

CHALLENGE EUROPE

Yes, we should!

EU priorities
for 2019-2024

OUR
FUTURE

IN
YOUR
HANDS

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A nimble and responsive EU?

Predicting unpredictability: A new approach to EU policymaking

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MAIN RECOMMENDATION ▶ The EU must ensure that, in the next institutional cycle, instruments are created or reinforced that allow it to react quickly and flexibly to new crises.

WHAT TO DO:

- ▶ Establish an emergency decision-making procedure.
 - ▶ Put in place an emergency funding mechanism.
 - ▶ Work towards a ‘cultural change’ to make policies more reactive and flexible in their day-to-day implementation.
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For decades, the integration process at the European Union (EU) level advanced in an incremental manner. Today, as the global environment becomes more complex and rapidly changing, the EU needs more flexible policymaking that can effectively respond and adapt to unexpected events. A change of mind-set is required to move away from the existing framework, which is too rigid and often ineffective. The EU must ensure that, in the next institutional cycle, instruments are created or reinforced that allow it to react quickly and flexibly to new crises. The next European Commission should aim to avoid being boxed in by a rigid set of priorities. It should rather retain significant spare capacity, both in resources and in political focus, to be able to react to future challenges, which nobody can (fully) predict at this point in time. The EU and its members need to introduce new contingency procedures and emergency mechanisms, so that they are able to react more efficiently and rapidly in an increasingly more dynamic, faster, unstable and uncertain environment. There is need for a policymaking framework

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that can respond adequately to these challenges, one that includes the right tools

and procedures for reacting to unexpected events, with sufficient spare capacity.

A new policy environment

In the past, the elaboration of new treaties, the delegation of new powers and the creation of new instruments took years to be agreed on and implemented. This allowed time for lengthy decision-making procedures and, at times, for controversial actions, even created enough space for the necessary political consensus to solidify in the member states. Predictability, stability, pre-allocation and unanimity became, among others, key features of EU policymaking.

Once the need for immediate reactions materialised, i.e. when crises were hitting the EU and its member states, the limitations of a policymaking framework solely based on a long-term horizon became evident. When the financial crisis hit, the system's inadequacy was striking. With no procedures in place for taking emergency actions, EU leaders had to create new tools and mechanisms from scratch. Under intense pressure, existing elements of the E(M)U system were stretched to the limit.

Since being exposed to unexpected external events, such as intense market pressure in the financial and sovereign debt crisis or the overwhelming increase in numbers of refugees and other migrants in 2015/2016, the existing policy framework entered a quasi-permanent 'crisis mode', with obvious limitations. Policymaking at EU level was designed for being predictable, not flexible, and was unable to react adequately to emergencies. As a consequence, the response has often been the creation of *ad hoc* instruments outside of the traditional framework.

These shortcomings are likely to be amplified in the future, as unpredictability becomes the new norm. The speed and scope of change that affects societies is increasing. Technological advancement, increasing political diversity, changing demographics, and increasing economic and social interconnectedness are factors that intensify the world's complexity at a rapid pace. This inevitably results in greater risks for the EU; the next crisis is bound to come. Global interdependence makes the EU more vulnerable to factors outside its control such as, for instance, escalating trade frictions or instability in the neighbourhood.

FLEXIBLE WHERE NEEDED

The current EU policy framework functioned better in the past, when the world was more predictable and change took place at a slower pace and with EU action confined to a more limited range of policy areas. A framework that provided stability but at the cost of a slow speed of implementation generally fitted the needs of the Union. The Single Market, for example, took decades to formulate, accept, and ratify. The need for speed was not compelling, thus it was possible to wait for political leadership to push forward ideas and allow compromise to be built.

Today, however, additional tools are needed for effectively responding to current and future challenges. While the existing framework is well-suited for some policy areas, others require measures guaranteeing responsive and quick decision-making.

A NEED FOR STABILITY...

Some areas of policymaking benefit from a long-term, predictable approach and thus are best addressed by the current policymaking framework. The bulk of the Multiannual Financial Framework (MFF), for example through the European Structural and Investment Funds (ESIF), pre-allocates resources to member states and regions at the beginning of the period, aiming to provide a stable source of funding that is not influenced by political choices and external events. Similarly, actions to deepen and strengthen the Single Market, which is already mostly implemented and functioning, intend to gradually change the structure of the economy to obtain long-term gains. The same applies to trade with the rest of the world. The formulation of a free trade agreement can take years but, as it brings additional benefits to an already functioning system, it is not necessarily a pressing priority.

These policy interventions do not have a compelling need for speed. As they focus on long-term actions, they can be formulated and changed through a lengthy and thorough decision-making procedure.

... OR A NEED FOR SPEED?

Then there are the fields of policymaking where a different approach is needed: for example, economic policy, financial affairs, and foreign policy. These areas are characterised by external factors having a disproportionate impact (geopolitics, markets, political instability) and where self-reinforcing consequences can quickly escalate. These areas can be affected by unexpected, sudden events (shocks) and thus demand flexible instruments that can be adjusted to a changing environment, and contingency mechanisms and procedures to be used in case of necessity. Responsiveness is critical in an emergency, and as of today, the EU mostly lacks the appropriate processes.

For example, EU leaders and institutions had no pre-established procedures or instruments to take urgent decisions during the financial and sovereign debt crises. Existing provisions were stretched to their legal limit and new instruments were established outside of the EU's existing treaty framework, raising questions on democratic control and accountability. For instance, the European Stability Mechanism (ESM) was set up as an organisation based in Luxembourg through an *ad hoc* intergovernmental treaty and an amendment of the Treaty on the Functioning of the European Union.

Another example is the EU's reaction to the unexpected increase in the number of arriving refugees and other migrants in 2015/2016, which could have been quicker, more coordinated and much more effective. Instead, the EU and its members concentrated on *ad hoc* solutions (like the EU-Turkey Statement) and in many cases failed to make structural progress due to the opposition of some member states (e.g. against the relocation scheme).

Resolving a crisis with last-minute agreements or *ad hoc* solutions is not a sustainable approach to emergency policymaking and crisis management. In the future, when new challenges will inevitably arise, the EU should have the necessary procedures and spare capacity to address them in an efficient and speedy manner.

EMERGING FRICTIONS

But to move towards more responsive and swift decision-making, the EU has to overcome two major internal hurdles. The first is the tension between, on the one hand, the need for flexibility in policymaking and, on the other, the member states' demands for predictability and rigid rules. When it comes to the common budget, pre-allocating the large majority of resources at the beginning of

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The existence of a rigid system of rules that is strict in theory but inevitably (and rightly) set aside in emergencies undermines the credibility of EU policymaking.

The EU needs to start readying its institutions, its decision-making and its funding mechanisms for the challenges of a more dynamic, faster, unstable and uncertain environment.

the seven-year period leaves little space to shifting funds to policy areas with urgent needs. The current construction of the Economic and Monetary Union (EMU) also reflects this tension. From the start, member states attempted to put in place strict rules, such as the Stability and Growth Pact, which puts limitations on government debt and deficits. However, once confronted with crises, many realised that enforcing those rules is practically impossible when in acute distress. While member states understand the need for more flexibility in principle, in practice they do not allow it. Convincing member states is a long-term, step-by-step process, making the chances of not being ready when the next crisis hits and spreads even greater.

The second challenge is the basic power struggle between member states' recognition of the need for coordinated action and joint crisis management, and their resistance to delegating more powers to the EU. One example is the MFF: member states demand the EU to foster investment, job creation and growth, while conceding only a minimal amount of finance to achieve these objectives (the EU budget amounts to only around 1% of the bloc's Gross National Income (GNI)). Another example is the EMU. Eurozone members realised they must work together to tackle the financial crisis, but at the same time refused to move beyond their red lines, e.g. on automatic stabilisers such as transfer mechanisms or the introduction of a European unemployment insurance scheme. The only long-term solution will be to pool certain response capacities at the European level; as a first step, this can be applied in less controversial areas, such as the response to humanitarian or natural catastrophes.

NOT ONLY IN CRISIS

Unpredictability is not relegated to emergencies only. As the scale, scope and speed of change increases, it has become a permanent feature of economies and societies. This speed of change generates significant challenges to the effectiveness of forecasts and ex ante assessments. Day-to-day implementation of policies can be rendered ineffective by the instability of the environment in which they operate. The passage of time can make a rigidly designed policy irrelevant or, in the worst case, even detrimental to its original objectives.

This requires a much more continuous and rigorous review and evaluation of policies and their impact on the ground. An existing programme that attempts to address some of these challenges is the Regulatory Fitness and Performance Programme (REFIT). Aiming to reduce red tape and enhance

simplification, REFIT looks at existing EU legislation and identifies opportunities for burden reduction. It aims to systematically implement *ex post* evaluation, impact assessments and revisions of existing law. REFIT is a step in the right direction, helping to reduce unnecessary costs. However, its scope and focus are quite limited when it

comes to improving the flexibility of existing EU policies.

The solution is not a complete overhaul of the structure of EU policymaking, but an adjustment to better reflect the needs of member states and the demands of the contemporary world.

An EU that is ready to act

In a fast-changing environment, flexibility is critical. This implies building in spare capacity to react to crises. Assuming that further emergencies will not materialise would be naïve. In particular, two innovations are necessary to increase the EU's ability to react more decisively and swiftly in future crisis situations:

► **Emergency decision-making procedure:** this procedure should be formulated and put in place as a tool to use when a quick reaction is required at EU level. The crisis procedure should enable the EU to take decisions in a shorter period of time. But to make it effective, it would need to have provisions that do not allow individual member states to have veto powers. For example, Commission proposals could be approved with a qualified majority vote or rejected with a reverse (qualified) majority vote instead. If the next politico-institutional cycle lacks the political will for a treaty change, member states could identify priority policy areas where an emergency procedure is promptly needed, and move away from unanimity, for instance through the use of passerelle clauses. This requires member states to recognise that these powers are necessary at EU level in exceptional situations. To forge consensus one could start expanding the possibilities in less contentious policy areas such as, for example, the EU's response to humanitarian or natural catastrophes.

► **Emergency funding mechanism:** the EU budget already has some contingency funds with an emergency logic. The European Union Solidarity Fund (EUSF, with an annual budget of €500 million in 2011 prices, i.e. approximately 0.3% of the total 7-year common budget) provides resources for member states hit by major natural disasters (upon member state application and approval by the European Parliament and Council of a Commission aid proposal). The non-pre-allocated nature of the funding makes this instrument more flexible than a majority of other EU budget instruments. The EUSF could be taken as inspiration for similar emergency funding mechanisms that can be triggered if the circumstances call for it, ideally on the Commission's initiative and approved with qualified majority voting. Given the expected political resistance, it is probably necessary to start with relatively small amounts, but it is important to establish the principle. A similar mechanism could, for instance, be used in case of a sudden economic downturn in a member state that could harm the stability of the Economic and Monetary Union (EMU), or in case of a crisis in the banking sector. Instruments that require unanimous agreement do not necessarily allow for quick decision making. The new eurozone budget should, at least in part, be designed with this in mind. In the future, instruments for the automatic stabilisation of changes in levels of unemployment, investment or

growth across the EU could be considered as contingency measures, which would only be triggered in the event of a crisis (see also contribution of George Pagoulatos in this volume).

But beyond these concrete mechanisms, a ‘cultural change’ to make policies more reactive and flexible in their day-to-day implementation is crucial. Ex ante, policymaking should systematically incorporate contingency planning. The possibility of unforeseen events, or of a sudden change in the socio-economic context should be taken into account from the conception and throughout the design of any policy. Early-warning mechanisms should be put in place that try to anticipate adverse shocks and contemplate the necessity of a policy shift.

Policies must also build in flexibility from the start. As it is often impossible to anticipate changes, there is a need for meaningful *ex-post* evaluations (including checking implementation on the ground) and, if necessary, the revision or even reversal of existing actions. This cultural shift also implies a fundamentally different approach to economic governance in crisis situations, away from a more-or-less rigid rule-based framework towards real decision-making powers, i.e. the ability to autonomously allocate significant resources and policy action without having to get permission to act. Similarly, the importance of flexibility implies that there should be some spare capacity, both political and financial, at the disposal of EU decision-makers, to be used if needed.

While setting policy priorities is important, they should not become the prerogatives of EU action. Unforeseen problems could emerge at any point and become the EU’s main concern. When that happens, there should be enough capacity, i.e. resources and political will, to allow for an effective

and swift response. The existence of a rigid system of rules that is strict in theory but inevitably (and rightly) set aside in emergencies undermines the credibility of EU policymaking.

Contingency procedures and mechanisms for emergency situations would not only make EU policymaking more effective in such circumstances, but also improve accountability, transparency and democratic control, which the current mechanisms sorely lack. Crises would no longer have to be solved by EU leaders huddled together in overnight summits creating *ad hoc* instruments from scratch. Instead, clear procedures would be followed, subject to the scrutiny of the Parliament.

Failing to allow for a more flexible policymaking framework makes the EU vulnerable to unpredictable events. The consequences are serious: not only does the EU responding too slowly and inappropriately incur higher costs, but it also furthers the socio-economic and political fragmentation between member states and undermines the legitimacy of its actions. Without reform, the Union’s ability to contain future crises and effectively embrace change cannot be taken for granted.

The choice lies with the member states. If they want a responsive EU, there is only one way forward: delegate emergency powers to the EU level.

It is unlikely that this issue will be tackled fully in the next political cycle. But wherever possible the EU needs to start readying its institutions, its decision-making and its funding mechanisms for the challenges of a more dynamic, faster, unstable and uncertain environment. The world will not wait for us: the EU and its member states cannot afford to dither and lose precious time if they want to be ready for when the next crisis hits.