

Open letter to the European Institutions

Europe's choice

The outcome of the European elections has sent clear signals that policy makers should not ignore but has not changed the European Union's fundamental predicament: the medium-term unsustainability of the growth model and the risk of the EU's marginalisation in the new geopolitical (non) order. The European institutions that will govern in the next five years cannot shy away from a radical re-thinking of the EU's role domestically and abroad.

The European Commission led by Ursula von der Leyen between 2019 and 2024 will be remembered for its response to emergencies: the pandemic, Russia's aggression of Ukraine and the energy crisis. The EU has thus been forced to take fundamental decisions under pressure. To its credit, the errors that marred the response to the Global Financial Crisis have not been repeated. The reiteration of pro-cyclical fiscal policies and overburdened monetary policies would have been a dramatic mistake. Instead, a new and well-balanced policy mix has been put in place, and institutional changes have been made. The centralisation of the supply of vaccines, the SURE programme to shore up labour markets, the NextGeneration-EU recovery plan, the coordination of national energy policies, the Fit-for-55 climate measures and the joint programmes to support Ukraine have led to a new EU multilevel governance system. However, such innovations have not resulted into a lasting change and renewed mutual trust and commitment. Hence their pathbreaking potential has gradually faded.

The new EU institutions should not postpone courageous policies waiting for a further aggravation of the multiple crises currently marring Europe.

To devise an effective policy agenda for the next five years, it should be acknowledged that the EU currently faces: (a) a structural vulnerability linked to its dependency on export and to internal imbalances, and aggravated by the ongoing geopolitical crisis; (b) a gradual drifting away from the technological frontiers dominated by the United States and China; (c) an adverse long-term demographic trend that, together with the poor dynamics in productivity, restraints potential output; and (d) high public debt ratios in many countries that reduce fiscal policy space.

The EU and its members should be clear that they will not succumb to climate denial, rearguard mercantilism, demographic autarchy or the self-defeating withdrawal from international value chains. These inward-looking policies, though tempting in the short term, would lead the EU towards further fragmentation and irrelevance.

Under the pressure of anti-integration forces that have been strengthened by the European elections, the pro-European forces should set aside their differences and focus on what unites them. However, the way forward cannot be to focus on their “minimum common denominator” but to build a forward-looking package pursuing a balance between efficiency and social inclusion, between EU rules and market initiatives, and between EU and national responsibilities.

An ambitious EU agenda should include six components:

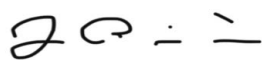
1. An EU security and defence policy within NATO, but with sufficient autonomy and visibility that is robust in the face of renewed isolationist tendencies that could emerge in the United States after the November 2024 presidential election. Closer security ties should be sought with the UK that would benefit both the UK and the EU. The issuance of common defence bonds should be considered, based on article 122 of the Treaty, as a bridge to a strengthened EU multiannual budget. A common defence policy is a key part of the EU’s strategic autonomy which require a much more active role in building political, commercial and cooperation alliances to avoid the isolation of democracies in the global scenario.
2. A fundamental reform of the EU budget based on a central fiscal capacity supplying European public goods in the green and digital transitions, financed by genuine new Own Resources. Given the very large investment needs, an expansion of the EU budget to 2% of GDP appears appropriate. Adequate and stable funds will have to be allocated to the reconstruction of Ukraine. The performance-based approach of the Recovery and Resilience Facility should be generalised to other EU programmes and access to EU funds and should be conditional on strict respect of the rule of law.
3. The adoption of adequate measures at national and EU level to mitigate the impact of the green and the digital transitions so as to make them economically, financially and socially viable. The double transition cannot be slowed down. But it should be acknowledged that leaving to the national budgets the full responsibility to smoothen the social impact of EU decisions is not a political equilibrium. No less important for the success of the measures is the awareness of the citizens. In the Communication to the Parliament of December 2019 the Commission wrote that citizens are and should remain a driving force of the transition. Citizens’ dialogues - it also wrote - should be promoted to encourage information sharing, inspiration and foster public understanding of the threats we face and of the necessary means. It is time to do it.

4. A credible enforcement of the new fiscal rules to ensure sustainable national public finances and, in combination with a central fiscal capacity, support long-term economic growth and competitiveness. These two ingredients would allow to carry out the necessary public investments, help re-create mutual trust and promote economic and social convergence within the EU. The conditionality clause should be fully implemented.
5. A decisive move towards integrated, well-regulated and deep European financial markets based on the prospective issuance of a European safe asset. Completing Banking Union and making effective Capital Markets Union will help mobilise the financial wealth in the firms' and households' portfolios with the aim of stimulating private investment to boost productivity, competitiveness and sustainable growth.
6. An EU industrial policy which would support competitiveness and innovation whilst avoiding protectionist temptations. Along the lines of the Letta Report, it should strengthen the single market, set up new European tools to safeguard the EU's role in international value chains with the aim of combining innovative production, effective and cutting-edge services, high-quality education systems and well-trained workers. A special effort should be made in including migrants.

The implementation of this agenda is crucial to preserve and strengthen the European social model, thus offering a sustainable future to the new generations. A lot can be done under the current EU rules. However, to fully implement this agenda, the EU's decision-making rules must be reformed, by moving to majority voting in the Council of the EU and co-decision by the European Parliament. This reform must happen before, not after the next enlargement that will bring the EU to 35 or more members and that, under the existing rules, would lead to decision-making paralysis. This will mean that the taboo of treaty changes must be overcome. Part of the reform will be recognizing that there are flexible ways to stop isolated opposition from becoming a veto, while protecting dissenting member states from the effects of decisions they disagree with. Institutional reform should also include the possibility, in well-identified areas, to proceed with variable-geometry centered on 'clubs' of willing countries.

A new world order is in the making. If the EU remains half-constructed, it will not play a role in shaping it. The US and China are economic and political areas, the EU is not yet. A third global player would make the international system more stable. The EU should strive to revive multilateralism and avoid the pure logic of power in international relations, which would make everyone worse off. The European Council and the European Parliament must recognize this crucial point and act accordingly. They have the opportunity to give a clear signal in forthcoming decisions leading to the appointment of the new Commission. They should seize it.

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