

EU@60

Countering a regressive and illiberal Europe



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Janis A. Emmanouilidis

Fabian Zuleeg

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Authors' note

This paper has been drafted as an input into the discussions at the EPC Strategic Council and the EPC's 20th Anniversary Conference on 13 October 2016, as part of a wider process of determining the EPC's strategic direction for the coming years. It aims to inspire the debate in Brussels, in the member states and between EU countries by trying to pose some of the more fundamental questions about the future of the European Union. While we do not have ready-made answers and solutions to Europe's many challenges, we hope that this paper and the subsequent debate can help to identify where the EPC should focus its analytical and convening capacity going forward.

This paper builds on the EPC's long-term focus on the future of Europe, which has brought in many voices from within and outside the EPC, notably through projects such as the (still ongoing) New Pact for Europe project. We would like to thank everyone who has directly or indirectly contributed to this paper, specifically EPC President Herman Van Rompuy, all members of the EPC's Governing Board and the EPC's staff, who have all discussed and commented on some earlier versions of the ideas presented in this paper – although the responsibility for its content lies only and alone with its authors. A special thanks goes also to the EPC's Ewa Chomicz, Norma Rose and Giovanni Grevi, who all contributed specific elements to this paper, and to Rebecca Castermans for the final editing. Finally, a very big thanks to Jacki Davis for her advice and pro-active editing.

This publication would like to commemorate Max Kohnstamm, one of the founders of the European Policy Centre, who was one of the key figures in the construction of Europe after the Second World War. The fight against the danger of a more regressive and illiberal Europe would have been certainly close to his heart.

Foreword

The EPC is twenty years old. Recalling 1996, we can refer to the ‘good old days’ of the Union compared to today! Two years ago I published a book ‘Europe in the storm’. Now I would rephrase this title: ‘Europe in the storms’.

This EPC publication, which has been drafted by Janis and Fabian, is about the origin of these crises and about the way forward, about fear and about hope, and how to turn fear into hope. I agree with almost every line of the text. Their analysis shows very clearly what storms we face today. What do we need most to overcome these storms?

We need a clear view on where we came from, on what our mistakes were, and on the global picture – what is happening inside in our member states and outside, including in the US. So many similarities! The problems of the Union are the ones of the Western world. The EU is the sum of the nation states and its crisis is part of the crisis of each of our democracies and even of our civilisation as a whole. The rise of individualism is reflected now in politics. Fragmentation, particularism, nationalism, identity obsession, anti-free trade feelings, polarisation, and aggressiveness have roots going beyond traditional explanations.

We need a reinstatement of values such as solidarity, moderation, compromise, and consensus. This is the prerequisite for political stability, social cohesion and integration. Of course, we should make this possible by combating excessive inequalities, irregular migration, terrorism, unfair competition, climate change, and unemployment. But promoting values is an important aim in itself. We need a new version of the social market economy with a modern definition of ‘social’, including security.

We are at a crossroads. An open and a closed society, space and place, web and wall are the ways in front of us. But we have to overcome the tensions through a mix of openness and protection.

We need a shared sense of the general interest. This mindset leads automatically to Europe because most of the solutions have a European dimension. Reason was so much absent in the Brexit debate, and this empty rhetoric is employed by many populists. Blind nationalism is the opposite of rationalism.

But opposing polarisation requires, of course, making an effort. We need leadership. A mix of listening and conviction. Compassionate for our own people and for those with whom we live in our societies and in Europe. A humane leadership, not exploiting anxiety and enhancing prejudices. Pointing out rights and duties.

The Union will not implode but we cannot take any chances. The *status quo* is not an option. Initiatives have to be taken even if it goes partially against the ‘*Zeitgeist*’, the spirit of the age. We will reclaim ‘*le salon de l’Horloge*’ if the spirit of the Schuman declaration can still inspire some!



Herman Van Rompuy

President of the European Policy Centre;
President Emeritus of the European Council and former Prime Minister of Belgium

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Executive Summary

After the Brexit vote and the collective failure to predict the impending earthquake and ‘sign of times’, it would be a mistake to carry on as if nothing had happened. Although the UK is undoubtedly a special case, there is a need to reflect more fundamentally on the state of European integration and its future prospects. Next year’s commemoration of the 60th anniversary of the Treaty of Rome provides a good opportunity to ask some fundamental questions: Where do we stand? What can we expect? What is the biggest threat? And how could we respond?

For many years, the EU has been in the grip of a fundamental crisis which has threatened historic achievements of European integration. Despite some remarkable steps forward which would have been unthinkable before the storm struck, none of the complex and interlinked crises that have buffeted the Union have been structurally resolved and the EU and its members are suffering from the collateral damage caused by the poly-crisis: fragmentation, distrust, increased divergence, social and political cleavages, inability to fairly balance national interests, reputational damage, as well as frustration with today’s Union. At the same time, the EU has been remarkably resilient. Sixty years on, European integration has become part of most of Europe’s collective DNA. Its benefits, and ever-growing interdependence, would make it extremely costly to abandon or radically scale back the European project. So, given the current state of the Union, what potential paths are open to the EU in the years to come?

‘Muddling through’ remains the most likely path for the foreseeable future. This would not help to sustainably resolve the poly-crisis, but it does not mean a standstill either. It rather implies an incremental step-by-step process driven by immediate pressures, but based on lowest common denominator approaches and without a clear, proactive vision of the future. There are strong arguments as to why a higher level of cooperation and integration, and more discretionary powers at EU level, would be more effective in responding to the challenges facing Europe. But we are unlikely to witness a qualitative leap forward any time soon, given the fragmentation and distrust between member states and the negative public climate in most EU countries. But will ‘muddling through’ be enough? To answer this question, one needs to take a step back and pose a more fundamental question: what is the biggest threat facing Europe and what are the key factors fuelling it?

What is at stake is much more than the EU itself: it is the danger of a regressive and illiberal Europe – a Europe in which key values, orientations, norms, and principles are being undermined. A Europe that becomes increasingly nationalistic, protectionist, discriminatory, xenophobic, intolerant and authoritarian. A Europe that is backward- and inward-looking, more inclined to oppose globalisation, trade and exchange, migration, heterogeneity, cultural diversity, self-determination, and the principles of an open society. A ‘closed Europe’ in which the influence of those advocating simplistic solutions to complex challenges is increasing, with their political rhetoric and ideology framing or even dominating the public discourse.

The key trend that is playing into the hands of those who advocate this type of Europe is the increasing polarisation of our societies. Divided societies are the fertile ground on which extremists and populists on all sides of the political and societal spectrum thrive. They are the basis upon which they can develop an ‘us versus them’ logic that undermines cohesion within and between our societies: ‘us’, the champions of honest (native) ordinary people against ‘them’, the corrupt elites (‘the establishment’), including the EU. The main dividing line is between the (potential and perceived) ‘winners and losers of change’. This polarisation is fuelled by multiple insecurities in an age of massive transformation; not ‘only’ socio-economic, but also societal and cultural, generational, technological and security insecurities. Growing numbers of people (including the middle classes) feel overwhelmed by the pace of change, fearing future marginalisation.

‘*Zukunftsangst*’ (fear of the future) and the ‘politics of fear’ are the result of these multiple insecurities. This leads to a growing spirit of ‘anti-cooperation’; a spirit which, at all levels of political life, makes it more and more difficult to forge compromises. An increasing number of citizens no longer see the benefits of cooperation, but are increasingly inclined to either withdraw from traditional political processes or to ‘stand up’ and protest against the establishment. They become *Wutbürger* (angry citizens) searching for an outlet to express this anger and attracted by nostalgic, simplistic and counter-factual arguments.

In this climate, traditional political forces are increasingly squeezed. The mainstream struggles to present a credible counter-narrative. Simplistic rhetoric and radicalism are infiltrating, guiding or even dominating the discourse. Many arguments which were previously considered unthinkable and unsayable become socially and politically acceptable,

publicly expressed and multiplied by traditional and new social media. The result is a radicalisation and brutalisation of debates, which further deepens societal divides, playing further into the hands of populists and extremists.

Nationalism, authoritarianism, illiberalism, polarisation, *Zukunftssangst*, the politics of fear, and anti-cooperation are not just European phenomena. A glance across the Atlantic shows that. However, the EU is much more vulnerable to the populist onslaught. It has become a popular ‘punch bag’, an easy target and prey. But the EU is not really the main concern of many of its attackers. They use opposition to European integration as a vehicle for their ultimate objective: to strengthen their influence and power at home.

What can be done to counter the danger of a more regressive and illiberal Europe? Clearly, there is no single answer, no magic bullet. But this paper identifies some guiding thoughts worth considering:

- First, while the key means to counter the polarisation of societies lie at national level, the EU has a decisive role to play, by focusing on delivering a ‘Europe of results’. However, given the limits to the powers, competences and instruments allocated to the European level, it must be careful to avoid creating false expectations. It must not fall into an ‘expectations-capability trap’ which Eurosceptic forces can use against it. It should concentrate on projects and initiatives where it can deliver results that make a tangible difference. Frantic measures launched simply to show that the ‘Union’ is doing ‘something’ should be avoided. This is not about ‘less Europe’ but about a more effective, realistic and credible EU.
- Second, democratic forces committed to an open, values-driven Europe need to find ways to protect citizens from the negative aspects of globalisation while abiding by Europe’s fundamental principles and values when dealing with the outside world. They have to counter the perception that the EU is an agent of unfettered globalisation. Attempting to conceal the obvious negative consequences of more integrated global markets makes no sense. But it is also true that Europeans have profited immensely from expanding markets and economic development in other parts of the world. Pro-European democratic forces need to find ways to combine the benefits of open markets with the requirements of a social-market economy. If they fail, anti-EU and anti-liberal forces will prevail and the resulting polarisation between the potential and perceived winners and losers of changes will further play into their hands.
- Third, if democratic forces, who oppose a regressive and illiberal Europe, want to counter populist rhetoric effectively, they must demonstrate the benefits and obligations deriving from belonging to the ‘European club’, which should also determine the EU’s negotiating stance with the UK. They should avoid blurring boundaries between EU and non-EU countries, motivate non-euro countries to join the common currency and ensure that all EU countries adhere fully to the Union’s fundamental rights and democratic values. Exceptionalism is not the way forward. To strengthen the arguments in favour of the EU and to weaken anti-European arguments, there is a need to enhance the ‘club logic’ of the Union: the full range of opportunities and protection provided by European integration can only be enjoyed if you are a full member.
- Fourth, national pro-European democratic forces and their leaders must: (i) offer a forward-looking counter-narrative, explaining why European integration is a ‘win-win’ from a national perspective; (ii) mitigate the multiple insecurities fuelled by the crises through concrete actions aimed at enhancing the ability of societies to deal with change while balancing the distribution of wealth; and (iii) end the habit of blaming ‘Brussels’. They should do all of this not for the sake of the EU, but out of enlightened self-interest. They must have the political courage to explain the virtues and benefits of an open, tolerant and diverse society, making it clear why such societies will ultimately be better able to deal with the forces of change in an increasingly interdependent European and global environment. The ‘blame-Brussels’ game merely strengthens those who argue in favour of a much looser and disconnected Europe, and tends to increase support for populist forces.

European integration is in deep crisis but, as this paper tries to show, the origins of that crisis lie deeper and challenge more than ‘just’ the European Union. If polarisation cannot be halted and the insecurities fuelling it are not addressed, the EU could become its first prominent victim. But the loss will be greater than the disintegration of an international institution. At the end of day, it is not about the EU but about something much more significant: it is about our way of life; it is about being open, cooperative, inclusive, free, and internationalist societies.

I INTRODUCTION

The prophets of doom have time after time predicted the imminent collapse of the European Union (EU), but until recently, they were always proved wrong. Some predicted a Greek exit from the euro ('Grexit'), others warned of an upcoming implosion of the common currency, the end of Schengen or a military stand-off between the West and Russia triggered by the Ukraine crisis. None of these things happened – although Europe has paid a high political, economic and social price for each of these crises and none of these risks has yet receded entirely.

But now an accident has happened: a 'worst-case' scenario has materialised, a storm has hit the EU with full force, with a majority of British voters deciding that the UK should withdraw from the club. The full consequences of the 'Brexit' vote for the UK and for the remaining EU-27 are not yet clear, but the referendum result signals a need to rethink European integration.

The outcome of the referendum came as a surprise to many in Brussels and in national capitals. Everyone was aware of the background: the UK had always been different, in many ways an "awkward partner" (George, 1979). No one doubted that UK Prime Minister David Cameron's decision to call an in/out referendum was a risky bet. It was no secret that public attitudes towards the Union were highly negative, poisoned by decades of EU-bashing from all sides of the political spectrum (including those in power), a rise in anti-establishment sentiment, and very negative press coverage of the EU. But very few expected that a majority of British voters would risk taking the ultimate step, that they would vote against their own economic (and, arguably, political) interests. Continental Europeans watched the heated referendum debate in the UK – often based on exaggerations or even outright lies – with concern, but most thought the fear of economic uncertainty following a vote to withdraw would ultimately prevent Brexit. They were wrong.

The UK is undoubtedly a special case, but the **collective failure to read the 'signs of times' is nevertheless alarming**. It tells us something about the UK but also about the overall situation in the EU and in its member states, and about our (limited) ability to read the public sentiment. It would therefore be a **mistake to carry on as if nothing has happened**. Beyond the need to deal with the aftermath of the Brexit vote in concrete terms – which is, in itself, a highly complicated and difficult task – there is a need to reflect more fundamentally on the state of affairs and the future prospects for European integration. Next year's commemoration of the 60th anniversary of the EU's founding Treaty of Rome provides a good opportunity to try and rethink some of the basics.

Immediately following the Brexit vote, the EU-27 launched a process of reflection on how the EU should proceed. However, it remains far from clear where this debate will end, given the cautious mood in many EU countries and the differences between national governments. Security and protection are the key issues mentioned thus far in the so-called "Bratislava process". This comes as no surprise given the difficulties on reaching agreements in other, much more contested, areas related, for example, to 'solidarity' in responding to the migration challenge or the future of Economic and Monetary Union (EMU). It seems likely that leaders of the EU-27 will reach a consensus at the end of the reflection process. But given the disagreements among governments, it is not clear how ambitious and concrete the final outcome will be and whether they will be able and willing to implement what they sign up to in a 'solemn declaration of Rome'; i.e. whether their 'Sunday talk' will be matched by 'Monday's walk'.

Despite the seismic shift triggered by Brexit, the rest of the EU appears to be struggling to give itself fresh impetus based on a common vision. Why is this? To understand why the process of European integration appears to be stuck in a quagmire or even in danger of going into reverse, a number of basic questions need to be addressed: Where do we stand now? What is the state of the Union, or rather the state of its crises? What can we expect in the foreseeable future and will the EU's likely response suffice? What is the biggest threat facing Europe and what are the key factors fuelling this threat? And what should be done about this at European and national level?

II WHERE DO WE STAND? UNRESOLVED POLY-CRISIS & COLLATERAL DAMAGE

For many years now, the EU has been in the grip of a fundamental crisis which has undermined and at times even threatened the historic achievements of European integration. Despite some remarkable achievements, none of the complex and interlinked crises that have rocked the Union and its members in recent years has been fully resolved. At the same time, the EU is suffering from the collateral and cumulative damage caused by the negative experiences of recent years: fragmentation, distrust, increased divergence, inability to fairly balance national interests, social and political cleavages, reputational damage, and frustration with today's Union. **Crisis mode has become the new normal and it is highly questionable whether the EU will emerge stronger from these crises**, as it has done in the past. Instead, it faces the unhappy prospect of prolonged and constant agonies.

While Europe has clearly been battered by multiple crises since 2008, it still is difficult to assess the current 'state of Union' given the complexity and evolving nature of the situation. Future historians will have to evaluate the full significance of these developments for the European story from a distance.

But one thing seems certain: **the cumulative impact of enduring crises is threatening some of the achievements of European integration**. Since the 1950s, this process has been the product of grand aspiration, born of the horrific experience of two devastating world wars. Inspired by the imagination of pragmatic visionaries like Robert Schuman, Jean Monnet, Altiero Spinelli, and Winston Churchill, and guided by the political courage of political leaders such as Konrad Adenauer, Charles de Gaulle and Alcide De Gasperi, the EU's founding six member states embarked on a journey without a clear destination, but in the hope of breaking Europe's century-old vicious cycle of violence and vengeance, based on a commitment to work together.

Their bold experiment aimed at securing peace, freedom, stability and security and providing a solid basis for economic and social prosperity throughout the continent, grounded on the rule of law. Much has been achieved. Six decades later, **cooperation among EU countries has reached a level the founding fathers aspired to but were not sure Europe could ever accomplish**: multiple rounds of enlargement, including the reunification of the continent; the launch of the Single Market with its four freedoms; the abolition of border controls; the creation of a common currency; and, most significantly, the absence of military conflict between EU countries – all these achievements testify to the historical success of the European project.

However, the project is not – and never was – perfect and the integration process has not been without major ups and downs. In fact, the history of European integration is littered with crises –from the failure to establish a European Defence Community and a European Political Community in the 1950s to an extended period of Eurosclerosis in the 1970s and early 1980s, and a series of reform crises in the last 25 years marked by repeated rejections of new EU treaties and a growing distance between the EU and its citizens.

But **despite a series of heavy blows, the European project has, until now, always bounced backed and emerged stronger than before**. The founding of the EEC in 1957 (starting with functional economic, rather than political, integration); the 1986/1987 Single European Act and the Europe '92 project to establish a Single Market; the Maastricht Treaty in 1991/1992 establishing the Economic and Monetary Union (EMU); the creation of the Schengen Area; and the entry into force of the Lisbon Treaty in 2009 all demonstrated that, although European integration was not crisis-free, it was until recently crisis-proof, reflecting a recognition among Europeans that while integration might not be perfect, it was still the best option to secure a better future.

Nature and elements of an unresolved poly-crisis

But this time the situation is more serious. Even before the crises struck, the EU and its members were facing a number of complex challenges: ageing populations threatening the sustainability of Europe's welfare states; rising social inequalities; an overriding need to address climate change; the growing challenge from new global competitors; a fear of falling behind technologically; insufficient integration of those from a migrant background; and low economic growth rates, with the prospect of the next generation being poorer than the previous one.

Europe's societies and economies were already changing at an unprecedented rate. The multiple crises that have rocked the EU since 2008 have exacerbated problems and deficiencies that had been evident for at least a decade. Deep cracks have appeared in the European project. Uncertainty has increased as the number and complexity of interrelated crises have multiplied. The future of the EU is in doubt.

Europe is facing a ‘poly-crisis’ that includes a number of highly-complex, multi-rooted and deeply interlinked crises, from the financial and economic crisis to the geopolitical crisis with Russia and instability in Europe’s direct neighbourhood, the migration and refugee crisis, as well as (Islamist) terrorism.

Europeans have tried their best to avoid the most negative outcome in each and every case. But they have not been able to make the Union ‘crisis resistant’. None of these crises have been solved and structural deficits in the European construction remain. But the EU and its members do not only struggle with the consequences of each crisis, they also have to face the cumulative collateral damage the poly-crisis has caused.

An analysis of each crisis shows that **while much has been done to avert catastrophe, many of the structural reforms essential to achieve long-term stability are stalled.** The EU appears incapable of decisive action, paralysed by the complexity and magnitude of the challenges it faces, differences between national governments, and a negative mood regarding today’s Union in many member states.

- **Financial, economic and euro crisis:** After the collapse of Lehman Brothers in 2008, Europe became the epicentre of the biggest financial and economic crisis since the Great Depression of the 1930s. What began in Europe as a government debt crisis in one of the smallest economies on its periphery soon exposed the fundamental flaws in a fully-fledged monetary union without an equally strong economic and political union. Furthermore, this crisis involved a number of highly complex, multi-rooted and interlinked sub-crises, including a banking crisis, a public-debt crisis, a private debt crisis, a competitiveness crisis, a growth and investment crisis, a social and employment crisis, and an institutional crisis.



As the Greek crisis escalated in early 2010, many European leaders insisted that the country’s problems were unique. But markets disagreed and the contagion spread to other EU countries. As the dominos began to fall, it became obvious that the EU – and especially the euro area – was insufficiently equipped to weather the storm; that **EMU lacked the necessary institutional structures, procedures, rules, and instruments to prevent such a crisis from beginning, spreading and deepening.**

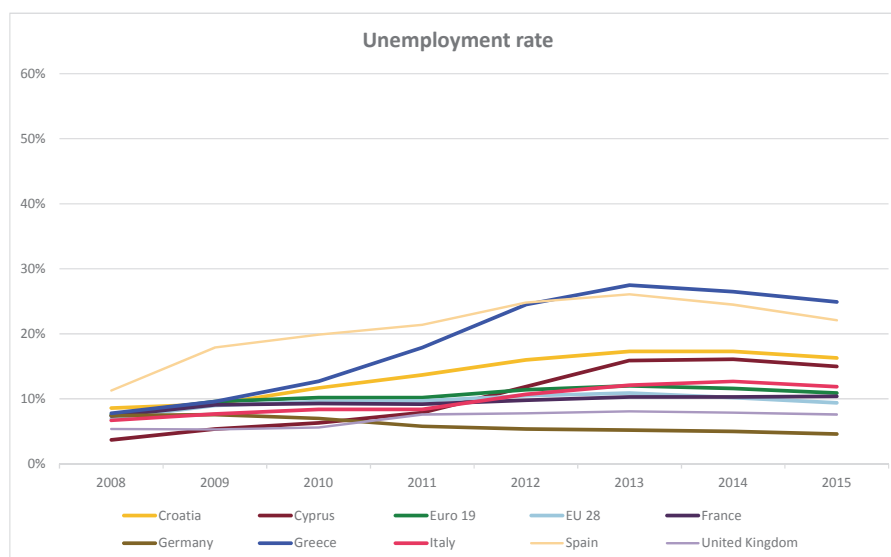
In this unprecedented situation, there was no textbook that European and national decision-makers could turn to for guidance on how to effectively deal with the crisis. **Responses have often been slow, insufficient and sometimes ill-advised, and the results sometimes meagre and disappointing.** There

are strong grounds for arguing that a more pro-active, bolder approach – taking into account the collective interests of the euro area rather than predominantly national interests – could have limited some of the negative economic, financial, social and political impacts of the turmoil.

However, despite these shortcomings, the **EU and its members have individually and collectively made some remarkable progress in recent years.** The pressures generated by fears of a euro implosion or an involuntary exit by one or more countries have made many reforms and developments possible at both European and national level which were unthinkable before 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 Troika; the creation of two multi-hundred-billion-euro rescue mechanisms, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM); unprecedented fiscal consolidation efforts in the deficit countries, accompanied by deep and painful structural reforms; a partial write-off of Greek debt; the strengthening of EMU governance, especially within the euro area, with numerous innovations including a reformed Stability and Growth Pact (through the so-

called ‘Six-Pack’ and ‘Two-Pack’); the introduction of stronger and new instruments of economic governance to enhance coordination of key economic and fiscal priorities (including the European Semester); and the creation of an annual system of macroeconomic surveillance to assess the risks of macro-economic imbalances and vulnerabilities.

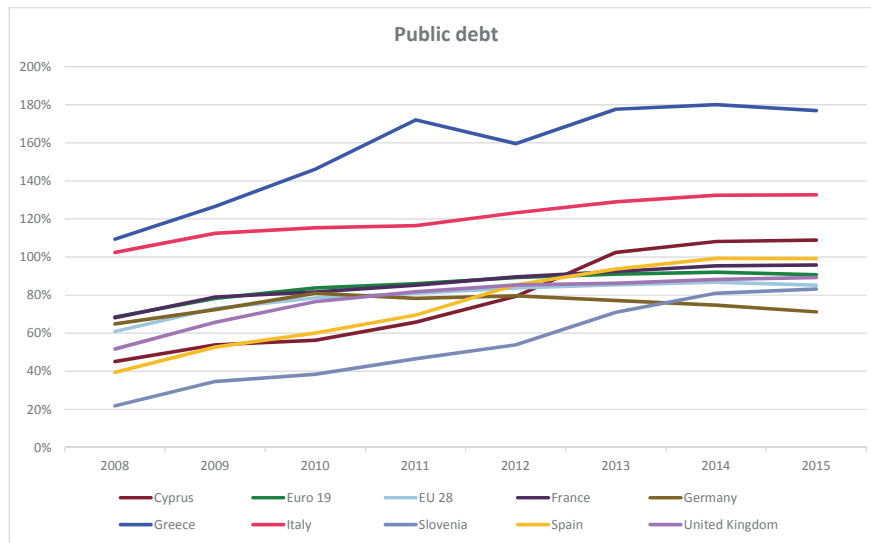


Source: Eurostat, Unemployment by sex and age - annual average, http://ec.europa.eu/eurostat/web/products-datasets/-/une_rt_a [last accessed 21.09.2016]

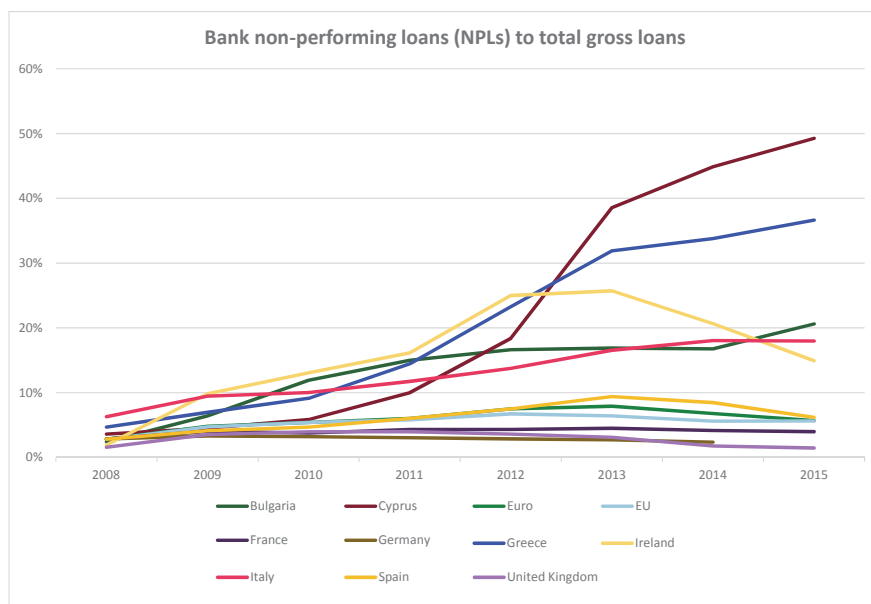
We have seen the European Central Bank engaging in unprecedented action to support the sovereign debt market and provide liquidity lifelines to banking systems under stress and prop up the EU economy through Quantitative Easing (QE), at times pushing up against the legal boundaries of the EU Treaties; the creation of a limited banking union with a Single Supervisory Mechanism (SSM) and a Single Resolutions Mechanism (SRM) backed by a Single Resolution Fund; and a significant reduction in the risk of a country leaving the common currency, which has boosted confidence and substantially reduced the danger of a euro meltdown.

However, despite all these efforts and achievements, the **EU has struggled to get ahead of the curve** and persuade markets and citizens that it is capable of meeting the existential 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, **fears of the worst-case scenario have receded, but the underlying challenges remain unresolved.** Although the euro zone is recovering, economic imbalances and divergences between member states have increased. Employment has recovered somewhat since 2013, but unemployment levels (especially youth unemployment) remain unacceptably high in EU countries hit hardest by the crisis. GDP growth has improved, but it is still fragile and unevenly spread, and annual productivity growth remains too low compared with Europe’s global competitors. Low energy prices and a favourable euro exchange rate (as a result of QE) are positive tailwinds; without them, growth would probably struggle to exceed the low structural rate of around 1%. The European banking system remains highly fragmented and vulnerable (as witnessed by the recent problems of some Italian and German banks), and the link between sovereigns and banks has not been broken. The banking union remains incomplete as it still lacks a strong third pillar including a European Insurance Deposit Scheme (EDIS). Levels of public and private debt remain high, while an increasing volume of non-performing loans are putting additional pressure on the banking sector in numerous EU countries, including some heavyweights like Italy. Real interest rates are much higher than in the past in some euro countries, undermining the ability of existing and new companies to invest and compete on a level playing field.



Source: Eurostat, Government deficit/surplus, debt and associated data, http://ec.europa.eu/eurostat/web/products-datasets/-/gov_10dd_edpt1 [last accessed 21.09.2016]



Source: For country data – IMF, Financial Soundness Indicators, <http://data.imf.org/?sk=388DFA60-1D26-4ADE-B505-A05A558D9A42&sid=1459341854713&ss=1469128361826> [last accessed 08.09.2016]; for EU and Euro aggregates – World Bank, World Development Indicators <http://data.worldbank.org/indicator/FB.AST.NPER.ZS> [last accessed 08.09.2016]

The overall level of investments in the EU is much lower than, for example, in the US, increasing the threat of long-lasting economic stagnation. The economic competitiveness of numerous member states, including key countries such as France and Italy, is still lower than that of their main European and global competitors. Europe in general has to boost its competitiveness, requiring both national reforms and EU initiatives, including the Energy Union, Digital Union, investments in research etc. The rules of the Stability and Growth Pact are interpreted with great flexibility, which might be necessary at times but undermines the credibility of the system. ‘Surplus countries’ – led by Germany – are not using their fiscal space sufficiently to stimulate growth. In structural terms, EMU still lacks many of the elements proposed in the so-called Four Presidents’ and Five Presidents’ Reports: we have seen neither the introduction of a fiscal capacity (‘euro budget’) and the creation of automatic stabilisers (for example, a complementary European Unemployment Scheme), nor the incorporation of the ESM treaty into the EU treaty framework.

All of this shows that governments are not eager to go much further in deepening EMU integration beyond the reform efforts already launched, even though more needs to be done to secure the euro's long-term future. There is **no room for complacency either at European or national level**, given the continuing fragility of the economic, financial, fiscal, social and political situation. And yet collective efforts to overcome the EMU's remaining structural shortfalls have lost momentum since late 2012, with the decreasing threat of a euro meltdown undermining governments' willingness to take bold reform decisions at EU level.

- **Geopolitical crisis:** The war in Eastern Ukraine and the illegal Russian occupation and subsequent annexation of Crimea in 2014 triggered the most serious geopolitical crisis in Europe since the end of the Cold War. The political stand-off between the 'West' and Russia over Ukraine has cast doubt on the future relationship with Moscow and on prospects for stability in Eastern Europe. Together with other geopolitical instabilities in Europe's immediate neighbourhood, including first and foremost the war in Syria, this has **increased the pressure on Europeans to provide for their own security and defend their interests**.

The developments in Ukraine took many people in the West by surprise. It demonstrated that the Russian political and security establishment still view the West in adversarial terms, seeing the relationship through the prism of a 'zero-sum' mentality. Through this lens, NATO – and increasingly EU enlargement – symbolised a Western 'victory' which threaten Russia's security interests in its near abroad.

Although EU enlargement was not originally perceived as a threat, this started to change after the launch of the EU's Eastern Partnership in 2009 and Vladimir Putin's return to the presidency in 2012. The idea that the West was trying to deny Russia its rightful place on the global stage has since garnered more support in the Russian foreign policy establishment. The conflict over Ukraine has fuelled a nationalist rhetoric in Moscow and severely narrowed down scope for dialogue with the West. With the war in Ukraine, the Kremlin appears to be trying to create a *cordon sanitaire* to separate Russia from the EU and especially from NATO. From Moscow's perspective, the non-EU countries of the former Soviet Union are seen as a 'sphere of influence' in which Russia has the right to play a leading role.

The **Ukraine conflict caused the most serious deterioration yet in Europe's post-Cold War security order**, which has become even more complex following Russia's military engagement in Syria. Resolving the conflict will remain one of the main stumbling blocks to any recovery in the relationship between the EU and its biggest Eastern neighbour.

Given the diverse interests and different historical, cultural and political experiences and ties between Moscow and individual member states, the EU has struggled to define and maintain a common response to the Ukraine crisis. It has followed a balanced approach based on three main pillars: (i) strong political and financial support for Ukraine; (ii) pressure on Russia and the Putin regime through the imposition of sanctions coordinated with the US and other allies; and (iii) accelerated ties between other neighbouring countries and the EU, with a special emphasis on Moldova and Georgia. This approach followed three parallel objectives – de-escalation, containment/deterrence and cooperation – at the same time.

The geopolitical tensions sparked by the Ukraine crisis are unlikely to ease any time soon, and many Central and Eastern European member states fear a further escalation of the stand-off between Russia and the West. But up until now, the Minsk peace process (conducted predominantly by Germany with the support of France) and the West's assertive response, supported by the progressive strengthening of NATO's military posture in the East, have averted further escalation of the conflict. Ukrainians are also even more convinced now of the need to integrate as much as possible into European institutional structures. And despite all their differences, EU member states have managed to maintain sanctions against Russia, in itself a success.

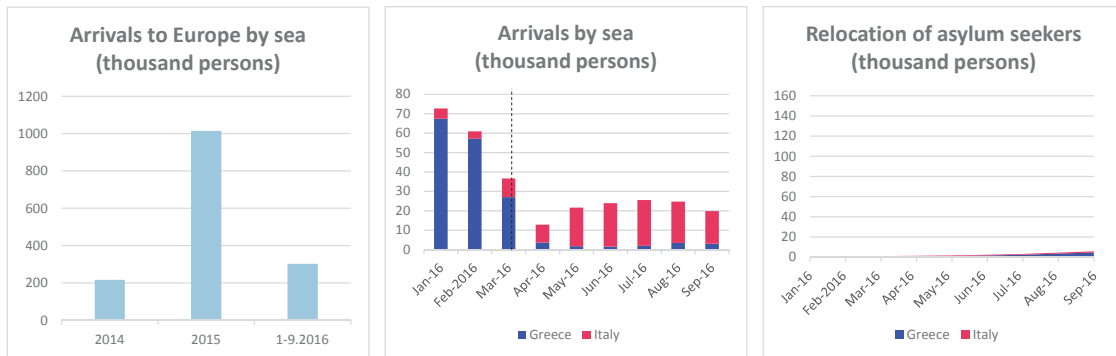
Given the low-intensity fighting in the Donbas region, the big gap between the positions of the opposing parties and the degree of enmity between them, as well as Moscow's interest to prolong insecurity and uncertainty in the region, it is more than likely that the Ukraine crisis will remain a 'protracted conflict' for a long time to come. Indeed, under these conditions, a re-escalation of the crisis cannot be excluded at some point in future.

The **struggle for the EU/West and Moscow to define a new *modus vivendi* will prolong the sense of insecurity**, especially in the countries closest to Russia. The danger of a new arms race is real. Together with

many other geopolitical instabilities on Europe’s doorstep, especially in its southern neighbourhood (where Russia has again become a key player), this may increase pressure on the EU and its members to intensify their cooperation in the field of foreign policy, security and defence. But so far their hesitations and ambivalence suggest that they are still far away from understanding and exploiting the Union’s potential role as an anchor for regional stability, while the pressures are increasing given the US’ growing reluctance to actively engage in Europe’s direct neighbourhood. **It remains to be seen whether the latest proposals to strengthen cooperation in the areas of security and defence**, highlighted also in the context of the Bratislava process, **will deliver concrete results** and whether the objectives defined by the European Council already in 2013 will be implemented. We have witnessed similar initiatives and political momentum in the past, but the results were often meagre, which comes as no surprise given the fact that foreign, security and defence issues lie at the heart of national sovereignty.

- **Migration and refugee crisis:** In the summer of 2015, a crisis of unforeseen magnitude began to unfold. The unprecedented number of people arriving on Europe’s shores has been a source of tension, uncertainty, disunity, and public discontent. Migration pressures are unlikely to decrease in the years to come – and are likely to dominate national debates and election campaigns in many EU countries, including the French and German elections in 2017 – and yet the **EU still lacks a common migration, asylum and refugee policy worthy of the name**, despite some progress in recent months.

In 2015 and 2016 (until September), more than 1.3 million people have entered the EU, mostly via the ‘Western Balkans route’ from Turkey through Greece or through the ‘central Mediterranean route’ from the Northern shores of Africa via Italy. On a global scale, some 60 million people have fled their homes and around 20 million of them are displaced in the EU’s immediate neighbourhood, especially in Turkey, Lebanon, Libya and Jordan. And although over 85% of the world’s refugees are hosted in developing countries, Europe is – and will continue to be – a highly attractive destination.



Source: UNHCR, Refugees/Migrants Emergency Response – Mediterranean, Sea arrivals evolution – Mediterranean sea, Comparison of monthly Mediterranean sea arrivals to Greece and Italy <http://data.unhcr.org/mediterranean/regional.php> [last accessed 04.10.2016]; European Commission, European Agenda on Migration – Factsheets: Relocation and resettlement, http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/european-agenda-migration/background-information/index_en.htm [last accessed 04.10.2016]

Europeans have struggled with the crisis and still find it **difficult to forge compromises because of deep differences of opinion between and within EU countries**. There are two basic camps. On the one side are those who argue that Europe has a moral, humanitarian, historical, and legal obligation to support those in need of help and refuge. They insist that European societies are strong enough to provide assistance and to welcome people forced to flee their homes, and the commitment shown by hundreds of thousands of volunteers has proven this to be the case. They maintain that putting up fences between EU countries or creating a ‘fortress Europe’ is no solution to the challenge. The EU and its members should rather welcome refugees and ensure that everything possible is done to share the burden between countries and support the integration of newly-arrived migrants. Many in this camp also argue that the inflow of people is positive from an economic perspective, given that most EU countries are faced with shrinking and ageing societies.

On the other side are those who argue that Europe must protect itself from the very large numbers of people trying to reach the continent. They emphasise the need to secure the EU's external borders and argue that an inability to protect Europe's frontiers will undermine the free movement of people within the Schengen area. Many in this camp believe that 'open doors' and 'generous support' have motivated many more people to come (and will continue to do so). They insist that there is an upper limit to the numbers that the EU can cope with, as it will be very difficult and costly to integrate millions of people into European societies and economies. Some even argue that the EU is threatened by 'foreign infiltration' and that the integration of large numbers of (Muslim) migrants constitutes an unsurmountable and potentially dangerous challenge to political and social cohesion within member states.

Given the diversity of opinions and the pressures on political actors, especially from right-wing populist forces, the **EU and its members have**, since the outbreak of the crisis, **struggled to identify and implement a common response which balances security concerns and support for migrants/refugees and solidarity between EU countries**. Opposition to the relocation scheme adopted in September 2015 – which in theory provides for the relocation of 160,000 refugees from Italy and Greece to other member states on the basis of a binding and permanent mechanism – clearly demonstrates a strong 'solidarity gap' between EU countries.

The predominant objectives, which have united the different camps to some extent, have been to safeguard Europe's borders, prevent a further unravelling of the Schengen area and, above all, to reduce the number of people arriving in the EU by cooperating with countries of origin and transit. The key aim has been to regain control of a rather chaotic situation, after more than one million migrants/refugees arrived in unprepared member states in a very short period of time.

As migration/refugee flows remained high at the beginning of 2016, two key developments reduced the numbers reaching the EU's borders from third countries: the closure of the Western Balkan route and a highly controversial agreement between the EU and Turkey. The latter helped to reduce the number of refugees and migrants arriving in Greece substantially (from around 850,000 in 2015, to around 170,000 in the first nine months of 2016). Although the deal was necessary to substantially decrease numbers, it is built on fragile political grounds (especially following the failed coup attempt in Turkey) and is subject to serious practical implementation problems, in particular with regard to the resettlement of refugees, as well as legal and human rights concerns.

Despite the differences between EU governments over this issue, the **migration and refugee crisis has fuelled a number of developments**. The prime example of this is the creation of a European Border and Coast Guard, which was agreed between the Council and European Parliament within a record time of six months. Similarly, EU governments were able to agree on the deployment of search and rescue operations and on the launch of a military operation to fight migrant smugglers and traffickers. The EU has helped displaced people within Syria and Syrian refugees in Turkey, and supported those EU countries most affected by the crisis financially, with a particular focus on Greece. Despite some delays, Italy and Greece have set up hot spots and NATO is operating patrols in the Aegean Sea. The Union has intensified its efforts to make returns policy more effective, including a proposed new list of 'safe countries of origin'. With the aim of addressing some of the root causes of migration, the EU has also increased its support for refugee camps in crisis regions, set up an Emergency Trust Fund for Africa and is striving to conclude new migration partnerships with key countries, starting with Mali, Niger, Senegal and Ethiopia.

Notwithstanding these steps, the EU has not been able to agree on more structural innovations and reforms, including the long-overdue reform of the Common European Asylum System (CEAS), encompassing reform of the Dublin system, more measures to support member states in integrating refugees and migrants, and a fairer distribution of migrants and asylum seekers among EU countries. It has failed to create more legal avenues for migration, even though it is now extremely difficult for migrants/refugees to reach the EU legally, undermining its commitment to international legal obligations and core European principles and values. These and other issues have been sidelined.

The European Commission has come forward with numerous initiatives and legislative proposals, and it remains to be seen whether these will find support in national capitals. The EU also needs to address the root causes of migration, including by playing a stronger role in Europe's unstable southern neighbourhood;

more support for countries of origin and transit countries; and reform of EU policies that affect the rate of migratory flows in areas such as agriculture, fisheries and the environment.

All in all, the **political and legislative developments of the past year add up to a mixed picture**. As the migration and refugee crisis continues, it has become clear that to deal with the (potential) number of people arriving on Europe's shores effectively, the **EU and its members need to agree on and implement a more comprehensive strategy regarding human mobility**. What we have witnessed in the last year is a focus on immediate fire-fighting, with the attendant risk that the EU will run out of steam and fail to deliver on more fundamental reforms, now that the numbers knocking on Europe's doors have been at least temporarily contained.

- **(Islamist) terrorism:** In addition to all the above crises, the EU and its members are confronted with another major internal security and societal challenge: terrorism, especially Islamist terrorism. Terrorism is certainly not a new phenomenon. It has been a feature of the European landscape in different waves since the late 19th century. But the rise of Islamist terrorism since 2000, when Europe became a key target, is having a **particularly negative impact on the collective psychology of our societies**. In many EU countries, especially France and Belgium, terrorism is perceived as a constant threat and people have consciously or unconsciously adapted their daily routines in the face of this.

The terrorism challenge is enormously complex and multi-rooted, and it is likely to stay with us for many years to come. It is a global phenomenon and terrorist groups operate beyond borders. It is thus clearly a **challenge that cannot be addressed at national level alone**, but rather requires coordinated action at European and international level.

After falling for some years, the number of terrorist attacks in Europe has been on the rise since 2013. In particular, the January 2015 attacks on Charlie Hebdo, the multiple attacks in Paris in November 2015 and those in Brussels in March 2016, as well as some attacks in Germany and France in 2016, have dramatically heightened the sense of vulnerability among Europeans. According to a Eurobarometer survey, **terrorism jumped from fifth to second place in the list of EU citizens' greatest concerns** between 2015 and 2016, far ahead of the economic situation and second only to immigration. However, there is a need to put things in perspective: even with the Paris attacks, there were less fatalities in 2015 than in any average year of the late 20th century. Terrorism is not an "existential threat" to our societies and the **fear of terrorism has more to do with psychology** – i.e. how people perceive and live with it – **than with the actual threat** (Renard, 2016).

Violent Islamist extremism has provided the narrative driving the perpetrators of many terrorist attacks. In recent years, the self-proclaimed Islamic State (IS/ISIS) has become a powerful catalyst and aggregator for radicalised individuals and networks in Europe, highlighting the inextricable connections between internal and external security. Patterns of radicalisation are changing as individuals, often without a religious background, are radicalised through online channels or interaction with very small circles of violent extremists. IS/ISIS has managed to attract tens of thousands of sympathisers and it is estimated that some 4,000 to 5,000 individuals have travelled from Europe to Syria or Iraq to fight alongside IS/ISIS, with about a third of them returning to Europe. Some of these so-called 'foreign fighters' were directly or indirectly involved in the centrally planned and organised terrorist attacks in Paris and Brussels.

Besides the enormous pain and damage that they directly inflict, the **terrorists aim to polarise societies, undermine their cohesion and trigger a repressive over-reaction** that fuels more violence. They want to trigger a spiral of violence and counter-violence in order to radicalise our societies. Islamist terrorist organisations cultivate a sense of 'us' against 'them' – 'us', the virtuous religious believers against 'them', the sinful oppressing non-believers. They target those who feel excluded, marginalised and discriminated against in our societies.

The fear induced by the terrorist attacks has already polluted the debate over how to deal with migrant and refugee flows and, more generally, over integration policies in Europe. With xenophobic parties exploiting citizens' concerns, there is a serious risk that a narrowly-focused security-driven response to terrorism will prevail over a broader, much more comprehensive approach which includes an emphasis on prevention and addressing the root causes of radicalisation within and beyond Europe. **Social inclusion and integration,**

intercultural dialogue and respect as well as **improved socio-economic prospects**, especially for the younger generation, are the **main keys to fighting terrorism**.

In terms of concrete action, the **EU has concentrated mainly on the security aspects**. It has adopted a number of statements and measures to deal with the terrorist threat in support of, and in cooperation with, national authorities, including the renewed Internal Security Strategy 2015-2020. Concrete steps have been taken, for example, to boost expertise and exchange best practices on how to counter radicalisation, disrupt extremist online propaganda and develop counter-narratives, secure borders including through a more effective collection and sharing of data, and improve the exchange of information among national law enforcement agencies, not least via the newly established European Counter Terrorism Centre in The Hague. Member states have also been updating their national criminal legislative frameworks, introducing new offences for terrorist-related activities, although differences in approach remain.

All in all, **some progress has been made at European level but at a slow and uneven pace**. There is a widely-shared consensus among EU countries on the need for closer coordination in the fight against terrorism. However, the way in which national authorities implement common measures and guidelines requires closer scrutiny and assessment, and adequate resources need to be made available. The nature of the challenge will also require much closer cooperation between internal and external security agencies and actors, including dialogue and partnerships with third countries.

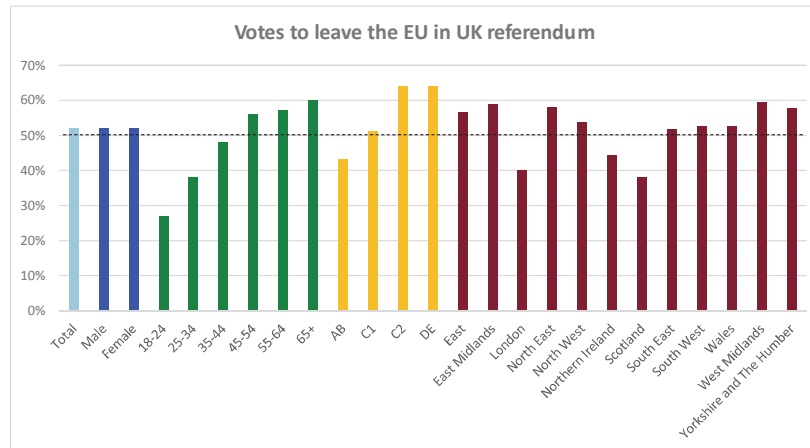
Overall, the **political debate and policy measures introduced at national and European level have been reactive and centred on enhancing security** in response to the terrorist threat. Beyond reinforcing the capacity to uncover and dismantle terrorist networks and avert attacks, it is also vital to focus on preventing violent radicalisation and addressing its multiple root causes. This calls for a **more comprehensive approach, including social, economic and education policies**, and the engagement of a variety of actors at all levels. The struggle against all forms of terrorism necessitates more cooperation between EU countries, which goes far beyond exchanging information. Alongside short-term measures to counter the security threat, it requires the implementation of a comprehensive strategy which promises to deliver results in the long run.

After the Brexit vote – more uncertainty and fragmentation

While (and maybe partly because) the EU and its members are still facing the consequences of the poly-crisis, a majority of UK voters decided that their country should withdraw from the Union – the **first time in the history of European integration that a country has opted to leave the EU after decades of expansion**. As there is no precedent for this, the EU and UK have entered uncharted waters and are struggling to figure out how exactly to deal with the manifold potential consequences of Brexit, including a potential spill-over effect on other EU countries.

The **exact timetable for, and final outcome of, the Brexit process is unknown**. The UK appears deeply divided between different groups, geographically as well as politically, with London, Northern Ireland and Scotland voting strongly to remain inside the EU while others voted strongly to leave. The vote in Scotland raises the prospect of a second Scottish independence referendum if the UK government decides not to do whatever it takes to remain in the EU's Single Market, which could put the very future of the United Kingdom in doubt and would also pose difficult questions for the EU in relation to other secessionist aspirations in Europe.

The UK government itself is split on how to proceed and what the final outcome of the process should be. It is not even clear exactly when and under what conditions Downing Street will trigger Article 50 of the Treaty on European Union, which provides the legal base for an 'orderly departure' from the EU on the basis of a withdrawal agreement ('divorce agreement'). This hesitation has much to do with the fear that launching the divorce procedure might deprive the UK of its main leverage and push it out of the EU within two years, potentially without any agreement on the future relationship between the two sides. As a consequence, it may take longer than some think or hope for the negotiations to begin.



Source: Lord Aschroft Polls, EU Referendum ‘How Did You Vote’ Poll, <http://lordashcroftpolls.com/wp-content/uploads/2016/06/How-the-UK-voted-Full-tables-1.pdf> [last accessed 23.09.2016]; Electoral Commission, EU referendum results, <http://www.electoralcommission.org.uk/find-information-by-subject/elections-and-referendums/past-elections-and-referendums/eu-referendum/electorate-and-count-information> [last accessed 23.09.2016]

Note: Classifications AB, C1, C2 and DE reflect the social grade based on occupation, as developed by NRS <http://www.nrs.co.uk/nrs-print/lifestyle-and-classification-data/social-grade/> [last accessed 23.09.2016]. They stand for: A - Higher managerial, administrative and professional; B - Intermediate managerial, administrative and professional; C1 - Supervisory, clerical and junior managerial, administrative and professional; C2 - Skilled manual workers; D - Semi-skilled and unskilled manual workers; E - State pensioners, casual and lowest grade workers, unemployed with state benefits only.

Despite all these open questions, some things seem certain: the **process promises to be long, complex and cumbersome**, full of potentially negative impacts on the UK, the EU-27 and maybe even beyond. **Nothing can be excluded.**

The EU-27 have taken a firm stand in their direct reaction to the Brexit vote, despite some differences between them. EU leaders have individually and collectively expressed their respect for the decision taken by British voters and constantly call on the UK government to formally notify the European Council of the decision to withdraw as quickly as possible. The EU-27 and its institutions insist that, in the meantime, they will not engage in any form of informal or formal negotiations, although there are already some channels of communication to consult each other on key principles before London is ready and able to declare its intentions and trigger Article 50.

Despite their public displays of unity, there are some **major differences of opinion between and within the EU-27 about the final outcome of the Brexit process**. Some, led by Berlin, firmly believe that the EU should define the closest possible relationship with the UK after the latter’s withdrawal. Others, led by Paris and Madrid, argue that the EU should be tough on the UK to avoid negative spill-over effects in other member states, who might also then be inclined to ask for ‘special deals’ and even trigger their own referenda.

It is almost **impossible to predict what the relationship between the EU and UK will look like** at the end of all this. The negotiations will be tough, not because the EU-27 is in the mood for revenge, but because each side will defend its interests. The new *modus vivendi* could follow one of several different existing models, including the Norwegian (EEA), Swiss (set of bilateral agreements), Canadian (comprehensive free trade agreement), or Turkish options (customs union); or (as seems more likely) take the form of a *sui generis* agreement that reflects the particularities and sensitivities of the British case – although the **possibility of an (ultra-)hard Brexit without any long-term agreement cannot be excluded.**

Collateral damage – limiting factors for the EU’s development

Each individual element of the poly-crisis is severe and complex on its own. But the picture is even more complicated because these individual crises are interlinked and mutually reinforcing and have caused **collateral damage**, which **limits the ability of the EU and its members to implement additional structural reforms** needed to tackle and sustainably overcome the poly-crisis. Now, on top of all this, comes the Brexit challenge which will absorb much political energy in the coming years.

Since the outbreak of the poly-crisis, the EU and its members have, by and large, followed a ‘kick-the-can-down-the-road’ approach wherever possible. Most of the time they have been reactive, focusing on avoiding the worst without, on many occasions, being able to implement key structural reforms at European or national level.

From a pragmatic perspective, this might have been a sound way of dealing with the crises given the lack of a ‘textbook’ that decision-makers could turn to for guidance and in the absence of consensus between and within member states. But as a result, the **EU has only been able to react to the crises, rather than to tackle many of their root causes and remaining structural deficiencies** at either European or national level. On many occasions, EU leaders appeared to feel that the only thing they could do was to buy time, hoping that some of the measures they adopted would deliver results; that the situation would improve over time; and that the worst-case scenario would not materialise. The result was a lot of improvisation under severe time pressure.

One key lesson for many decision-makers has been that when things escalate, there still are extraordinary measures which can be adopted under intense pressure at the 11th hour to avoid the situation imploding. This has worked on numerous occasions (with, for example, the ECB acting as the ‘saviour of last resort’ in euro crisis), but it is an approach underpinned by a potentially dangerous logic: **just because the EU has ‘survived’ does not mean that the situation cannot spiral out of control in future**, especially as the complexities of the situation increase. Even if some crises grow ‘cold’, the embers of a smouldering fire could flare up again any time. And, as Brexit has shown, sometimes fires can get out of control.

The fact that the EU has accumulated so many crises and that they are all directly or indirectly interlinked has increased the danger of developments spiralling out of control. As a result, it is by **no means certain that the ‘iron law’ of European integration** – that the EU always emerges stronger from a crisis – **will prove itself again** this time around. The greatest threat today is political: a political ‘accident’ in an important EU/euro country could have a serious impact, especially on the stability of the euro area. What was true in the early phases of the euro crisis remains true today: big countries are too big to rescue.

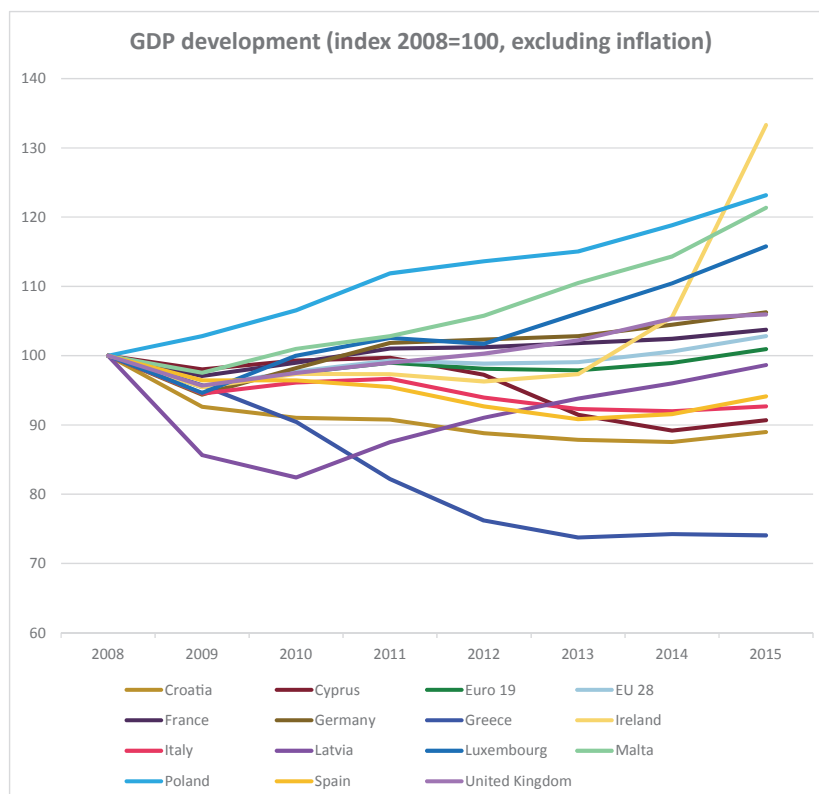
Should the EU survive the current poly-crisis, it might in the long run profit from a ‘**resilience dividend**’, having demonstrated that it can survive existential threats, and thus become more mature, making it much harder in future to call its very existence into doubt.

However, the final outcome is not clear. It is not only the complexity and the increased number of crises that are a cause for concern: the poly-crisis has also caused profound **collateral damage at national, European and even global level**. These unintended and unforeseen political, economic, social, and societal consequences limit the ability of the EU to adopt and implement more assertive measures to address the fundamental causes of the crises effectively.

- **Fragmentation and distrust between member states and national societies:** recent years have seen deep rifts develop and rising levels of distrust between member states, which affect not only governments and decision-makers but also societies. Europe has witnessed a resurgence of national stereotypes, nationalistic chauvinism, historical resentments, and a damaging blame game between national governments and even between ‘ordinary’ people in different member states in all parts of Europe – north, south, east, and west. Mutual accusations of a lack of solidarity have deepened the cleavages and a loss of trust between member states; a phenomenon that has been exacerbated by the migration/refugee crisis. This lack of trust extends to relations between national governments and EU institutions, which significantly hampers cooperation between ‘Brussels’ and national capitals.
- **European cooperation is no longer seen as a ‘win-win’ exercise** from which all member states and their citizens profit, more or less. There are severe doubts about the EU’s added value from a national perspective. The sense that EU integration is no longer a positive-sum game is tangible in many EU countries. In both creditor and debtor countries, many people feel that the costs of the economic crisis have not been distributed fairly: creditor countries feel that they have been forced to pay for the mistakes of others, while debtor countries feel that those on Europe’s periphery have suffered disproportionately from the crisis and the austerity measures imposed on them. Citizens in many EU countries feel that the promise of economic prosperity and convergence through the Single Market and the euro has not been fulfilled, while others criticise the failure to push through structural reforms in non-competitive countries. During the migration/refugee crisis, the main countries of arrival (Austria, Germany, Greece, Italy, and Sweden) felt that

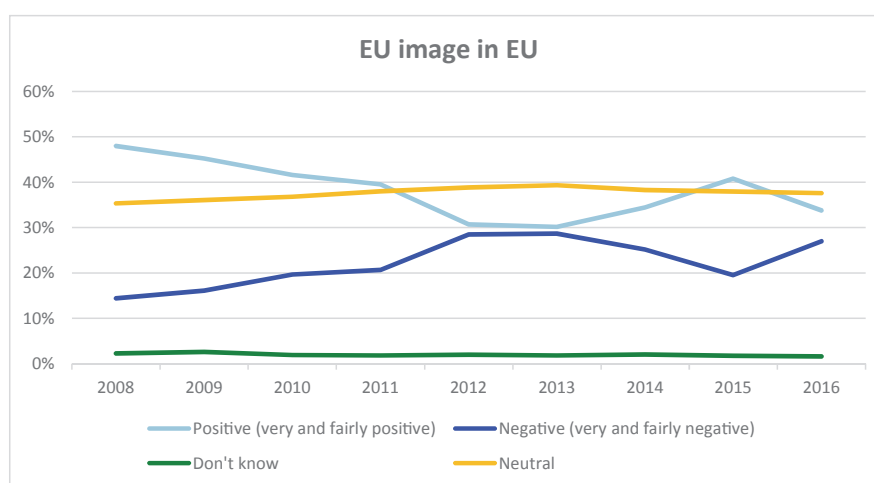
their EU partners, especially in Eastern Europe, failed to show solidarity by taking in an adequate number of migrants and asylum seekers, while the latter argued that an excessive *Willkommenskultur* fuelled much bigger influxes of refugees, undermining Europe's security.

- **Inability to fairly balance national interests:** From a politico-institutional perspective, many people feel the EU's governance structures are no longer able to balance national interests by having in mind the overall European interest. The EU has become more intergovernmental as the powers and political weight of the European Council have increased in times of crisis and many consider that this has happened at the expense of the European Commission and the European Parliament. In parallel, the institutional system is characterised by an 'unbalanced intergovernmentalism', with decisions heavily influenced or even dominated by the views and interests of particular member states, with Germany playing a much more dominant role than in the past. All this is occurring at a time when the Franco-German engine, which previously helped to balance divergent interests, has lost traction and relevance and has not been replaced by any new configuration of leaders.
- **Increasing divergence in real terms and in terms of thinking:** There is a widening economic gap between EU countries in real terms. While some have managed to weather the storm, many others, especially in the continent's southern periphery, are characterised by persistently low growth rates, a lack of competitiveness, persistently high public debt levels, and very high levels of youth unemployment. In addition, and maybe even more worrying, is the growing divergence in how people think: they evaluate the state of the Union and the root causes, nature and gravity of the multiple crises in very different ways. It is almost as if they were 'living on different planets', as they do not share the same analysis, let alone agree on the remedy; i.e. on what needs to be done. Both forms of divergence have widened the gap between member states and make it much harder to forge compromises at EU level.



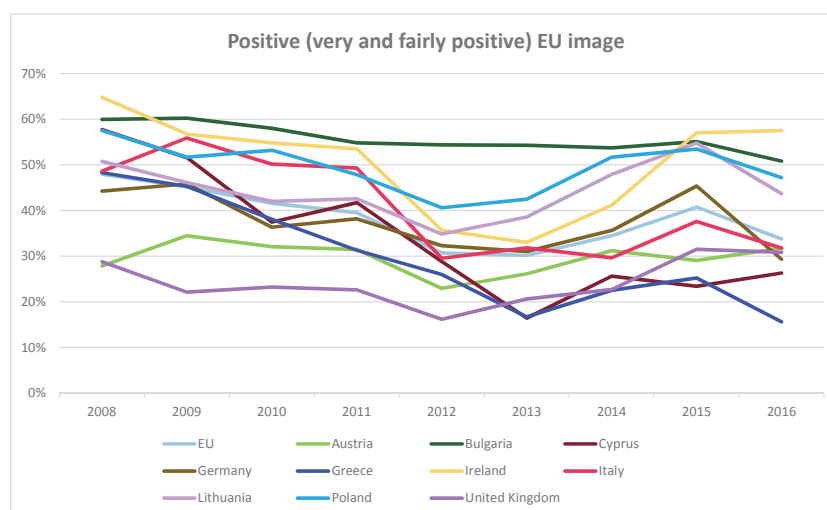
Source: Eurostat, GDP and main components (output, expenditure and income), http://ec.europa.eu/eurostat/web/products-datasets/-/nama_10_gdp [last accessed 21.09.2016]

- Widespread frustration with EU's inability to tackle the poly-crisis:** A growing number of people are turning their backs on the EU because of their dissatisfaction with the current state of the Union. Although levels of public support have improved slightly since 2014, there still is a widespread perception that the EU has not been 'part of the solution' but rather 'part of the problem' in the recent spate of crises, poisoning national debates and public attitudes towards the Union. This widespread frustration affects not only ordinary citizens, but also political, economic and intellectual elites, many of whom have lost confidence that the EU can master the crises. Although many people still support the basic notion of European integration, there is a widespread perception that today's EU is less and less able to cope with the immediate problems it faces. This is aggravated by an implementation gap: member states agree measures at EU level which they then do not implement at national level, putting in question the rule of law in the EU.



Source: Eurobarometer, Question "In general, does the European Union conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image?",

<http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/Chart/getChart/chartType/gridChart//themeKy/19/groupKy/102/savFile/196>
[last accessed 20.09.2016]

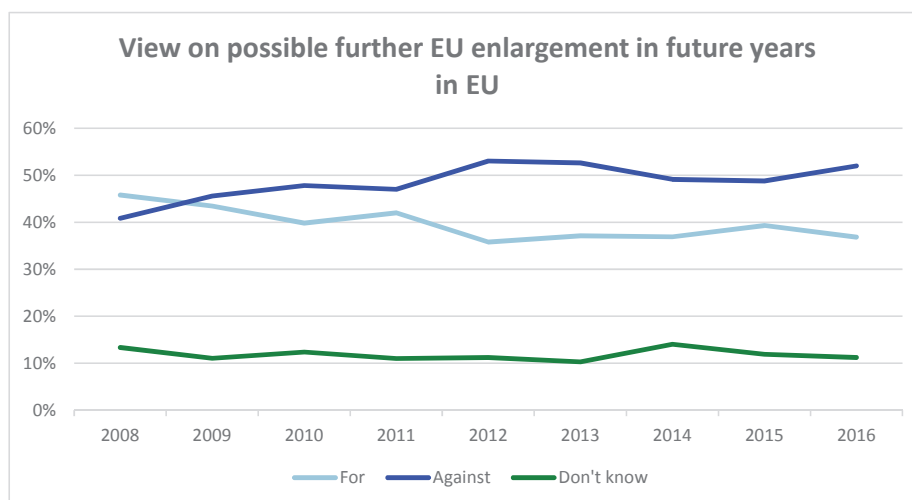


Source: Eurobarometer, Question "In general, does the European Union conjure up for you a very positive, fairly positive, neutral, fairly negative or very negative image?",

<http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/Chart/getChart/chartType/gridChart//themeKy/19/groupKy/102/savFile/196>
[last accessed 20.09.2016]

The frustration with the Union as it stands raises new questions about what unites Europeans, making it harder to foster the shared sense of identity and common destiny needed to generate active support for European integration. At the same time, people have become increasingly aware of the growing impact of decisions taken in Brussels and Strasbourg and the high degree of interdependence between member states, especially in the euro area. However, citizens feel that they cannot influence the formulation of policies because of the EU's complex and often incomprehensible decision-making system – an impression enhanced by national politicians' tendency to blame 'Brussels' for some of their own failings and their reluctance to give the Union credit for its successes, which aggravates long-existing problems of legitimacy.

- **Social cleavages and political constraints within member states:** Although their origins predate the beginning of the financial and economic crisis, real and perceived social cleavages within societies have widened in recent years, fostering a growing sense of social injustice which has fuelled indignation, despair and even anger in many parts of society. Rising inequalities undermine social contracts and, in some cases, even social peace within member states and between generations. There is a widespread feeling that the gains of globalisation and free markets are being privatised (i.e. with individuals benefiting), while the risks of a more integrated global economy are socialised (i.e. shared by everyone). In parallel, political cleavages have widened as a result of a loss of trust in traditional political elites ('the establishment') and their ability to provide timely and adequate policy responses to the complex challenges of today's world. This has led to a 'crisis of democracy' characterised by a high degree of political volatility, distrust, anti-establishment reflexes, and pressures both on the right and left sides of the political spectrum with negative repercussions for mainstream liberal political forces, who struggle to counter the simplistic and often counter-factual rhetoric of populist forces.
- **External reputational damage:** The inability to tackle the poly-crisis has not only undermined confidence in the EU among its own citizens and elites, but has also severely damaged the Union's external reputation, with many questioning whether the Union or key achievements, like the euro or Schengen, will survive. This 'loss of attraction' is evident both in the EU's immediate neighbourhood and at a global level. There is a widespread feeling that the Union and its members will (continue to) be mostly preoccupied with internal EU business in the years to come, undermining the prospects of future rounds of EU enlargement and preventing Europeans from being more engaged on the international stage. All this has fuelled fears that introspection, lack of political leadership and protectionist tendencies will have a negative impact on international trade deals like TTIP (Transatlantic Trade and Investment Partnership) or CETA (EU-Canada Comprehensive Economic Trade Agreement).



Source: Eurobarometer, Question "What is your opinion on each of the following statements? Please tell me for each statement, whether you are for it or against it. Further enlargement of the EU to include other countries in future years", <http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/Chart/getChart/chartType/gridChart/themeKy/29/groupKy/186/savFile/805> [last accessed 20.09.2016]

The inability to sustainably master the poly-crisis and the collateral damage caused by it raise fundamental questions about the Union's future. So far, despite all the turmoil since 2008, the EU has been remarkably resilient in the face of the forces of disintegration. This can be explained by the EU's strong foundations: sixty years on, **European integration has become part of Europe's collective DNA** in most countries. The many benefits of European integration and the ever-growing interdependency between member states, especially within the euro area, have made it **extremely difficult and risky to abandon the European project**. But the crises have already eroded some of the foundations and, if the challenges are not addressed, the EU will 'hollow' out, becoming less and less relevant to citizens' lives. Existential interdependence and the argument that 'there is no alternative' (TINA) might be strong enough to avert immediate disintegration. But even if the EU is not likely to collapse, it must identify and implement measures to deal effectively with the poly-crisis and collateral damage to remain relevant. So what are the chances that Europeans will be able to do so?

III WHAT (NOT) TO EXPECT? DISCONNECTED EUROPE, MORE FEDERAL (CORE) EUROPE OR MUDDLING THROUGH

Given the current state of the Union, what potential paths could it go down? What can we expect in the years to come? Which of the potential scenarios or options seems most likely to prevail? And will this be enough to meet the biggest threats and challenges facing Europeans?

A disconnected Europe through renationalisation – neither desirable nor likely

One radical option could be to **‘go back to basics’ – to put the EU into reverse gear and abandon any moves towards an “ever closer union”** and move instead towards a more disconnected Europe in which member states ‘take back control’ (New Pact for Europe, 2013). Supporters of this option start from the assumption that recent experience has shown that European integration has gone too far and that the EU should never (have even tried to) become an ‘economic and political union’. Undoing the mistakes of the past by creating a more loosely conceived alliance where national governments regain sovereignty would be the most promising way forward. This potential path, which would entail the renationalisation of key policy areas and possibly even the dismantling of the euro area in its current form, would not – according to this logic – lead to the collapse of the EU, but rather herald the start of a more pragmatic, effective approach to European integration instead of fruitless attempts to ‘fix the unfixable’ or chase the unattainable and undesirable.

However, given the current state of the Union and the gravity of the situation, **moving backwards would not help tackle the many current and future challenges in an increasingly interdependent European and global environment**. On the contrary, dismantling the euro area, undermining the Schengen area or the four freedoms of the Single Market are not viable options as they would not solve but would instead exacerbate Europe’s problems. The short- and long-term economic and political costs of ‘undoing’ the euro, reinstalling (permanent) border controls or undermining the basic principles of the Single Market would outweigh any potential benefits and entail incalculable risks and uncertainties for both stronger and weaker member states.

Renationalisation would reverse the European integration process without any clear guarantee of where this might end, which would create even more uncertainties inside and outside Europe. Dismantling the Schengen area or the euro zone would have serious negative consequences for the Single Market and other areas of economic and political cooperation. Negative spill-over effects would exponentially intensify the blame game between member states and significantly increase levels of distrust in the European Union.

The **quest to scale back the EU’s powers** massively is in many ways **steered by a misguided nostalgia for the past**, as most pressing internal and external challenges cannot be dealt with effectively at national level at a time of increasing regional and global interdependence. Trying to move back in time cannot work. ‘Retrieving’ national sovereignty would, in most cases, not strengthen but rather weaken the ability of member states (including the biggest ones) to elaborate and implement effective policy responses.

Given all the potential negative effects, **renationalisation of policies seems highly unlikely**, but there will be increasing pressure to apply the principle of subsidiarity more strongly than in the past. **‘Subsidiarity max’ is likely to be one of the key lessons member states will draw from the Brexit vote**. The negotiations on the EU’s Multiannual Financial Framework for the post-2020 period are also likely to be characterised by a stronger focus on national interests and prerogatives, which in concrete terms will mean a smaller EU budget and an even stronger focus on the principle of *juste retour*.

The desire to ‘take back control’ is also fuelling the **trend towards non-implementation of decisions agreed in Brussels**. Some national governments are failing to implement decisions taken at EU level to prove that they cannot be forced to do so against their will. The Hungarian government’s decision not to apply the refugee relocation scheme is a case in point, exacerbated by Prime Minister Victor Orbán’s decision to ask citizens whether or not Brussels should be allowed to force Budapest to relocate migrants “without the consent of parliament.” Although, the October referendum in Hungary failed due to low participation, the potential ultimate consequences of such referenda for the EU as a community of law are unpredictable.

More federal (core) Europe – strong arguments, but unlikely to happen

The second potential path for the EU to go down, at the other end of the spectrum, would be to **move forward much more radically through a qualitative leap in European integration**. Advocates of this approach argue that the crises of recent years have provided ample evidence that the EU does not have the institutional structures, legal competences or tools and instruments it needs to confront the internal and external challenges it faces. There is thus a need to take a major qualitative leap towards an economic, fiscal, financial, social, and political union worthy of the name, substantially strengthening the supranational elements of European integration.

The actual shape and scope of a (much) more federal Union would very much vary depending on a range of different proposals. But some things would have to be included: this entity would have to be governed by a strong executive (some call this a ‘European government’) and legislature (a strengthened European Parliament or another kind of enhanced legislative power, like a ‘Euro Parliament’ or a new (mixed) parliamentary assembly, possibly including national and European deputies) equipped with ample discretionary and scrutinising powers and access to a substantial federal budget (much bigger than the current EU budget) with its own resources, allowing it to take and implement autonomous decisions reflecting collective European interests.

According to this line of thinking, moving further towards a *sui generis* federal entity is the only way to overcome the contradiction between having a post-national currency and a common European border while still trying to privilege separate national interests.

Most advocates of a (much) more federal Union argue that the **next qualitative leap should focus on deepening Economic and Monetary Union**, which cannot be achieved within the current legal and political constraints. Fundamental EMU reform leading to a fully-fledged financial, fiscal and economic union would require radical reform of the EU treaties (e.g. via a ‘Frankfurt Protocol’ proposed by Andrew Duff) or maybe even a new legal framework (like the ‘Euro Treaty’ proposed by the Glienicker Group). Potential reform elements could include: an ‘economic government’ with a treasury for the euro zone; substantial fiscal capacity based on genuine own resources to support counter-cyclical adjustments; harmonisation of taxes and national employment laws; turning the European Stability Mechanism into a fully-fledged European Monetary Fund; formalisation of the Eurogroup, while enabling it to take decisions by reverse qualified majority voting; an extension of the ECB’s supervisory and resolution powers; the introduction of a federal European deposit insurance scheme; or some form of (mild) debt mutualisation.

Given the EU’s heterogeneity and major differences between EU countries, there are many who argue that those who are **‘willing and able’ should make a qualitative leap** forward on their own if others do not share the same expectations, aspirations and values. The creation of a **‘core Europe’ (Kerneuropa)** should include those countries which are ready to further progress on the path towards a more federal entity. Most advocates of this line of thinking argue that euro zone countries will constitute the main core of a much more differentiated Europe, aiming to substantially deepen integration among themselves within the framework of EMU.

But what are the chances that the EU-27 will make a qualitative forward leap in the foreseeable future, involving all or just a core group?

There are **strong arguments as to why much deeper integration could increase the EU’s ability to tackle the poly-crisis**. Advocates of a more integrated Europe provide a counter-narrative to the EU/euro-sceptical forces currently dominating public discourse, while almost all mainstream political forces fail to do so. Moves in the direction of a more federal Europe would enhance the EU’s competences and equip its institutions with more discretionary powers. The provision of better tools, means and instruments at supranational level would increase the EU’s efficiency and effectiveness in tackling many of the challenges Europe is currently facing. It would provide EU institutions with powers to transcend national interests, which would allow the Union to break out of the negative crisis spiral in which it is currently trapped.

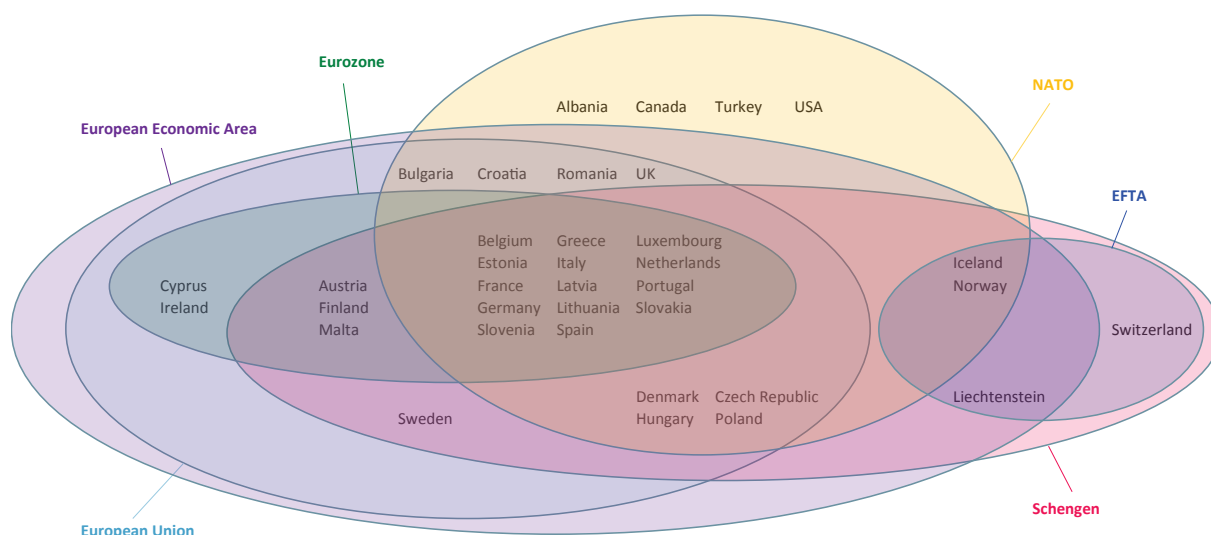
But despite many strong arguments, **leaping towards some sort of a more federal entity does not appear to be a viable option, at least not in the current political climate**. The vast majority of national political elites and European citizens – in countries both inside and outside the euro area – are extremely reluctant to enhance the powers of supranational institutions significantly by pooling core elements of national sovereignty at European level.

The fragmentation and distrust between member states, the perception that European cooperation is no longer a win-win exercise, widening gaps in the EU both in real terms and in terms of thinking, the lack of social and political cohesion within member states, and widespread frustration with the EU as it stands – all this **collateral damage caused by the poly-crisis make it highly unlikely that the EU and its members will be able to move forward through a (major) qualitative leap** in the European integration process in the foreseeable future. On the contrary, any attempt to deepen the EU significantly now could backfire, as it risks underlining the extent of the differences between member states. A failure to reach consensus on the Union’s overall future, including potentially spectacular defeats in one or more referenda, could put the EU under even greater strain, raising yet more doubts within and outside Europe about the Union’s ability to master the poly-crisis.

Those cracks were evident at the recent informal EU-27 summit in Bratislava, providing a strong indication that member states are not ready to make a qualitative leap forward, especially if this would require fundamental changes to the current Treaties – an anathema following the traumatic experience with the Constitutional Treaty in 2005, when a majority of French and the Dutch citizens voted against it. The EU-27 are seeking more concrete and immediate ways to convince Europeans of the Union’s added value rather than embarking on a lengthy reform exercise with an uncertain outcome.

It is true that today’s EU is already characterised by a high level of differentiated integration. Not all member states share the same currency; some EU countries are not part of Schengen; some do not participate in all aspects of justice and home affairs policy; while others are only partially involved in the Union’s common foreign, security or defence policy. This shows that the EU is already the product of different speeds, and all the signs are that there will be even more differentiation in future.

While differentiation appears inevitable, this does not imply that all forms of differentiation are constructive. **Exceptionalism or cherry-picking undermines the basic logic of the EU.** Similarly, the creation of a core involving a limited number of EU countries is neither likely nor desirable. As in the past, we are instead **likely to witness a complex map of differentiated integration involving different groups of different countries in different policy areas** rather than one core group separating itself from the rest.



Just to be clear: member states will continue to seek ways to overcome opposition from certain countries and the EU Treaties offer opportunities to do so, including the enhanced cooperation or permanent structured cooperation instruments. The fact that these instruments are subject to clearly specified rules and constraints enshrined in the EU’s primary law minimises the potential negative effects of a more differentiated EU. But the **idea of using differentiated integration to progress towards a (much) more federal entity engaging only the ‘willing and able’ is both politically unrealistic and potentially counterproductive.**

The creation of a core Europe is unrealistic for a number of reasons: first, even the most integration-friendly countries would hesitate to make a qualitative leap forward, which would imply a further loss/pooling of sovereignty. Second, the countries most likely to be included in any core group (e.g. the six founding members or the 19 countries of the euro area) are very heterogeneous, lack political cohesion, and have very different views on the future of the E(M)U. Third, no group of countries will be ready to actively exclude other member states and some, such as Germany, would oppose moves that would signal a (new) division of Europe into a core and a periphery. They want to avoid the impression that differentiated integrations means the creation of a “two-tier Europe” (Piris 2011) which creates different classes of membership and closes the door to certain countries.

A core Europe is also undesirable, as it could fuel a deep rift in Europe. EU institutions and member states have, for good reasons, always avoided the creation of such qualitative divisions to date, adhering to three basic principles: (i) avoid the creation of insurmountable barriers between the ‘ins’ and ‘outs’; (ii) secure the strong involvement of EU institutions and ‘outs’ as far as possible; and (iii) shy away from creating permanent, parallel and separate institutions involving only those countries who participate in a particular form of differentiated integration. These principles could be undermined if a group of countries went ahead with establishing a core Europe involving only the willing and able, against the will of the others, especially if all this would involve the creation of a *de facto* ‘new Union’ separate from the rest.

What to expect: muddling through

As we are unlikely to witness either renationalisation or significant moves towards a more federal (core) Europe, what should we expect in the years to come? The most likely answer: more of the same. Given the state of the Union, the many disagreements among and within the EU-27 over how to respond and the experience of recent years, it is more than likely that the **EU will continue to muddle through**. This does not mean standstill; it rather implies an **incremental step-by-step process driven by the immediate pressures of the poly-crisis**, based on lowest common denominator approaches without a clear proactive vision of the future – neither with respect to the future path nor the *finalité* of European integration.

What is still unclear is how ambitious this muddling through will be. The **primary goal will be to portray unity** among the EU-27, especially after the Brexit vote, **while averting disintegration by defending the achievements of the past** – both in terms of policies (Schengen; free movement of labour; euro) and membership (no (further) exits from EU and/or euro area). The key aim will be to avoid a further deterioration in the situation and potentially irreparable long-term damage to the European integration process, which would inhibit more substantial progress at some point in future.

As the poly-crisis will be with us for some time to come, the EU will probably continue to **focus on immediate fire-fighting and struggle when it has to deal with the root causes and underlying structural reasons** for the multiple challenges we are facing. Guided by political realism, national and European actors will continue to manage the direct effects of individual crises but, as experience has shown, often run out of steam when the fire appears to have been brought under control and become (more or less) content with ‘kicking the can down the road’ as collective fatigue and complacency take over. This is what happened in the ‘euro crisis’ after 2012 when fears of a meltdown receded, and it is increasingly evident in the migration and refugee crisis as the number of people crossing into Europe has fallen. Fundamental reforms aimed at deepening economic and fiscal integration significantly or introducing a common European migration and asylum policy worthy of the name are then no longer on the cards. The EU will only react more decisively again if and when the situation deteriorates, resulting in ‘reactive muddling through’.

Given the limited ability to address and tackle the remaining structural causes of individual crises and the collateral damage caused by the poly-crisis, **EU institutions and members states are likely to concentrate on a ‘Europe of results’**: they will try to deliver tangible policy outcomes aimed at convincing citizens of the EU’s added value, especially in response to their most pressing concerns: unemployment, ‘uncontrolled’ migration, terrorism, social inequalities and dumping, or unfair competition.

There is a long list of proposals and ideas: creation of a European Solidarity Corps involving young European volunteers; swift adoption of proposals aimed at completing the Digital Single Market; implementation and acceleration of the Capital Markets Union Action Plan; re-launching the Common Consolidated Corporate Tax

Base (CCCTB) proposal; initiatives at European and global level going after tax havens; adoption of the proposal for a European Deposit Insurance Scheme; presentation of a European Pillar of Social Rights; swift ratification of CETA; an extension and strengthening of the European Fund for Strategic Investments (EFSI 2.0); decisive implementation of the Paris Agreement on Climate Change and rapid adoption of the Energy Union and Climate Change proposals; ensuring full control of the EU's external borders and restoring Schengen; strengthening the protection of Bulgaria's border with Turkey; setting up a European Travel Information and Authorisation System (ETIAS); reinforcing Europol; a swift operationalisation of the European Border and Coast Guard; intensified cooperation and information-exchange among security services; swift adoption by co-legislators of the proposals to reform the Common European Asylum System (including the reform of the Dublin mechanism); implementation of the EU-Turkey Statement; implementation of the New Migration Partnership Framework with third countries; the introduction of an External Investment Plan to help tackle the root causes of migration; operational implementation of the EU Global Strategy, including the setting up of a European Defence Fund; or an EU Strategy for Syria. All these and many more were mentioned in European Commission President Jean-Claude Juncker's "State of the Union 2016" address and in "The Bratislava Declaration" issued at the informal EU-27 meeting in September.

One could add more concrete suggestions to this list, such as the establishment of a European headquarter for civilian and military operations; a pooling of defence capabilities using the permanent structured cooperation instrument; reforms of the Council of Ministers to increase 'ownership' and reduce the implementation gap; or the timely implementation of some aspects of the Four and Five Presidents' Reports. An implementation of all the abovementioned proposals and ideas would clearly help the EU to progress.

This 'Europe of results' list could be further extended. There is no lack of ideas. But it **remains to be seen how many of these proposals will be adopted and implemented in practice**, given the limitation of EU powers and competences, and whether they will convince citizens that the EU is capable of delivering.

The Bratislava Summit showed just how cumbersome the process of reaching compromises among EU governments can be. In an effort to portray unity after the Brexit vote and to demonstrate that the EU has a future, the EU-27 leaders spoke of the need to give the public a "vision of an attractive EU they can trust and support". However, given some major differences among them, EU governments run the risk of opting for the lowest common denominator, especially as a number of highly contested issues (for example, the solidarity aspects of migration or the future of EMU) are not on the agenda, although they cannot be ducked if the EU is to tackle the poly-crisis effectively.

The EU-27 are concentrating on issues related to 'security and protection', involving, first and foremost, efforts to safeguard the EU's external borders and cooperation with respect to internal and external security. These are the areas where consensus seems possible, but given past experience there is a danger that the EU-27 might not be able to live up to expectations and that 'Sunday's talk will not be matched by Monday's reality'; i.e. that the objectives and measures laid down in a final joint declaration will not be adequately implemented in practice.

IV WHAT IS THE BIGGEST THREAT AND CHALLENGE? THE DANGER OF A MORE REGRESSIVE AND ILLIBERAL EUROPE

Even if ‘muddling through’ seems the most likely path for the EU in the immediate future, will it be enough? Will incremental, step-by-step progress suffice? Could it buy time, kicking the can further down the road in the hope that the situation will improve in the years to come? Or is this inadequate, given that the challenges facing Europe are much more fundamental? Is the current inability to repair the EU and tackle the poly-crisis effectively the result of a much more profound crisis, which threatens not only the EU as we know it but much more than that?

In times of profound uncertainty and confusion, these questions must be addressed to understand the real nature of the problem and to set the right political priorities at both national and European level.

The debates about ‘less Europe’, ‘more Europe’ or a ‘better Europe’ have led to an impasse. Those who want to see progress tend to be too optimistic about the future, reverting to usual reflexes, repeating positions, claims, ideas, and proposals which, even if worthwhile, are rarely implemented in practice. The debates about the EU’s future are often rather narrow, concentrating mainly on the Union itself and what can be done at European level, and **framing the discussion in terms of ‘more’, ‘less’ or ‘better’ Europe risks diverting attention away from what is really at stake.**

Given the gravity of today’s situation, it makes sense to take a step back and pose a more fundamental question: what really is the biggest threat, and what are the greatest challenges and factors fuelling this threat? The answer to this question could help to steer political priorities.

What appears to be at stake is actually much more than the EU itself, although the Union might become its first prominent victim: it is the **danger of a more regressive and illiberal Europe – a Europe in which key values, orientations, norms, and principles are being undermined.** A Europe that becomes increasingly introverted, protectionist, nationalistic, discriminatory, xenophobic, intolerant, and authoritarian. A Europe that is backward-looking and more inclined to oppose globalisation, trade and exchange, migration, heterogeneity, cultural diversity, self-determination and the principles of an open society. A ‘closed Europe’ in which the influence of those who advocate simplistic solutions to complex challenges is increasing, with their political rhetoric and ideology framing or even dominating public discourse.

This is currently the greatest threat facing us – a threat that is not confined to Europe, but poses a more fundamental challenge to the ‘old continent’ than to others, in part because the EU remains (in the minds of its citizens) a less resilient construct than nation states.

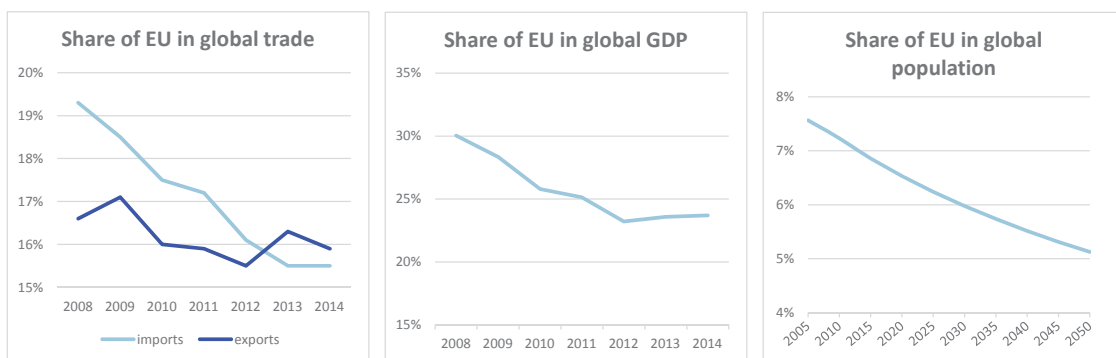
The **key trend playing into the hands of those who advocate such a Europe is the increasing polarisation of our societies.** Divided societies are fertile ground on which extremists and populists on all sides of the political spectrum, on the fringes and in the mainstream, thrive. It is the basis upon which they can develop an ‘us versus them’ logic, which undermines cohesion within and between our societies.

The **main dividing line** in today’s world is that **between the (potential) ‘winners and losers of change’ in an age of massive transformation** in all spheres of economic, social and political life; between those who feel they are – or may become – the victims of change and those who either feel that change is an opportunity from which they can profit or are less certain but still feel sufficiently equipped to cope with the negative side of change and believe they can influence the course of developments. Some speak of those who feel that they are the victims of change as the ‘losers of globalisation’. But ‘globalisation’ is too general a term and focuses primarily on the socio-economic consequences of change. It also masks a new and different challenge: that many people feel threatened even if they cannot be counted among the losers of change. This gives extremist and populist rhetoric much greater resonance across populations and renders traditional responses, such as the redistribution of income and wealth (which requires taxing large parts of the middle classes), ineffective. There is thus a need to further deconstruct the nature and nuances of the phenomenon to better understand and address it.

The **increasing polarisation of our societies is fuelled by numerous insecurities** as an increasing number of people, including the middle classes, feel overwhelmed by the pace of change, making them profoundly anxious about their future. The fear of change is a phenomenon that surfaced well before the poly-crisis began, but the direct and indirect consequences of the crisis have acted as a catalyst, further enhancing the sense of insecurity.

So what are the major insecurities fuelling the polarisation of our societies?

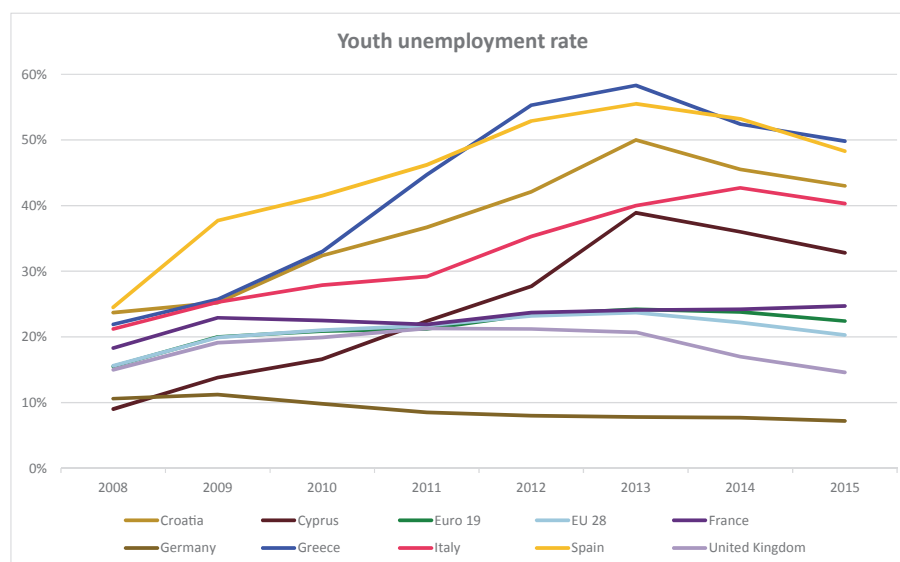
- **Socio-economic insecurities** related to the fears of many people that they will or may be negatively affected by the new economic realities, do worse than their parents and grand-parents, and their children might be even worse off. These insecurities are fuelled by an increasingly uneven distribution of wealth between the 'haves' and 'have lesses', by job insecurity, social exclusion, the feeling that the losers of change do not profit but rather suffer from more integrated global markets, and by the general fear of being left behind in an increasingly competitive, unfair and neo-liberal economic environment in which Europe's share in global trade, GDP and population is severely shrinking. People are no longer willing to believe that change inevitably brings economic benefits, and, even if it does, they often feel that more protection and stability is preferable to greater economic gains. This phenomenon started well before the outbreak of the financial and economic crisis, and does not only affect countries which have suffered most from the crisis, but also nations which have weathered the storm relatively well.



Source: For global trade figures – Eurostat, Share of EU in the World trade, http://ec.europa.eu/eurostat/web/products-datasets/-/ext_it_introle [last accessed 22.09.2016]; for GDP figures – United Nations Statistics Division, National Accounts Main Aggregates Database, <http://unstats.un.org/unsd/snaama/dnllist.asp> [last accessed 23.09.2016]; for population figures – up to 2014 United Nations Population Division, World Population Prospects: The 2015 Revision; from 2015 United Nations Population Division, Probabilistic Population Projections based on World Population Prospects: The 2015 Revision, <https://esa.un.org/unpd/wpp/> [last accessed 22.09.2016]

- **Societal and cultural insecurities** as many people feel overwhelmed by change, which they regard as a threat to their personal and ethnic/cultural identity. Growing numbers feel threatened by the erosion of accustomed social norms, such as traditional family or religious values, or by the 'overwhelming' volume of migrants/foreigners entering Europe. The migration/refugee crisis has, in particular, unleashed fundamental anxieties in parts of our societies, even if the actual numbers do not objectively justify these fears. Migration issues impacted on the Brexit vote and are likely to be one of the main themes in the French and German 2017 elections, with populists of all sorts seeking to profit from anxieties related to an 'invisible' sense of identity, which they will argue is increasingly under threat.
- **Generational insecurities** deriving from increasing divisions between generations, fuelled by the fact that younger people are suffering from disproportionately high levels of enduring unemployment and a lack of perspective. Many feel that they are doomed to be part of a 'lost generation' with little hope for their future. As a result, many have left (or want to leave) their home country, resulting in 'brain drain' and creating more frustration among those who feel they have little option but leave their homes, families and friends.
- **Technological insecurities** as an increasing number of people feel left behind by technological developments which are affecting all spheres of life. Given the rapid pace of change, many people perceive technological innovations which they cannot fully comprehend as a threat rather than an opportunity from which they can profit in their personal and professional lives. Many also feel that public authorities and institutions are incapable of taming and effectively controlling the potentially negative effects of technological developments, especially in highly sensitive fields such as biogenetics, cyber security and data protection.
- **Security insecurities** related to both internal and external threats, such as terrorism, organised crime, regional instabilities, and/or geopolitical confrontations. The history of the past 25 years – including the tragedies in former Yugoslavia, the war in Iraq or Afghanistan, the terrorist attacks and the fight against

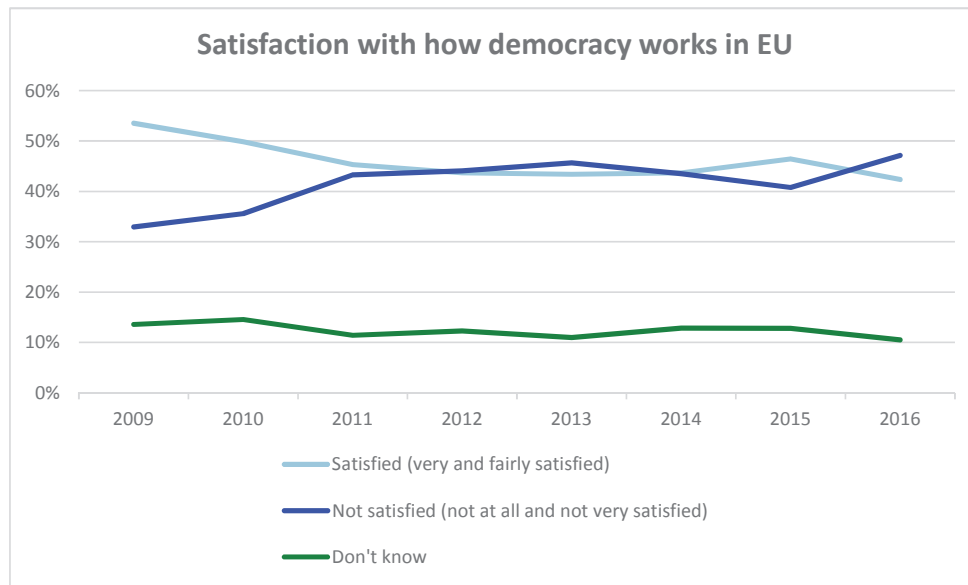
international and home-grown terrorism, the Ukraine crisis and the fear of a more aggressive Russian foreign policy, or the devastating war in Syria with more than 300,000 casualties – has demonstrated that security (internal and external) is a precious and vulnerable public good which cannot be taken for granted.



Source: Eurostat, Youth unemployment by sex, age and educational attainment level, http://ec.europa.eu/eurostat/web/products-datasets/-/yth_empl_090 [last accessed 21.09.2016]

'Zukunftsangst' (fear of the future) and the 'politics of fear' are the result of these multiple insecurities, which fuel the polarisation of societies and thus play into the hands of populists and extremists. **Polarisation** is in their interest and even **part of their 'political DNA': populists**, on the fringes and in the mainstream, **draw distinctions between 'us' and 'them', portraying themselves as the champions of the 'ordinary' man and woman against corrupt elites/the establishment**, who are not able or willing to effectively protect societies from the negative impacts of change.

The (potential) losers of change are a very heterogeneous group, as heterogeneous as the different insecurities fuelling polarisation. But there is **one thing that unites them: anti-establishment sentiments**. They feel that traditional political elites are overwhelmed by today's challenges (and many of them openly admit that this is the case); that the establishment cannot be trusted not to betray or leave them behind; and that the elites do not care about their concerns. Many of them are angry, searching for an outlet to express their anger, and are attracted by simplistic and often counter-factual arguments, which are in many cases linked to nostalgic perceptions of the past.



Source: Eurobarometer, Question “On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with the way democracy works in (your country)? Would you say you are...? How about the way democracy works in the European Union?”, <http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/Chart/getChart/chartType/gridChart//themeKy/2/groupKy/228/savFile/805> [last accessed 20.09.2016]

The increasing **polarisation** of our societies and the **politics of fear undermine political cohesion within national societies and between EU countries**. In the end, this results in an **increasing spirit of 'anti-cooperation'**; a spirit which, at all levels of political life, makes it increasingly difficult to forge compromises and consensus. An increasing number of citizens and parts of the elite no longer see the benefits of cooperation, but are rather increasingly inclined to either withdraw from traditional political processes or ‘stand up’ and protest against the establishment.

Individualism, tribalism, mutual distrust, and all sorts of anti-movements – anti-globalisation, anti-migration, anti-Islam, anti-establishment, anti-EU/euro etc. – thrive and prosper in these conditions. It thus becomes increasingly difficult to arrive at balanced ‘win-win’ outcomes as different actors are trapped in multiple prisoner’s dilemmas (i.e. a situation in which the outcome for each country depends not only on its own choices but crucially on the simultaneous choices made by others), where an inability and unwillingness to cooperate leads to sub-optimal outcomes.

In this climate, **traditional political forces on both the left and right are increasingly squeezed**. The **mainstream**, on both the left and right, **struggles to present a credible counter-narrative**. Many feel that to avoid losing yet more support among voters they must adapt their political rhetoric and policy choices/proposals to take account of the sentiments of those who are attracted by the simplistic rhetoric of populist forces. They want to demonstrate that they are listening to citizens’ concerns, while hoping that once the situation improves (the economy recovers and the number of refugees falls), voters will return to them. But in many cases, those who turned to anti-establishment parties do not come back, but rather attribute improvements to those political forces who were ‘courageous’ enough to stand up against traditional elites.

Some mainstream actors go one step further: they do not merely adapt but actually adopt the arguments of populists and their simplistic rhetoric, even though experience has repeatedly shown that copying the original in many cases does not pay: voters attracted to populist parties tend to prefer the original to imitators, who try to pretend they are not part of the old establishment.

However mainstream forces react, **simplistic rhetoric and radical thinking is infiltrating, guiding or even dominating the political discourse** and many arguments which were previously considered unthinkable and unsayable have become socially and politically acceptable, publicly expressed and multiplied by traditional and new social media. The result is a brutalisation of the debate, a radicalisation of rhetoric, which further deepens divisions within societies, playing once again into the hands of those who seek to undermine cooperation.

In some cases, the ‘populists’, who began their political careers on the political fringes, are not only framing the debate, but are **(on the verge of) becoming the ‘new mainstream’**. In some countries, they are mainstreaming themselves and replacing traditional parties on either side of the political divide without abandoning their original beliefs or early supporters. By becoming mainstream, they expand their political reach and move closer to the centre of power, thereby creating even more headaches for established parties.

Illiberalism, nationalism, polarisation, *Zukunftsangst*, the politics of fear and anti-cooperation are not just European phenomena. A glance across the Atlantic is enough to see that other established Western democracies face similar challenges. However, **Europe is much more vulnerable to this than other political entities**. The **EU has become a popular ‘punch bag’, an easy target**, even though it is not really the main concern of many of its attackers. Populist forces use their opposition to the EU as a vehicle for their ultimate objectives. What they care about is not the state of the Union or the future of European integration but rather, first and foremost, their position at home, and they use fierce criticism of the EU to strengthen their political influence and power at the national level.

There are a number of key reasons why the EU has been easy prey:

- ***The EU is widely perceived as a distant ‘elitist project’***, as something the ‘old establishment’ created and which operates predominantly in the interests of political and economic elites, not ‘ordinary people’. Citizens have become increasingly aware of the EU’s growing impact on their lives, but feel that they have little or no influence over the formulation of policies because of the EU’s complex, inefficient and often incomprehensible decision-making system. They see themselves as the objects, not the subjects, of European policy-making. They voice their discontent by voting for anti-EU forces in European elections, and it is likely that this trend will continue in 2019 European elections, given the success of anti-EU/euro parties at national level.
- ***The EU is seen as an ‘agent of unfettered globalisation’***, linked with many negative developments related to globalisation, which overshadow the positive effects of more integrated markets and international free trade. As a consequence, the EU is being equated with a social and environmental race to the bottom, the prerogative of the interests of financial markets, the perceived ability of global companies to set the rules and exploit the system. Thus the EU is perceived as ‘part of the problem’ and not ‘part of the solution’, poisoning national debates and public attitudes towards the Union.
- ***The EU is perceived as an ‘underpowered scapegoat’***, accused for not being able to ‘deliver’ because it lacks the powers and means it needs to perform the tasks it is called upon to fulfil. Given the current balance of competences, and limited resources and instruments available at European level, it is not adequately equipped to provide effective responses to many of the abovementioned insecurities. The EU’s ability to deliver is further undermined by an increasing ‘implementation gap’, with decisions taken collectively in Brussels and Strasbourg failing to be implemented at national level. The impression that the EU is constantly underperforming is enhanced by national politicians’ tendency to blame it for some of their own failings and a reluctance to give the Union credit for its successes.
- ***The EU is not (any longer) perceived as ‘special’, transcending the flaws and mistakes of nation states;*** i.e. as a supranational entity governed by higher values and objectives, which are not predominantly guided by narrow national interests and concerns but rather by common European interests reflecting shared values. This notion of the EU as being different from nation states came under particular pressure in the context of the EU-Turkey agreement, with a widespread public perception that the Union concluded a ‘deal’ very much grounded in *Realpolitik*, undermining some of its core principles and human right values.

V WHAT SHOULD BE DONE? A CONTRIBUTION TO THE DEBATE

The analysis contained in this paper suggests that there is more at stake than the future of the European project. The EU is important, clearly has a decisive role to play and already does so. But Europeans (and others) face a bigger choice: the **choice between an open and values-based Europe and an increasingly nationalistic, introverted, protectionist, discriminatory, xenophobic, intolerant, and authoritarian Europe** – a Europe in which key values, orientations, norms, and principles are being undermined.

What can be done to counter the danger of a more regressive and illiberal Europe?

Action is needed, first and foremost, to **counter the increasing polarisation of societies** and to **address the socio-economic, societal, cultural, generational, and technological insecurities** that fuel it. Divided societies are the fertile ground on which extremists and populists thrive. Prevailing in the fight against polarisation is a prerequisite for also making more substantial reforms at European and national level possible. Reforms which are needed if the EU and its members want to tackle and eventually master the poly-crisis and the collateral damage it has caused.

With divided societies prone to simplistic populist rhetoric, now seems not to be the time for fundamental progress at EU level. Pressure for a more regressive and illiberal Europe is preventing deeper reform processes, as populist forces – especially on the right of the political divide, which has in many countries captured the public debate – are strongly opposed to a higher level of cooperation, fearing a further pooling (or loss, as they would argue) of sovereignty.

‘Muddling through’ continues to be the most likely path for European integration for the foreseeable future. This would not help to sustainably resolve the poly-crisis, but it does not mean standstill either. It rather implies an incremental step-by-step process driven by immediate pressures, based on lowest common denominator approaches without a clear proactive vision of the future.

There are strong arguments as to why a higher level of cooperation and integration and more discretionary powers at EU level are needed to address many of the challenges and problems Europeans are facing. But we are not likely to witness a qualitative leap forward any time soon, given the fragmentation and distrust between member states as well as the rise of diffuse populism – on the fringes and even in the mainstream – and critical public attitudes towards the EU in many countries.

So what could/should be done now? The negative spiral must be stopped. But what does this mean in concrete terms? Clearly, there is not one measure, one policy reform or any other magic bullet that could avert the danger of an illiberal and regressive Europe. The reality at both national and European level is much more complex and nobody should claim that he or she has the ‘right’ answers – we don’t. But there is a need **to reframe the discussion by offering a different perspective**, delving more deeply and widely instead of focusing too narrowly on the EU alone, given that the main threats and challenges we are facing go much deeper and wider. The following guiding thoughts are intended to help the EU and its members (and especially pro-European democratic political forces on both sides) to avert the danger of a more regressive and illiberal Europe.

First guiding thought: a ‘Europe of real results’

The origins of the polarisation of societies, and the means to counter it, lie predominantly at national level and it is primarily the responsibility of democratic forces, who are committed to an open and values-based Europe, within each country to address the multiple insecurities citizens are facing.

But the EU clearly has a key role to play, by delivering a ‘Europe of results’. However, given the limits on the powers, competences and instruments member states have allocated to the European level, the **Union must also be careful to avoid creating expectations** that it cannot hope to meet. It must **not fall into an ‘expectations-capability trap’ which Eurosceptic forces can use against it**. The EU can provide added value in key areas, but it cannot compensate for deficiencies at national level and it cannot, on its own, solve today’s complex challenges. The old narrative that what cannot be solved at national level has to be tackled at European level needs to be refined, as this logic asks too much from an EU whose competences and powers remain constrained.

The Union should concentrate on projects and initiatives where it is capable of delivering results that make a tangible difference. This is a filter which should be applied to scrutinise all new projects and initiatives. In many ways, this exercise is more about defining what the EU should not do, because it cannot, given the powers it has been attributed. It is **not about 'less Europe' but about a more effective, realistic and credible EU**. Frantic measures launched simply to show that the Union is doing 'something' should be avoided, as they will almost certainly backfire: non-delivery raises valid criticism and ultimately undermines the EU.

If governments demand action in areas where the Union's powers are limited, the EU institutions need to outline what kind of competences and capacities would be necessary to meet those demands. If the European Commission comes forward with a proposal which is then watered down or redirected in a way that dilutes its impact, it should not shy away from withdrawing it. If a proposal is eventually submitted and jointly agreed, member states must implement what has been commonly decided at European level. If they don't, it is not the EU that should be blamed for the consequences – the Union can and should do more to monitor and publicise implementation failures, highlighting where member states are not doing what they have previously agreed to.

Second guiding thought: an open but protective Europe, driven by necessity and principles

If democratic forces committed to an open Europe want to regain popular support and defend the merits of an open society, they will have to find ways to protect citizens from the negative aspects of globalisation while abiding by fundamental principles when dealing with the outside world. They have to **counter the perception that the EU is an agent of unfettered globalisation** and by many no longer seen as an entity capable of transcending the flaws and mistakes of nation states.

Protecting citizens from the 'dark' side of globalisation (such as unsustainable excesses in the financial sector, social inequalities and injustices in Europe and beyond, as well as international companies exploiting the loopholes in an unregulated global economy) needs to start with an **honest analysis and debate about the risks and benefits of globalisation**. Attempting to conceal the negative consequences of more integrated global markets makes no sense. But it is also true that Europe has profited immensely since 1945 from expanding markets and free trade and that Europeans have been, for all the right reasons, strong promoters of economic development in other parts of the world. All of this was and remains in Europe's interest. But the dynamics of global trade are less strong in recent years (according to latest WTO and IMF figures) and protectionist tendencies are on the rise. From a European perspective, these developments are worrying given that Europe's collective wealth heavily depends on exports to the rest of the world.

An open Europe is far better at delivering growth and (especially important) jobs than any alternative. But citizens in all EU countries, including the middle classes, are increasingly critical and fear the negative socio-economic consequences of globalisation. Mass demonstrations against the Transatlantic Trade and Investment Partnership (TTIP) or the Comprehensive Economic and Trade Agreement (CETA) with Canada in many member states are a clear sign of public concern. To address this, the EU and its members must demonstrate to their citizens that they can help to protect them from the excesses of globalisation, by defending social and environmental standards, by countering tax evasion, or by creating the ethical framework needed in the development of new technologies. In the words of former European Council President Herman Van Rompuy: "Openness has to go hand-in-hand with protection, as otherwise fears dominate the discussions, leading to paralysis, to immobilisation, to regression" (Van Rompuy, 2016).

Democratic forces committed to an open Europe need to **find ways to combine the benefits of open markets with the requirements of a social-market economy**. If they fail, anti-EU and anti-liberal forces will prevail and the resulting polarisation between the potential winners and losers of change will further play into their hands.

Given the significance of migration in many national debates, the EU and its members must **not only explain and communicate the benefits of migration**, but also need to **make sure that the pressures this can generate, for example on local public services, are addressed**. At EU level, an incentivisation mechanism in the next budget to reward countries that take a disproportionate share of refugees and to assist in their integration could support this process.

Europeans also need to further develop their distinctive economic and social models, which are based on a number of key principles: open economies and societies within a framework that safeguards European values;

social protection and inclusion; sustainability and environmental standards; intergenerational equity; dialogue between social partners; tax justice; and strong public services. They also include European values, cross-border solidarity, economic convergence and the free movement of citizens. The EU and its members do not always stick firmly to all of these principles, but they should not be viewed as millstones around our necks, but rather as the core of Europe's competitive advantage. They are not a burden, but an asset.

The role of national and international authorities is to make the most of opportunities while at the same time correcting market failures and protecting the vulnerable. With respect to the EU, this means strengthening the Single Market not only through further liberalisation and by promoting the Digital Single Market, Energy Union or Capital Markets Union, but by also **ensuring that the EU and its members fight against social and environmental dumping and ensure the four freedoms are not abused to undermine these basic principles**. In trade policy, Europeans should become less inward-looking, not only safeguarding the level playing-field within the Single Market, but also adding elements to further the EU's legitimate interests when trading with countries that already use such instruments, including investment controls, state aids and strategic procurement within the framework of what is allowed under WTO rules. This should be done within a meaningful EU-wide industrial policy that supports European companies.

When dealing with the outside world, the EU and its members should not only seek to protect their citizens from the downsides of globalisation, but should also take into account the fact that an increasing number of (formerly) convinced Europeans are turning their backs on the Union because they feel that it is simply repeating the mistakes made by nation states. There is a perception that the Union is abandoning some of its core values for the sake of short-term interests; that it is no longer a 'special' entity subject to higher values – a feeling reinforced by the EU-Turkey agreement to tackle the migration crisis, with many young people, in particular, disappointed at the EU's decision to conclude a deal very much grounded in *Realpolitik*, undermining some of its core principles and human rights values.

There are strong arguments as to why striking this agreement was necessary to reduce the very high volume of migrants and refugees arriving on Europe's shores. One could also argue that it would be naïve to believe that international politics can be solely based on normative judgements and standards. But for those Europeans who believe that the EU should not and would not surrender basic values when people fleeing from civil wars and political persecution are knocking on its doors, this was a shock.

Politics sometimes requires striking balances between values and interests. However, failing to live up to Europe's own expectations ultimately risks undermining trust and credibility within and outside Europe. **The EU should be a values-driven actor, not least for *Realpolitik* reasons – without respect for the European and international rule of law, the Union has few real powers and much less convincing arguments**. The Union is likely to remain a predominantly 'soft power' and the power of values and principles are a key source of strength.

Third guiding thought: a Europe of unity, avoiding exceptionalism

If democratic forces, who are opposed to a regressive and illiberal Europe, want to counter populist rhetoric effectively, they must **demonstrate the benefits and obligations deriving from membership of the 'European club'** by avoiding a blurring of the boundaries between EU and non-EU countries, by motivating non-euro countries to join the common currency which now lies at the heart of the European project, and by making sure that member states fully adhere to the fundamental rights and democratic values enshrined in the EU's primary law. **Exceptionalism is not the way forward.**

To strengthen the arguments in favour of the EU and to weaken anti-European arguments, they need to **enhance the 'club logic' of the Union** by making it clear that the full range of opportunities and protection provided by European integration can only be enjoyed if you are a full member of the EU.

This logic has consequences for the **future relationship between the EU and the UK** (and other non-EU countries). Given the strong historic, political, economic, security, and social ties between the UK and continental Europe, it is in the clear interest of both sides to prepare the grounds for a strong and close relationship. Although the Brexit vote demonstrated that people can act against their own best interests, it is not up to the EU to 'correct' their decision but rather to show what consequences it will have – **deep partnership, yes, but quasi-membership without clear obligations, no.**

Brexit compels the EU-27 to clarify what it means to be inside or outside the club. Non-EU countries that want to enjoy the major benefits of European integration, especially the advantages of being part of the Single Market, must fulfil all the obligations deriving from it. Thus **there are certain principles which the EU-27 should stick to strongly when negotiating the future EU-UK relationship**; four red lines they should define and firmly respect: (i) access to the Single Market cannot in any way undermine the principle of the free movement of labour; (ii) third countries enjoying the benefits of the Single Market cannot be directly or indirectly included in the Union's decision-making process, which is the sole prerogative of EU countries, and third countries must, at the end of the day, accept the rules formulated and decided by the EU and abide by the verdicts of the European Court of Justice; (iii) access to the Single Market should imply that the partner country must contribute fairly to the EU budget; and (iv), any future partnership agreement between the EU and the UK must not undermine the Union's integrity by establishing an alternative form of 'belonging' that other EU countries might then also be tempted to acquire. Otherwise, the EU risks playing into the hands of certain Eurosceptic forces in bigger and smaller member states who are already claiming that their country should follow suit and demand concessions, while threatening to ask their citizens whether they want to stay or leave the EU (or the euro).

There is also an internal EU dimension to the arguments for avoiding a blurring of the boundaries between 'ins' and 'outs': those **member states who have not yet joined the euro zone**, even though almost all have a treaty obligation to do so, **should be motivated to join the common currency**. The euro has become the heart of the European project and the need to safeguard its stability requires a further deepening of cooperation between the countries of the euro area, which creates frictions among the 'ins', 'pre-ins' and 'outs'. The **distinction between euro and non-euro countries undermines political cohesion**, which not only impacts on the future of EMU but also on cooperation in other policy areas. The high degree of interdependence between countries sharing the same currency has, in the most difficult moments of the euro crisis, proven to be a strong glue; a decisive motivating factor to deepen cooperation and thus avoid the potential disintegration of the Union. A higher level of unity and interdependence would thus be in the interests of all member states and the EU as a whole. Conversely, the **establishment of a core Europe against the will of those left behind would** lead in the opposite direction and **risk creating new dividing lines in Europe**.

Finally, the principle of clear differentiation between ins and outs must also entail an insistence that countries inside the EU must fully adhere to the civil rights and democratic values enshrined in the EU Treaties and the Charter of Fundamental Rights. To counter the risk of a more xenophobic, intolerant, authoritarian, and illiberal Europe, the EU should enhance its capacity to protect human rights and fundamental freedoms when they are encroached upon at national level. A Union that is not able to do so will lose its credibility both inside and outside Europe.

If member states are serious about protecting the essence of democracy within the Union, they should **give the EU additional tools to act as a 'democratic watchdog'** in responding to serious breaches of the separation of powers, rule of law, media freedom, human dignity, freedom, equality, and non-discrimination. As an instrument of *ultima ratio*, there is a need to develop stronger procedures of *ex-post* conditionality ensuring that there are consequences if EU countries ignore or act in a way that is contrary to their membership obligations. This should include sanctions in case member states renege from their obligation to comply with the rights and values enshrined in the EU's primary law, which are decided by reverse majority based on an independent expert assessment made outside the EU's institutional framework. While some governments will resist this idea, it should nevertheless be put on the table and consideration should also be given to whether ultimately there should be a mechanism which points members towards the exit if they are not willing to adhere to the EU's principles.

Fourth guiding thought: counter disintegration at home

The origins of – and thus also the fight against – the increasing polarisation of societies, which plays into the hands of those who propagate easy solutions to complex problems, begins at home. Democratic forces and their leaders on both the left and right of the political spectrum, who oppose a more regressive and illiberal Europe, should elaborate, present and promote a counter-narrative to populist forces, mitigate multiple insecurities through concrete deeds and change their habits at European level by ending the 'Brussels' blame game. They should do all this not for the sake of the EU, but out of enlightened self-interest.

To regain the upper hand in the political discourse, democratic forces must **become more proactive** and **not just react to the simplistic analysis and proposals** offered by populist forces. Mainstream parties committed to an open society should **resist using populist rhetoric or even copying their policies** in a vain attempt to regain lost ground. Wearing their opponents' clothes or simply arguing that they do not have credible responses to the challenges citizens are facing will not do the trick.

They must not shy away from honest debates, and should **offer an attractive and positive counter-narrative underpinned by convincing proposals for action which are implementable, forward-looking and addressing the fears of citizens**. They must have the political courage to **explain the virtues and benefits of an open, tolerant, diverse, and liberal society** and make it clear why such societies will ultimately be more capable of dealing with the forces of change in an increasingly interdependent European and global environment.

These counter-narratives should be grounded in, and reflect, national concerns and make it clear why EU membership is in the fundamental interest of each and every member state. To challenge the simplistic and post-factual arguments of populist forces and to counter widespread doubts about the Union's added value, it should **explain why European integration (still) is a 'win-win' from a national perspective**. For some, the focus will be on the economy; for others, on security and migration; and in a number of countries, on all these areas. In any case, there is a need to include an emotional/instinctive ingredient in these national narratives which citizens can buy into.

This is a *sine qua non* for regaining national public support. Explaining the (future) added value of European integration from a national perspective will also be an indispensable basis for any new 'European story'. **Only if member states individually overcome the crisis of their national European narrative can a common vision of the EU's future develop**. To reach the latter, there is a need to bring all these narratives together by fostering debates at national and trans-national level; to speak to each other and not only about each other.

While doing so, attempts to bring Europe's citizens closer to EU decision-making should be seen as complementary to strengthening national democratic processes, rather than replacing them. One way to do this is to ensure that the voices of citizens and civil society are heard more in Brussels, for example by developing new transmission mechanisms for participatory democracy (using modern communication channels), while at the same time ensuring that citizens can make informed interventions and have a real impact on debates by giving them the necessary information and access routes into the system.

In the end, words must be matched by deeds. Citizens already experiencing the negative consequences of change or those who fear that they may do so in future, will be inclined to vote for anti-establishment parties to show their discontent. If democratic forces want to resist this pressure, they will have to **find ways to equip societies with the means to counter the multiple insecurities impacting on citizens** – and the powers and thus responsibility to do this lie mainly at the national level. They will have to enhance the ability of societies to deal with change by increasing social investment in areas such as active labour market policies to counter (youth) unemployment and boost education, training, lifelong learning, childcare, and health services. They will have to find ways to bridge the increasing divide between the 'haves' and the 'have lesses' and counter feelings of social injustice, by balancing the distribution of wealth within societies. And they will have to take care of the 'losers of change', by financially supporting those who are left behind.

All the above measures will require national social welfare models to be modernised, and **centre-right parties will have a special responsibility** to convince their supporters that reforms designed to counter socio-economic inequalities and close the social gap within societies are in their interests – just as the left did when labour market and social reforms were top of the political agenda.

To counter populist forces, democratic political forces committed to an open and values-based Europe must not only present a credible counter-narrative underpinned by concrete deeds, but must also **change their habits at European level by ending the 'Brussels' blame game** (scapegoating). Experience in the UK, where public attitudes towards the Union were poisoned by decades of EU-bashing, has shown that constant criticism of the European project (often without any basis in facts) can poison the well. Promoting Europe or defending European integration when a crisis strikes after bashing it for years is an almost impossible task.

The need to assume national 'ownership' of actions taken at EU level has been increasingly recognised in recent months, but it is often employed simply to argue that scapegoating harms the EU. While this is true, it seems not

to be a convincing argument for national political actors, who still tend to ignore the calls for more unity, as we saw after the recent informal EU-27 summit in Bratislava.

A decision to stop blaming ‘Brussels’ should not be taken for idealistic pro-European reasons, but from enlightened self-interest. Political leaders need to recognise that it is not in their own long-term interest to hollow out the mechanisms and institutions that have been created jointly at European level. Scapegoating harms them as it plays into the hands of Eurosceptic populist forces. It fuels anti-EU sentiments among the public and undermines the Union’s ability to deliver concrete results on issues which can only be effectively addressed at European level. All of this strengthens those who argue in favour of a much looser and disconnected Europe and (further) weakens pro-European democratic forces, by increasing the chances that their populist opponents will attract even more political support. **What hurts the EU will in the end hurt national leaders and their countries.**

Fighting polarisation and populism requires leadership, which cannot come from the EU level alone. It must also come from the member states, with political capital being invested in the common project and governments showing their populations how leadership in Europe delivers better outcomes for their own lives.

A particular role and responsibility lies with Germany. It is and will, for the foreseeable future, be the ‘strongest in the club’, although Berlin did not ask for this ‘hegemonic’ role. Being the hegemon implies great responsibility. It also means that Germany will at times be used as a convenient scapegoat if things do not work, if actions are not taken or if policies are perceived as being too tough and imbalanced.

As a key political actor with the EU’s long-term future in mind, Germany should offer positive solutions and aim to explore compromises, exercising its power in conjunction with the European institutions and other major national EU players, and considering not only its own but also wider European interests. Germany often feels isolated and does not always feel comfortable with this role and responsibility. But it needs to show leadership, coming up with policy proposals, forging old and new alliances, and demonstrating a willingness to compromise to drive consensus. **Germany has the most to lose from a disintegration of the Union, so it should (as in the past) be the most committed to finding solutions which promote common European interests.** Berlin has to do this together with Paris and one can only hope that the Franco-German tandem will witness a renewal after the elections in both countries in 2017.

A last and final thought

European integration is in deep crisis but, as we try to show in this paper, the origins of that crisis lie deeper and challenge more than ‘just’ the European Union. If polarisation cannot be halted and the insecurities fuelling it are not addressed, the EU could become its first prominent victim. But the loss will be greater than the disintegration of an international institution. At the end of day, **it is not about the EU but about something much more significant: it is about our way of life; it is about being open, cooperative, inclusive, free, and internationalist societies.**

We must preserve this way of life, not just for ourselves but for future generations. We should not despair, but rather act. As Herman Van Rompuy puts it: “Our societies are in need of hope. We must turn fear into hope. Despair only leads to more hopelessness. Hope is not a gift, it is manmade. I’m a strong believer in the resilience of our European values and of the European idea.”

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About the authors



Janis A. Emmanouilidis is the European Policy Centre's Director of Studies. He has published widely on the EU's overall political and institutional development, and has been an advisor of various governments, EU institutions, European parties and NGOs on a broad range of issues related to European integration. At present he is also Research Associate at ELIAMEP and EU Institutional Development Advisor of the Polish think-tank demosEUROPA – Centre for European Strategy. Janis has studied international relations in the UK, as well as economics at the University of Erlangen-Nürnberg, Germany.



Fabian Zuleeg is Chief Executive of the European Policy Centre, providing strategic direction, managing its staff and resources, and representing the EPC. He is also Chief Economist, a post he has held since January 2010. Fabian holds a PhD in the political economy of EU accession from Edinburgh University. Before coming to the EPC he worked as an economic analyst in academia, the public and the private sector. He is currently Honorary Fellow at the Europa Institute of the University of Edinburgh and Honorary Professor at Heriot Watt University, as well as a member of the Scottish government's Standing Council on Europe.

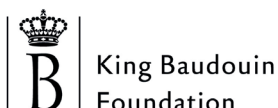
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European Policy Centre
14-16 Rue du Trône/Troonstraat
B-1000 Brussels, Belgium

Tel : +32 (0) 2 231 03 40
Fax : +32 (0) 2 231 07 04
info@epc.eu
www.epc.eu
@epc_eu

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