

European Integration at the Time of the New Cold War

A Manifesto

Ahead of next June's European Parliament elections, a group of distinguished former senior European policymakers, eminent personalities and leading academics present their take on the challenges facing the European Union and chart a course for an ambitious way forward. Writing in a personal capacity, they set out seven key elements that could form the basis for a new political contract capable of re-establishing trust, strengthening solidarity, boosting the Union's ability to act in the interests of all its citizens, and enhancing the global role of the EU. The signatories, while fully supporting the general lines of this manifesto, might not necessarily agree on each specific recommendation.

The long-lasting war in Ukraine and the deepening of the conflict between the US and China are the defining moments of our time. A new world order is in the making and, if the European Union (EU) remains a half-baked construction, it will not play a role in shaping it. The US and China are economic and political areas, the EU is not. A third global actor would make the international system more stable. The EU should strive to give multilateralism a new chance and avoid a pure logic of power in international relations which would make everyone worse off.

The geopolitical stance and role of the EU will crucially depend on reconciling its domestic and international agendas. To do so, European leaders must acknowledge that the EU's current socio-economic, institutional and, ultimately, political model is not sustainable in a post-pandemic world characterised by 'hot' and 'cold' wars.

From a socio-economic standpoint, the dependence on external demand, the gradual drift away from the technological frontier, the risk of losing the leadership in the fight against climate change, a stagnant demography, and the progressive undermining of social cohesion are calling into question the main tenets of the European Economic and Social Model.

Institutionally, a decision-making process that only produces notable advances during major crises – and is subject to decision-reversal when the pressure abates – is inconsistent with the need to project a coherent stance domestically and globally.

Two persistent conflicts are stretching the political fabric of the EU to the limit: the persistent "North-South" conflict of interest along the solidarity/responsibility dimension, and, compounding this, an "East-West" conflict of values along the integration/national sovereignty dimension. Recent political changes in several Member States increase the geographical complexity of these conflicts.

Economic and social weaknesses, institutional inconsistency, and political tensions are bound to increase and lead to paralysis of the EU as it faces the prospect of enlargement to 35+ members.

A new synthesis is needed leading to a new political contract.

A useful starting point is identifying the avenues not to be pursued: the denial of the climate challenge, the short-sightedness of a rear-guard mercantilism, the temptations of technological protectionism and withdrawal from international value chains, the sirens of demographic autarchy, and the outsourcing of defence and security would be tantamount to the demise of the EU and its irrelevance in global governance. These false solutions would not only hinder any positive evolution, but they would also weaken Europe's strengths such as the working of the single market and the comparative advantages in terms of environmental standard, welfare state, and regulation.

Searching for a new path is key not so much for the superior wellbeing of "Europe", but for allowing its members to effectively pursue their long-term domestic and external goals. The time has come to acknowledge that nationalism is contrary to the national interest, that Member States' national sovereignty is ineffective unless it is redefined in terms of European sovereignty, and that the supply of European Public Goods is crucial to satisfy national demands for economic, social and political security.

To address today's key challenges, an approach encompassing the European dimension is unavoidable. Reaching the technological frontier will require mobilising private and public resources that no Member State can do alone. To effectively pursue the green, digital and AI transitions, we need to complete the Banking Union and to operationalise the Capital Markets Union to allocate public and private resources to projects that are "long in ideas and short in collateral". Joining up forces and funds at EU level will be needed to meet the immense task of reconstructing Ukraine. Ensuring Europe's safety in a world of increasing threats and isolationist temptations, and moving towards strategic autonomy will require pooling sovereignty at EU level in defence and security.

To tackle effectively the challenge of immigration, a new relationship between the EU and Africa will have to be established. This will have to be based on cooperative agreements that cannot be reduced to limiting migrants' departures, and a new model of inclusion created in EU Member States specifically through education, skilling and job opportunities.

In all these matters, Member States will need to decide collectively whether they want to be joint leaders or isolated followers. If they are to lead, they need to empower the EU accordingly. This does not mean fast-forwarding to an unrealistic European federation. Instead, it calls for a new articulation between national policies (horizontal coordination) and between the national and the EU level (vertical coordination). We could label this evolution a "gradual and pragmatic federalism".

During the last fifteen years, the EU has been hit by a series of exogenous shocks, partly common to the other areas and partly idiosyncratic. The EU has learned the huge cost to be paid for wrong or untimely responses to these shocks. Reacting to the pandemic and to the fallout from the war and the energy crisis via pro-cyclical fiscal policies and overburdened monetary policies as in the period 2011-2019, would have been a dramatic mistake. Instead, the EU adopted a radically new policy mix and several institutional innovations. With the centralisation of the supply of vaccines, the setting up of the Next Generation EU recovery plan, the coordination of national energy policies, the Fit-for-55 climate measures, and the joint programmes to support Ukraine, a new EU multilevel governance system has come to the fore.

What has emerged is a complex web of relationships between the Member States and the Union. A strong and growing role has been attributed to the Commission, based on article 122 of the Treaty which empowers the EU to take exceptional measures under exceptional situations. This has created a bond that even the more Eurosceptic governments cannot disregard. Its positive aspect is the confirmation that the EU has the willingness and the resources (as well as a fresh ingenuity) to bounce back under extreme stress. The negative aspect is the fragility of an institutional construction that is squeezed between the lack of time, the transient nature of these tasks and the related search for short-term compromises.

This negative aspect is made evident by the strengthening of uncertainty and instability due to reliance on one-off resources. A less evident but even more important problem is a systematic attempt to build *ad hoc* processes to replace the lack of legal and institutional competences.

To meet the current and future challenges, the EU will need to equip itself with a combination of a stable regulatory framework and adequate budgetary powers. Long-lasting open work streams such as Banking Union and Capital Markets Union should be brought to a positive conclusion, overcoming the sterile debate on risk sharing versus risk reduction. Over two decades after the launch of the euro, the goal of achieving Fiscal Union has to be put on the table. Short of that, the EU will not be successful in pursuing its green and digital agendas and will continue to be at the mercy of external events, thus remaining vulnerable domestically and on the global scene.

A gradual and pragmatic federalism should include the following seven elements:

1. A fundamental reform of the EU budget built on a permanent or, at least, recurrent central fiscal capacity to supply European Public Goods in the triple green, digital and social transition, backed by credible Own Resources. Adequate and stable funds will have to be allocated to the reconstruction of Ukraine.

2. New fiscal rules to pursue economic and social convergence within the EU and meet the necessary conditions for long-term economic growth and sustainable public finances.
3. A decisive move towards the construction of integrated and deep European financial markets based on the issuance of a European safe asset and the definition of a fully-fledged crisis management system.
4. An industrial policy that will help foster the shift to a new EU “business model” combining innovative productions, effective services, high-quality education systems and well-trained workers, building on the successes of the SURE programme launched during the pandemic.
5. A revamped state aid policy aimed at strengthening - and not undermining - the single market and new European tools to safeguard the EU’s role in international value chains. In short, the goal should not be “made *in* Europe”, but “made *with* Europe”.
6. A common education and training strategy and concrete programmes for including migrants in labour markets, as a fundamental stepping-stone of an EU immigration policy.
7. An EU security and defence policy within NATO, but having sufficient autonomy and visibility, thereby robust to possible renewed isolationist tendencies in the US after the November 2024 elections.

Pursuing this ambitious agenda will require rebuilding trust between EU Member States; between national governments, the European Commission, and the European Parliament; and, ultimately, between European institutions and European citizens. In this endeavour, a key role should be played by the “Erasmus generation” who are Europe’s most effective ambassadors.

Rebuilding trust in the EU would entail the recognition that the winners of yesterday are not the winners of today or tomorrow. In a world of endemic uncertainty and repeated shocks, to avoid zero-sum games, an insurance-based solidarity is needed where support will depend on who suffers more from the shocks.

Mutual trust, two-way solidarity, a permanent central fiscal capacity supplying economic and non-economic European Public Goods, a new industrial policy buttressing EU strategic autonomy, and the social inclusion of the weaker components of society are the ingredients to gradually build a pragmatic federalism. The latter cannot be put in place via one-off agreements based on purely intergovernmental arrangements triggered only under extreme circumstances. New and stable EU competences, backed by appropriate EU resources in the areas mentioned above, are required.

A key tenet of a gradual and pragmatic federalism will be the rethinking of the voting system in the EU Council: to avoid paralysis in the decision-making process, voting needs to be reformed in advance of future enlargements. Let us be aware that there are also

flexible ways to allow isolated dissent not to become a veto, whilst at the same time protecting the dissenting Member from the effects of the decision. Institutional reform should also include the possibility, in well-identified areas where there is a need, but not yet the political consensus to push forward the integration frontier, to proceed with variable geometry and Member States' "clubs".

This Manifesto argues that moving towards a gradual and pragmatic federalism is key for the EU's future at home and abroad. This cannot be done by stealth via a sort of "permanent article 122" regime. The full implementation of the agenda will require changes in the Treaty, but important steps can also be taken before such a reform. It cannot be done at once. When clarity on the policy, institutional and political agenda is reached, national and EU leaders should explain to European citizens why setting up more effective and efficient EU institutions is not an obscure "Brussels" prerogative, but a decisive development to safeguard the future of our communities, and most notably that of young generations.

The campaign for the forthcoming European Parliament elections provides this opportunity. It should not be wasted.

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Anyone wishing to support the Manifesto, should express their interest by writing to Marco Buti and Marcello Messori at: Europe.manifesto2024@gmail.com