

An agenda for the future of the European Union: addressing citizens' expectations

The EU leaders meeting in Bratislava on 16 September face a challenging, not to say hostile, environment. Although globalisation and European integration have served to increase prosperity, the negative consequences of the former, which have hit the European working and middle classes especially hard, have provoked widespread discontent with politics, parties and politicians. Furthermore, European citizens have come to perceive the EU as part of the problem (whether or not their diagnosis is an accurate reflection of reality is, of course, an entirely different matter), rather than part of the solution. The 2005 French and Dutch referendums provided a foretaste of this shift in opinion, which intensified after the worldwide financial and economic crisis of 2008. One possible interpretation of the Brexit referendum outcome is to see it as a reflection of the same kind of concerns.

It is in this context that political parties allegedly offering alternatives to traditional politics – featuring ready-made ‘solutions’ such as xenophobia, racism, populism, nationalism and Euroscepticism – have increasingly managed to elicit citizens’ sympathy for their programmes.

This troubling state of affairs makes it imperative for the EU to address a number of clearly identifiable socioeconomic and political challenges, including some related to identity and multiculturalism, and to provide appropriate and imaginative solutions to them. Responding to people’s fundamental concerns will simultaneously help member states and enhance the value of the EU for its citizens.

Increasing inequality, rising poverty and the lack of decent jobs and opportunities

Not since the aftermath of World War II has Europe had to endure such a weak recovery from crisis as the one we are currently experiencing. Rapid technological change, open economic borders and the economic policies pursued by most EU countries in the wake of the crisis have resulted in stagnant middle class wages, increased inequality (with growing concentrations of income in the top 10%) and new forms of poverty and social exclusion throughout the EU, particularly in the South. Furthermore, the quality of jobs available has declined even in those countries with low unemployment, and the *working poor* have emerged as a distinct social category. Most Europeans feel that their children will be worse off than they are, that they will not benefit in the future from current levels of welfare, and that they face declining economic opportunities.

Moreover, many perceive that the EU, far from providing a buffer protecting them from these powerful global trends, is actually exacerbating them. A clear instance of this is the persistent innovation gap that is creating sharp divisions between labour markets, separating them along national lines. This result is that broad sectors of the population

perceive intra-EU mobility as a threat, rather than an opportunity. In short, there is a growing concern that neither the EU nor its member states are doing enough to compensate those who have lost out from globalisation. As a result, the sense of ongoing economic progress and rising shared prosperity that once characterised the EU has been lost. An era of diminished expectations has arrived, and economic insecurity and anxiety about the future is leading to a backlash against globalisation in general and the EU in particular. Unless urgent measures are taken to protect Europe's middle and working classes, we will soon face populist, anti-European and even undemocratic attitudes that could threaten everything the EU is meant to stand for.

The sustainability of the euro

The Global Financial Crisis and its aftermath have proved that the Eurozone is unsustainable without further fiscal integration. Since the Greek debt crisis (2010), the leaders of the Eurozone have tried to address the structural flaws of EMU, but many economists remain sceptical about the Euro's chances of surviving another crisis. Financial history suggests that banking unions cannot work without fiscal unions, but in the case of Europe the latter is so far nowhere to be seen. The foundations on which such a fiscal union would need to rest do not currently exist: distrust is now widespread, and debtor countries feel the costs of the crisis need to be shared, while creditor countries are adamant in their refusal to mutualise past and future debt, insisting that this can happen only if there is central control of national budgets. Countries with fiscal surpluses mistrust the ability and/or willingness of debtor and deficit member states to reform, and the latter in turn believe that the Euro mostly benefits one particular economic model, distant from their own. Naturally, policymakers in less prosperous states worry about divergence in per capita incomes. But policymakers in the richest states should be concerned as well. After all, economic convergence has been at the heart of the social contract in the EU; increasing divergence may stimulate disaffection among those who feel they are being left behind, but will also alienate those who feel they are being taken advantage of. Convergence, however, cannot happen without new investment, and this requires fresh money.

Immigration and asylum

The arrival of 1.5 million asylum-seekers over the past two years has stoked anti-immigration sentiment, which has been exacerbated by socioeconomic, security and identity concerns. Perceived competition between locals and immigrants for scarce public resources and fears about national identity have fuelled xenophobic movements that are especially strong among the least qualified groups, and fears of a wave of unregistered asylum-seekers hailing from Muslim countries have only served to intensify apprehension. Terrorist attacks in France, Belgium and Germany have connected these fears with antagonism towards Muslim communities. At the same time, EU populations – particularly in the South- are declining and ageing, and some experts have seen the arrival of refugees as a demographic blessing. Furthermore, the survival of the EU in the highly-competitive global trade arena – and the future of its pension system – requires it to attract highly-qualified immigrants, especially since it is still losing home-grown talent to the USA and other countries. Additionally, the recent arrival of poorly-qualified immigrants is aggravating the difficulties already faced by stressed welfare states.

Terrorism, security and neighbourhoods

The threat of jihadist terrorism and its impact on Europe and the neighbouring regions has brought to the fore the importance of internal and external security for EU states and their citizens. The major threats to Europe emanate from three areas: the South, the Middle East (due in part to failed Western policies in Iraq, Syria and Libya), and Russia, whose recent aggressive behaviour in the East poses a threat to the EU and causes very real concern in the member states closest to its borders. All three areas require a robust and effective Common Foreign and Defence Policy, a reinforcement of antiterrorist cooperation, and a renewed approach to neighbouring regions, where aid and development policies have been found totally wanting.

Flexibility and non-domination

The Union has become more internally differentiated than ever before. Many constituencies in a variety of member states object to one-size-fits-all solutions that apply equally to all member states, and in all situations. In part, the Brexit vote reflects this concern. Meanwhile, many citizens resent what they perceive as German dominance of the European project, and are dismayed by the failure of other governments to provide alternative policies and leadership. In the long run, this may lead not only to growing confrontation, but also to disaffection with a European integration model that appears to benefit some member states more than others.

Citizens are demanding better European (and not just EU) governance. This will require better national governance, and also an improvement of the EU's ability to enforce the rule of law, administrate effectively, and contribute to the fight against corruption. Instead of 'more Europe', what Europe really needs is a more constructive balance between the national and EU levels (with strong and effective member states).

Proposals

Ensuring economic growth and better jobs while making the Euro sustainable in the long run are closely interrelated goals, even for non-Eurozone member states. Both require innovation on the revenue and spending sides of the budget, at the national and EU levels. They will also require new economic policies.

- The EU must remain an open economy and reject attempts to return to protectionist policies. Openness, however, should not be allowed to lead to the dismantling of the European social model.
- The EU should have more scope for establishing guidelines to encourage member states to concentrate expenditure on specific areas, such as education and R&D. These guidelines could take the form of more specific recommendations in the Macroeconomic Imbalances Procedures and the Stability and Growth Pact.
- The EU should take measures to increase internal labour market mobility, including those based on the budgetary instruments mentioned below.

- The EU should demonstrate stronger leadership in specific global initiatives seeking to achieve a more balanced globalization process, starting with the fight against tax evasion and the introduction of a Financial Transaction Tax to limit the influence of international finance in the global economy.
- More equal and progressive taxation to achieve more effective redistribution leading to real equality of opportunity, particularly to protect those more severely affected by global trends (children and young people in the South, the working poor everywhere). This will mean increasing progressivity within national tax systems and ensuring that multinational corporations pay what they should in every member state, but also generating new sources of revenue that should be collected at the EU (or at least at the Eurozone) level.
 - A travel tax + a new environmental tax + a financial transactions tax + further taxes associated with the activities of the internal market (all could be agreed upon with an enhanced cooperation procedure). Their benefits would be manifold:
 - First, they would generate a sense of ownership. People paying the tax would see tangible benefits.
 - Second, they would be the embryo of a fiscal backstop for the Eurozone, and perhaps a larger budget for the EU later on.
 - Third, they would require the creation in the first instance of a Eurozone parliament, which, deciding jointly with the Eurogroup, would ensure the efficient use of the funds.
 - These new taxes would finance a budget of 1% of GDP (up to €140bn), which would fund policies in four concrete areas across the EU:
 - Developing vocational dual education
 - Improving active entrepreneurial and labour market policies
 - Financing an Erasmus scheme for workers
 - Increasing investment in pan-European projects (green infrastructure and technology)
- The EU (and the Eurozone) urgently needs to design and set up institutions able to cope with asymmetrical shocks and external crises.

Migration and asylum policies need to adapt to the new environment and its challenges. This requires:

- A complete revision of the EU asylum system, to adapt it to a much larger and more diverse EU. The EU has to take into account that refugees in Europe usually become permanent migrants and hence the chances of integration in the labour market must be included as one of the key factors that shape asylum policies.
- The unification of national criteria for granting asylum and the homogenisation of the nature and volume of public aid offered to refugees to avoid the present highly unequal distribution. The EU cannot protect all those potential asylum-seekers in

its territory who are fleeing violent conflicts, and must therefore reinforce its financial aid to the UNHCR and those states in Africa and Asia where refugees first find refuge and help.

EU security policy must adapt to the growing importance of non-conventional threats, in particular terrorism. This requires:

- Furthering cooperation in areas such as policing, intelligence and justice.
- Strengthening the cyber-security capabilities of some member states and partners in Central and Eastern Europe.
- More broadly, as NATO re-emerges as the main locus of European defence cooperation, greater coordination is needed between NATO and the EU in the realm of capability development.
- The best contribution CSDP can make in the context of the ongoing migration crisis and the threat of terrorism is to help address their root causes, i.e. instability in the broader southern European neighbourhood.
- A profound renewal of the EU's neighbourhood policies towards the East and the MENA region, as well as Sub-Saharan Africa, with new and better financed and managed instruments.

Finally, the EU needs to accommodate growing internal divergences and different views on its own development. This requires:

- An imaginative use of available solutions to accommodate diversity and pluralism, and the avoidance of dogmatic interpretation of rules and procedures, so as to prevent the emergence of monolithic conceptions of the Union.
- A shift to methods of constitution-making and governance that increase inclusiveness and minimize unilateralism.
- Reinforcing joint scrutiny of EU and national governance in areas such as corruption and the rule of law.