational public debate about the causes of, and responses to, the crisis and the overall future of the EU.

The external-global dimension

+ Champions of this approach say EU institutions and Member States should concentrate all their political energies on restoring confidence in the euro, and thus in the EU, as the best way to address the main external-global challenges facing Europe: the danger of gradual marginalisation, a loss of regional and global attractiveness and credibility; and the pressure to adapt the multilateral system of global governance to the new realities of international relations, weakening the EU's role.

They argue that:

- By overcoming the crisis the EU will gradually regain reputation and influence in global affairs, which will help Europeans to avoid (further) marginalisation. Actually, Europe's key global partners expect the EU and its members to devote all their energy to concrete measures to overcome the crisis because of its manifold negative and potentially destabilizing effects on the global economy.

- Now is not the right time to deepen integration in, for example, the areas of foreign, security, and defence policy, but at some point in the future, the positive experience of mastering the most severe crisis in EU history through a higher level of centralisation might have positive spill-over effects in other policy areas. However, experience has shown that EU countries are only ready to make a qualitative leap forward when confronted with a concrete challenge.
- In the meantime, EU institutions and Member States should concentrate on smaller steps (e.g. gradual improvements in the European External Action Service) and more concrete policy initiatives (e.g. TTIP with the United States; investment agreement with China) aiming to enhance the Union's role as an external actor and to adapt policies to the needs of a more multipolar global environment.

Opponents of this option say the EU should be more ambitious and not only concentrate on issues related to the euro area crisis, as there are other challenges that deserve equal attention if the EU wants to avoid further marginalisation.

They argue that:

- A cautious, reactive approach would be insufficient to overcome the current malaise, and the crisis could therefore either escalate once again or drag on for many years. In both cases, the continent's ability and readiness to address external challenges would be limited, undermining its ability to influence acute regional and global issues.
- Europe's constant 'navel-gazing', especially in the context of the euro area crisis, distracts attention from the need to further enhance cooperation in other fields enabling the EU to respond to the manifold external challenges. In other words, the EU and its members should not concentrate all their efforts on the crisis, but also find ways to deepen integration, for instance, in the field of foreign, security and defence policy.
- If Europeans do not strengthen their role as a comprehensive foreign policy actor they will not be able to co-determine the adaptation of the multilateral system of global governance to the new realities of international relations in line with their political and economic interests as other major international actors will not take them seriously.

The basic rationale

Supporters of a more ambitious approach argue that simply consolidating past achievements will not be enough: the crisis is not over and the EU needs to be more ambitious. Further steps towards integration and a transnational European debate about the Union's political future as a response to an increasingly globalised world are indispensable if Europe wants not only to overcome the immediate crisis but also prepare itself for future internal and external challenges. But all this will have to be done cautiously, step by step, to avoid creating new dividing lines between the 28 EU countries.

Advocates of 'moving ahead ambitiously' say there is a need to do more to overcome the structural deficiencies resulting from an incomplete and unbalanced construction of the Economic and Monetary Union. But even more needs to be done: EU Member States and institutions will have to strengthen the Union, so that a more integrated EU will be able to promote and assist the process of reforming Europe's economy and to actively shape developments in an increasingly interdependent, complex and competitive world, in which no European country – independent of its size – will be able to defend its economic and political interests on its own.

Reform will have to go beyond the lowest common denominator, even if this means more substantial changes involving treaty amendments. However, under this approach, further integration would not, at this stage at least, lead to a fully-fledged economic and political union, as Member States would preserve key elements of their national (economic) sovereignty and a compromise would have to be reached among all EU Member States.

Recent and future moves towards Genuine Economic and Monetary Union will require a strengthening of both European and national sources of legitimacy. Boosting the EU's democratic legitimacy and efficiency will, according to the proponents of this option, require a further strengthening of key supranational institutions (the European Commission and European Parliament), an adequate role for national governments through the (European) Council and greater involvement of national parliaments at national and European level, without undermining the European Parliament's role.

To overcome the divisions between Member States and their societies, there is also a need for a thorough and honest public debate at transnational European level about the causes of, and responses to, the crisis and about the future direction of the integration process – a debate that cannot be limited to EU governments hammering out compromises behind closed doors.

Substantial EU reform along the lines described above would require significant changes to the EU Treaties, requiring the assent of all 28 Member States, although some countries would not participate fully in some policy areas – at least not initially. Multiple speeds are, and will remain, a key characteristic of the EU and the degree of differentiation within the Union is likely to increase, but the creation of a permanent 'multi-tier Europe' must be avoided, as this could lead to a fundamental split between those willing and able to intensify cooperation and those not (yet) ready to do so. If possible, say the supporters of this option, differentiated integration

should thus be organised within the EU framework and on the basis of already available and tested instruments such as enhanced cooperation, which allows a minimum number of Member States to pursue closer integration/cooperation within the EU framework on the basis of specifically defined guidelines and rules. In any case, ways will need to be found to ensure close links between those in the 'inner circle' and those not willing and/or able to join it (yet).

Advocates of this approach concede that the need for compromise to obtain consensus and win political and public support for EU reform in all Member States might require a 'grand bargain' to be struck in which some EU policies are revised and maybe even partially renationalised in return for agreement on deepening cooperation in other areas, especially in the framework of EMU.

Potential policy measures to tackle outstanding issues relating to economic, fiscal and financial integration under this option could include:

- **Intensifying macroeconomic coordination** including a harmonisation of national tax policies and **introducing economic guidelines** defining the Union's multiannual economic and social priorities prepared by the European Commission and agreed jointly by the Council of Ministers and European Parliament. This would require a treaty amendment.
- **Increasing the EU budget** and allowing the EU to raise at least some of its **own revenue** (own resources), reducing its dependence on national contributions and providing more financial means to foster investments aiming to support the transition and competitiveness of Europe's economy. Spending priorities and ceilings would still be defined through a multi-annual financial framework, requiring all EU Member States' assent. Giving the EU revenue-raising powers would require treaty change.
- Creating a **'Budget Tsar'/'Super Commissioner'** with the power to reject/veto national budgets if they do not comply with European rules. This would require a treaty amendment.
- Establishing a **financial instrument able to provide counter-cyclical financial assistance** to help countries withstand national economic shocks that could undermine the stability of the entire euro area. The **funds available** through this new instrument, which could take the form of an insurance-type system between euro area countries and be used e.g. to finance a complementary European unemployment benefit scheme, **would be limited and financed mainly through national contributions**. This could be done without a treaty amendment.
- Introducing some form(s) of **limited and time-restricted joint financial liability** aimed at reducing the interest rates paid by euro-area countries under pressure in the financial markets. This could, for example, involve introducing **short-term European sovereign debt** issued jointly by euro countries (Eurobills) and/or setting up a **Redemption Fund** mutualising debt in the euro zone above/below 60%, combined with a bold debt reduction scheme for the coming decades, with strict conditions attached. These kinds of joint financial liability would probably require changes to the EU Treaties.

- **Completing a limited banking union based on two pillars:** a Single Supervisory Mechanism, with the European Central Bank playing the main supervisory role, working closely with national authorities, to supervise all credit institutions under its oversight; and a common European resolution mechanism able to manage potential bank failures equipped with a financial back-stop able to ultimately also use means available through the European Stability Mechanism. This type of pan-European banking system would not include a single European deposit insurance scheme, but could allow direct (albeit limited) recapitalisation of key European banks through the ESM. Decisions to use bail-out funds would, however, always require the assent of its major stakeholders and their parliaments. The creation of a limited banking union could be done under the existing EU Treaties.
- **Revising the European Central Bank's powers** and eliminating legal constraints on its supervisory role in the framework of the banking union. This could include stronger internal separation of decision-making between monetary policy and banking supervision; giving non-euro Member States full and equal rights in ECB decision-making; and allowing non-euro countries to opt into the mechanism. These reforms would require treaty change.
- **Incorporating** the intergovernmental **European Stability Mechanism** and **fiscal compact treaty** into the existing EU treaty framework. This would require a treaty amendment.

This option would go substantially further than the 'moving ahead cautiously' approach as it would allow for the creation of a stronger banking union; the introduction of some form(s) of limited and time-restricted joint financial liability; the establishment of a limited ability to provide counter-cyclical financial support; a limited increase in the EU budget and revenue-raising powers; the creation of a 'Budget Tsar'; and the insertion of the European Stability Mechanism and fiscal compact treaty into the EU treaty framework.

It would, however, still fall short of a fully-fledged financial, economic, fiscal and social union. There would be no substantial central budget or revenue-raising powers for the EU; no transfer of key economic powers in areas such as taxation, social or labour policy; no 'European economic government' with a European treasury; no issuing of long-term European sovereign debt; no mutualisation of national debt; no autonomous European Monetary Fund and no independent, full banking union.

In terms of strengthening the EU's political-institutional setting and its democratic legitimacy, the type of policy measures that would be possible and might be introduced under this option could include:

- Electing a limited number of (additional) MEPs in a single constituency – the whole territory of the EU – based on a **transnational EU-wide list of candidates**. Each citizen would be able to cast one vote for the EU-wide list and another for the national or regional list in his/her member state. The EU-wide list could also **generate candidates for 'top' EU jobs**. The introduction of an EU-wide list would require a treaty change.
- Making a **clearly defined and more direct link between the results of European elections and the (s)election of the Commission president**, cutting the **number of Commissioners**, and giving the **president more leverage in choosing them**. These reforms would not necessarily require changes to the EU Treaties.

- Further **extending the European Parliament's rights**, especially in areas where the EU level has been given a bigger role, such as budgetary surveillance or banking supervision; giving the Council and Parliament an equal say in adopting the EU's multiannual economic priorities; and giving MEPs stronger scrutiny powers over the use of the European Stability Mechanism, the European Central Bank, etc. This would require a treaty change.
- **Creating a special 'euro committee' within the European Parliament** with distinct decision-making powers, involving MEPs from countries in the euro zone and possibly from those committed to joining eventually. This committee could, for example, be given the right to take certain decisions which the full Parliament would then have to accept. This would not require a treaty change – it could be done by adapting the Parliament's rules of procedure.
- **Involving national parliaments** more strongly in EU policy-making, at both national and European level. This could even include the **creation of a separate parliamentary chamber** (besides the European Parliament and Council of Ministers), playing a distinct (consultative) role on issues particularly close to national sovereignty. The creation of such a chamber would require treaty change.
- **Reforming the rules for amending EU treaties** to allow a new one to enter into force even if some Member States have not ratified it (yet). This would require a reform of the current EU Treaties.
- **Further extending (super-)qualified majority voting in the Council of Ministers** in areas such as economic governance, foreign, security and defence policy or in other cases still subject to unanimity. This would require treaty change.
- **Moving towards more coherent representation or even a single or complementary EU seat in international financial institutions** such as the International Monetary Fund, World Bank and G20. This could be done without amending the EU Treaties.

These innovations and reforms go beyond those envisaged under the 'moving ahead cautiously' option, as the latter would not involve any extension of the European Parliament's legislative and budgetary rights, transnational lists of candidates, a separate parliamentary chamber, more qualified majority voting in the Council of Ministers or a new procedure for allowing treaty changes to enter into force. However, this option falls well short of the creation of a fully-fledged political union, as it would not involve electing a politically partisan European executive ('European government') or fully 'politicising' European policy-making.

In terms of process, the major reforms envisaged under this option would, according to champions of this approach, require a European Convention to be held, involving national and European parliamentarians as well as representatives of national governments and the Commission.

How effective would this option be in responding to the main challenges facing Europe outlined in Part 1 of this report?

The socio-economic dimension

Advocates of 'moving ahead ambitiously' say a reactive and unambitious crisis recipe will not be sufficient to deal with the three main socio-economic challenges facing Europe: the threats to social peace; increasing economic divergence within the EU; and structural deficits of a fragmented euro area due to an incomplete and unbalanced Economic and Monetary Union. What is needed are more ambitious measures to stabilise and gradually improve Europe's economic situation, which would reduce the threats to social peace and prevent further widening of the economic gap in the EU.

They argue that:

- Establishing a new European financial (insurance-type) instrument to provide counter-cyclical support to individual euro countries, including e.g. a European unemployment scheme, could help to buffer economic shocks and enhance the economic resilience of the euro area as a whole, by contributing to macroeconomic stability and cushioning distortions within the zone, and thus help to prevent potential future crises.
- Introducing some form of joint financial liability – even if it is limited and time-restricted – would help to reduce financial fragmentation in the euro area and re-financing costs for countries paying high interest rates, significantly easing their financial burden and creating a more level-playing field within the zone, which in turn could help stimulate growth, counter unemployment and reduce 'real' interest rates in countries where companies and consumers are not benefiting from the low rates set by the ECB.
- A European banking union including a relatively strong and independent common European resolution mechanism is indispensable for sustainable recovery in the banking sector, which is vital to stabilise the banking sector, break the vicious circle between banks and government debt and to ensure that companies can once again get access to affordable credit throughout the Union.

There are three main lines of opposition to this approach, from those who think it would not go far enough to those who think it is overambitious and those who argue it would take Europe in the wrong direction:

- Those who say it would not go far enough maintain that providing counter-cyclical financial assistance might help to avert future crises, but would not help those euro countries suffering now; failing to strengthen EMU by creating a Genuine Economic and Monetary Union worthy of its name would undermine the credibility of Member States who 'promised' to do this, with potential negative repercussions for the long-term stability of the euro; the banking resolution mechanism's effectiveness could be undermined by its reliance on using European Stability Mechanism resources, which would need Member States' assent, and the lack of a single European deposit guarantee scheme would undermine efforts to stabilise the financial sector.

- Those who maintain that it would lead the EU in the wrong direction argue that there is a strong 'moral hazard' associated with this option: mutualising debt or financial innovations that move the EU closer to a de facto transfer union (Eurobills, Redemption Fund, counter-cyclical adjustment mechanism, European unemployment insurance) would undermine market-driven incentives for sound fiscal policy-making and limit governments' readiness to address national weaknesses by implementing long-overdue structural reforms.
- Those who regard this approach as overambitious say it runs the risk of failing because the required changes to the EU Treaties might not be achievable, if all 28 EU countries cannot reach a consensus or the ratification process runs into trouble. This could create new uncertainties and undermine trust in the EU's ability to manage the crisis. Thus an overambitious attempt to amend the EU Treaties might not just lead to yet another reform deadlock, but – at this point in time – could also provoke an even more severe crisis than the one experienced since 2010.

The political-institutional dimension

Champions of 'moving ahead ambitiously' say significant changes to the EU's political-institutional architecture could enhance the Union's legitimacy in the eyes of citizen, reduce the democratic gap within the EU and increase the public's interest in European elections, EU policy-making and the Union in general, and thus enable Europe to address the key political-institutional challenges: insufficient public support for the EU; the leadership crisis at national and European level; and growing challenges to the traditional concept of political representation.

They argue that:

- A stronger and clearly defined link between European Parliament election results and the (s)election of the European Commission and its President could increase voters' interest in European electoral contests, and strengthen the legitimacy and thus the power base of the Parliament and Commission.
- Introducing transnational lists could 'personalise' and 'Europeanise' the European Parliament elections and encourage the development of more autonomous European political parties, who would have to nominate joint candidates and run EU-wide campaigns based on a common electoral party manifesto going beyond the lowest common denominator.
- Extending the European Parliament's legislative and budgetary rights significantly would strengthen the role and influence of the Union's only democratically elected body.
- Greater involvement of national parliaments in EU policy-making would give national legislators an avenue to make their voices heard distinct from that of their governments, foster debates about 'Europe' at Member State level, and intensify cooperation between national parliaments and between them and the European Parliament.
- Taken together, a higher level of 'personalisation', 'parliamentarisation', and 'politicisation' would strengthen European democracy by overcoming the EU's major deficiency: that European political life is still too oriented towards consensus and lacks the lifeblood of a thriving democracy – the exchange and clash of colliding arguments.

Opponents of this approach insist that the experience of the past decades has shown that this does not work in practice and could even backfire.

They argue that:

- Giving the EU's only directly elected body more powers has not increased the Union's legitimacy and democratic accountability in its citizens' eyes: instead, progressive boosts to the Parliament's powers have been matched by falling turnout at European elections.
- More politicisation at European level could backfire if the EU's key supranational actors – the European Commission and European Parliament – do not have adequate powers and means to deliver concrete policy results, as this could contribute to public disillusionment with the EU. But they are unlikely to get such powers as national political elites and citizens appear increasingly reluctant to sanction more integration, opposing the 'loss' of political sovereignty in key areas such as taxation, budgets, social and labour policy.
- The legitimacy of policy-making could be undermined if introducing more binding fiscal rules or intensifying economic coordination further limits national governments and parliaments' room for manoeuvre, while at the same time failing to provide EU institutions with adequate means and instruments to compensate for this loss of national sovereignty.
- Increasing the role of national parliaments could boost the legitimacy of EU policy-making nationally, but risks undermining the European Parliament's role and limiting governments' room for manoeuvre, potentially undermining the overall efficiency of EU decision-making.
- The idea of applying the standard national democratic formula at EU level by strengthening the European Parliament's scrutiny powers over other EU institutions and increasing the political ties between the Commission and the parliamentary majority is unrealistic and has some potential pitfalls: Member States are not ready to surrender national prerogatives by making the Commission a 'European government' equipped with commensurate powers and financial means; trying to replicate national democracy at the EU level underestimates the challenges posed by national and linguistic divides; stronger political ties between the Parliament and Commission could weaken MEPs' performance of their scrutiny role and undermine the Commission's independent role as an 'honest broker' and 'guardian of the Treaties'.

The societal dimension

Supporters of this option say it is the most effective way to address the key societal challenges facing Europe: the lack of a common understanding and vision of European integration; increasing divisions between Member States; a lack of knowledge about the EU and simplistic perceptions of national sovereignty in a globalised world.

They argue that:

- A public debate about the current state and future of the EU and euro zone is needed to tackle the resurgence of national stereotypes, chauvinism, historical resentments and an intensified 'blame game' between Member States. An honest pan-European dialogue – about the root causes of the crisis, the limits of national sovereignty in an increasingly complex global environment, how best to respond to current and future challenges, and the future direction of European integration – is essential.
- This dialogue must take place in public through a European Convention, involving European and national parliamentarians as well as representatives of national governments and the Commission, with a comprehensive mandate to develop a new treaty ('fundamental law'), which would then have to be negotiated in an intergovernmental conference and ratified

in all 28 Member States. This would give European citizens and their representatives an overdue opportunity to get engaged and to actively endorse (or reject) a more substantial reform of the EU.

- This debate would increase awareness of the EU's (potential) future added value and give people a clearer picture not only of its strategic objectives, but also the limits of the integration process, which would foster the stronger sense of identity and common destiny required to generate active support (and not just passive consent) for European integration.

Opponents of this approach question whether a public debate about the EU's future via a Convention would in fact help to identify and formulate a new narrative or 'leitmotiv' for European integration and bridge the gap between Member States and their societies.

They argue that:

- A European Convention and intergovernmental conference might not produce a consensus, but instead reveal significant differences in Member States' positions. Further European integration has not only been called into question by the current crisis but is also hampered by a more fundamental conceptual schism between and within EU countries: deep down, differences ostensibly over treaty texts or the design of a banking union reflect dramatically opposing views about the EU's future. Such profound disagreements might not only threaten to scupper any attempt at major EU reform culminating in a new treaty, but even result in deep divisions and increasing tensions between and within EU Member States.
- Attempting to reform the EU Treaties could backfire from the perspective of those advocating an "ever closer union": the need to obtain a consensus between all 28 EU countries and win political and public support for the result in every Member State could lead to a reformulation of some of the Union's basic objectives (including, for instance, the objective of an "ever closer union"), the introduction of questionable new treaty provisions (including, for example, a 'euro exit clause'), a revision of certain EU policies and even to a partial renationalisation of some powers, as a form of 'political compensation' for greater centralisation in other areas such as deepening fiscal, financial, and economic cooperation in the framework of EMU. This risks undermining integration successes of the past (such as the free movement of people) or hampering cooperation in other areas (such as the Common Foreign and Security Policy or migration) where it is vital to address internal and external challenges that cannot be mastered at the national level.

The external-global dimension

Supporters of 'moving ahead ambitiously' say this would be the most effective way to address the main external-global challenges facing Europe: the danger of gradual marginalisation, a loss of regional and global attractiveness and credibility; and the pressure to adapt the multilateral system of global governance to the new realities of international relations, weakening the EU's role.

They argue that:

- A readiness to reform the EU's institutional and legal architecture and launch a European Convention would offer an opportunity not only to tackle the immediate crisis more effectively, but also to enhance foreign, security and defence policy at the European level. Treaty

reform could, for example, lead to an extension of (super-)qualified majority voting in the Council of Ministers, to an enhanced role for the European Parliament in EU foreign policy-making and/or a substantial strengthening of the European External Action Service.

- None of these reforms would be possible if EU governments are not willing to discuss and implement more fundamental changes by amending the existing EU Treaties.

Opponents insist that the opposite is likely to be the case.

They argue that:

- Europe's role as a regional and global actor would not be strengthened but rather undermined if the EU gets bogged down once again in a cumbersome and time-consuming reform exercise.
- Attempting to reform the Union's institutional and legal architecture would once again lead to many years of introspection and 'navel-gazing' at a time when the outside world is in the midst of a major transformation and will not wait for the 'old continent' to re-focus on the international arena.
- Others again argue that the idea of further 'communitarising' European foreign, security and defence policies (for example, by extending majority voting in the Council) is flawed as Member States will and should never give up their national prerogatives when it comes to issues close to the heart of national sovereignty.

LEAPING FORWARD

(economic and political union is the only answer)

The basic rationale

Supporters of 'leaping forward' to economic and political union also say the EU is insufficiently equipped to face current and future challenges, but they go much further than those who favour moving ahead ambitiously, but taking it step by step. They argue that the experience of recent years has provided ample proof that Europe needs to take a major, qualitative leap towards a fully-fledged economic, fiscal, financial, social and political union, with a strong European executive ('European government') and legislature (parliament) able to take autonomous decisions based on genuine European interests that reflect political preferences as indicated by the results of European elections. This leap is necessary not 'only' to overcome the current crisis but to prepare Europe for the manifold internal (demographic change; migration; economic competition) and external challenges (resource scarcity/security; new centres of power; nuclear proliferation etc.) it will face in future.

Champions of this approach say European integration is a political project which must overcome the basic contradiction between having a 'post-national currency' and Member States defending 'national interests' and refusing to accept the realities of interdependence, especially among countries sharing the same currency. In a global context, European countries – small and big – have reached the limits of national sovereignty, unable to set or influence the global agenda and effectively defend their interests and values on their own.

Consequently, say supporters of 'leaping forward', there is a need to disempower the national level and move towards genuine European supranational democratic political structures, with strong discretionary powers at the central level. This would involve a very substantial transfer/pooling of powers in areas which have potential impacts beyond national borders, such as taxation, energy, budgets, migration, education, research, innovation, or industrial, social and labour policy; and in areas where deep policy coordination would have a high value added, such as foreign, security and defence policy.

Those who favour this approach say there is a need to overcome the limitations and pitfalls of intergovernmental structures such as the European Council or Euro Summits, which are dominated by national interests and especially by the interests of the most powerful Member States – a dominance that undermines the legitimacy of European decisions, especially in the eyes of smaller EU countries.

With respect to the Economic and Monetary Union, they say the crisis since 2010 and international experience in recent centuries have shown that a monetary union can ultimately only function and survive if it is coupled with extensive economic integration. A future European fiscal and economic union must thus include a 'European economic government' worthy of the name with the ability to formulate/implement a single macroeconomic policy and guarantee fiscal discipline, a substantial central budget, revenue-raising powers, and a treasury responsible for issuing and managing common debt.

Finally, they maintain that potential opposition from some Member States should not prevent the 'willing and able' from making a major leap towards a fully-fledged economic and political

union, even if this leads to a 'core Europe' including only those countries ready to deepen integration significantly. If some countries' governments, parliaments, constitutional courts and/or electorates reject this approach, the others should go ahead anyway, even if this might ultimately mean the creation of a permanent two-tier Europe, with the setting up a 'new Union' outside the current treaties with its own separate institutional structure.

Key potential measures

The type of policy measures that would be possible and might be introduced under this option, leading to a much deeper level of integration compared to the two previous strategic options, include:

- Defining a **coherent European macroeconomic policy and transferring economic sovereignty to the European level**, with a substantial pooling of powers in areas such as taxation, energy, labour, innovation, or industrial and social policy. This could involve harmonising national tax regimes (both the tax base and rates) and/or social welfare systems (for example, harmonising the retirement age; establishing a European unemployment insurance financed through the central budget; introducing a Europe-wide minimum wage).
- Having a **substantial budget funded through taxes levied at the European level**, which would have its own revenue-raising powers and be **able to decide autonomously what to spend the money on**. This budget would have to be much larger than the current EU budget (around 5-10% instead of 1% of GDP) to provide the financial means required to perform three key tasks: (1) macroeconomic stabilisation and anti-cyclical support to help regions withstand economic shocks, whatever their relative wealth; (2) a redistributive function to transfer resources from more competitive, wealthier regions to less competitive, poorer ones; and (3) the ability to fund Europe-wide investments following a comprehensive strategy for growth and jobs.
- Establishing a **European treasury to manage this budget, equipped with unlimited/substantial borrowing capacity**, which would be able to access financial markets by issuing short- and long-term European sovereign debt underpinned by a joint guarantee involving all euro-zone members.
- Giving the European level the power to **veto national budgets** if they are not in line with pre-defined fiscal commitments. In exchange for this limitation of fiscal sovereignty, countries would benefit from the ability of the central European government to provide financial help if need be through the European budget. In 'normal times', they would enjoy fiscal autonomy to meet their financial obligations through their own resources.
- Creating a **full and genuine European banking union based on three strong pillars**: an independent European banking supervisory system able to monitor all key banks and any other financial institutions it deems necessary; a single European banking resolution authority fully independent from national regulators; and a single European deposit guarantee scheme. The authorities of this banking union would have the autonomy to decide when and how to use the means available in a European backstop financed through contributions from financial institutions and genuine European sources funded through supranational taxes.

- Establishing a **European Monetary Fund (EMF)**, replacing the European Stability Mechanism and equipped with additional powers. Like the IMF, the EMF would be largely independent of national governments. If a crisis threatened the stability of the common currency, its main role would be to design, finance and monitor assistance programmes for countries in the euro zone.

The above potential innovations and reforms go far beyond those envisaged in the previous two options. Under the 'consolidating past achievements' and the 'moving ahead ambitiously' options, there would be no substantial central budget funded through own tax resources, no European treasury, no full banking union, no independent issuing of short- and long-term European sovereign debt, no mutualisation of national debt, no substantial transfer of economic sovereignty and no independent European Monetary Fund.

Potential policy measures strengthening the EU's political-institutional setting and its democratic legitimacy could include:

- **Electing a politically partisan European executive** headed by an indirectly elected president or prime minister and equipped with ample powers to take executive decisions. The **leader of this 'European government' could be authorised to appoint members of the executive branch autonomously**, reflecting the political colour of the parties supporting him or her in the European parliament.
- **Maximising the powers of the European parliament** ('full parliamentarisation'), granting it an equal say in all areas of European policy-making, maximum budgetary powers, a right to propose European legislation ('right of initiative'), and an autonomous right to elect the head of the European executive.
- Electing all or at least a significant proportion of European parliamentarians via a **single pan-European constituency on the basis of a Europe-wide list of candidates nominated by European political parties**. Compared to today, the seats in the parliament could be distributed via a more proportional system reflecting population size.
- Introducing a **new procedure for future changes to Europe's 'constitution'/'fundamental law'** under which Member States would no longer be the ultimate 'masters of the treaties'. The supranational level or a Constitutional Assembly including representatives from both the European and national level would be able to decide on reforms to Europe's constitutional order by a 'super-qualified' majority, with any significant changes possibly put to a Europe-wide referendum.
- **Deepening integration in foreign, security and defence policy**, including the transfer of competences to the European level, the introduction of a **European foreign minister** and moves towards **integrated civilian and military capabilities**, with the ultimate goal of creating a 'European army'.
- Moving to a **single European seat in international organisations** such as International Financial Institutions (for example, the International Monetary Fund, World Bank, G20) and the United Nations Security Council.

In terms of process, leaping forward to a fully-fledged economic and political union would require the elaboration and ratification of a new European treaty by a constitutional assembly.

This 'constitution'/'fundamental law' would have to set out clearly the powers of the different levels of government: supranational, national, regional, and local; be ratified in all Member States; and would, in many countries, require significant changes to national constitutions. The leap forward should involve all EU countries that are 'willing and able' to move in that direction. However, if some Member States reject such a move, those who want to take the leap should proceed on their own, even if this would ultimately imply the creation of a 'new Union' ("Euro Union") with a separate institutional structure and legal basis ("Euro Treaty").

Main advantages and disadvantages

How effective would this option be in responding to the main challenges facing Europe outlined in Part 1 of this report?

The socio-economic dimension

Supporters of 'leaping forward' to economic and political union say this is the only sustainable way to meet the three main socio-economic challenges facing Europe: the threat to social peace; increasing economic divergence; and structural deficits of a fragmented euro area due to an incomplete and unbalanced Economic and Monetary Union. Economic and political union is a *sine qua non* if Europe wants to overcome the current crisis, fully restore confidence in the future of the euro and avert the risk of history repeating itself in the future.

They argue that:

- The long-term future of the euro can only be ensured if Member States are not only ready to obey a set of common principles of fiscal discipline at the sub-central level but also to introduce a substantial central budget managed by a European treasury able to support Member States in trouble and transfer resources from more competitive, wealthier regions to less competitive, poorer; to pool sovereignty in key areas such as taxation, energy, or labour and social policy at the European level; to establish a full banking union which is independent, credible and strong; and to allow the European level to independently and autonomously issue and manage public debt.
- Only if those who want and are able to do what is necessary to tackle the remaining structural deficiencies of an incomplete Economic and Monetary Union will Europe be able to address not only the effects but also the root causes of the crisis.
- A qualitative leap towards full economic and political union would create actors at European level strong and independent enough to take and implement decisions autonomously on the basis of European rather than predominantly national interests. In other words, these actors would pursue and have the means to implement a transnational approach aiming to balance the interests of individual EU countries.
- The potential measures outlined above would reduce the ability of individual national governments, parliaments or constitutional courts to obstruct decisions and actions at European level which are in the interest of all Member States: only strong and independent European authorities would be able to strike compromises and balance national differences and expectations in line with common European interests.

— Opponents of this approach maintain that attempting to make a leap towards fully-fledged economic and political union would move Europe in the wrong direction and pose major risks.

They argue that:

- Moving towards 'economic federalism' at European level would not boost but rather harm Europe's economic prospects and global competitiveness, undermining efforts at national level to return to, or continue on, the path of fiscal virtue and introduce much-needed structural reforms, and many of the positive impacts of 'healthy competition' between Member States.
- History provides several examples of the adverse effects of creating a redistributive 'transfer union' (in which stronger countries subsidise weaker ones), which in most cases has not led to growth and convergence, but to permanent subsidies without sustainable returns on investment.
- Member States who want to and could move to economic and political union should not do so without those who are unwilling or unable, as creating a 'core' or 'two-tier' Europe could strike at the heart of Europe's economic integration project: the Single Market. If they went so far as to create new parallel institutions under a separate treaty, this would effectively be a new Union, with a significant risk of dividing Europe into two opposing camps: members of the new entity and excluded states, who might seek a new future in other economic and (geo) political constellations.
- An overambitious and overhasty attempt to create some kind of 'federal entity' at European level could fail and fundamentally undermine confidence in the euro and the EU in general. Creating high expectations that even the most integrationist Member States might not be able to live up to could backfire, undermining trust in Europe's ability to master the many challenges it faces.
- Even if one assumes those countries who wanted to create a genuine economic and political union could do so, it would take many years, so this would do nothing to help those suffering from severe economic hardship and facing major social and political threats now.

THE POLITICAL-INSTITUTIONAL DIMENSION

+ Supporters of 'leaping forward' to economic and political union argue that far-reaching political-institutional reforms would be the most effective way to address the three main challenges facing Europe in this area: insufficient public support for the EU; the leadership crisis at national and European level; and growing challenges to the traditional concept of political representation.

They argue that:

- Electing a politically partisan European executive (government) with wide-ranging powers and the right to collect taxes; fully extending the parliament's legislative, budgetary and nomination rights; introducing transnational lists; and having a clearer picture of who is responsible for what at the different levels of governance could all help to address the key reasons for today's democratic deficit, and thus boost public support for the EU significantly.
- Delivery of effective policies and results are important, but the gap between European citizens and 'Brussels'/'Strasbourg' will only close if European policy-making becomes more 'personalised', 'parliamentarised' and 'politicised': these main ingredients of vibrant democracies need to be implanted at the European level to stir public interest in European elections and policy-making.

- The creation of a fully-fledged economic and political union would enable Europeans to respond much more effectively to the many complex internal and external challenges, which cannot be effectively tackled at national level. A major leap forward would strengthen Europe's problem-solving capacity and thus help to restore confidence in the ability of decision-makers to provide adequate policy responses to pressing problems.

Opponents of this approach maintain that attempting to apply national models of democracy at the European level would not work and be counterproductive.

They argue that:

- The vast majority of national political elites and most European citizens – in countries both inside and outside the euro zone – are very reluctant to increase the powers of supranational institutions by pooling core elements of national sovereignty at European level. This is not new, but the long-running crisis has further reduced people's willingness to surrender national prerogatives, in the stronger and weaker EU countries – whether they are inside or outside the euro zone.
- There are many signs that Member States are looking for ways to widen cooperation at the European level without shifting the balance of power towards the Commission or European Parliament, from the way key elements of response to the euro crisis were constructed to the establishment of euro-zone summits. There is also a growing trend to rethink current levels of integration and even consider re-nationalising/decentralising policy-making in some areas.
- Transposing national democratic structures to the European level would be hampered by the lack of a European 'public space', a European 'demos' or a common European language (*lingua franca*) providing the platform for transnational political debate. There may already be more debates about Europe, but they are mostly negative and confined to the national political arena. Citizens and politicians still feel mainly attached to the national, regional or local, and not to some kind of European identity.
- Even if national models of democracy could be transposed to the European level, it might not be wise to do so. National democracies are not perfect and have weaknesses that the European level might inherit, such as the tendency for elected governments to shy away from difficult decisions because of fears of displeasing their voters. From this perspective, having a more technocratic institution like the EU, which is not predominantly guided by electoral pressures, could also be regarded as an asset.

The societal dimension

Supporters of this option say the creation of a fully-fledged economic and political union would provide a new sense of direction, and help to re-energise the European project by defining a novel strategic objective based on a clear and agreed picture of where Europe is heading. It would thus address the key societal challenges confronting Europe: the lack of a common understanding and vision of European integration; increasing divisions between Member States; a lack of knowledge about the EU and simplistic perceptions of national sovereignty in a globalised world.

They argue that:

- Today, many citizens (and a growing number of political, economic and intellectual elites) question the added value of the EU. The grand objectives of European integration (peace,

freedom, stability, solidarity and prosperity) remain valid, but some of the concrete achievements of the past (such as peace, the Single Market or the free movement of people) are now taken for granted, and others (like the euro) have been cast into doubt by the crisis. As a result, there is uncertainty about the future *raison d'être* and course of integration.

- A collective decision by those who can and want to move decisively towards economic and political union would increase awareness of Europe's potential future added value and provide citizens and political elites with a clearer picture of where European integration is going. This could help to overcome the current ambiguity about what unites Europeans and generate active endorsement of, and not just passive consent for, a significantly higher level of integration.
- The complexities of the EU's unique multi-level system of governance, which even experts fail to fully understand, make it almost impossible for the public to understand European politics and policy-making. A clearer delineation of powers between the different levels of governance and a political system modelled more along the lines of the nation state would make it easier for Europeans to understand how 'Europe' works.

Opponents of this option raise at least three counter-arguments:

- It is highly doubtful that Member States, even the so-called 'willing and able', would be able to overcome their differences and agree on the main features and details of an economic and political union. There are big differences between them, whether they have or have not (yet) adopted the euro, and attempting a major leap forward would probably expose underlying conceptual schisms between and within countries.
- The differences between Member States could not only block attempts to define a joint strategic objective and provide a unified sense of direction, but might also create new divisions and lead to even bigger tensions between the EU's 28 Member States.
- Even if one assumes that a group of countries could find a compromise, this would not automatically imply that a future economic and political union would be much less complex than the current EU. The history of European integration is full of examples of compromises at European level – which have to accommodate specific national characteristics, diverse expectations and traditions, and different levels of governance – that fall very short of easy and comprehensible solutions.

The external-global dimension

Those who favour a qualitative leap towards economic and political union argue that this is the only way to respond effectively to the key external-global challenges facing Europe: the danger of gradual marginalisation, a loss of regional and global attractiveness and credibility; and the pressure to adapt the multilateral system of global governance to the new realities of international relations, weakening the EU's role.

They argue that:

- Europe will only be able to overcome its structural deficits as an external actor if national governments are ready to pool sovereignty at European level. If Member States do not move in this direction, the ability of the 'old continent' to play an international role to match its potential will remain limited by different foreign policy traditions and cultures, and by diverging interests defined predominantly in the national framework.

- Europe will only be able to speak and act with one voice if Member States give up their veto rights and allow a 'European government', represented by a European foreign minister, to conduct a truly common foreign and security policy.
- Those who are ready to join an economic and political union should also create integrated civilian and military capabilities, which would complement Europe's soft power with hard power and tie Member States closer together. This would significantly increase participating Member States' interdependence and thus increase pressures to overcome national divisions on foreign policy issues and the deficit in strategic thinking at European level, which is also a *sine qua non* for a single European seat in international organisations.
- Through all these reforms, Europe would strengthen its international presence and voice and thus put itself in a much better position to influence a restructuring of the multilateral system of global governance in line with its interests and values. Speaking with 'one voice' could help Europe to shape global rules and reform international organisations.

Opponents of this approach argue that this is simply unrealistic: Member States will never give up their sovereignty when it comes to issues where national interests are core, especially if they relate to issues of 'life and death'.

They argue that:

- Foreign policy and especially security and defence is, and will always remain, at the heart of national sovereignty. No civilian or military personnel can ever be deployed without an explicit decision by national governments and parliaments.
- The 'federalisation' of Europe's foreign, security and defence policy is a political *fata morgana*, which will never materialise in practice. A key reason for this has to do with the fact that the EU needs for the sake of international credibility and operational capacity the active participation of all key European foreign and security policy players some of which (like the UK) would never agree to a 'communitarisation' of these policy areas, as this would significantly limit national governments' room for manoeuvre in the regional and global arena.
- Some would also argue that having a single European seat in International Financial Institutions and/or the UN Security Council would not strengthen, but rather reduce, Europe's weight and its manoeuvring power as it would reduce the number of European players sitting around the table.

CHANGING THE 'MORE/LESS EUROPE' LOGIC

(a fundamental rethink is needed)

The basic rationale

This strategic option is based on the assumption that the traditional approach towards European integration along the lines of 'more Europe' versus 'less Europe' has been exhausted. The state of the Union and the complexity of current and future challenges require a more fundamental re-think of European cooperation and a longer-term approach aimed at making EU policy-making more accountable to the public and more inclusive.

Supporters of this option argue that to achieve these objectives, there is a need to extend the current system of 'checks and balances' in the EU and expand participation in policy-making, going beyond simplistic and unrealistic attempts to apply national political and democratic concepts at the European level.

They say the argument, which underpins previous strategic options – that the EU should aim for a higher level of democratisation and politicisation in line with national models – is misguided. This is not only because national elites and citizens do not seem inclined to support a major leap forward in integration, which would require a significant strengthening of the EU's powers, but also because it underestimates the obstacles posed by the persistent fragmentation of Europe: even after six decades of integration, there is still no European 'demos', no European public space and no common language (*lingua franca*) to provide the platform for a vibrant European transnational political debate. Furthermore, this approach ignores the challenges that national democratic political systems themselves face and the fact that many of the issues addressed at European level are highly complex and technical, and thus deserve long-term policy responses that go beyond the traditional left-right division in politics.

Instead of seeking to democratise and politicise the EU in a 'conventional' sense and ignoring evidence that this has not worked very well in the past, there is a need to re-engage and mobilise the public by finding new ways to close the widening gap between Europe and its citizens, whose distrust of both 'Brussels' and national governments has increased significantly.

To achieve this goal, the EU needs to boost its capacity to:

- (1) increase the accountability of EU governance at European, national and local levels by offering the public additional channels to provide input and feedback ('social accountability');
- (2) make it easier for individual citizens and organised civil society to influence and actively contribute to EU policy-making, going beyond the right to vote in European elections every five years ('continuous democracy');
- (3) deliver long-term policy solutions to the challenges facing Europe, including the transition to a more sustainable economic growth model;
- (4) enhance the Union's capacity to act as a 'watchdog' in safeguarding and promoting political standards and fundamental rights/freedoms; and
- (5) strengthen the EU's 'caring dimension' so that it can guarantee basic social rights and support its citizens, especially in Member States that are being overwhelmed by economic and social pressures.

Key potential measures

The type of policy measures that would be possible and might be introduced under this option include:

- Enhancing the efficiency, responsiveness, transparency and quality of European policy-making by **improving the planning, monitoring, evaluation, auditing and control of EU spending**. In line with the subsidiarity principle, this could include giving the regional/local level more autonomy in setting spending priorities or supporting the creation of a 'European Public Prosecutor' to investigate, prosecute and bring to justice those who commit criminal offences affecting the Union's financial interests.
- **Strengthening existing mechanisms to enable people to influence and help shape the EU's policy agenda** (e.g. the European Citizens Initiative) and **introduce new ones**, to increase public interest in the EU, encourage citizens to become actively involved, and drive European and national policy-makers to take more account of people's concerns. This could, for instance, include holding local referenda to ask citizens how funds provided through the EU budget at the regional/local level should be spent.
- **Introducing and applying more sophisticated composite indicators of economic and human development to guide and shape policy choices, as part of a wider effort to re-think and adapt Europe's growth model beyond a simple GDP orientation**. These indicators would incorporate measurements of economic growth, income distribution, social inclusion/mobility, environmental sustainability, well-being and other quality-of-life indices. They would also need to be more sensitive and responsive to the needs of future generations rather than being exclusively linked to the quest for short-term benefits. A first step in that direction could include a return to and enforcement of the European Sustainable Development Strategy and its indicators, which could be aligned with the European Semester and the country-specific recommendations.
- Creating a **new separate body** ('Third Chamber') bringing together different networks of scientific expertise, stakeholders, civil society representatives, NGOs, European and national policy-makers, as well as representatives of regional and local entities, **tasked with identifying long-term policy orientations, priorities and solutions to complex challenges**, drawing on relevant expertise to help inform decision-making at EU level. This new chamber could include groups dealing with specific issues, such as migration/mobility ('High Council for Mobility' including representatives of migrants, parliaments, local authorities, and scientific experts) or the economy ('European Council of Economic Experts'), and other mechanisms for better stakeholder and expert involvement in particular policy fields (for instance, extending the system of 'European Innovation Partnerships').
- Strengthening the Union's capacity to **ensure respect for civil rights and fundamental freedoms** when they are encroached upon at national level, by enhancing the EU's political and/or legal powers to act in response to serious breaches of the Union's common values (i.e. respect for human rights and dignity, freedom, democracy, equality, and the rule of law).
- Enabling the EU to guarantee **minimum social rights** for its citizens, with adequate welfare standards to meet their basic right to a decent life. This could include introducing guaranteed access to education and health services; a 'European Migration Fund' supporting local

communities particularly affected by influxes of people; or targeted financial support aimed at strengthening reform efforts in individual EU countries under particular strain.

- Stepping up efforts to **inform the public about what it means to be a citizen of the European Union** in terms of their individual and collective rights and obligations. The rights of citizens, currently scattered throughout the EU Treaties or included in the Charter of Fundamental Rights, could be summarised in a 'Charter of European Citizenship'.

This option does not (at least not in the short run) aim at a significantly higher level of parliamentarisation and politicisation of the EU system, as it would not involve extending the powers of the European Parliament or introducing a more partisan European executive.

Main advantages and disadvantages

How effective and helpful would this option be in responding to the main challenges facing Europe outlined in Part 1 of this report?

The socio-economic dimension

Champions of this option say that a fundamental rethink and longer-term policy approach would help to address the three main challenges in this area: threats to social peace; increasing economic divergence within the EU; and fragmentation of the euro area due to an incomplete and unbalanced Economic and Monetary Union.

They argue that:

- A higher level of horizontal social accountability by involving relevant stakeholders, who are aware of the local needs and particularities, in the planning, control and evaluation of EU spending could facilitate pre-emptive actions, improve the absorption of available European funds, reduce fraud, provide a sense of ownership and the basis for a more swift and direct monitoring of EU-funded projects.
- Introducing composite indicators measuring different aspects of well-being, departing from traditional one-dimensional metrics of GDP growth, could stimulate the adoption of policies aimed at improving socio-economic cohesion and the situation of marginalised individuals and communities.
- Safeguarding basic welfare standards through, for example, guaranteed access to education and health services or targeted support for EU countries under particular strain would help to ease social tensions in countries which are temporarily unable to provide citizens with sufficient social protection.
- Social welfare support could enable countries hit hardest by the crisis to invest their limited public resources in growth-enhancing measures, and targeted financial assistance aimed at enhancing Member States' competitiveness would help to support recovery and halt the increasing economic divergence within the EU.

Opponents of this approach maintain that the potential measures foreseen in this option would either not be bold enough or are the wrong recipe to meet current and future socio-economic challenges.

They argue that:

- The measures proposed under this option are complementary, but insufficient to tackle the root causes of the euro crisis and the main socio-economic challenges. There is a danger that they could become a fig leaf and diversion that undermines efforts to move towards a truly Genuine Economic and Monetary Union. Strengthening the EU's 'caring dimension' would also require a transfer of powers and substantial increase of the Union's budget – merely increasing the EU's capacity to act as a 'watchdog' would not suffice.
- Introducing supplementary and complex accountability requirements could backfire, undermining policy delivery by creating extra bottlenecks that could prove counterproductive for the implementation of EU policies.
- Using more 'sophisticated' indicators to guide sustainable policy solutions would camouflage the fact that GDP growth remains crucial if Europe wants to preserve its high living standards and welfare model in the face of increased global competition.
- Finally, those who argue in favour of 'less Europe' (along the lines of strategic option 1) would argue that the potential measures advocated in this option would move Europe in the wrong direction.

The political-institutional dimension

Advocates of this option argue that it would benefit the EU in addressing the key challenges in this area: insufficient public support for the EU; the leadership crisis at national and European level; and growing challenges to traditional concepts of political representation.

They argue that:

- Public support for the EU and its institutions will increase if citizens feel they have more direct opportunities to influence European policy-making, the Union is able to deliver long-term policy solutions developed with more expert and multi-stakeholder input, EU and national institutions can be better monitored and held more accountable for policy failures, and citizens are more aware of their rights and reassured that the EU can safeguard those rights at European and national level.
- The Union needs to seek new ways to re-engage its citizens, because more parliamentarisation and politicisation along the lines of national democratic models would not strengthen but rather weaken the European Commission's ability to act as a politically impartial and objective 'guardian of the European treaties' and 'honest broker'. A more politicised Commission's role in scrutinising compliance with European values and implementation of European decisions at national level would be weakened, as critics could argue that the 'Brussels executive' is not independent and impartial but rather motivated by political considerations. This option would instead preserve the advantages of a competent and impartial European technocracy, while balancing this with more opportunities for EU citizens to influence and scrutinise policies.

Opponents of this option argue that it would not help to master the political-institutional challenges facing Europe, especially if more and more decisions affecting the lives of citizens are taken at the European level.

The arguments against come from several different sides:

- Some argue that the measures foreseen under this option are worthwhile but cannot substitute for strengthening the Union's democratic legitimacy, which will ultimately require a more fundamental reform of the EU's institutional architecture, leading to a higher level of parliamentarisation and politicisation.
- Others maintain that proposals aimed at 'empowering' European citizens are flawed because they start from the simplistic assumption that today's EU is 'anti-democratic'. It may not be democratic in a traditional national sense, but it is responsive to the concerns of European citizens, organised civil society and interest groups, and is already subject to a complex system of checks and balances. Also, it is by no means certain that citizens will want to become more actively involved in EU policy-making, even if the Union provides more opportunities for active civic engagement.
- Other critics warn there is a danger that attempts to empower citizens and strengthen the EU's ability to safeguard civil rights and guarantee rights of minimal social protection could backfire if the Union and its institutions cannot deliver what they promise because they lack the necessary powers, financial means and legitimacy. There have been numerous attempts in the past to enhance the role of citizens (citizens' initiatives), organised civil society (European Economic and Social Committee) and regional entities (Committee of the Regions), but these have, in many cases, amounted to little more than 'window dressing'.
- Other critical voices maintain that attempts to strengthen European cooperation are fundamentally misguided: national governments and parliaments are the key sources of legitimacy and it is their roles that need to be strengthened in European policy-making, not that of bodies and institutions in 'Brussels'.

The societal dimension

Supporters of this option argue that it would help to address the three challenges in this area: the lack of common understanding and vision of European integration; increasing divisions between Member States; a lack of knowledge about the EU and simplistic perceptions of national sovereignty in a globalised world.

They argue that:

- By enhancing the Union's ability to provide long-term policy solutions and safeguard basic rights, and by strengthening its caring dimension, citizens would become more aware of the EU's added value, which in turn would create a stronger sense of what Europe is 'for'.
- Providing more information about European citizens' rights and fostering more active public engagement in European policy-making would create a stronger sense of belonging and help to counter the lack of knowledge about the functioning, powers and limits of the Union and of individual EU institutions.

Oponents of this approach say it is highly questionable whether it would help to tackle the main societal challenges Europeans are facing.

They argue that:

- The measures foreseen in this option will not be enough to create a new sense of direction in the European integration process. They would be welcome in themselves, but would not suffice to give citizens and elites a clearer picture of where Europe is going.

- This option will not help to overcome the complexities of the Union's unique multi-level system of governance, which even experts fail to fully comprehend, making it almost impossible for the public to understand European politics and policy-making. A clearer delineation of powers between different levels of governance and a political system modelled more on national democracy (which is not foreseen in this option) is needed to make it easier for citizens to understand how 'Europe' works.
- Here again, those who argue in favour of 'going back to the basics' (see strategic option 1) would argue that champions of this option fail to understand that the events of recent years have provided ample evidence that European integration has already gone too far. Instead of fruitless attempts to 'fix the unfixable' and chase the undesirable (i.e. 'more Europe'), the EU and its members should abandon moves towards an "ever closer union" and concentrate on undoing mistakes of the past to overcome the increasing divisions between Member States.

The external-global dimension

Champions of this approach say it would help to address the main external-global challenges facing Europe: the danger of gradual marginalisation, a loss of regional global attractiveness and credibility; and the pressure to adapt the multilateral system of global governance to the new realities of international relations, weakening the EU's role.

They argue that:

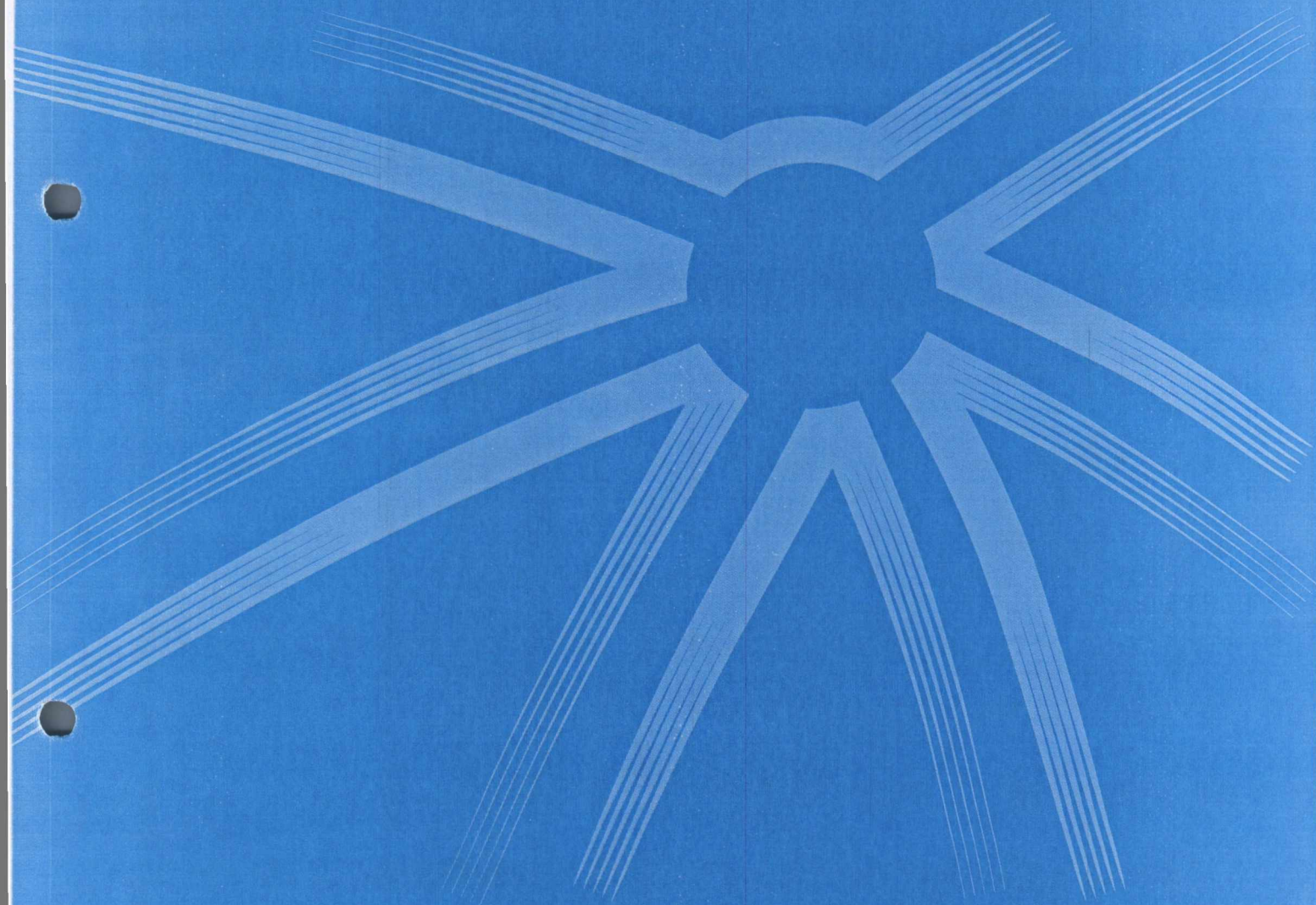
- It would not only strengthen the EU internally, but could also help Europe to become attractive once again as a role model and trendsetter for regional and global governance; an example of governance combining unity and diversity while fostering the active involvement of citizens.
- By emphasising long-term policy solutions going beyond short-termism and a narrow focus on GDP growth, the EU would underscore its role as a 'smart power' which puts sustainable development, environmental standards, income distribution, and social inclusion/mobility at the cornerstones of policy-making.
- By accentuating the role of citizens, the EU could also boost the involvement of civil society actors in the development and implementation of the Union's foreign policy, and put the needs and individual rights/freedoms of citizens at the heart of the EU's external actions.

Opponents of this option say it fails to address the reasons why Europe is facing the risk of gradual marginalisation in international affairs.

They argue that:

- It would not be enough to help the 'old continent' avoid global marginalisation as it would not emphasise the need to deepen integration in foreign, security and defence policy. Europe will only be able to tackle future external challenges if governments stop seeing these policy areas as a national prerogative.
- An emphasis on citizens and long-term, sustainable policy-making would have little impact on EU foreign policy in practice as international relations are dominated by country's concrete and immediate political and economic interests and not by principles of individual rights/freedoms and long-term policy objectives, no matter how noble these might be.
- Last but not least, an approach aiming to strengthen the EU's social accountability and the engagement of citizens might further contribute to the tendency of European policy-makers getting lost in navel-gazing and introspection, while not paying attention to the global challenges Europe has to face.

PART 3



PART 3: NO CONCLUSIONS, JUST A FEW QUESTIONS

This report does not end with a set of conclusions or specific recommendations. In this first phase of the New Pact for Europe project, we have consciously 'limited' ourselves to analysing the current state of the Union, describing the key challenges Europe faces, and presenting a set of five potential strategic options for the future of European integration.

On this basis we will in the second phase of the project between December 2013 and March 2014 organise around 50 events in a large number of Member States aiming to get feedback from 'ordinary citizens' as well as politicians, policy-makers, opinion formers and key stakeholders. In the course of these events, participants will be asked a number of key questions:

- Will the European Union be able to manage and eventually overcome the current crisis? Will the integration project, at the end of the day, emerge stronger from this crisis, as it has from past watershed moments in its history?
- What are the most significant internal and external challenges Europe is and will be confronted with? And is the European Union and are Member States sufficiently equipped to deal with these challenges?
- Is one of the five strategic options presented in this report a suitable path to put the continent in the best possible position not only to confront the many risks and uncertainties it faces, but also to fully exploit Europe's potential?
- Or is there an alternative path – not mentioned in this report – better suited to heal the wounds left by the crisis, deliver effective policy responses and strengthen the EU as a global player?
- Is there one strategic option, which seems to be the 'best' alternative from the perspective of 'your' country? Is there an option, which finds particular support from a majority in the Member State you come from?

Taking into account the feedback received, the Reflection Group will – with additional input from the Advisory Group – in the third phase of the project, be asked to draft a proposal for a New Pact for Europe between Member States and between policy-makers and the public. This new pact will include concrete recommendations and ideas, which will be presented to the new EU leadership assuming office after the elections to the European Parliament in May 2014, when strategic choices about Europe's long-term future will have to be made.

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The socio-economic dimension

Threats to social peace resulting from indignation and despair caused by high levels of (youth) unemployment in most Member States; pressures on the welfare state stemming not only from the crisis but also from ageing populations and other structural challenges related to demographic change; growing pressures on, and a gradual erosion of, the middle classes; widespread perceptions of (increasing) social injustice; and a lack of upward social mobility, especially among young people (the 'intergenerational divide').

Increasing economic divergence between EU countries due to a lack of competitiveness of certain EU economies; 'beggar thy neighbour' policies because of insufficient economic coordination between Member States; persistently high public and/or private debt levels in some EU/euro countries; and the lack of mechanisms between weaker and stronger euro countries to cushion economic and social shocks that hit some harder than others.

The structural deficits of a fragmented euro area due to an incomplete and unbalanced Economic and Monetary Union that still lacks adequate fiscal, financial and economic integration.

The political-institutional dimension

Insufficient public support for the EU because of a widespread and growing feeling among citizens in both weaker and stronger Member States that they are directly affected by decisions taken 'in Brussels' which they cannot influence and which do not (always) reflect their interests and point of view; national elites acting as 'gatekeepers' and looking for 'scapegoats' when talking about the EU to national electorates; a complex and often incomprehensible EU decision-making system, which, at a time of crisis, relies heavily on decisions taken behind closed doors and often driven by powerful national governments.

Multiple leadership crises at national and European level due to the failure of political elites to provide timely, effective and adequate policy responses; the inability of politicians to effectively reconcile their various roles at different levels (EU, national and regional); the lack of a coherent and politically accepted 'integration engine' commensurate with the role previously played by the Franco-German tandem; the inability of the European Commission to provide strategic guidance at supranational level along the lines of a 'common European interest' as it lacks political might, sufficient means/tools and – at times – support from key Member States.

Growing challenges to the traditional concept of political representation, leaving room for new forms of opposition, often from the fringes of the political system and characterised by radical/populist rhetoric; the empowerment of individuals through higher levels of education and the availability of new technologies; the multiplication of different and potentially conflicting sources of identity at local, regional, national and transnational level; challenges linked to openness, diversity, plurality and multiculturalism which spur immigration-related problems; the delegation of decision-making powers to beyond the national level and to institutions without a popular mandate; the impact of non-traditional means of communication and interaction via social media.

The societal dimension

The lack of a common understanding and vision of European integration (narrative; 'leitmotiv')

– of what Europe is for and what is in it for 'me' – due to a lack of awareness or relative neglect among citizens, including elites, of the EU's core added value (peace, prosperity and well-being, collective global influence) and the nature of its identity (i.e. distinct historical experience, rule of law, collective rules, the European social model, protection of individual rights). All this creates ambiguity about what unites Europeans, making it harder to foster the shared sense of identity and common destiny needed to generate active support (and not just passive consent) for European integration. There is also a growing perception that 'Europe' is not 'part of the solution' but 'part of the problem', souring national debates and younger generations' attitudes towards the Union.

Increasing divisions between Member States leading to a (re-)surfacing of national stereotypes, nationalistic chauvinism and historical resentments, and an ever-louder, over-simplistic and harmful blame game between Member States because of differing interpretations of the root causes, nature and complexity of the crisis; disagreements over how to respond to the crisis at national and European level; conflicting visions of the future of European integration; and a reluctance to address sensitive questions openly because of 'political correctness' and fears that the debate might degenerate and become counter-productive.

Lack of knowledge about the EU and simplistic perceptions of national sovereignty in a globalised world due to ignorance about the functioning, powers and limits of the EU and of individual EU institutions; insufficient awareness of the consequences of the high level of interdependence between EU countries; idealistic views of national sovereignty and the 'power' of nation states in a globalised world.

The external-global dimension

Danger of gradual marginalisation, loss of attractiveness and credibility on the global level and in the EU's neighbourhood as influence shifts globally and economic, political, sociological and ideological competition increases; inadequate attention paid to regional and global affairs because of an enduring preoccupation with internal affairs and crisis-related 'navel-gazing'; the damage done to the EU/euro's image outside its borders by the crisis; and the persistent inability of the EU to act jointly and speak with one voice in the global arena because of the lack of a shared 'strategic vision' of Europe's role and core interests and insufficient support from Member States.

Pressure to adapt the multilateral system of global governance to the new realities of international relations (weakening the EU's role) and risk of gridlock, given the limited ability of individual countries to respond effectively to global challenges (e.g. climate change; resource scarcity/security; economic imbalances; migration; nuclear proliferation; international terrorism) in a highly interdependent and competitive world; the lack of effective global rules and mechanisms to enforce them; growing question marks over the legitimacy of existing global institutions because they fail to reflect the emergence of 'new' powers demanding a stronger, more equal say; the prospect for a downsizing of the weight of EU Member States in key global bodies to meet the demands of others; and an increasing risk of stand-offs between major powers (e.g. competition over scarce natural resources; 'currency wars').

STRATEGIC OPTIONS: BASIC NATURAL

GOING BACK TO THE BASICS

- European integration gone too far; need to abandon path towards an "ever closer union".
- Acknowledge that EU will and should never become an economic and political union.
- Performing 'U-turn' & undoing mistakes and misguided developments of past is most promising way forward.
- National governments & parliaments are key sources of legitimacy.
- Citizens/elites not willing to surrender national identity & prerogatives for diffuse/artificial European identity.
- Euro system does not work: euro has become 'part of problem' not 'part of solution'.
- 'GEMU' aspiration is wide of the mark.
- Dismantling of euro area & concentration on Single Market does not mean EU breakdown, but basis for more pragmatic & promising restart.

CONSOLIDATING PAST ACHIEVEMENTS

- Focus attention on what needed to overcome immediate crisis.
- Concentrate on measures aiming to further strengthen confidence in euro & revive Europe's economy.
- Steer clear of overambitious attempts to deepen integration to avoid potential overstretch.
- Strong indications that worst of crisis is behind us, although still considerable work to be done.
- Need to be realistic & accept that Member States (MS) not willing/able to make major qualitative leap & further pool sovereignty in key areas (e.g. taxation, budget, social & labour policy).
- Return of public legitimacy will derive from 'output legitimacy' concentrate on delivery.
- No major reform of EU competencies or institutional structure, which requires profound treaty reform.
- Overambitious reform attempts could backfire given the negative mood in many MS.

MOVING AHEAD AMBITIOUSLY

- Crisis is not over; EU/MS need to be more ambitious.
- Future integration steps and transnational debate about EU's future indispensable for overcoming immediate crisis & preparing for future challenges.
- Need to follow step-by-step approach to avoid creating new dividing lines in EU28.
- Reforms must go beyond lowest common denominator, even if this necessitates more substantial changes involving treaty change.
- But: no fully-fledged economic & political union at least at this stage.
- Further strengthening of supranational institutions, but also adequate role of national governments & parliaments.
- Need for thorough/honest public debate about actual causes & adequate responses to crisis and about future direction of integration process.
- Multiple speeds likely to increase; but: need to avoid creation of permanent 'multi-tier Europe'.

LEAPING FORWARD TO ECONOMIC AND POLITICAL UNION

- Experience of last years proven necessity to make major qualitative leap towards fully-fledged economic and political Union (EPU).
- EPU with strong executive ('European government') & parliament able to take autonomous decisions based on genuine European interests & political preferences indicated by results of European elections.
- Overcome contradiction between 'post-national currency' & defence of national interests.
- No EU country able to set/influence global agenda & defend interests on their own.
- Move towards European supranational democratic political structures with strong discretionary powers including substantial central budget based on own tax resources.
- Substantial pooling of competences in key areas; need for 'European economic government'.
- 'Willing & able' should make major leap towards EPU, even if this leads to a 'core Europe'/'new Union'.

CHANGING THE MORE/LESS EUROPE' LOGIC

- Traditional approach along the lines of 'more Europe' vs. 'less Europe' exhausted.
- Need for more fundamental rethink of European cooperation & longer-term approach aimed at making EU policy-making more accountable & inclusive.
- But: need to go beyond simplistic & unrealistic attempts to apply national political & democratic concepts at EU level.
- Need to re-engage & mobilise citizens by strengthening existing & identifying new avenues to close legitimacy gap.
- EU should (i) increase accountability of EU governance by offering mechanisms to provide input & feedback; (ii) make it easier for citizens to influence & actively contribute to EU policy making; (iii) deliver long-term policy solutions to challenges; (iv) enhance EU's capacity to act as a 'watchdog' in safeguarding & promoting political standards and fundamental rights/freedoms; (v) strengthen EU's caring dimension so that it is more able to guarantee basic social rights & support citizens in MS particularly overwhelmed by consequences of economic & social pressures.

CHALLENGES AND POSSIBLE RESPONSES IN AN INCLUSIVE STRATEGY

CHALLENGES

OPTION 1 Going back to Basics

OPTION 2 Consolidating past achievements

Threats to social peace

- Completion of Single Market
- Focus on certain key policy areas & 'renationalisation' of others

- More innovative and flexible use of EU structural, cohesion and regional funds.
- More comprehensive EU strategy for growth & jobs with strong focus on national reforms.

Increasing economic divergence within EU

- Focus on future-oriented EU spending (e.g. reduction of CAP budget)
- Competitiveness gains through devaluation of national currencies

- Promotion of first signs of economic stabilisation; concentrating on reform efforts especially at national level.
- Limited extension of economic coordination through coordination of major structural reforms.
- Contractual arrangements (reform contracts) financially supported by 'stability mechanism'.

Structural deficits of fragmented euro area

- Three options: abolition of euro; introduction of two separate currency areas; reduction of size of euro area.
- More homogeneous currency areas easier to manage.

- Moving towards GEMU without integration overstretch.
- Full implementation of fiscal rules adopted since 2010 ('six pack'; 'two pack'; fiscal compact treaty).
- Establishment of minimal version of banking union based on two pillars: supervision of all major banks by ECB; resolution mechanism relying heavily on national regulators.

OPTION 3 Moving ahead ambitiously

- Intensification of macroeconomic coordination.
- Integrated guidelines defining the EU's multiannual economic and social priorities.
- Limited increase of EU budget providing also more financial means to foster investments.
- Establishing a financial instrument able to provide counter-cyclical financial assistance; could include complementary European unemployment benefit scheme.
- Creating 'Budget Tsar'/'Super Commissioner' with power to reject/ veto national budgets.
- Introducing some form(s) of limited & time restricted joint financial liability; could include e.g. short-term debt (Eurobills) or setting up Redemption Fund.
- Incorporation ESM & fiscal compact treaty into exiting EU treaty framework.
- Completing limited banking union with financial backstop using means available through ESM.

OPTION 4 Leaping Forward

- Transferring economic sovereignty to European level, with substantial pooling of powers in areas such as taxation, energy, labour, innovation or industrial & social policy.
- Formulation & implementation of a coherent European macroeconomic policy.
- European budget used: to provide macroeconomic stabilisation & anti-cyclical support; to fund Europe-wide investments following a comprehensive strategy for growth & jobs.
- Substantial budget funded through taxes levied at European level, which is able to decide autonomously what to spend money on.
- Redistribution from more competitive, wealthier regions to less competitive, poorer ones.
- Establishing European treasury to manage budget, equipped with unlimited/substantial borrowing capacity.
- Giving European level power to veto national budgets if they are not in line with pre-defined fiscal commitments.
- Creating full & genuine European banking union based on three strong pillars (supervision, resolution, deposit guarantee).
- Establishing European Monetary Fund (EMF), replacing ESM and equipped with additional powers.

OPTION 5 Changing the 'more/less Europe' logic

- Enabling EU to guarantee minimum social rights for its citizens, with adequate welfare standards to meet their basic right to a decent life.
- Introducing guaranteed access to education & health services as well as targeted financial support aimed at strengthening reform efforts in individual EU countries under particular strain.
- Introducing & applying more sophisticated composite indicators of economic & human development to guide and shape policy choices, as part of a wider effort to re-think & adapt Europe's growth model beyond a simple GDP orientation.

MEASURES IN INDIVIDUAL STRATEGIES

CHALLENGES

OPTION 1 Going back to Basics

OPTION 2 Consolidating past achievements

OPTION 3 Moving ahead ambitiously

Insufficient public support for EU

- Increase public acceptance for EU by concentrating on Union's 'core business' (Single Market).

- Gradual increase of public support for EU once threat of euro meltdown overcome & national economies show (stronger) signs of economic recovery.
- Stronger involvement of EP in European Semester.
- Creation of substructures within EP limited to MEPs from euro countries.

- Increased personalisation, parliamentarisation & politicisation of European policy-making.
- Further extending EP's rights.
- Creating special 'euro committee' within EP with distinct decisions-making powers.
- Further extending (super)qualified majority voting in Council.
- Reforming rules for amending EU treaties to allow entry into force even if some MS have not ratified (yet).

Leadership crisis

- Enhanced role of national parliaments & governments

- Enhanced role of euro countries through strengthening of Eurogroup & Euro Summits.
- Stronger involvement of national parliaments by strengthening consultative coordination with EP & enhanced role of parliaments in national EU policy-making.

- Clearly defined & more direct link between results of EP elections and (s)election of Commission president, cutting number of Commissioners & giving president more leverage in choosing them.
- Electing a limited number of MEPs based on a transnational EU-wide list of candidates, which could generate candidates for 'top' EU jobs.
- Involving national parliaments more strongly in EU policy-making, at both national & European level.

Challenges to traditional concept of political representation

- Issues of legitimacy & accountability at EU level would recede if national governments & parliaments regain powers/influence.

- Commissioners could attend parliamentary debates when country-specific recommendations are discussed.

- Need for higher level of personalisation, parliamentarisation & politicisation to strengthen European democracy by overcoming EU's major deficiency: European political life still too oriented towards consensus & lacks lifeblood of a thriving democracy – the exchange & clash of colliding arguments.

OPTION 4 Leaping Forward

- Maximising powers of European parliament ('full parliamentarisation').
- Electing European parliamentarians via single pan-European constituency on basis of Europe-wide list of candidates nominated by European political parties.
- Introducing new procedure for future changes to Europe's 'constitution'/'fundamental law' under which MS no longer ultimate 'masters of treaties'.

- Electing a politically partisan European executive equipped with ample powers to take executive decisions.
- Leader of 'European government' authorised to appoint members of executive branch autonomously, reflecting political colour of parties supporting him/her in European parliament.

- Creation of fully-fledged economic & political union enabling Europeans to respond much more effectively to complex internal & external challenges, which cannot be effectively tackled at national level.
- Major integration leap in order strengthen Europe's problem-solving capacity to restore confidence in ability of decision-makers to provide adequate policy responses.

OPTION 5 Changing the 'more/less Europe' logic

- Improving the planning, monitoring, evaluation and control of EU spending.
- Strengthening existing & introducing new mechanisms to enable people to influence & help shape EU's policy agenda.
- Creating new separate body ('Third Chamber') bringing together different networks of scientific expertise & stakeholders, tasked with identifying long-term policy orientations, priorities and solutions to complex challenges.
- Stepping up efforts to inform public about what it means to be EU citizen in terms of individual & collective rights & obligations.
- Strengthening EU's capacity to ensure respect for civil rights & fundamental freedoms when encroached upon at national level, by enhancing EU's political and/or legal powers to act in response to serious breaches of EU's common values.

CHALLENGES			
OPTION 1 Going back to Basics			
OPTION 2 Consolidating past achievements			
OPTION 3 Moving ahead ambitiously			
Lack of common understanding and vision of European integration	<ul style="list-style-type: none"> Abandoning quest for "ever closer union" would end fruitless discussions about EU's final destination. 	<ul style="list-style-type: none"> EU will reach higher level of maturity once it emerges from crisis & has averted euro break-up. 	<ul style="list-style-type: none"> Pan-European public debate about current state & future of EU/EMU needed to increase awareness of EU's (potential) future added value & give clearer picture of its strategic objectives.
	<ul style="list-style-type: none"> Dismantling euro in its current form would eliminate one of major bones of contention. 	<ul style="list-style-type: none"> Events of past few years could prove to be a unifying moment; strengthen perception that there is no viable alternative to European integration. 	<ul style="list-style-type: none"> Public debate needed to tackle resurgence of national stereotypes, chauvinisms, historical resentments & an intensified 'blame game' between MS.
	<ul style="list-style-type: none"> Stronger focus on 'core business' & abandonment of "ever closer union" would make it easier for citizens to understand EU. 		<ul style="list-style-type: none"> EU modelled more along national political & democratic systems to make Union better understandable for citizens.

OPTION 4 Leaping Forward

- Collective decision by those who can & want to move decisively towards economic & political union would increase awareness of Europe's potential future added value & provide citizens & political elites with a clearer picture of where European integration is going.

- More certainty about future *raison d'être* of European integration to overcome current ambiguity about what unites Europeans & generate active endorsement of significantly higher level of integration.

- Clearer delineation of powers between different levels of governance & political system modelled along lines of nation state to make it easier for Europeans to understand how 'Europe' functions.

OPTION 5 Changing the 'more/less Europe' logic

- Enhancing EU's ability to provide long-term policy solutions & safeguard basic rights, and strengthening its caring dimension, in order to make citizens more aware of EU's added value create stronger sense of what Europe is 'for'

- Providing more information about European citizens' rights & fostering more active public engagement in European policy-making to create stronger sense of belonging & help to counter lack of knowledge about functioning, powers & limits of EU & its institutions.

CHALLENGES

OPTION 1 Going back to Basics

- More investments of MS to strengthen practical capabilities & capacities in area of security & defence.
- Cooperation should not be guided by illusion that CFSP/ CSDP would ever be 'communitarised'.

Danger of gradual marginalisation & loss of regional and global attractiveness and credibility

OPTION 2 Consolidating past achievements

- Concentration of EU institutions & MS on smaller steps (e.g. gradual improvements of EEAS) & more concrete policy initiatives (e.g. TTIP) aiming to adapt the EU to needs of multipolar environment.
- Concentrate on overcoming crisis in order to gradually regain reputation & influence in global affairs.
- Not right time to deepen integration in foreign, security & defence policy; but: experience of past years might show that challenges cannot be dealt with effectively at national level.

OPTION 3 Moving ahead ambitiously

- Extension of (super)qualified majority voting in Council on CFSP matters, enhanced role of EP in EU foreign policy-making & substantial strengthening of EEAS.
- More coherent representation or even single/complementary EU seat in international financial institutions.

Pressure to adapt multilateral system of global governance to new realities of international relations

- Concentration on actual ability to defend Europe's interests to help withstand increasing pressures to reduce EU's role in international organisations.

- Overcoming crisis to regain trust in international arena & avoid loss of influence in international organisations.

- Strengthening EU as external actor to enhance Europe's ability to co-determine future of global governance.
- Ability to act as leading power in climate change, energy & other societal challenges.

OPTION 4 **Leaping Forward**

- Deepening integration in foreign, security & defence policy, including transfer of competences to European level, introduction of European foreign minister & moves towards integrated civilian and military capabilities.

OPTION 5 **Changing the 'more/less Europe' logic**

- By emphasising long-term policy solutions going beyond short-termism & narrow focus on GDP growth, EU would underscore its role as a 'smart power' which puts sustainable development, environmental standards, income distribution, & social inclusion/mobility at the cornerstones of policy-making.
- By accentuating role of citizens, EU could boost involvement of civil society actors in development & implementation of EU's foreign policy, & put needs & individual rights/freedoms of citizens at heart of EU's external actions.

The eurozone crisis has provided a strong new impetus for European integration, but that now risks being undermined amid increasing tension over how best to meet the many complex financial, economic, political, social and global challenges we face. Efforts to overcome the current malaise are being hampered by profound disagreements over the future course of reforms; mounting socio-economic problems and political instability in many EU countries; different interpretations of the causes and consequences of the crisis; growing Euroscepticism and an increasing reluctance among both citizens and elites to further pool sovereignty at European level. And while the EU is preoccupied with itself, Europe keeps losing ground as the global shift continues.

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 first project report analyses the 'state of the Union', describes the key challenges Europe faces and presents a set of five potential strategic options for the future of European integration. The project will in the upcoming phases aim to promote a Europe-wide debate and develop proposals on how to reform the European Union in light of the manifold internal and external challenges Europe is currently facing.

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